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United States General Accounting Office

Briefing Report to the Chairman,
Committee on Armed Services,
House of Representatives

September 1990

B-2 BOMBER

Proposed Revision to Fiscal Year 1991 Budget Request





United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-241182

September 24, 1990

The Honorable Les Aspin
Chairman, Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

As you requested, this report compares the procurement plan and a revised fiscal year 1991 budget request for the B-2 aircraft proposed by the Secretary of the Air Force in July 1990 with the procurement program approved by the Congress through fiscal year 1990.

BACKGROUND

In 1986, the Department of Defense (DOD) estimated that it would cost about \$58 billion to procure 133 B-2 aircraft--6 development and 127 production aircraft. Since that time, schedule and funding problems have resulted in a series of revisions to the program quantity and schedule, as well as in increases to the program cost estimate. Through fiscal year 1990, 10 production aircraft have been both authorized and funded. The fiscal year 1991 Defense budget submitted in early 1990 requested authorization and funding for an additional five B-2 aircraft.

A significant change to the procurement schedule was proposed in April 1990 by the Secretary of Defense. In announcing the results of a Major Aircraft Review, the Secretary proposed reducing the B-2 aircraft production quantity from 127 to 70 and the request for procurement authorization in fiscal year 1991 from 5 to 2 aircraft. The then-revised estimate of the total program cost for the 6 development and 70 production aircraft was \$61.1 billion, including military construction costs.

According to Air Force officials, the costs associated with the Secretary of Defense's changes to the program and with prior changes to the procurement schedule were not fully reflected in the \$61.1 billion estimate. The cumulative impact of schedule changes increased the estimated cost of the 10 production aircraft authorized and funded by Congress prior to fiscal year 1990 by \$1.4 billion more than was appropriated for them. The Secretary of the Air Force, in a

appropriated for these two aircraft in prior years will be used to pay for cost increases on the other eight aircraft in process. The plan's characterization of the two B-2s in the fiscal year 1991 budget request as new aircraft is, therefore, a misnomer. Funding appropriated in fiscal year 1991 could be approved directly to cover the increased costs of the 10 aircraft authorized and funded in fiscal years 1990 and before.

THE REVISED BUDGET REQUEST

The Air Force's revised request includes funding for development, procurement, and construction. The planned uses of the requested funds are shown in table 1.

Table 1: Planned Use of Requested Fiscal Year 1991 Funding

Dollars in millions

<u>Appropriation</u>	<u>Request</u>
Development	\$1,751.0
Procurement	
Two aircraft	1,989.0 ^a
Advance Procurement	767.0
Preservation of fixed-price options	558.0
Long lead for six aircraft	209.0
Construction	<u>141.0</u>
Total	<u>\$4,648.0</u>

^aIncludes credits for fiscal year 1990 advance procurement funding.

Development funds are requested to continue the development, testing, and acquisition of the six development aircraft, including increases in the cost of the aircraft resulting in part from program restructuring. In addition to the funds needed to pay for aircraft currently in process, \$414 million in procurement funds are requested for support equipment.

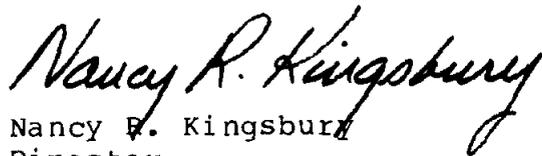
About \$767 million is requested for advance procurement, which is used to begin purchasing aircraft parts to ensure that the aircraft, once authorized (usually in the next fiscal year), can be delivered in accordance with the program schedule.

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Force; the Director, Office of Management and Budget; and other interested parties.

Please contact me on (202) 275-4268 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix I.

Sincerely yours,

A handwritten signature in cursive script that reads "Nancy R. Kingsbury". The signature is written in black ink and is positioned above the typed name.

Nancy R. Kingsbury
Director
Air Force Issues

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The Air Force requests \$209.0 million for advance procurement funding in fiscal year 1991 for six aircraft that are scheduled for procurement in fiscal year 1992. For fiscal year 1990, Congress approved the funding needed for advance procurement of five B-2 aircraft. Air Force officials said there was a credit of fiscal year 1990 advance procurement funding against the procurement request for fiscal year 1991.

The request also includes \$558 million to order subsystems and parts for aircraft that are scheduled for procurement after fiscal year 1992. Northrop Corporation, the B-2's prime contractor, has negotiated fixed-price options in certain subcontracts based on the original delivery schedule. To preserve the favorable prices in these subcontracts, Northrop must purchase certain items in minimum quantities, even though the parts are scheduled for use on aircraft not yet authorized. The Air Force has requested funding for this purpose in the past. For example, some parts have been acquired for aircraft that, under the revised Air Force plan, will not be requested until fiscal year 1993. We did not evaluate the potential savings that could result from exercising the options.

SCOPE AND METHODOLOGY

We reviewed program data and records and interviewed officials at the B-2 System Program Office at Wright-Patterson Air Force Base, Ohio; the Northrop B-2 Division, Pico Rivera, California; the Office of the Secretary of Defense, and Air Force Headquarters, Washington, D.C. We reviewed the methodology for estimating costs and identified the sources of major cost increases. We did not validate the Air Force's assumptions or the data. We performed our review in August and September 1990 in accordance with generally accepted government auditing standards.

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Because of time constraints, we did not obtain written comments from the Department of Defense. However, we discussed a draft of this report with Department of Defense officials and incorporated their comments where appropriate.

We are sending copies of this letter to the Chairman, Senate Committee on Armed Services; the Chairmen, Subcommittees on Defense, of the House and Senate Committees on Appropriations; the Secretaries of Defense and the Air

July 1990 revised budget request, stated that these aircraft, which are currently in the process of being built, would have to absorb a larger portion of overhead and fixed costs than previously intended. The Secretary attributed these cost increases to "repeated reductions in the numbers of aircraft funded in each year subsequent to FY 87/88." The costs will increase because fewer aircraft will be in production while current aircraft are completed. The Air Force revised the estimated total program cost, including the \$1.4 billion and other adjustments, to \$62.8 billion.

The Air Force considered various methods of providing additional funds in fiscal year 1990 and previous fiscal years to cover the \$1.4 billion in additional costs. These methods included use of expired appropriations, reprogrammed unobligated balances from prior fiscal years, and supplemental appropriations. According to the Secretary of the Air Force, however, the Congress was not in favor of using any of these methods. Accordingly, the Secretary decided to further restructure the B-2 program to provide the needed funds.

In his July 1990 revision to the B-2 budget request, the Secretary informed the four congressional defense committees that the Air Force had developed a plan that provided for production of 8 aircraft rather than the 10 authorized and funded by the Congress through fiscal year 1990. This plan, the Secretary stated, "would involve moving two aircraft to FY97, one from FY88, which is already on contract and definitized, and one from FY89 for which long lead procurement has been released. This would allow us to use these appropriations to cover the estimated unfunded requirement in FY90 and prior at the time it becomes a true liability in the fiscal year it must be recognized." The plan then requests authorization and funding for two aircraft in 1991.

OBSERVATIONS

The Air Force plan appears to be needlessly complicated. Although the plan states that two aircraft would be "moved" from prior years to 1997, those aircraft have already been funded and are being built. The 10 aircraft in process will be the first 10 production aircraft. In effect, the plan artificially eliminates two aircraft authorized and funded in prior years and requests them again for authorization in fiscal year 1991 so that 1991 appropriations can be used to pay for them. Funding

