

## Computer code checking out in the KC-46; Keeping the tanker contract valid; More sequestration damage; The A-10's loyal fans ....

### STOP ME BEFORE I SUCCEED AGAIN

The KC-46 tanker program is doing uncommonly well and figures to deliver on time and at the expected cost, according to the never-kind Government Accountability Office. But if Congress allows sequestration to resume in 2016—and there's no reason to think it won't—it will put a stop to such absurd success, potentially adding hundreds of billions to the tanker's cost and possibly throwing the whole project back open for renegotiation.

In an April report, "KC-46 Tanker Aircraft: Program Generally on Track, but Upcoming Schedule Remains Challenging," the GAO determined that the Pegasus tanker is actually under-running its cost estimates by about \$300 million, for a cost of \$51.4 billion for 179 aircraft. The average program acquisition cost is now projected to be \$287 million per airplane, some \$1.8 million less per tanker than originally expected. The GAO warned that testing could slip due to delays in training air and ground crews, but noted that so far, "the program has not missed any major milestones" and that fabrication of the first four test aircraft is on schedule. The first is expected to roll out as soon as this month.

Even software, the typical bugaboo of new airplanes, "is progressing mostly according to plan," the GAO said of the 15.8 million lines of code to be used on the Pegasus tanker.

This is all good news, especially when schedule delays and overruns have become programmatic norms in defense contracting.

The Air Force put extra effort into making the KC-46 contract, as then-Chief of Staff retired Gen. Norton A. Schwartz said at the time, "bulletproof." It was structured as a fixed-price program. That means any overruns are entirely the financial responsibility of prime contractor Boeing. In its zeal to win the contract, Boeing actually underbid the tanker project by about \$200 million, explaining to shareholders that the larger production volume of similar cargo airplanes, parts, and potential foreign tanker sales will more than make up the loss-leader amount and turn a nice profit in the end.



Boeing illustration

*The KC-46: On time, on budget, and in danger.*

The catch for the Air Force is that to keep the program fixed-price, the service mustn't change the terms of the contract. Cutting airplanes from the buy, altering requirements, or any other fiddling with the agreement could be a deal-breaker. In that event, all aspects of the deal could be up for renegotiation, and Boeing—now the sole-source supplier and no longer just one competitor—would have far more leverage to recoup its lowballed millions, if not more.

Enter the sequester. If it resumes in 2016, the Pentagon says it will have to take five airplanes out of the KC-46 program, and that breaks the deal.

The House Armed Services Committee, in its version of the 2015 defense authorization bill, deleted one KC-46 from the Air Force budget, but a service spokesman said cutting the one plane will not break the contract.

"The ... KC-46 contract has flexibility built into production options; however, lot pricing and program costs are dependent on the quantity of aircraft purchased," he said.

### HOW TO RAISE YOUR COSTS

Lt. Gen. Wendy M. Masiello, the Air Force's deputy assistant secretary for contracting—and nominated to be head of the Defense Contract Management Agency—told an industry audience in April that to live within sequester amounts, USAF would have to cut \$1.1 billion from the KC-46 program in the next five years. Such a move will expose the Air Force "to additional risk" in the cost and schedule, she said.

Speaking at an Air Force Association/Air Force-sponsored event in Arlington, Va., Masiello said the KC-46 "is moving exactly as we want it to" and warned that if sequester resumes, it's a "possibility" that USAF would have to eat Boeing's loss-leader development costs. Moreover, Boeing could conceivably negotiate higher prices for the remaining jets, especially if the deferrals affect the company's worldwide supply chain of parts.

Last year, when the onset of sequester threatened the KC-46 contract, program executive officer Maj. Gen. John F. Thompson revealed that USAF scrambled to shave money from other programs to come up with enough funds to keep the deal unmolested. Masiello warned, however, that there probably won't be any slack in the budget to do that again, especially if the Air Force isn't allowed to retire the A-10 and U-2 fleets, disrupting the daisy chain of steps needed to reach sequester-mandated cuts.

### INTERLOCKING PLANS

Chief of Staff Gen. Mark A. Welsh III, speaking at the National Press Club in April, said that USAF has carefully worked out a financial plan that will let the service buy all the new programs it needs—including not only the tanker but the F-35, a new bomber, and a replacement for the E-8 JSTARS—as long as Congress holds sequester at bay and accedes to USAF's airplane type divestitures. "It's in the plan, even at

[reduced] budgetary levels,” Welsh said of the new projects, without “assuming money will fall from heaven.”

“What we can’t do,” he said, “is maintain everything” such as the A-10s and U-2s and still buy the new gear the service believes it needs to be relevant in 2023 and beyond.

The KC-46 wouldn’t be the only program thrown financially off track by the sequester. In mid-April, the Pentagon produced a list of \$66 billion worth of additional modernization cuts sequester would inflict. They included taking \$1.7 billion from the F-35 program, meaning the deferral of 15 Air Force jets. That, in turn, would hamper the program’s continuing success in reducing the cost of the fighter, lot over lot, as lower quantities create less efficiency. The F-35 Joint Program Office issued a statement saying that F-35 unit costs would, indeed, climb as a result of sequester-imposed changes, to the tune of about \$1.2 million apiece. Over more than 2,000 planned jets, that adds up.

Other cuts the Pentagon reported it would take in order to hit its sequester budget marks include \$7.1 billion from shipbuilding, \$2.8 billion out of Army aviation, assorted other procurements trimmed by \$17.8 billion, munitions by \$5.1 billion, communications gear by \$3.4 billion, and assorted modifications by \$1.2 billion. A new adaptive engine technology project would also be sacrificed at \$1.3 billion. Science and technology accounts overall would be slashed by \$9.2 billion—a move that Pentagon acquisition, technology, and logistics chief Frank Kendall has labeled as “eating our seed corn,” though he acknowledged it is unavoidable in context with the rest of the budget.

## PLAN B FOR THE A-10

The Air Force agonized over a range of other choices before settling on early retirement of the A-10 fleet as the only logical big-ticket “vertical cut” to meet expected budgets for the next five years, including partial retirement of the Warthog fleet, Welsh said during his National Press Club speech.

If the Air Force kept only the A-10s that have already received new wings—42 have been installed, and 25 sets are ready for installation—it would save \$1 billion over the next five fiscal years, said Welsh. By contrast, taking all the A-10s out of service—and eliminating the logistics train that goes with them—saves \$4.2 billion, including about \$500 million in cost avoidance from re-winged the rest of the fleet. Welsh said there are “not that many places you can go” to get that level of savings, which are mandated by law.

To get comparable savings, Welsh said, “it would take about 363 F-16s [or] ... 14 squadrons” worth of retirements, or a drastic cut in the F-15E Strike Eagle fleet, or pushing buys of the F-35 “outside the Future Years Defense [Program] and buy them later, which drives costs.”

The service also considered getting rid of its B-1B bomber fleet, but operational realities drove the choice to the A-10.

“We looked at all those options ... and we ran it through an operational analysis [using our planning tools] against the standard DOD scenarios,” Welsh said. Every time, “we came very clearly to the conclusion that of all those horrible options, the least operationally impactful was to divest the A-10 fleet. That’s how we got there.”

Welsh insisted the choice was “not emotional, it’s logical.”

Another option, discounted out of hand, was “we could just ground a whole bunch of squadrons today and make it look like last year,” when sequester forced USAF to ground dozens of units. The difference between saving \$1 billion and \$4.2 billion, he said, “pays for half our flying-hour program each year.”

All the other airplanes in the tactical and strategic inventory can do close air support, Welsh said, proved over “thousands

and thousands of ... very successful sorties.” The A-10, however, can only do CAS. Any other major cut would make it “impossible to achieve” victory in a “big conflict,” he said.

Far more than with CAS, Welsh said, “we save big lives” by achieving air superiority and performing deep attack against follow-on forces.

## SAVING BIG LIVES

Deep strike allows USAF to eliminate “the enemy’s will to continue the fight by destroying their command and control networks, by eliminating their ability to logistically reinforce the fight in the front lines, by keeping their reserve forces from moving forward, ... [and] by eliminating their second-echelon and operational reserve so they never engage US or coalition troops on the ground,” Welsh explained. By achieving air superiority, USAF gives all the services “freedom to maneuver and freedom from attack.”

The F-15Es and F-16s can do air superiority and deep strike as well as CAS, and the B-1B can do heavy bombardment as well as precision CAS. In a budget-tight environment, USAF can only afford to keep multirole platforms, Welsh said.

“This is not about the A-10 not being a great airplane,” said Welsh, who flew the A-10 for a chunk of his career and professes to “love” the airplane. “This is about where [we can] take operational risk.” USAF must start moving toward the force it must be 10 years from now in order to cope with the threat as it is expected to be in 2023, he said. In that “high-threat environment,” where speed and stealth will be crucial to survival, the A-10, which lacks those qualities, “will not be part of that solution,” he said.

One of the early and vociferous leading opponents of the A-10 retirement was Sen. Kelly Ayotte (R-N.H.), who in early budget hearings was highly critical of the plan. Ayotte, whose husband is a former A-10 pilot, pledged in February to block its retirement. Ayotte even marshaled a press conference of lawmakers, former A-10 pilots, and joint terminal attack controllers who sang the A-10’s praises.

In a Senate Armed Services Committee hearing about restructuring the Air National Guard and Air Force Reserve—with Welsh and Air Force Secretary Deborah Lee James giving testimony—Ayotte asked no questions about the A-10 issue. She commented broadly about the importance of good communications between the Active Duty and Air Force reserve.

Sen. John McCain (R-Ariz.) lambasted Welsh and James for suggesting the B-1 can do some of the CAS role. He called the A-10 the “finest close air support weapons system in the world” and demanded that the two offer alternatives that are “credible to those of us who have been engaged in this business for a long, long time.” McCain said there is “incredible skepticism” about the A-10 retirement among Capitol Hill lawmakers, and when Welsh tried to elaborate on the B-1’s role in CAS, said, “General, please don’t insult my intelligence.”

Although House Armed Services chair Howard P. “Buck” McKeon (R-Calif.) said he would allow the A-10s to be retired—provided they’re stored in a condition such that they could be recalled to Active Duty—the final HASC version of the Fiscal 2015 authorization bill specifically prohibited USAF from retiring any A-10s. Twenty-five Democrats and 16 Republicans adopted an amendment introduced by Rep. Ron Barber (R-Ariz.) barring the A-10’s retirement and ordering an independent report on what it would cost to use alternative platforms to do the CAS mission. Barber represents the district that includes Davis-Monthan AFB, where A-10s are based, as well as the Air Force’s “Boneyard,” where they would have been stored under McKeon’s plan. ■