

Headquarters U.S. Air Force

Integrity - Service - Excellence



NDIA Small Business Conference

9 May 06

Mr. Blaise Durante

*Deputy Assistant Secretary
(Acquisition Integration)*



Top Ten Rules of Life

10. Health nuts are going to feel stupid someday lying in hospitals dying of nothing.
9. In the 60's, people took acid to make the world look weird. Now, the world is weird and people take Prozac to make it look normal.
8. The faster you drive through a red light, the smaller the change you have of getting hit (Mass. Driving Rules).
7. If at first you don't succeed, skydiving is not for you.
6. Too many people have delusions of adequacy.

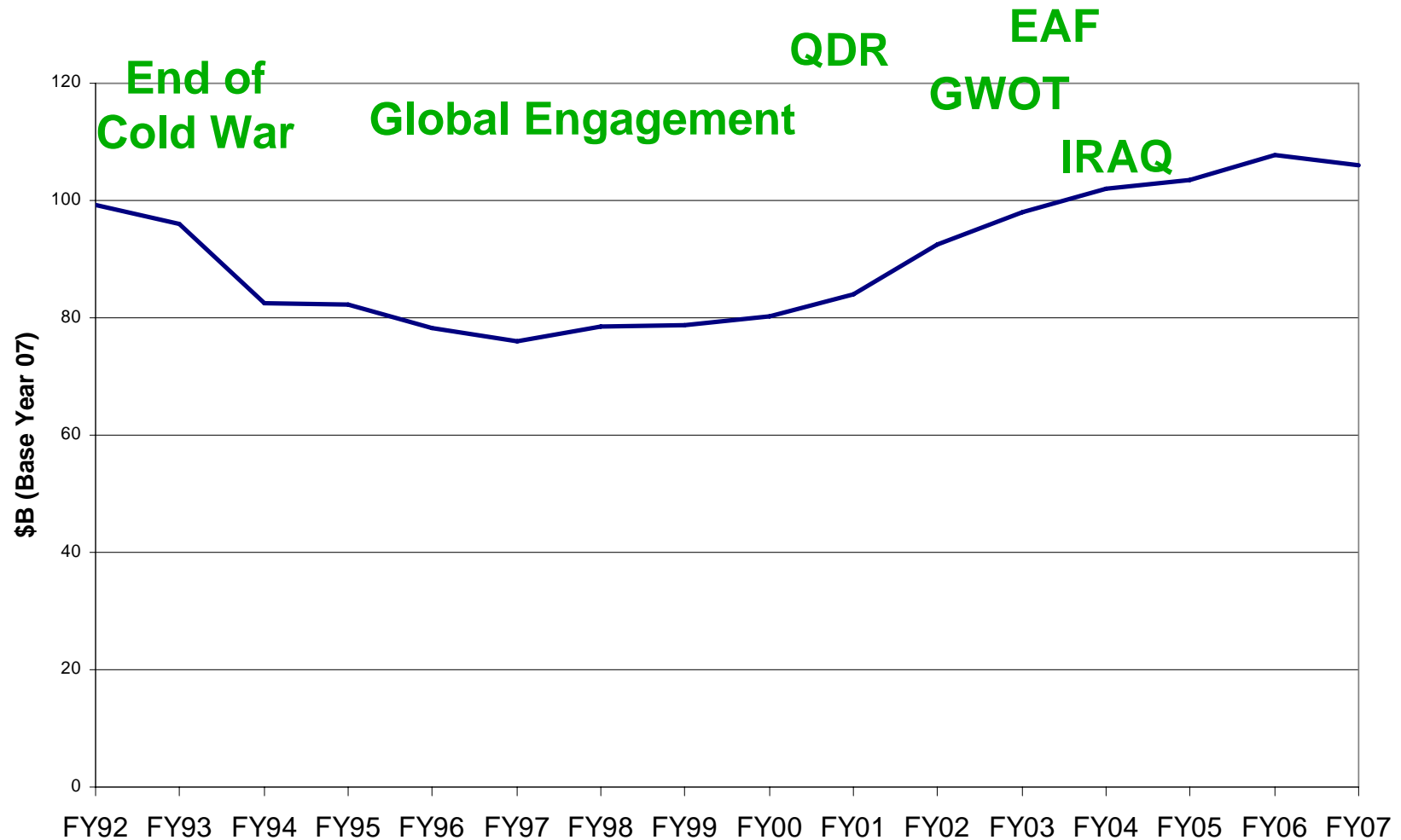


Top Ten Rules of Life

5. **Never drink water because of the disgusting things that fish do in it.**
4. **Those who live by the sword get shot by those who don't.**
3. **There are two kinds of pedestrians --
the quick and the dead.**
2. **If you can smile when things wrong, you have someone in mind to blame.**
1. **Never, under any circumstance, take a sleeping pill and a laxative on the same night.**



Air Force TOA Summary

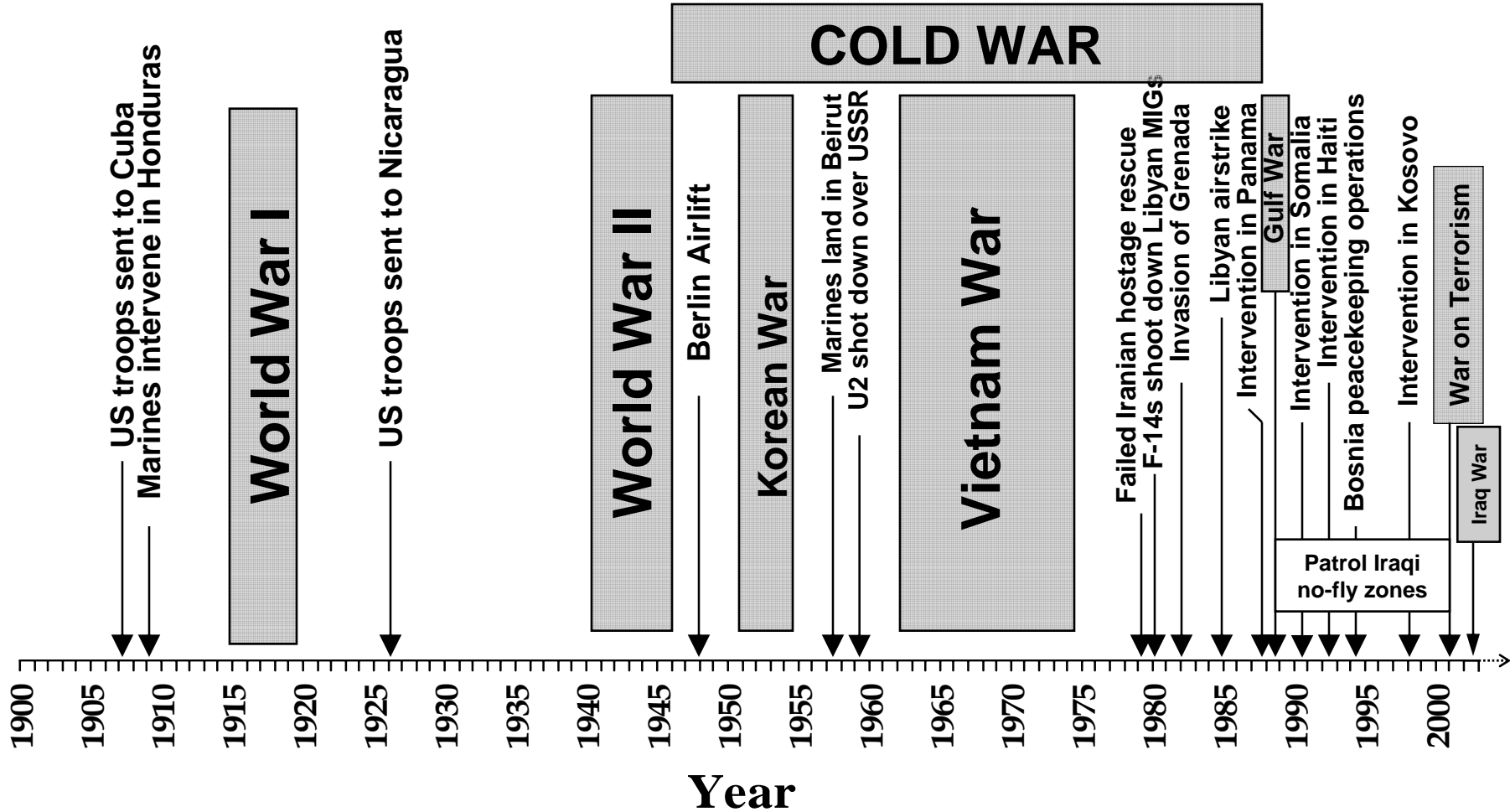


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Conflicts with US Involvement

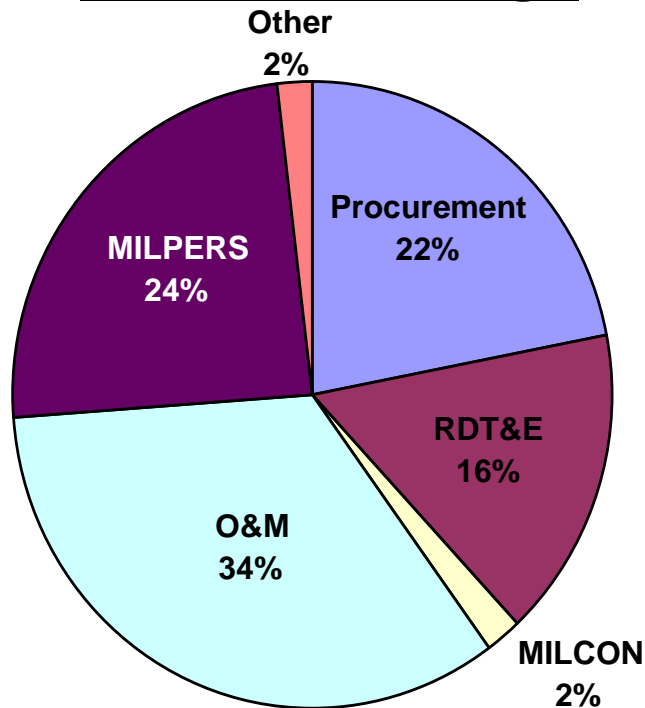
Since 1900





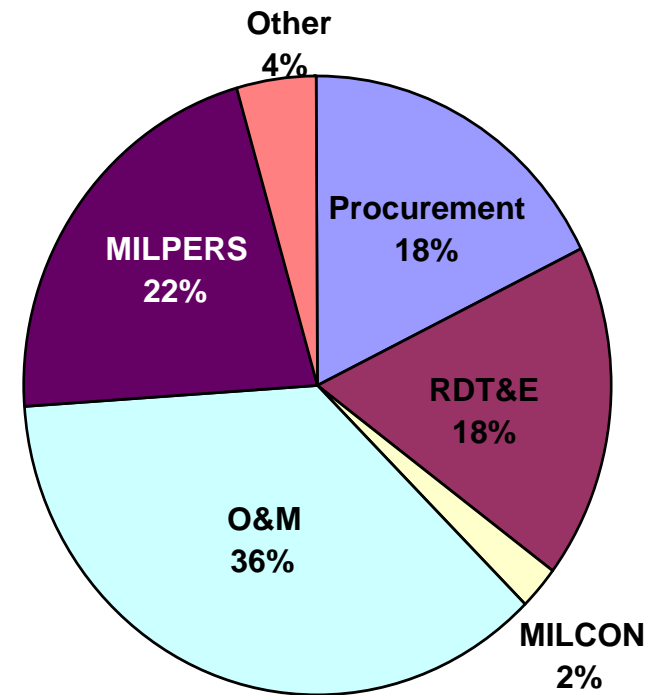
Appropriation Summary 20 Year Average Vs FY07

20 Year Average



\$77.14B (TY)

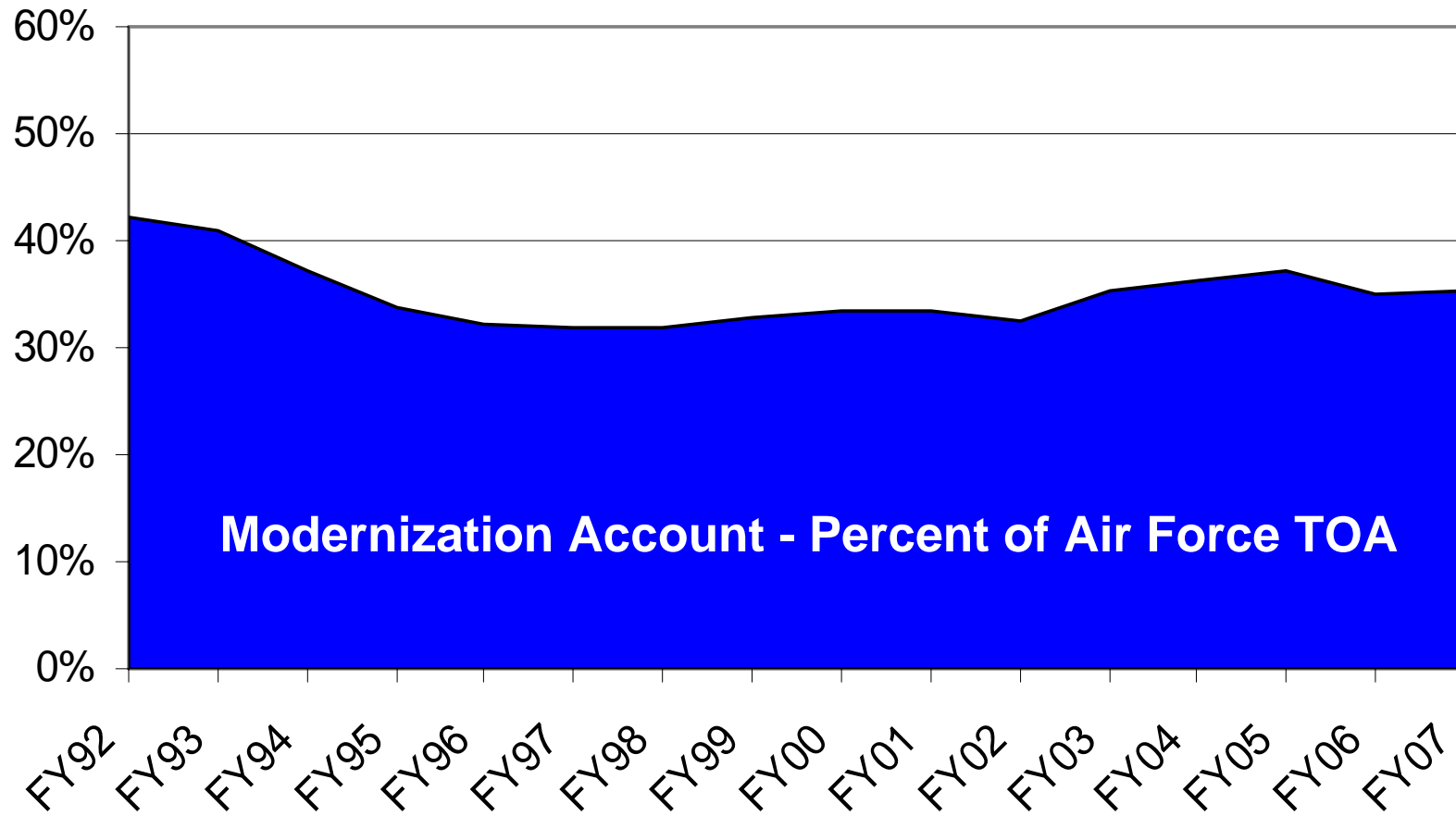
FY07



\$105.88B (TY)

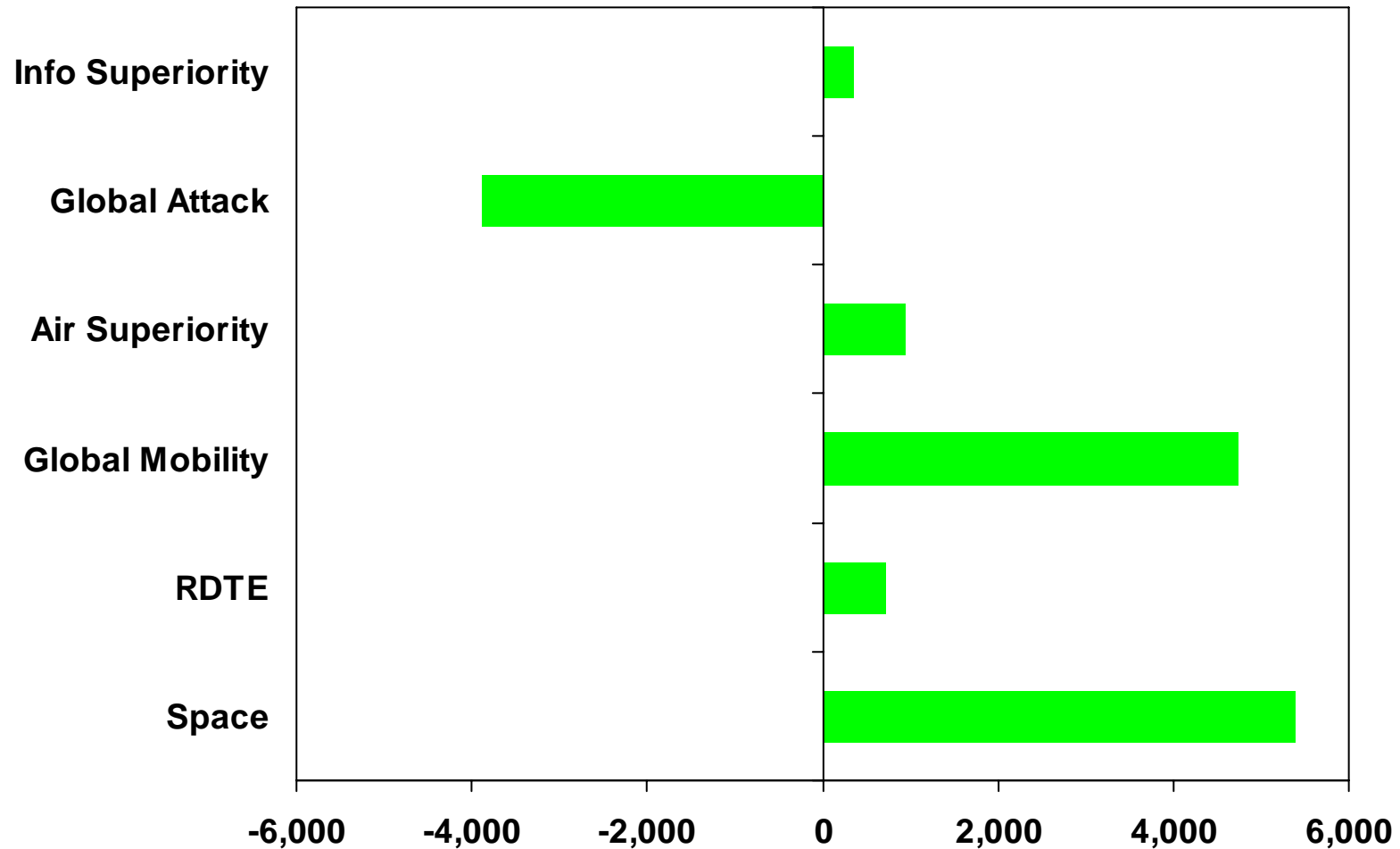


Modernization Account Trends





Largest Modernization Funding Changes FY06 PB to FY07 PB

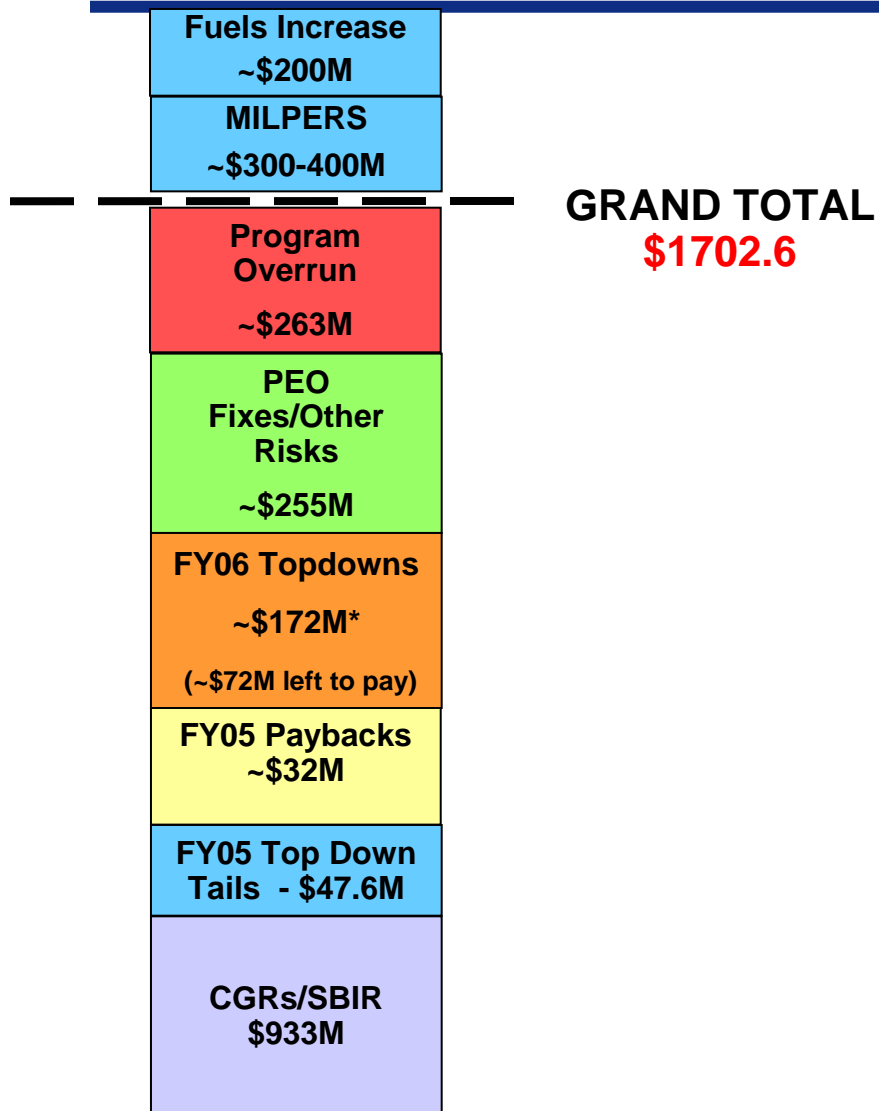


FYDP (\$M)
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Outstanding Modernization FY06 Bills

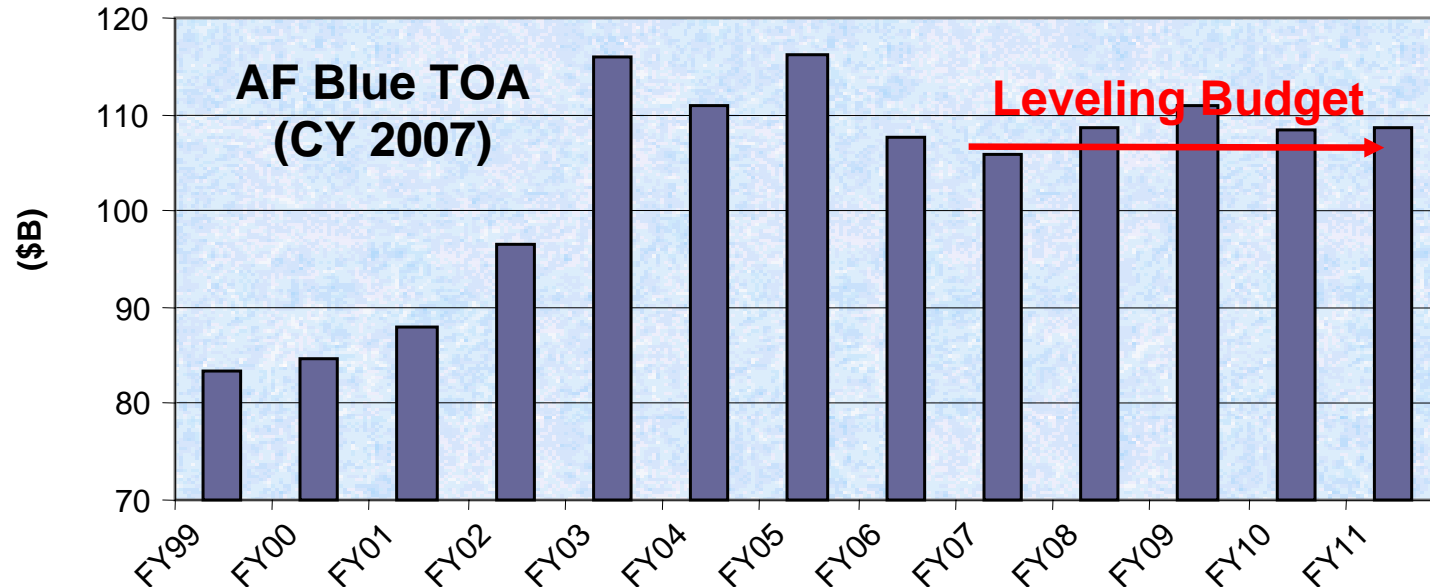
3010/3020/3600 Accounts



- FY06 once again is presenting significant execution year challenges
 - Mandatory Reductions (SBIR, FFRDC, CGR)
 - Tails from FY05 Top-Down Bills
 - Paybacks from FY05 Reductions (MILPERS, O&M)
 - Pending FY06 New/emerging requirements
 - Multiple PEO requested fixes
 - GPS ATR
 - Potential MILPERS bill
- Including CGRs/SBIR, potential for nearly \$2B in bills for investment accounts



Outyear Challenge - Budget



Reduction results in:

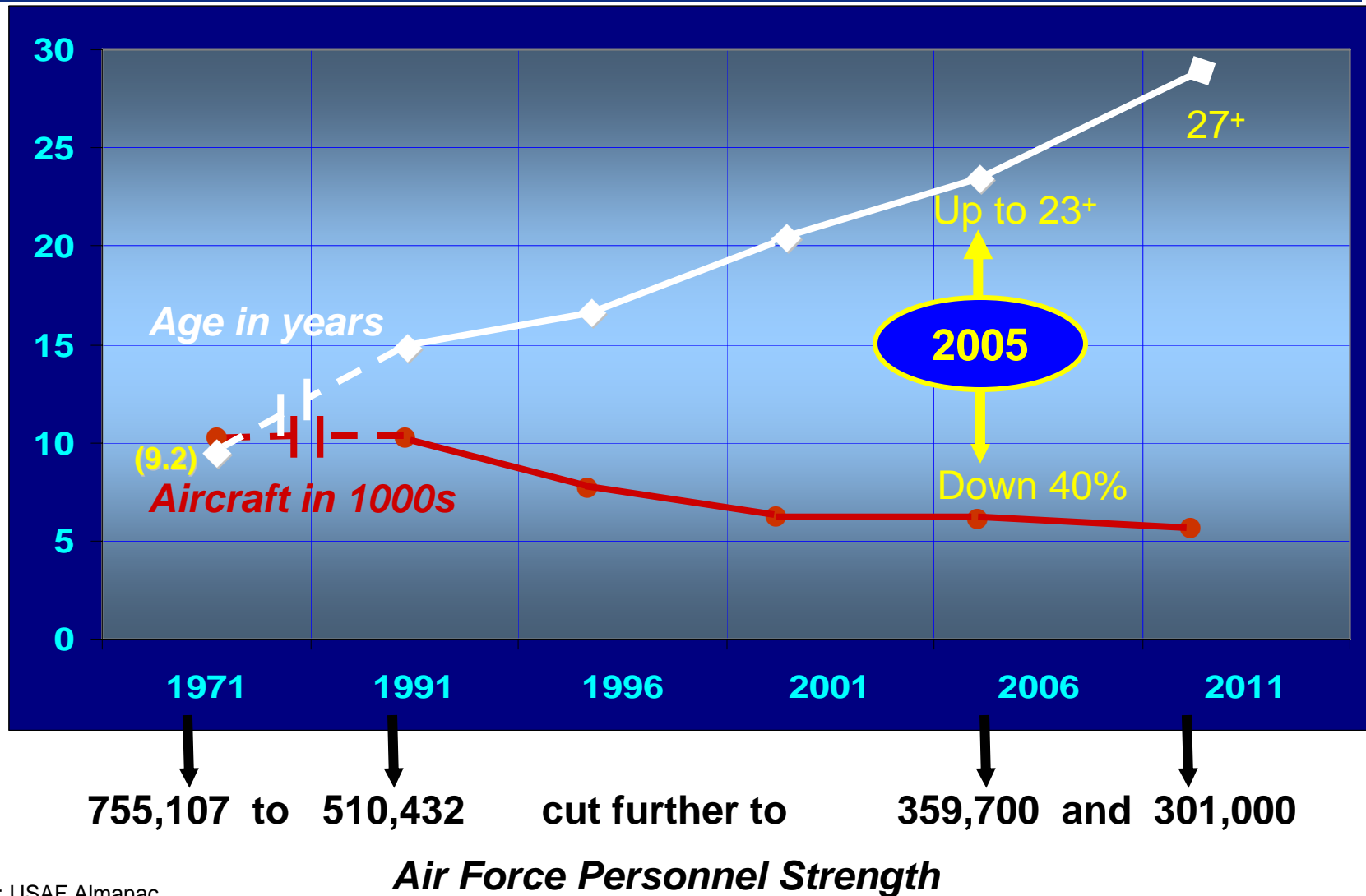
- Force Structure - Reorganization - Changing Way We Do Business

Air Force buying power is leveling off while “must pay” costs continue to grow... Transformation is a must to modernize

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Challenge - Recapitalization



Source: USAF Almanac

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Current Environment - Budget

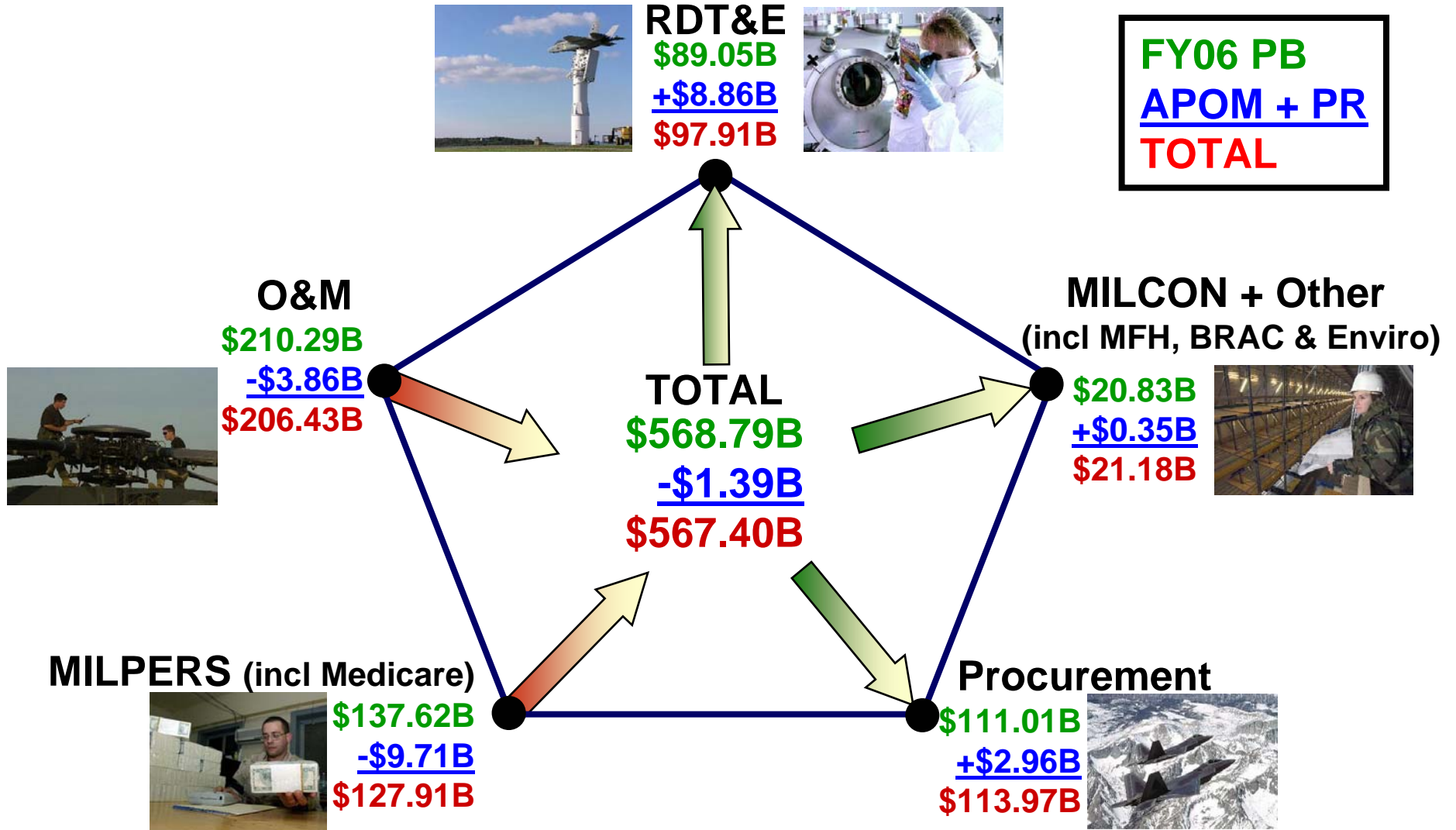
- **Era of increasing budgets is over**
- **Obligations and expenditures increasingly important**
- **FY07-11 TOA decreased by \$1.4B, major changes within existing top-line**
 - **Recapitalization of the force - modernization increased by \$11.8B**
 - **Workforce decreases by \$17.5B in organic, \$6.2B in contractor**
 - **Reductions in military/organic/contractor workforce**
- **FY08 POM, expect QDR and BRAC to be a driving force**

Although AF Top-Line did not change – priorities did



Where did the money move?

Air Force FY06 PB vs. FY07 PB





Manpower/Program Changes

- **Revitalizing and Recapitalizing the Force is emphasized in the FY07 PB**
 - **\$17.5B in organizational and process efficiencies**
 - 40,000 Organic Manpower reduction (MILPERS)
 - 2,000 Civilian Manpower reduction (CivPay)
 - \$6.2B in Contractor Support reductions (~80% O&M)
 - **\$4.1B in divestiture of legacy platforms**
 - Retirements of C-21, F-117, U-2 and B-52 (mostly O&M / mods)
 - Cancel B-52 Stand-Off Jammer (mostly RDT&E)
 - Cancel F-16 v10 Radar
 - **\$11.6B in Transformation Enhancements**
 - Predator fleet expansion
 - Light Cargo Aircraft start
 - Re-engine / Re-wing A-10, Re-engine E-3 (AWACS) & E-8 (JSTARS)
 - F-22A multi-year procurement



Challenge - AF Transformation

Organizational / Process Efficiencies

- **Organic Manpower reduction**
 - Centrally managed by AF throughout FY08 POM
 - Specific content to be worked throughout FY08 POM
- **Contractor Support reduction**
 - Estimated \$6.2B of savings in FY07-11 (PBD 720)
 - \$250M FY06 removed from contract services support
 - Starting point for this transformation
 - Increased visibility and approval for contract services
 - Reductions must be applied against contract support/
contract services/FFRDCs
 - MAJCOMs have flexibility to realign within their MAJCOM

***Modern management principles to transform to a leaner,
more efficient AF***



Org/Process Efficiencies

- **AF on Down-slope -- Some Knowns / Many Unknowns**
 - 40-60K Organic Cut
 - 25% Support Contractor
 - 25% FFRDC Cuts
 - Resultant TOA reduction
- **QDR - DAPA - Task Force 720 Impacts Still TBD**
- **AF Has Other Significant Manning Problems to Fix**
 - e.g. Crew Ratios, Stressed AFSCs, etc.

- **Reductions to AF end-strength**
- **Stepped approach from FY06 – FY11 (active):**
 - **Officer** - 6,555
 - **Enlisted** - 26,735
 - **Civilian** - 2,000
 - Total = - 35,290
- **Guard/Reserve** - 22,000



DoD Budget Decisions

**Faced with a 20-year threat
The Gov't responds with a 15 year plan
Programmed in a 6-year POM
Managed by 3-year personnel
Who developed a 2-year budget
Funded by a 1-year appropriation
Formulated over a 3-day weekend
and approved in a 1-hour decision brief**



What is Acquisition Doing?



Acquisition Learning Forward

- **Source Selection re-engineering led by SAF/AQC, ESC/CC**
 - **Reinvigorate training of policies and processes**
 - **Incorporate risk-based approach**
 - **Focus award fee as incentive management tool**
 - **Building structures to reward outstanding vs satisfactory performance**
 - **Identifying changes in acquisition policy and training**
 - **Managing contractor fee expectations**
 - **AF/SB exploring award fees tied to successfully meeting small business set aside goal(s)**
-



Acquisition Learning Forward

- **AQ Risk-based Decision Making methodology being tested**
 - **Prototype at selected programs at each product center Spring/Summer**
 - **Rollout to all programs later this year**
- **AFSO 21, DAPA, and AF21 converging and producing impetus for real change**
- **Sound acquisition principles and policy re-emphasis**



Acquisition Learning Forward

- **Refined Expectation Management Agreements (EMAs) and Course of Actions (COAs) (Put user and developer on same page)**
- **Acquisition Strategy Panel (ASP) and AF Review Board (AFRB) processes are AF senior level review and approval forums**



Acquisition Learning Forward Acquisition Strategy Panels (ASP)

- **Purpose**: Decides the strategy AF will take in committing significant resources to buy critically needed capabilities through a systematic and disciplined approach
 - Ownership moved from SAF/AQC to SAF/ACE in May '05
 - Do early before:
 - Request for Proposal (RFP) is released
 - AFRB is convened (approval to go on contract for a major milestone)
 - Program Office must work with SAF/ACE to coordinate ASP content and schedule
 - ACAT I - HQ's level panel, chaired by the SAE
 - ACAT II and III - chaired by PEOs
-



Acquisition Leaning Forward ASP Template

- **Qualified Small Business (SB) Sources?**
 - Consideration of SB program set-asides, 8a, SDB, HUBZones
 - Issues of bundled and consolidated procurement efforts?
- **If not as Prime, then subcontract opportunities**
 - Encourage aggressive SB subcontracting
 - In source selection, evaluate a prime contractor's plan
 - Identify proposed SB/SDB subcontracting goals and evaluate offeror's past performance in meeting goals
 - Congressional Comprehensive Subcontracting Plan Test Program—evaluating participants meeting corporate goals

Key element in the ASP Template is to address Small Business Opportunities



Acquisition Learning Forward Air Force Review Board (AFRB)

- **Purpose: Newly established AF milestone decision and/or major decision review process to review program prior to major milestone decisions or major decisions (in- or out-of-cycle)**
 - Recognized need for structured, consistent and repeatable AF process
 - Ensure documentation (e.g. ADMs)
 - Aid decision-making on critical aspects of selected acquisition programs
 - Comprehensive senior level review → enables credibility restoration in AF acquisition w/in AF, OSD and Congress
- **Who?**
 - SAF/ACE is AFRB process owner, designer and secretariat
 - Required for ACAT IC, ACAT IAC & non-delegated ACAT II programs
 - ACAT ID / IAMs: Single opportunity / meeting for formal corporate AF consensus (pre-DAB w/in AF)
 - Delegated ACAT IIs & ACAT IIIs: AFRB process executed by PEOs
 - Not Included: Services & space



We have an Award Fee Problem

- **Acquisition Finding – Different Goals!!**
 - **Some SPOs – focused AF criteria on successful “technical” achievement**
 - **Congress/OSD – focused on cost/schedule**

 - **Structure and Management Problem Examples**
 - **Sample Structure**

■ Technical	30%
■ Management	30%
■ Logistics	20%
■ Cost “Reporting”	20%
 - **Some SPMs did not want to “lose” the contractor PM**

 - **We will be changing the way we do award fees**
-



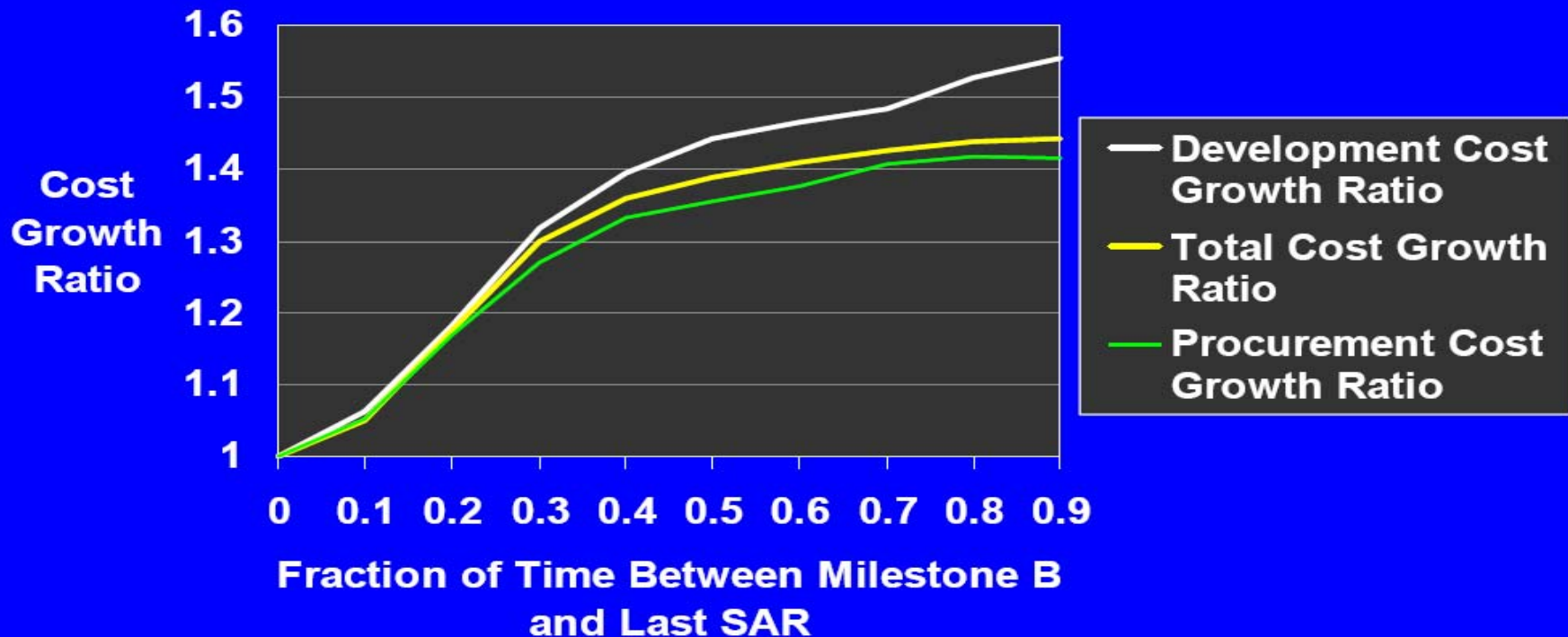
Changes to Incentives Structure

- **AT&L and SECAF Policy**
 - **Mr Kreig Policy Letter**
 - Focus on meeting/exceeding C/S/P goals
 - Link to Outcomes
 - Award Fee Satisfactory Performance earns less
 - Appropriate to provide a portion of pool for satisfactory performance to ensure adequate fee for contactor
 - Rollovers
 - Exception rather than the rule
 - Address in ASP
 - Only rollover a portion of the fee
 - **SECAF Policy Letter**
 - Cultural shift needed
 - Consistency between CPAR and MAR



Rand Cost Growth Study (2006)

Most Cost Growth Occurs Early in Development, Although Increases Continue Until End of Production

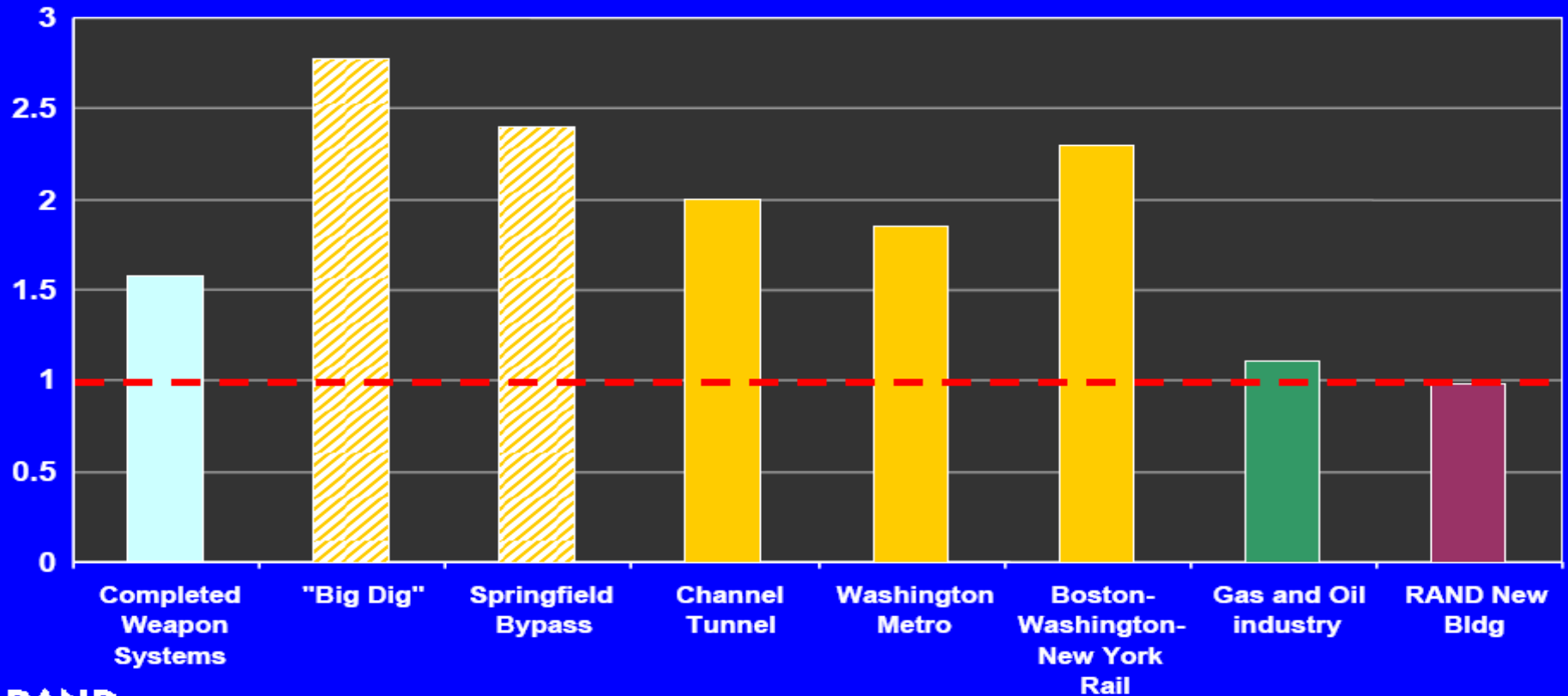




Rand Cost Growth Study (2006)

How Does Weapon System Cost Growth Compare to Civilian Projects?

Cost Growth Ratio

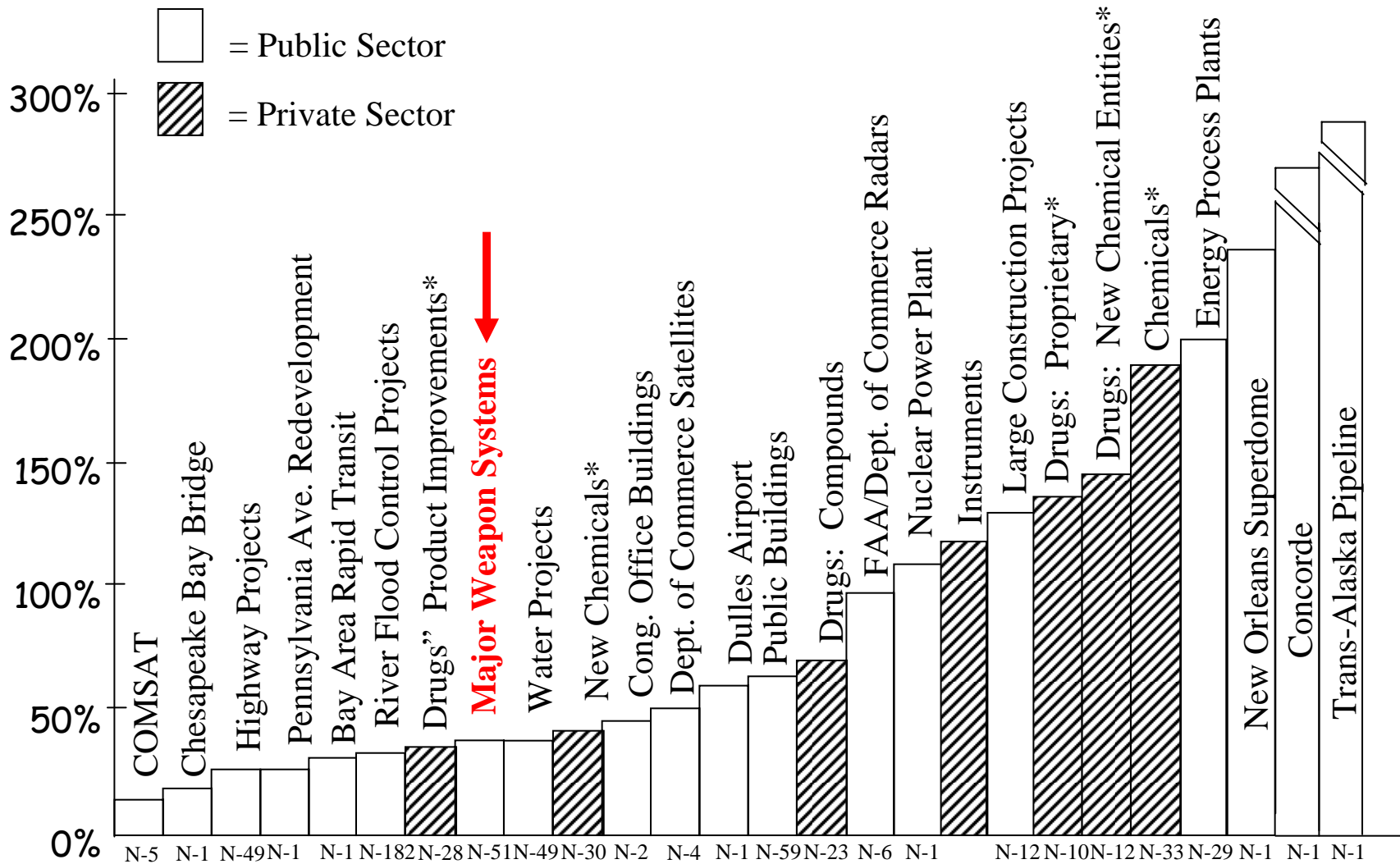


RAND

A6387y-37 11/05



Historical Cost Growth in Major Projects (TASC)



* Development Costs Only

N = Number of Cases Considered

Adjusted for Quantity and Inflation



Close to Home

by John McPherson



At the National Contractor Institute.



Summary

- Current Year funds are limited as a result of:
 - Looming Bills
 - Cost of GWOT
- QDR and AF Transformation will drive FY08 POM
- Weapon system costs rising
- Acquisition is leaning forward

PROCESS FOCUS = BATTLEFIELD SUCCESS !



Ways to get Ahead

Here's a little mathematical formula that might help you answer these questions:

If:

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z

is represented as:

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26



Ways to get Ahead

Then:

- **H-A-R-D-W-O-R-K**
- **8+1+18+4+23+15+18+11 = 98%**

And

- **K-N-O-W-L-E-D-G-E**
- **11+14+15+23+12+5+4+7+5 = 96%**



Ways to get Ahead

But,

- **A-T-T-I-T-U-D-E**
- **1+20+20+9+20+21+4+5 = 100%**

And,

- **B-U-L-L-S-**-*-T**
- **2+21+12+12+19+8+9+20 = 103%**

And, look how far akissing will take you**

- **A-**-K-I-S-S-I-N-G**
 - **1+19+19+11+9+19+19+9+14+7 = 118%**
-



Conclusion

So, one can conclude with mathematical certainty that...

**While Hard Work and Knowledge will get you close, and
Attitude will get you there ... it's the Bulls**t and
A**kissing that will put you over the top.**





QUESTIONS



A Spiritual Experience

“Let’s Start with a Prayer”

***Grant me the peacefulness to accept the things I cannot change,
the courage to change the things I cannot accept
and the wisdom to hide the bodies of those I had to kill today because they ticked
me off.***

***And also, help me to be careful of the toes I step on today
as they may be connected to the ass that I may have to kiss tomorrow.***

Help me to always to give 100% at work...

***12% on Monday
23 % on Tuesday
40% on Wednesday
20% on Thursday
5% on Fridays***

Most people in Washington give 100% at work 10% on Monday 10% on Tuesday 10% on Wednesday 10% on Thursday 10% on Fridays
--

***And help me to remember...
when I’m having a really bad day
and it seems that people are trying to tick me off,
that it takes 42 muscles to frown and
only 4 to extend my middle finger.***



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- **QDR Report submitted to Congress on 6 Feb 06**
 - **Many of the major FY07 PB realignments due to QDR**
 - **Expect QDR to continue to be a driving force for FY08 POM; for example:**
 - **Solidifying organizational, process, and procedure efficiencies**
 - **Improving agility and ability to combat asymmetric threats**
 - **AQX steered the QDR towards AF needs**

- **BRAC approved by Congress and signed by President on 10 Nov 05**
 - **BRAC being incorporated into FY08 POM baseline**



QDR/BRAC

Quadrennial Defense Review Report



February 6, 2006

This QDR defines two fundamental imperatives for the DoD:

- *Continuing to reorient the Department's capabilities and forces to be **more agile** in this time of war, to prepare for wider **asymmetric challenges** and to hedge against uncertainty over the next 20 years.*
- *Implementing **enterprise-wide** changes to ensure that **organizational structures, processes and procedures** effectively support its strategic direction.*

2005 DEFENSE BASE CLOSURE AND REALIGNMENT COMMISSION REPORT

*Secretary Rumsfeld was very clear that his primary goal for the BRAC process was **military transformation** ... While acknowledging the **importance of savings** as a BRAC goal, the Commission went beyond a business model analysis of DoD's recommendations and weighed the strategic environment within which recommendations would be implemented and their effect on DoD's transformational goals.*

The results of QDR will generate an AF bill



FY07 & Out Challenge – Change Drivers

- **Defense Acquisition Performance Assessment (DAPA)**
- **Quadrennial Defense Report (QDR)**
- **Task Force 720 (TF720)**
- **Air Force Smart Operations 21 (AFSO 21)**
- **Future Acquisition Team / Acquisition Transformation Action Council (ATAC)**
- **GAO Report on Defense Acquisitions: Major Weapon Systems Continue to Experience Cost and Schedule Problems Under DoD's Revised Policy (GAO-06-368, Apr 06)**

- **Personnel costs increased 51% over last ten years**
- **Proc & RDT&E down from 55% of budget to 35% since 1986**
- **Budget growth is slowing – from approx 10% (FY00-06) to a near flat 3% average in the out years**
- **PBD 720 offset \$22B from 07-11 for OSD and AF bills to include recapitalization**



Challenge – DAPA Implementation

DAPA Report major causes

- **“Government induced instability”**
 - Changing requirements, lack of requirements discipline
 - Programming and budget turbulence
- **Oversight too cumbersome**
- **Risk not adequately measured or considered, leading to missed cost, schedule and performance targets**
- **Transformation drivers**
- **Rewarding wrong behavior**

Lack of basic program management skills/process

Result: Many programs doomed from the start



- Reduces total contractors across AF
 - No contractor area exempt (except CLS previously reduced via legacy force structure reductions)

- Two Parts:
 - Cuts laid-in **Hide/remove?** database FY07-11 with budget level detail (Investment & O&M appropriations)
 - PB-15 Exhibit Data Call (FFRDC and A&AS)
 - VCSAF Data Call results (Other Support Ctr)
 - MAJCOM to spread FY08 - FY11 O&M portion in FY08 POM
 - Budget level detail in FY07 only



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- Wanted to make remind you that the Congressional Comprehensive Subcontracting Plan Test Program has been an issue at every SAF/AQ ASP-- raised by Mr. Diamond. Joe's position was that the Corporate Test program done very little to expand opportunities for small business and that it was necessary for the Air Force to "push" contract-by-contract efforts to increase small business work. The rest of the ASP panel members were generally not in agreement. General Hoffman at a January ASP tasked SAF/SB (Joe Diamond), SAF/AQC (Charlie Williams), SAF/ACE (Gen Wolfenbarger) and SAF/GC (Ty Hughes) to work the issue out. As a result of a meeting with all four parties, a partially agreed to position was reached. The ASP Template would be revised to reflect that small business subcontracting will be evaluated as part of source selection and specifically, require all offerors to be evaluated either as to (1) how well they have been doing against their corporate goals (if in the Corporate Test Program), or (2) how well they have been doing against their individual contract goals (if not in the Corporate Test Program). What has not been resolved: (1) Joe Diamond would like to add an additional requirement, to include in Source Selection, how the contract the offeror is bidding on will fit into the overall corporate goal. (2) Charlie William's position is that since it will not be evaluated, it is inappropriate to request this information since the purpose of the corporate test program was to eliminate as much bureaucratic work as possible. Last email from Joe Diamond indicated that he would continue to address his position at future ASPs and would again raise the issue with Mr. Williams.
 - Tony Kausal
-



Cost Estimating

- **Big programs closer to ICE than baseline**
- **In critical and tight budget arena, ICE becomes important**
 - **Programs track to baseline**
 - **Program Managers/rest of corporate DoD ignore ICE**
- **Must start doing Should Cost estimate**
 - **Use common sense**
 - **Many ignore real numbers/use formula**
- **May need Blue Book again**