



United States General Accounting Office  
Washington, DC 20548

National Security and  
International Affairs Division

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May 22, 2000

The Honorable Solomon P. Ortiz  
The Honorable James V. Hansen  
House of Representatives

Subject: Depot Maintenance: Air Force Waiver to 10 U.S.C. 2466

The issue of how much weapon system depot maintenance capabilities should be performed in-house by the government or performed by the private sector has long been a matter of public policy debate. Congress has legislated a ceiling on the amount of such work that may be performed by private sector contractors. Currently, 10 U.S.C. 2466 stipulates 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 maintenance and repair can be used for contract depot maintenance work. However, the legislation also authorizes a waiver of that provision by the secretary of a military service for national security reasons.

On January 11, 2000, the Air Force notified the Congress that the Secretary of the Air Force had approved a waiver of 10 U.S.C. 2466 for fiscal year 2000, indicating the potential for the 50-percent ceiling to be exceeded this year. In authorizing the waiver, the Secretary noted that temporary contracts<sup>1</sup> were required to support maintenance workloads of the closing Sacramento and San Antonio Air Logistics Centers that had either been moved to other military depots or to the private sector.<sup>2</sup> In response to your request, this letter addresses (1) the extent to which the Air Force's justification for the waiver was due to its planned use of temporary contracts to support transitioning workloads and (2) the potential for the ceiling to be exceeded in fiscal years 2000 and 2001.

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<sup>1</sup> These include temporary repair contracts for short-term workloads performed by a contractor to support requirements during workload transitions between sources of repair, and temporary contract personnel performing depot maintenance at a government facility.

<sup>2</sup> Some of the workload transfers to the private sector will be performed at the industrial center created at the closing military repair depot at San Antonio, Texas.

## RESULTS IN BRIEF

Although the Air Force's explanation for the waiver was based primarily on the need to use temporary contracts to support transitioning workloads from closing depots, these temporary contracts represent only a minor share of the planned Air Force contract workload for fiscal year 2000, and they did not in and of themselves create the need for a waiver. A significant factor leading to the waiver was previous Air Force actions that increased the private sector's share of depot maintenance work from 36 percent in 1991 to close to the 50-percent ceiling in 2000—leaving little room to respond to emergencies by using additional contract maintenance without exceeding the 50 percent ceiling.

Air Force estimates indicate that it will come close, but not exceed the 50-percent ceiling in either fiscal year 2000 or 2001. The Air Force assumes that it can keep within the 50-percent ceiling during fiscal year 2000 by transitioning from the private sector to military depots contract workload valued at about \$63 million while preventing the value of other contract work from increasing above estimates previously made for that work. While efforts are underway to identify specific workloads that may be candidates for transitioning to one of the military depots, it is unclear if the Air Force will be successful in identifying appropriate workloads and making the transition in time to influence the workload balance during fiscal year 2000. It is also uncertain whether the Air Force will be successful in holding its remaining contract depot maintenance workloads below previously identified estimates. If the Air Force is not successful in these efforts, it will exceed the ceiling in fiscal year 2000. Likewise, for fiscal year 2001, the Air Force estimates that the private sector will account for 48 percent of the depot maintenance workload. This estimate assumes that yet-to-be-identified contract workloads that are valued at about \$103 million can be transferred to military depots while remaining contract work is kept at or below previous estimates. It is uncertain, however, whether the Air Force will be successful in managing its depot maintenance programs within the 50-percent ceiling for fiscal year 2001.

In commenting on a draft of our report, Air Force officials generally agreed with the information presented, however, they made some clarifying points that we incorporated where appropriate.

## 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 in military facilities by government or contractor personnel. The amount of depot maintenance work done by the public and private sectors is governed by 10 U.S.C. 2466, which 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 for contract depot maintenance work. The

statute requires the Department of Defense to annually report to the Congress the amount of depot maintenance funds used by the public and private sectors in the previous year and to estimate the split in future years. It also requires us to review and report on the data submitted by the Department.<sup>3</sup>

### TEMPORARY CONTRACTS NOT THE MAJOR REASON FOR THE WAIVER

We recently testified<sup>4</sup> before the Subcommittee on Readiness and Management Support, Senate Committee on Armed Services, on the Air Force's waiver of the 50-percent ceiling for fiscal year 2000. We noted that the explanation for the waiver understated key factors that led to the need for the waiver. While the waiver principally cites the need to use temporary contracts to meet workloads created from closing the Sacramento and San Antonio Air Logistics Centers, these contracts represent a small share of the estimated value of the fiscal year 2000 depot maintenance workload, and they did not in and of themselves create the need for a waiver. A more significant factor was the increase in the value of the private sector's share of depot maintenance workload in recent years.

To carry out the transition of workloads from the closing maintenance depots at Sacramento, California, and San Antonio, Texas, the Air Force awarded temporary contracts to private companies to provide interim depot maintenance support until new sources of repair are operational and producing required quantities. In March 2000, the Air Force estimated it could spend \$159 million on temporary contracts during fiscal year 2000—about 3 percent of the estimated value of the Air Force's contract depot maintenance work for this fiscal year. The waiver was also justified based on increased use of temporary contract personnel at the military depots. However, we found that the funding allocated to temporary contract personnel is estimated to decrease by \$92 million between fiscal year 1999 and 2000.

A more significant factor leading to the waiver were previous Air Force actions that increased the value of the private sector's share of depot maintenance work from 36 percent in 1991 to close to the 50-percent ceiling in 2000—leaving Air Force officials little flexibility to respond to emergencies by contracting out additional workloads without exceeding the ceiling for contract depot maintenance work. Some decisions that have brought the Air Force to this point include the following.

- The Air Force increased the use of long-term depot maintenance contracts to support new systems from about \$600 million in fiscal year 1996 to about \$1.1 billion in fiscal year 2000, an increase of 83 percent.

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<sup>3</sup> The Department submitted its report on the 1999 data in February 2000 and its report on out-year data in April 1, 2000, to the Congress, and we are currently reviewing both reports.

<sup>4</sup> Depot Maintenance: Air Force Faces Challenges in Managing to 50-50 Ceiling (GAO/T-NSIAD-00-112, Mar. 3, 2000).

- The closure of the San Antonio, Texas, depot resulted in contracting out about 66 percent of the engine workloads performed or planned to be performed at that facility—workload that is estimated to be valued at about \$545 million annually.<sup>5</sup>
- The closure of the Sacramento, California, depot resulted in the transfer of aircraft repair work valued at about \$87 million annually to the private sector.<sup>6</sup>
- 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.

Additionally, the National Defense Authorization Act for Fiscal Year 1998 included a new provision, 10 U.S.C. 2460, which defined depot workloads as including contract maintenance work categorized as interim contractor support or contractor logistics support. This work was thus included in the Air Force report to the Congress under 10 U.S.C. 2466 as part of the private sector's share of depot maintenance work.

#### UNCERTAINTIES ABOUT AIR FORCE EFFORTS TO STAY WITHIN THE 50-PERCENT CEILING IN THE FUTURE

Our analysis of available data, at the time of our March 2000 testimony, indicated that the Air Force could potentially exceed the 50-percent ceiling by about \$35.5 million for fiscal year 2000. In April 2000, the Department issued its report on depot maintenance workload projections for fiscal year 2000 through 2004, indicating that the Air Force does not expect to exceed the ceiling in either fiscal year 2000 or 2001, as shown in table 1.

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<sup>5</sup> The Air Force contracted out the F100-229 engine, with an average 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 for the remaining engine work from the San Antonio depot. The public sector offeror, which consisted of a public-private partnership of the Oklahoma Air Logistics Center and Lockheed Martin Kelly Aircraft Company, won the competition—with Lockheed getting about 60 percent of the workload. The workload is valued at about \$417 million annually.

<sup>6</sup> 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 the Boeing Aerospace Corporation, won the competition—with Boeing getting about 39 percent of the workload. Additionally, Sacramento's ground communication equipment workload, not part of the competition, was moved to the Tobyhanna Army Depot based on the recommendation of the Base Realignment and Closure Commission.

<sup>7</sup> P.L. 105-85, section 355.

**Table 1: Projected Private Sector Allocation of Depot Maintenance Workload**

<b>Fiscal year</b>	<b>Percent</b>
2000	49.5
2001	48.0
2002	47.3
2003	47.9
2004	48.0

Source: Air Force data.

Air Force data indicate that the value of the private sector's share of depot maintenance workload will be close to 48 percent in fiscal years 2002 through 2004. We are in the process of doing a more extensive analysis of the data and will report our results in June, 2000, in accordance with 10 U.S.C. 2466.

The Air Force's current projection that it will not exceed the 50-percent ceiling in fiscal years 2000 and 2001 is predicated on its success in transferring some contract workloads to military depots and holding down remaining contract workloads to amounts at or below what was previously estimated. The Air Force assumes that it can transfer workloads valued at \$63 million from the private sector to one of the military depots during fiscal year 2000. Additionally, the Air Force assumes it can prevent its remaining contract depot maintenance work from growing beyond previously estimated amounts. In April 2000, the Commander, Air Force Materiel Command, directed the Air Logistics Centers and the Product Centers to identify depot maintenance workloads that could be transferred in house from the private sector. Efforts to identify such workloads are now underway but have not been finalized. Questions about the availability of technical data, repair parts, depot repair equipment, and trained and qualified personnel for the workloads being considered remain unanswered. It is unclear whether appropriate workloads can be identified in time to accomplish the transition and begin performing the work before the end of the fiscal year 2000 depot-reporting period. It is also uncertain whether or not the Air Force can hold down the value of other contract work to previously estimated amounts. If the Air Force is not successful in these efforts, it will exceed the ceiling for fiscal year 2000. For fiscal year 2001, the Air Force projects that the private sector will account for about 48 percent of the depot maintenance workload, but this assumes that contract repair workloads yet to be identified that are valued at about \$103 million can be transferred in house and that other contract work requirements can be kept below previously estimated amounts. If workloads cannot be transferred and the depot maintenance program is executed as planned, Air Force data indicate it will come close to the ceiling again in fiscal year 2001.

AGENCY COMMENTS AND  
OUR EVALUATION

We met with officials from the offices of the Assistant Deputy Under Secretary of Defense (Maintenance Policy, Programs, and Resources) and the Air Force Deputy Chief of Staff, Installations and Logistics (Maintenance Management Division) to obtain oral comments on a draft of this letter. These officials generally agreed with the information in the draft letter but offered several clarifying points.

Air Force officials stated that other factors also contributed to the Air Force's request for the waiver for fiscal year 2000: (1) a 1998 legislative change requiring them to increase the types of depot maintenance activities to be reported, and (2) higher operational demands, such as those associated with Kosovo. We agree that the change in depot maintenance reporting requirements was a factor in increasing the percentage of workloads attributed to the private sector and we have modified the report accordingly. We also agree that operational considerations influenced the need for temporary and emergency contract requirements. Nonetheless, our work shows the Air Force made choices regarding the amount of depot maintenance workloads to be contracted out and it was these choices that brought it to the point where Air Force officials now have little flexibility to respond to emergency situations where additional contract maintenance work is needed without breaching the 50-percent ceiling.

The Air Force suggested that we modify our draft report to indicate that they would come very close to the ceiling in fiscal year 2001 if they were unable to identify workloads valued at \$103 million that can be transferred in house. We agree that the Air Force faces a significant challenge in this area, and we have modified the report to better reflect this view.

The officials made several other technical comments that have been incorporated in the letter as appropriate.

SCOPE AND METHODOLOGY

To determine the extent to which the waiver was based on the need for temporary contracts to support the workload transferring from the closing depots, we compared the estimated funding of temporary contracts to the overall value of the depot maintenance program for fiscal year 2000. We also compared the percentage of the value of depot maintenance workload that was done in house to the percentage done by the private sector between fiscal year 1991 and 1999. Finally, we assessed the potential impact of recent Air Force decisions on the allocation of depot maintenance workload between the public and private sector.

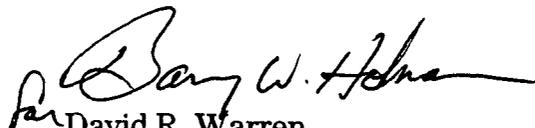
To assess the potential for exceeding the 50-percent ceiling in fiscal years 2000 and 2001, we reviewed available data supporting the Air Force's estimates of the depot

maintenance workload that would be performed in house and by the private sector. We are still in the process of obtaining and verifying data that supports the overall estimates. In addition, we interviewed officials in the Office of the Deputy Chief of Staff for Installations and Logistics, U.S. Air Force, and the Air Force Material Command regarding the estimated allocation of depot maintenance workload in fiscal years 2000 and 2001.

We conducted our review in March and April 2000 in accordance with generally accepted government audit standards.

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If you or your staff have any questions concerning this letter, please contact me on (202) 512-8412 or my Assistant Director, Julia Denman, on (202) 512-4290.

  
David R. Warren  
Director, Defense Management Issues