Statement of
F. Whitten Peters
Secretary of the Air Force

Before the Subcommittee on Readiness
And Management Support
Senate Armed Services Committee
March 3, 2000

Mr. Chairman and members of the Committee, thank you for the opportunity to address the Air Force's plan to accomplish depot maintenance on our fielded weapon systems, now and in the future.

Background

As you know, depot maintenance is critically important to the readiness of our new and aging fleet of systems. The nature and amount of this work is constantly changing, as our force structure changes and ages and as new and different technologies are introduced. We have a strategy to manage the evolution of depot maintenance that is based on two sources of capability – organic and contract.

In years past we depended, to a high degree, on organic capability resident in five depots. As we right-sized to three depots, we saw more opportunities to use contractor services. The key to allocating work between depots and contractors is to manage risk in an uncertain world – the risk that some essential repair capacity might become unavailable because of strike, business failure, technical surprise, obsolescence, or the surge requirements of a conflict. Therefore, even where commercial capability exists, we plan to

continue to retain an organic capability. Our three remaining depots are our insurance policy necessary to mitigate the risk to national security.

Air Force long-range plans call for us to retain a wide range of repair capabilities, especially for large fleets of uniquely military systems. Based on our risk assessment, we believe that for the next 5 to 7 years we must retain the ability to accomplish approximately 40 percent of our peacetime workload in organic facilities and we have labeled that workload as our "core" logistics capability.

But our plans also include the performance of more than core workload in our organic depots. You are well aware that over the last several years the non-core depot maintenance workload at our two closing depots, being transferred to our three remaining depots, was offered for public/private competition. Three separate competitions were held, each involving one of the remaining three depots. Warner-Robins ALC was awarded the first competitive workload – the C-5 programmed depot maintenance. Ogden ALC, teamed with Boeing, won the second competition. Oklahoma City ALC, teamed with Lockheed-Martin, won the third.

As we planned, competed, and awarded these 3 major workloads, we forecast our compliance with Title 10 U.S.C. 2466 (the depot maintenance 50/50 provision). As the acquisition strategy evolved, we recognized that some combinations of offers could result in certain options being unable to be awarded because they would violate the 50/50 requirement. For instance, had the first two contracts been awarded to private contractors, then the third contract would only be available for award to the public bidder.

The Air Force took several actions to increase organic workload in order to reduce the risk of conflict with the 50/50 provision. For example, selected landing gear repair was transferred from a private-sector contract and also sent

to organic repair at Ogden. In addition, C-130 programmed depot maintenance was removed from a private-sector contract and transferred to Warner Robins and Ogden ALCs.

In the end, all three awards were made to the public bidders in order to obtain the maximum cost savings of $2.6 billion. Attachment 1 shows our 50/50 forecast from 1998 to 2004 based on data collected in 1998.

As you can see, we planned to move from 58 percent organic work in 1998 to approximately 52 percent organic in the later years. Early in our planning process, we determined that we did not want to reduce planned organic workloads below 52 percent of planned total workloads in order to provide some margin for error. This reflected a balance between compliance with 50/50 requirements and maximizing cost savings to the taxpayer. Our program as we understood it in 1998 met that standard except during the transition years of 2000 and 2001. In those years the amount of planned contract work approached the limit of the law.

Two factors drove the increased percentage of contract work in 2000 and 2001. First, during 2000 and 2001, the public depots planned to use contract labor in the form of depot augmentees and bridge contracts with outside vendors to help them through the transition from our two closing depots. Neither of these efforts qualifies as organic for 50/50 purposes even though augmentees work in the depots. Second, before 2002, the amount of engine work funded in the depot was smaller than the anticipated steady state workload in organic engine repair. The increase in organic engine repair in later years is a result of an increase in planned engine depot maintenance workload which results in funding made available to resolve previous support issues and time-dependent maintenance requirements.

In the end, we accepted the public bids as offered and committed to manage the risk in 2000 and 2001. We chose not to try to move additional workload from contract to organic in these years because all three ALCs already had their hands full with transitioning the competed work. Attachment 2 shows, without audits, the 50/50 forecast as it stood at the beginning of FY1999.

The Impact of Unforeseen Events

As 1999 progressed, several unforeseen events occurred. The Kosovo crisis put heavy demands on our depots just as we made final preparations to move workload. Although the conflict lasted only 78 days, we responded initially by assuming it would go much longer. Indeed, in May 1999 we considered delaying the move from Sacramento to Ogden. However, in June the war ended and we began the move from Sacramento.

The KC-135 and A-10 workloads moved without significant problems, but the spare parts repair workload proved more difficult. To transition this work, equipment used in making repairs had to be disassembled, crated, and physically moved from Sacramento to Ogden, where it had to be reassembled, tested, and calibrated. Our schedule was optimistic – newly installed equipment required unplanned calibration and repair, and technical data needed for calibration and operation proved to be out of date. As the start up of production at Ogden began to slip, mission capable rates of our principal weapon systems, began to decline. We compensated by initiating additional contract augmentees and additional bridge contracts.

As shown in attachment 3, output of National Stock Number (NSN) items from Sacramento and Ogden combined dropped precipitously between June 1999 and October 1999. As of today, however, Ogden is on the road to

recovery (attachment 4). The impact of these production delays on "MICAP"[1] hours was dramatic. As shown in attachment 5, MICAP hours relating to shortages of parts in the Sacramento commodities workload increased from a steady-state 500,000 hours per month to a high of over 1,000,000 hours per month by October 1999.[2]

A good measure of the impact of the Ogden transition problems on aircraft availability is what we call MICAP incidents or the number of backordered parts needed at any point in time to fix a grounded aircraft. An example is the 10 KVA generator used on the F-16 aircraft. As shown in attachment 6, the number of F-16 MICAPs had gone from a normal steady state of 0-5 to 40 aircraft by 1 October 1999. At that time, Ogden was able to start production on a very slow ramp. By December 1999, however, the number of grounded F-16s reached a high of over 90, more than three fighter squadrons. As bridge contracts and Ogden's production both ramped up in late 1999, the MICAP rates fell back to a steady state of less than 5 aircraft by late January 2000.

Another example of the impact of Ogden transition problems can be found in attachment 7, which depicts MICAPs associated with the F-15 Rudder Actuator, a hydraulic component repaired by Sacramento and transitioned to Ogden. Again, the steady-state MICAP rate for this part is 0-5 aircraft at any given time. However, by 1 October 1999, more than 35 aircraft (two actuators per aircraft) - 1.5 squadrons of F-15s - were grounded for lack of this part. Again, bridge contracts coupled with increased Ogden production brought MICAPs down to steady state by the end of the year.

[1] MICAP: Total hours a maintenance technician waits for all the parts that have been ordered to fix aircraft
[2] As shown in attachment 5, MICAP hours also increased starting in August because of problems discovered during inspections of the stabilizer trim actuator system on KC-135 aircraft. The need to produce actuator assemblies on a priority basis further exacerbated the shortage of repairable parts at Ogden.

A similar – but less dramatic – transition problem surfaced at Oklahoma City ALC. On 14 Jun 99, we transitioned engine maintenance responsibility from San Antonio to Oklahoma City. Lockheed Martin, as Oklahoma City ALC's teaming partner, hired a large percentage of the San Antonio trained and certified workforce as contractor augmentees to perform a significant portion of the workload from 14 Jun 99 through 14 December 1999. The support of these contractor augmentees allowed Oklahoma City ALC to maintain production while hiring and training new full-time employees for the F100 and fuel accessory workloads that are moving to Oklahoma City ALC. The work of the contractor augmentees is contract work for 50/50 purposes.

As shown in attachment 8, the impact of labor shortages caused combined production of F100 parts to drop below requirement. Attachment 8 shows a typical product, the inlet fan common to two Pratt & Whitney engines (the F100-PW-100 and F100-PW-220E), each used in Air Force fighter aircraft. As shown in this attachment, MICAPs associated with shortages of this part went from a steady state of 30 or less to almost 80 engines by January 2000 – thereby reducing a significant portion of our spare engine war readiness reserve!

Attachment 9 shows the cumulative impact of transition problems on MICAP hours. On this slide, the top line represents all MICAP hours. The next line represents all Air Force MICAP hours associated with parts transitioning at Ogden and Oklahoma City. The bottom line shows MICAP hours relating to engines. The significance of this slide is that in March 1999, the Air Force put almost $400 million into the procurement of new spare parts inventories and in May 1999, the Air Force directed its depots and contractors to surge for Kosovo. We expected to see MICAP hours decline based on these two efforts. In fact, MICAP hours unrelated to workload transitions do decline, but overall MICAP hours climb steadily with the onset of both Kosovo and the workload transitions. Starting in August 1999 and continuing through January,

transition problems produced some 100,000 MICAP hours over and above MICAPs related to other parts, an increase of almost 20 percent.

The impact of these additional MICAP hours has been a decline in readiness. In November 1999 Pacific Air Forces attributed 46 percent of its total MICAP hours to the Sacramento to Ogden transfer. Additionally, Air Combat Command has indicated that for the May through November 1999 period, the mission capable rate of combat aircraft decreased 2.1 percent, on average, but peaked at 3.2 percent in November 1999, at the time parts shortages were driving MICAPs. Furthermore, the C-5 related MICAP rate has increased over the last two quarters by 36 percent. We believe that these decreases in readiness are primarily due to the workload transitions.

In summary, readiness is fragile. Parts shortages have been a chronic problem. As discussed above, shortages in three commonly used parts put almost 4.5 fighter squadrons on the ground (out of a total of sixty) and significantly reduced our war reserve engine inventory. Shortages in other parts could have had an equally devastating impact on readiness.

Readiness Impact of Transition Problems

By October 1999, it had become apparent that MICAP rates were rising and steps had to be taken to reduce MICAPs in order for the Air Force to perform its mission. To understand this, it is necessary to understand several key features of the Air Force mission in the Fall of 1999:

- Throughout the Fall of 1999, the Air Force was engaged in Operations Northern Watch and Southern Watch, patrolling the no-fly zones over Iraq. Virtually every mission was met by anti-aircraft or missile fires. As a result, our airmen were dropping ordnance on Iraqi positions on many

missions. Aircraft key to this mission are the F-16 and F-15/F-15E. As discussed above, three common aircraft parts were grounding a significant portion – 4.5 fighter squadrons – of the F-16 and F-15 fleets in the October-November time frame.

- Throughout the Fall of 1999, the Air Force was under a Prepare to Deploy order relating to Iraq. Under this order, additional F-15 and F-16 aircraft had to be ready to leave the United States and deploy to the Central Command Area of Responsibility on a very fast schedule.[3]
- Also during the Fall of 1999, the Air Force had to be prepared to redeploy fighter aircraft into the Balkans on very short notice if ground operations in Kosovo required support.
- In addition, the Air Force always has tasking under Major Theater War plans to deploy its forces forward to Korea or Southwest Asia on an expedited basis – usually in days, not weeks. As a result, Air Force units must always be at a high state of readiness.
- Starting in late Summer 1999, the Air Force began to reconstitute its forces in the aftermath of the Kosovo campaign. One of the critical activities associated with reconstitution of fighter aircraft wings was Mission Qualification Training (MQT), especially for less experienced pilots. During Kosovo, experienced pilots and many aircraft had been moved forward to Europe. This limited the amount of MQT that could be given to new pilots, both because instructor pilots were deployed and because jets remaining at home often had maintenance problems as skilled maintainers and spare parts were deployed to Europe on a priority basis. As a result, there was a greater than ordinary need for mission capable aircraft at home station.
- Finally, on 1 October 1999, the Air Force rolled out the first two of its new rotational Aerospace Expeditionary Forces, followed by the

[3] The precise schedule is classified.

deployment of the second two AEFs on 1 December 1999, which created a further need for operational aircraft.

Because of this very high level of activity, the Chief of Staff and I determined that the loss of a large number of aircraft because of spare parts shortages was simply an unacceptable readiness risk that needed urgent attention and resolution. At that time and today, we felt we were accomplishing the transition as effectively as it could be accomplished given "fact of life" problems. We also believed we were in compliance with 50/50 and might well stay that way even if we employed bridge contracts. But we had no way to measure our compliance in real time. Our only option for daily management would have been to centralize the control of individual maintenance sourcing decisions. Such a process – if possible at all, and we have never tried this before or since – would add weeks of delay in getting parts onto the shelves and aircraft back into the sky. Given the impact on readiness that we had already seen from the delay in the transition, we wanted to leave the authority to make short term maintenance source of repair decisions in the hands of local commanders and managers.

Accordingly, the Commander, Air Force Materiel Command, asked me to exercise the authority granted to me by Title10 U.S.C. 2466 to grant a waiver to the 50/50 provision until we could reach our steady state condition of 52/48. In light of the dire impact of the transition on mission capable rates, I determined that the waiver should be granted.

Conclusion

The Air Force remains committed to a strong depot maintenance program in the future. We will comply with the law. The acquisition and logistics communities have teamed to produce new policy guidance on how we establish

support concepts for new weapon systems. Compliance with Title 10 U.S.C. 2466 is a requirement of that policy.

Public/private competitions resulted in awards that save the Air Force $2.6 billion over the life of the contracts, preserve our core maintenance capabilities, and ensure the future readiness of our weapon systems. We went out of our way to take advantage of these opportunities. Unfortunately, we put ourselves in a position, for two years, where we are very close to the limits allowed by the 50/50 provisions. We have not ignored the will of the Congress on this matter, nor will we in the future. We believe the program we are executing is in the best interest of the Air Force and national defense. We pledge to you our full and open cooperation and, in return, ask you to support our readiness during this transition period.

Attachments

1. Workload Distribution (FY98)
2. Workload Distribution (FY99)
3. Production History Transition Workload
4. OO-ALC Workload
5. SM-ALC to OO-ALC Transition Item MICAP Hrs
6. F-16 10 KVA Generator
7. F-15 Rudder Actuator
8. F100-PW-100/-220/E Inlet Fan Prod.
9. USAF MICAP Hrs Transition Item Impact