



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

IN REPLY
REFER TO: B-115398

October 12, 1977

The Honorable John J. Lafalce
House of Representatives

Dear Mr. Lafalce:

This is in reply to your letter of September 30, 1977, in which you asked that we monitor the executive branch's actions and inform you of major developments in the B-1 bomber program. Pursuant to your request, we have been in contact with officials of the Department of Defense (DOD) and representatives of Rockwell International (Rockwell), one of the prime contractors for the B-1 program.

As you know, the Congress did not approve the President's proposal to rescind \$462 million in budget authority that was determined to be excess to DOD's needs as a result of the decision to terminate the program. Consequently, this budget authority was required to be made available for obligation on October 5, 1977, by the Impoundment Control Act of 1974, title X of Public Law 93-344, July 12, 1974--the expiration of the 45-day period prescribed for the consideration of rescission proposals under the Act. We have confirmed that the \$462 million rejected for rescission was made available by the Office of Management and Budget for obligation on October 5, 1977. We have also determined that the Secretary of Defense has taken steps to utilize this budget authority in the B-1 program. On October 4, 1977, the Secretary, DOD, requested the Department of the Air Force to submit a restructured B-1 program description that includes proceeding with the production of the fiscal year 1977 B-1 bombers. Pursuant to the Secretary's memorandum, the Department of the Air Force transmitted telegrams on October 4, 1977, to concerned departmental activities in order to obtain the material requested by the Secretary.

DISCUSSIONS WITH DOD:

On October 6 and 11, 1977, members of this Office met with representatives of the U.S. Air Force in the Office of the Deputy Chief of Staff, Research and Development, Aircraft

Division, who informed us that all of the budget authority that was appropriated for the B-1 program has been made available to the Air Force. This amount, approximately \$1.16 billion, includes the \$462 million that was proposed, but rejected, for rescission and approximately an additional \$698 million that was to be used for both prior program expenditures and anticipated termination costs.

The DOD officials told us that, because of the earlier termination of the program, about \$100 million would be lost as a result of terminating and then having to restart the B-1 program due to Congress' rejection of the rescission proposal. This sum is comprised of approximately \$25 million in costs associated with personnel reductions and the later rehiring of such personnel and about \$75 million for terminating future B-1 bomber production contracts.

We were told that the cost per aircraft will now probably increase due to having stopped the program. The exact amount of any increase, of course, will have to be the subject of negotiations between the Government and the prime contractors. In this regard, DOD told us that the Department cannot, at this time, afford to build the seventh B-1 aircraft and that termination costs for cancelling this aspect of the program will be roughly \$25 million.

The departmental officials told us that if the decision was made to build all of the next three aircraft originally contracted for (numbers five, six, and seven) that the total cost for the program would increase from about \$1.16 billion to approximately \$1.4 billion--an increase of \$240 million.

Insofar as restarting the program is concerned, we were told that a delay can be expected in the delivery of aircrafts five and six. Aircraft five was originally scheduled for delivery in August of 1979. Even assuming contract activities can resume promptly, DOD does not expect the fifth B-1 bomber can be delivered before February 1980. And, aircraft six, originally scheduled for delivery in November 1979, is not expected to be delivered before July or August 1980.

Rockwell sent an unsolicited proposal to the Department of Defense on October 6, 1977, for the construction of bombers five and six. While the specifics of any future contract with

the prime contractor are a matter of negotiation, DOD representatives told us that it is possible that some work may have to be done elsewhere if DOD and the prime contractor cannot reassemble the same team that was gathered for work under the original contracts.

We were also told that the U.S. Air Force Aeronautical Systems Division was planning on submitting to its higher command at Andrews Air Force Base, the Air Force Systems Command, its tentative plan for the B-1 bomber program on October 7, 1977, and that the final plan was contemplated for submission on October 17, 1977. At present, the Air Force estimates that it could, with the proper authorizations from higher headquarters, get Rockwell back into active program activities within 24 hours. In turn, DOD estimates that it would take Rockwell approximately 60 days to begin actual production work. This delay is due to the fact that over 8,000 people were laid off as a result of the termination of the B-1 program, and numerous subcontracts terminated.

DISCUSSIONS WITH ROCKWELL:

Representatives of Rockwell agreed with DOD that delivery on aircrafts five and six would be delayed and costs increased as a result of having terminated the original contracts. Rockwell told us on October 7 and 11, 1977, that aircraft five could be delivered in March 1980 and aircraft six in September of that year. If constructed, B-1 bomber seven could be delivered in March 1981.

In discussing contract costs, in what the company described as "comparable environments," Rockwell said aircrafts five, six, and seven were originally estimated at a cost of \$650-700 million. In light of recent events, Rockwell says it could cost the Government up to \$680 million to build only aircrafts five and six. If the Government chose to build aircraft seven additional costs would be about \$150 million. In summary, Rockwell says the additional cost to the Government to build all three bombers, in light of having stopped and then restarting production, is expected to range between \$130-180 million.

Rockwell said its unsolicited proposal of October 6, 1977, to build aircrafts five and six at a not-to-exceed cost of \$680

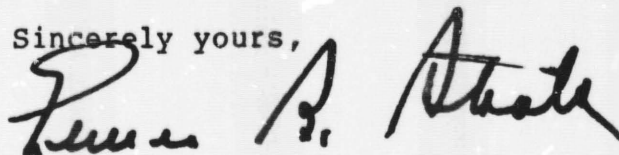
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million is good only until November 1, 1977. Company representatives estimate that costs are expected to increase between \$5-10 million for every month of delay. Rockwell projects that it would take about 6 months to finalize any contract with DOD for B-1 bomber production and that it would take about 90 days to get the subcontractors back on the job. (There are said to be 13 major subcontractors involved.) During the 6-month period estimated for contract finalization, Rockwell said it would undertake its B-1 operations pursuant to the bilateral agreement proposed on October 6, 1977.

Finally, Rockwell told us that it believed it would cost the Government about \$50 million in termination costs to discontinue production work on aircraft seven. When compared with a company-estimated cost of about \$150 million to build the seventh B-1 bomber, this means that Rockwell projects an additional outlay of \$100 million beyond already expected Rockwell costs would be needed for the Government to acquire the seventh aircraft.

We hope the foregoing will be of assistance to you. We will continue to monitor further actions by the executive branch and will notify you of further developments, as appropriate.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "James B. Athlete". The signature is fluid and cursive, with the first name "James" and last name "Athlete" clearly legible, and a middle initial "B." in between.

Comptroller General
of the United States