

Secretary Gates' 2012-2016 POM Commandments

Mandate for "Affordability"

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McAleese & Associates, P.C.
21515 Ridgetop Circle
Suite 100
Sterling, Virginia 20166
Tel: (703) 421-0104/Fax: (703) 421-0108
jmcaleese@mcaleese.com

Secretary Gates' Speech at the Eisenhower Library (May 8, 2010)

- “The attacks of September 11th, 2001, opened a gusher of defense spending that nearly doubled the base budget over the last decade, not counting supplemental appropriations for the wars in Iraq and Afghanistan. **The gusher has been turned off, and will stay off for a good period of time.**”
- “**The fact that we are a nation at war and facing an uncertain world, I believe, calls for sustaining the current military force structure – Army brigades, Marine regiments, Air Force wings, Navy ships.** This typically requires regular real growth in the defense budget ranging from two and three percent above inflation. **But, realistically, it is highly unlikely that we will achieve the [future] real growth rates necessary to sustain the current force structure.**”
- “The Defense Department must take a hard look at every aspect of how it is organized, staffed, and operated – indeed, every aspect of how it does business.”
- “Consider the Department’s spending on Operations and Maintenance, a broad category that encompasses about \$200 billion worth of the day-to-day activities of the military – from flight training to mowing the grass. **Over the last decade, spending in this area – not counting expenses directly related to the wars – has about doubled, with large increases in administrative and infrastructure support.** At the same time, the department’s spending on contract services – excluding the Iraq and Afghanistan theaters – has grown by some \$23 billion.”
- “**Another category ripe for scrutiny should be Overhead** – all the activity and bureaucracy that supports the military mission. ...Overhead, broadly defined, makes up roughly 40 percent of the Department’s budget.”
- “**How many commands or organizations are conducting repetitive or overlapping functions – whether in logistics, intelligence, policy, or anything else – and could be combined or eliminated altogether?”**
- “**Finally, this Department’s approach to Requirements must change.** Before making claims of...‘gaps’ – in ships, tactical fighters, personnel, or anything else – we need to evaluate the criteria upon which requirements are based, and the wider real world context.”
- “Therefore,...I am directing the military services,...to take a hard, unsparing look at how they operate...The goal is to cut our Overhead costs and to transfer those savings to force structure and modernization within the programmed budget. In other words, to convert sufficient ‘tail’ to ‘tooth’ to provide the equivalent of the roughly two to three percent real growth.”

Dr. Carter's "Affordability" Mandate (June 28, 2010)

- “The [recent Gates’] Initiative requires the Department to reduce funding devoted to unneeded or low-priority overhead, and to transfer these funds to force structure and modernization so that funding for these warfighting capabilities grows at approximately three percent annually.”
- “[**Within Modernization,**] we need to restore affordability to our programs and activities. I would like us to embark upon a process today...on steps we can take to obtain two or three percent net annual growth...by identifying and eliminating unproductive or low-value-added overhead; in effect, doing more without more.”
- “The Department is spending approximately \$700 billion per year for our nation’s defense... But the remainder - \$400 billion – is spent on contracts issued to entities outside of the Department of Defense. This \$400 billion is divided about equally between products (e.g., weapons, electronics, fuel, and facilities) and services (e.g., IT services, knowledge-based services, facilities upkeep, and transportation).”
- “We, the Department’s acquisition officials, agree to these contracts on behalf of the taxpayer. Each of these contracts contains a statement of these services or products it is procuring; an arrangement between the government and the contractor for how the costs of those items will be paid; and the overheads, indirect charges, and fees...”
- “The guidance memorandum I plan to issue will require each of you, as you craft and execute the Department’s contracts in coming years, to scrutinize these terms to ensure that they do not contain inefficiencies or unneeded overhead. The guidance will give you specific features to examine and targets to hit in the pursuit of greater efficiency. The guidance will focus on getting better outcomes, not on our bureaucratic structures.”
- “First, the savings we are seeking will not be found overnight. It has taken years for excessive costs and unproductive overhead to creep into our business processes, and it will take years to work them out. We will be concentrating on new contracts as they are awarded in coming years, to ensure that they reflect new efficiencies.”
- “Most of the rest of the economy exhibits productivity growth, meaning that every year the buyer gets more for the same amount of money. So it should be in the defense economy. Increased productivity is good for both industry and government. So also is avoiding budget turbulence and getting more programs into stable production.”

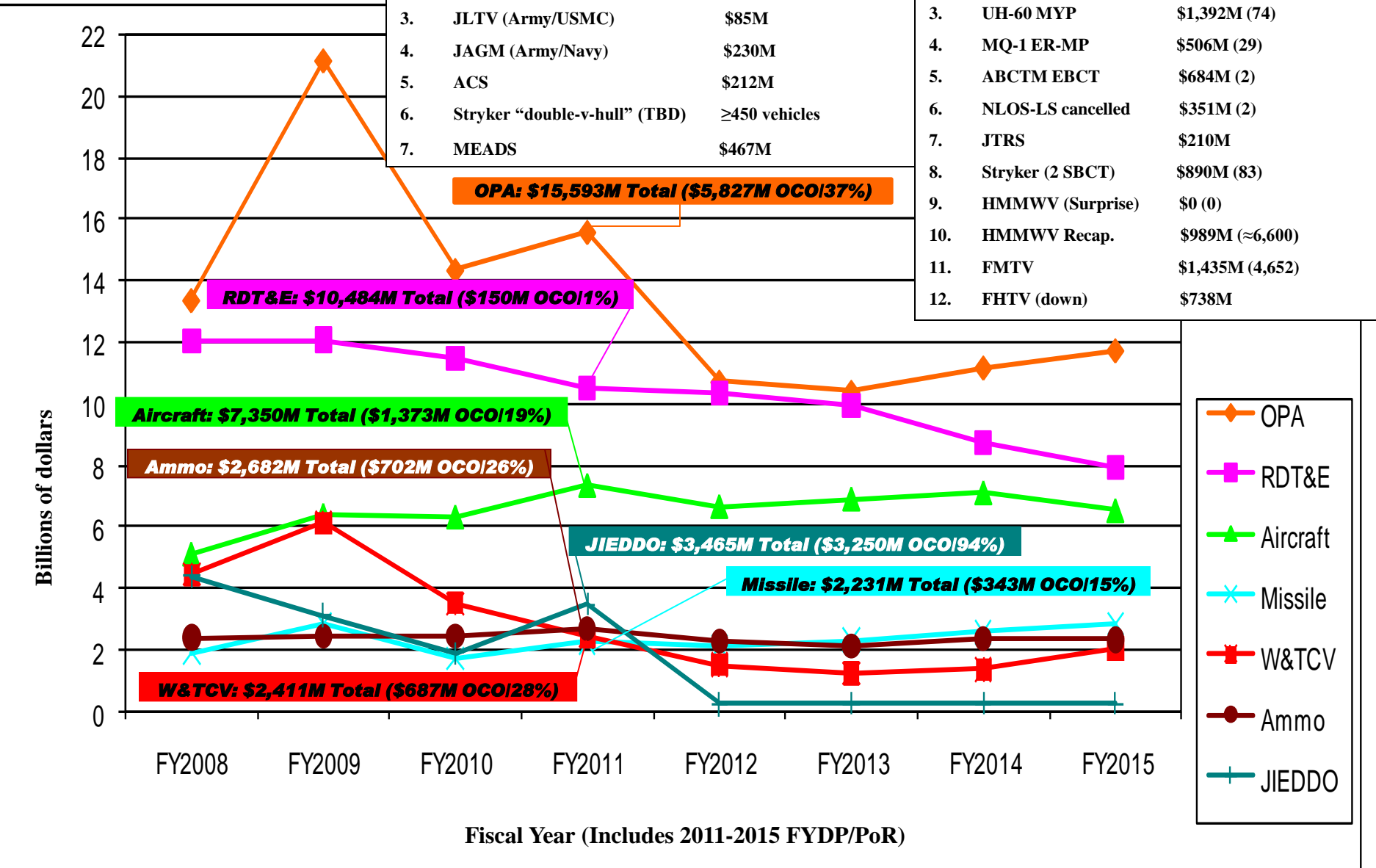
McAleese Assessment of Expected USD(AT&L) Program Targeting

- Secretary Gates' Eisenhower Speech primarily targeted both excess Flag Officer & Headquarters costs within "Military Personnel" Account, plus excessive recent growth within separate "Operations & Maintenance" Accounts, to generate 2%-3% real growth per year for COIN-intensive Force Structure, plus Modernization Accounts.
- Deputy Secretary Defense Bill Lynn subsequently issued formal guidance to implement Secretary Gates' directive, calling for combined savings of \$101B during the upcoming 2012-2016 Program Objective Memorandum (POM) negotiations. **The Services have each been directed to find annual savings of \$2B in 2012; \$3B in 2013; \$5B in 2014; \$8B in 2015; and \$10B in 2016. Positively, the Services will be allowed to retain those annual savings from Milper and O&M reductions, to fund salaries & benefits for Active Warfighters, plus RDT&E and Procurement Programs.**
- Secretary Gates did not formally-target large cost savings within RDT&E and Procurement Accounts. To the contrary, those Modernization Accounts were intended to be the beneficiary from cuts to manpower-intensive Headquarters, plus O&M.
- **The majority of the upcoming Service negotiations on 2012-2016 POM will be conducted by DoD Comptroller; CAPE/PA&E; Joint Staff; and USD(Policy). However, USD(AT&L) has unique Statutory authorities over critical "go/no-go" Milestone-Decision-Authority, transitioning large-dollar Weapons Programs from one phase of the Acquisition cycle into the next, (ranging from Technology Development; to critical Engineering Manufacturing Development; and ultimately Production).**
- **Specifically, Dr. Carter is statutorily-responsible for making Milestone Decisions on several large-dollar RDT&E Development Programs that are about to be kicked-off by the Military Services. These include Army Ground Combat Vehicle; continued production of hardware under Army's Brigade Combat Team Modernization; Navy VXX; Navy SSBN(X); USAF Long-Range-Strike; and Airborne ISR/SIGINT Platforms.**
- **This initiative will undoubtedly cause concerns over potential reduction in defense contractor Profits.** However, as a general rule, for each dollar of actual labor, hardware contractors often have another 80%-100% Overhead, plus another 25%-33% of Corporate G&A, before Profit is even negotiated. **This explains why Dr. Carter is so focused on attacking both exquisite Requirements by the Services, in parallel with pockets of low-value Contractor Overhead/G&A.** Ultimately, Contractor Profits pale by comparison, against both excessive Service Requirements, and duplicative Contractor Overhead.
- **This means that the future "Discriminator" in valuing defense contractors, will become those contractors who outperform negotiated Schedule and target Costs, to actually produce larger quantities of affordable platforms, at greater overall Profit.**

Army Aircraft and Communications grew. Trucks, Combat Vehicles, and RDT&E fell.

Priority RDT&E Programs (\$10B)		
	<u>Program</u>	<u>2011 Base/OCO/Supp.</u>
1.	FCS/ABCTM	\$1,566M
2.	GCV	\$934M
3.	JLTV (Army/USMC)	\$85M
4.	JAGM (Army/Navy)	\$230M
5.	ACS	\$212M
6.	Stryker "double-v-hull" (TBD)	≥450 vehicles
7.	MEADS	\$467M

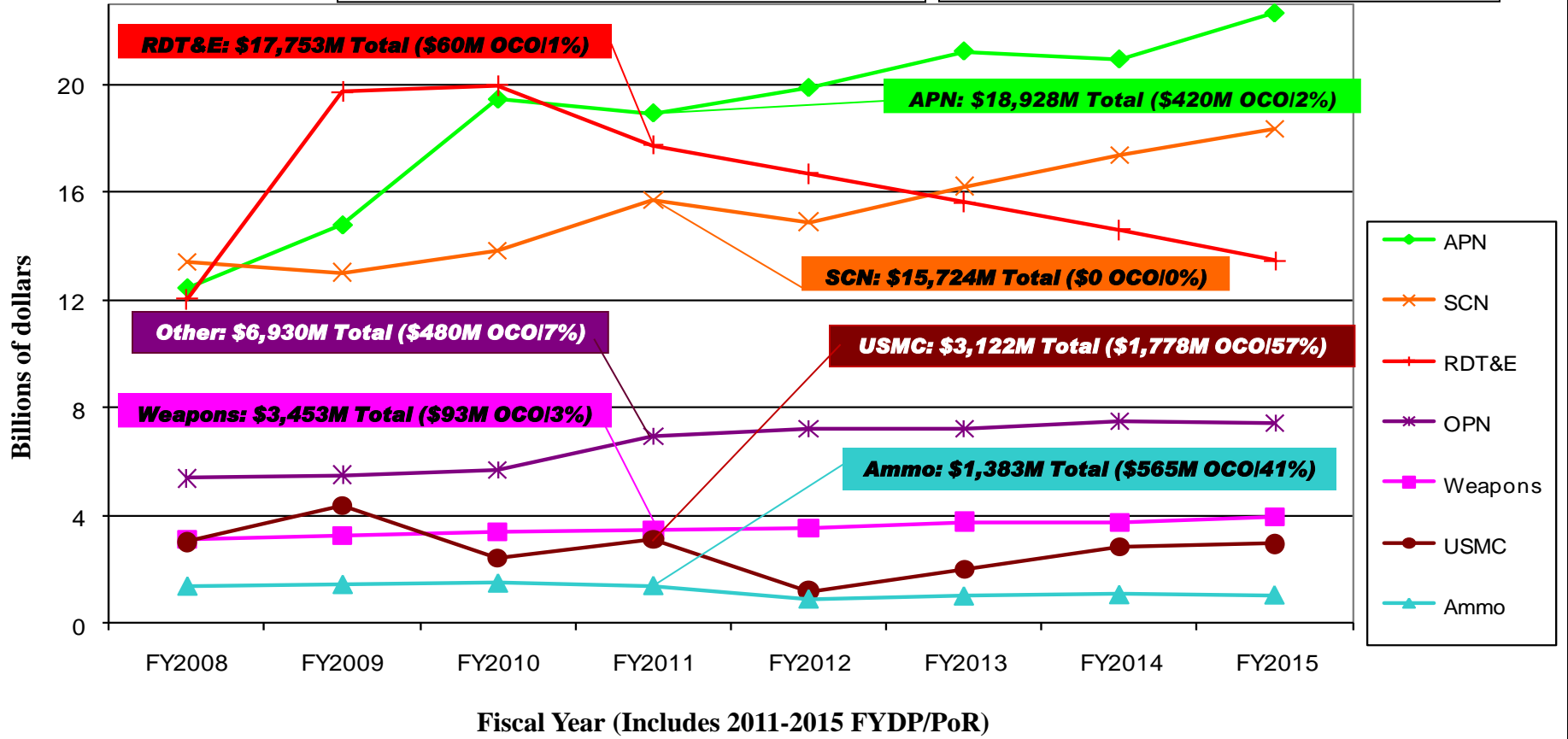
Priority Procurement Programs (\$22B Base/\$36B Total)		
	<u>Program</u>	<u>2011 Base/OCO/Supp.</u>
1.	AH-64 BLK III	\$494M (16)
2.	CH-47	\$1,229M (42)
3.	UH-60 MYP	\$1,392M (74)
4.	MQ-1 ER-MP	\$506M (29)
5.	ABCTM EBCT	\$684M (2)
6.	NLOS-LS cancelled	\$351M (2)
7.	JTRS	\$210M
8.	Stryker (2 SBCT)	\$890M (83)
9.	HMMWV (Surprise)	\$0 (0)
10.	HMMWV Recap.	\$989M (≈6,600)
11.	FMTV	\$1,435M (4,652)
12.	FHTV (down)	\$738M



Navy Ships & Aircraft grew, while RDT&E contracted sharply.

Priority RDT&E Programs (<u>\$18B</u>)		
Program	2011 Base/OCO/Supp.	
1. F-35 (CV/STOVL)	\$1,376M	
2. P-8A (EPX \$0)	\$929M	
3. JLTV (Army/Navy)	\$85M	
4. VH-71A	\$160M	
5. BAMS	\$529M	
6. Aegis/SM-3 (MDA) (+PAA)	\$2,066M	
7. SSBN(X) (+Adv. Nuc. Sys.)	\$608M	
8. DDG-1000 (CG(X) \$0)	\$549M	

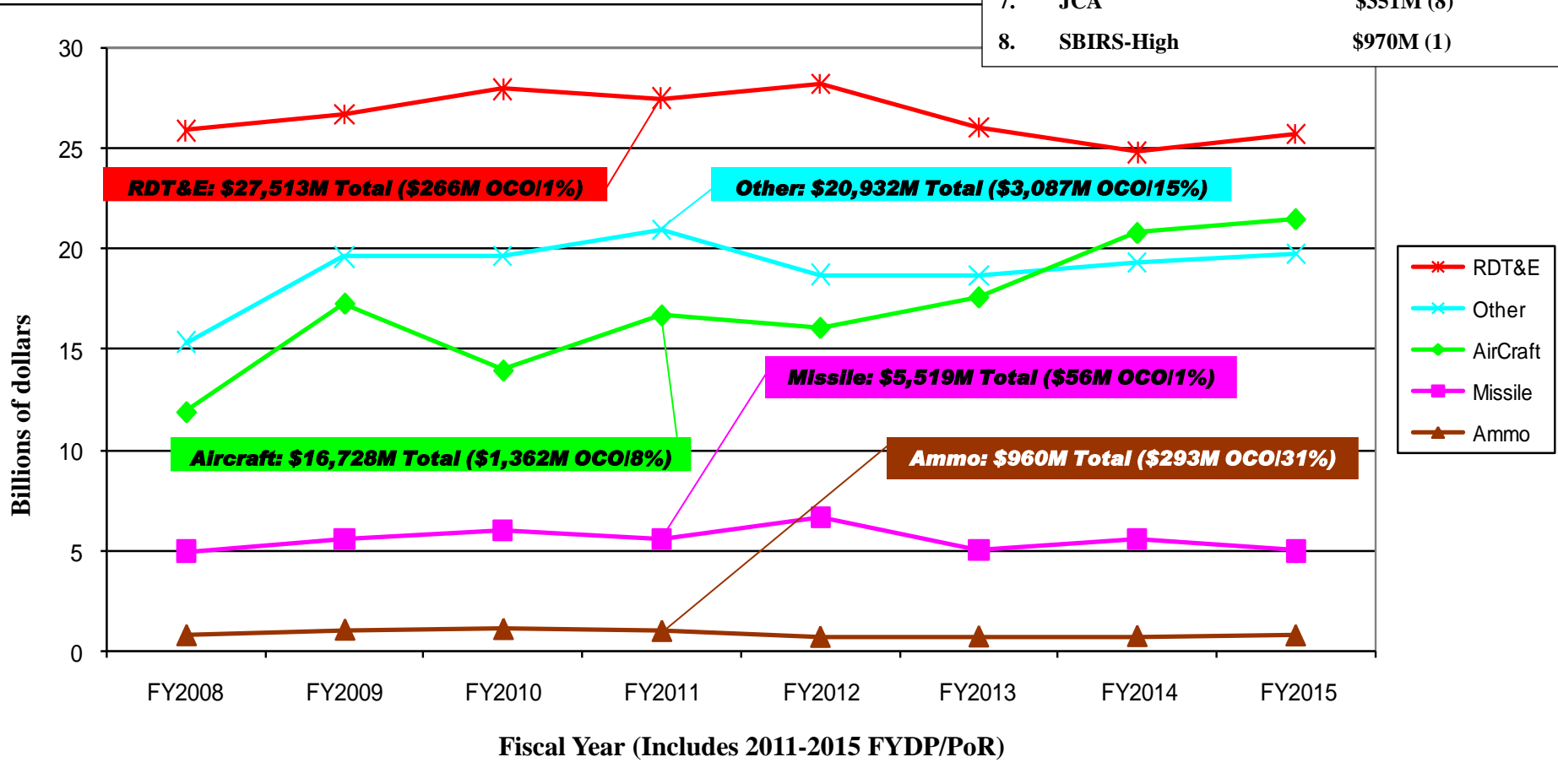
Priority Procurement Programs (<u>\$46B Base/\$50B Total</u>)		
Program	2011 Base/OCO/Supp.	
1. F-35 CV	\$1,886M (7)	
2. F-35 STOVL	\$2,575M (13)	
3. F/A-18 E/F	\$1,787M (22)	
4. EA-18G	\$1,084M (12)	
5. P-8A	\$1,991M (7)	
6. NSSN	\$5,265M (2)	
7. DDG-51 Restart	\$2,970M (2)	
8. LCS	\$1,509M (2)	



USAF Aircraft Procurement grew, but USAF suffers from RDT&E “Over-programming.”

Priority RDT&E Programs (\$27B)		
	<u>Programs</u>	<u>2011 Base/OCO/Supp.</u>
1.	F-35 CTOL	\$884M
2.	KC-X	\$864M
3.	LRS/Bomber	\$199M
4.	HH-60 Recap/CSAR-X	\$13M
5.	Prompt Global Strike (DOD-wide)	\$240M
6.	NPOESS Restructuring	\$352M

Priority Procurement Programs (\$39B Base/\$45B Total)		
	<u>Programs</u>	<u>2011 Base/OCO/Supp.</u>
1.	F-35 CTOL	\$4,191M (23)
2.	MQ-9 Reaper	\$1,080M (48)
3.	Global Hawk	\$737M (4)
4.	C-130J (all types)	\$1,398M (17)
5.	C-17 (Veto Threat)	\$0
6.	HH-60 (CSAR)	\$218M (6)
7.	JCA	\$351M (8)
8.	SBIRS-High	\$970M (1)



Secretary Gates' Speech Navy League (May 3, 2010)

- “...no one intends to bankrupt themselves by challenging the U.S. to a shipbuilding competition.... **Instead, potential adversaries are investing in weapons designed to neutralize U.S. advantages – to deny our military freedom of action while potentially threatening America’s primary means of projecting power: our bases, sea and air assets, and the networks that support them.**”
- “At the higher end of the access-denial spectrum, the virtual monopoly the U.S. has enjoyed with precision guided weapons is eroding – **especially with long-range, accurate anti-ship cruise and ballistic missiles that can potentially strike from over the horizon. This is a particular concern...where, for example, a Ford-class carrier plus its full complement of the latest aircraft would represent potentially a \$15 to \$20 billion set of hardware at risk.**”
- “**In particular, the Navy will need numbers, speed, and the ability to operate in shallow water,...**As we learned last year, you don’t necessarily need a billion-dollar guided missile destroyer to chase down and deal with a bunch of teenage pirates wielding AK-47s and RPGs.”
- “**These issues invariably bring up debates over so-called ‘gaps’ between stated requirements and current platforms – be they ships, aircraft, or anything else.** More often than not, the solution offered is either more of what we already have or modernized versions of preexisting capabilities. **This approach ignores the fact that we face diverse adversaries with finite resources that consequently force them to come at the U.S. in unconventional and innovative ways.**”
- “**First, what kind of new platform is needed to get large numbers of troops from ship to shore under fire – in other words, the capability provided by the Expeditionary Fighting Vehicle...**[w]e have to take a hard look at where it would be necessary or sensible to launch another major amphibious landing again – especially as advances in anti-ship systems keep pushing the potential launch point further from shore.”
- “**Or consider plans for a new ballistic missile submarine, the SSBN(X). Right now, the Department proposes spending \$6 billion in research and development over the next few years – for a projected buy of twelve subs at \$7 billion apiece...**In a congressional hearing earlier this year, I pointed out that in the latter part of this decade the new ballistic missile submarine alone would begin to eat up the lion’s share of the Navy’s shipbuilding resources.”
- “**In other words, I do not foresee any significant increases in top-line of the shipbuilding budget beyond current assumptions. At the end of the day, we have to ask whether the nation can really afford a Navy that relies on \$3 to \$6 billion destroyers, \$7 billion submarines, and \$11 billion carriers.**”