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THE HOUSE ARMED SERVICES COMMITTEE

STATEMENT OF

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BEFORE THE

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SUBCOMMITTEE ON READINESS

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Introduction

Chairman Garamendi, Ranking Member Waltz, and distinguished Readiness subcommittee members: thank you for the opportunity to update you on the Department's F-35 Lightning II Program sustainment efforts to improve fleet readiness and affordability.

I am pleased to be joined by Lieutenant General Eric Fick, Program Executive Officer for the F-35 Joint Program Office, and Ms. Diana Maurer, Director of Defense Capabilities and Management, Government Accountability Office. I am here today to talk about how the Department is delivering readiness and sustainment outcomes to our F-35 enterprise.

The F-35 program is a key enabler of all four Defense priorities of the recently-published National Defense Strategy (NDS): first, defending the homeland; second, deterring strategic attacks against the United States, Allies, and partners; third, deterring aggression while being prepared to prevail in conflict when necessary; and fourth, building a resilient Joint Force and defense ecosystem. The fifth-generation capabilities that the F-35 delivers, primarily stealth and battlefield networking capabilities, supports Combatant Commander requirements at home and abroad. The International Partner nations and Foreign Military Sales customers who have chosen the F-35 to be at the core of their future airpower planning are strengthening our cooperative relationships through increased interoperability. And the F-35 program is a focus of the Department's reform efforts, in order to ensure that the Warfighter receives capability that is affordable within the context of the broader Joint Force and defense ecosystem. These NDS priorities will be reflected in the F-35 Sustainment Strategy, which is codified in the program's Life Cycle Sustainment Plan.

Improving F-35 fleet readiness and reducing sustainment cost are top priorities for the Department. But the sustainment challenges faced by the F-35 program must be understood in

the context of the Department's responsibility to sustain tactical aircraft (TACAIR) and maintain a healthy organic sustainment enterprise. F-35 sustainment affordability issues must be understood in the context of a wider TACAIR sustainment cost challenge, informed by the need to maintain legacy fleets even as new modern capabilities are coming online. And F-35 readiness issues, including establishing organic depot-level sustainment capacity and ongoing discussions regarding a possible performance-based logistics (PBL) contract, must be understood in the context of the issues facing the entire organic industrial base (OIB). While the F-35 is clearly a unique program leveraging a global supply chain, the Department must integrate sustainment management execution within the OIB.

Today, I would like to discuss four topics related to F-35 sustainment and its place in the defense sustainment enterprise: first, F-35 sustainment affordability and the larger TACAIR sustainment affordability challenge; second, F-35 organic depot capacity and the overall defense organic industrial base; third, the proposed F-35 PBL contract and technical data rights issues; and finally, the status of the Department's implementation of key F-35 provisions in the Fiscal Year (FY) 2022 National Defense Authorization Act (NDAA).

F-35 Sustainment Affordability

This month, the Department will deliver a report to Congress on F-35 sustainment affordability, in response to Section 165(b) of the FY2020 NDAA. The report states that the Department has made notable progress during the past year on managing sustainment costs and improving affordability as a result of the F-35 Joint Program Office's (JPO) negotiation of the FY21-23 annualized sustainment contract. This contract is projected to reduce air vehicle sustainment costs by as much as seven percent over the life of the contract. But these cost reduction efforts are facing significant headwinds due to increased costs from key sustainment

requirements: depot repair capacity, engine unscheduled and scheduled engine overhaul requirements, and corrosion mitigation.

The F-35 program's sustainment affordability constraints, measured in cost per tail per year (CPTPY), focus on cost at steady state, once the program of record is fully executed and before early-lot aircraft are retired. The most recent F-35 JPO cost estimate projects that the Marine Corps F-35B and the Navy F-35C fleets will be meeting, or are nearly meeting, the U.S. Services' steady-state affordability constraints by FY 2027. The Marine Corps F-35C fleet is projected to be above its affordability constraint in FY 2027, but that is largely due to the relatively small size of the Marine Corps F-35C fleet at that time influencing the CPTPY. The F-35A, by contrast, is projected to be roughly 66 percent above the Air Force's affordability constraint in FY2027; put another way, the cost to sustain the F-35A would have to decline by roughly 40 percent from its projected FY2027 CPTPY in order to meet the current affordability constraint at steady state (FY2036-2041).

Despite progress that has been made in reducing sustainment costs, the Department is not expected to meet the United States Air Force F-35A \$4.1 million CPTPY affordability constraint by the time the program of record is fully executed. Per section 141(e) of the Fiscal Year 2022 NDAA, the Services will reassess and update their sustainment affordability constraints by October 1, 2025. In order to understand our affordability requirements, it is necessary to understand what the program's sustainment affordability constraints are, and what they are not. The Department's affordability constraints are neither actual sustainment cost estimates nor should-cost estimates. Affordability constraints are fiscally constrained and determined based on total obligation authority available to support current and future force structure requirements. Although Department force structure requirements are developed from combatant command and

operational plan requirements, they also include statutory force structure requirements that retain legacy weapon systems planned for divestiture.

The Section 165(b) report explains that the F-35 affordability challenge is one part of a larger TACAIR sustainment affordability challenge. The Services are faced with operating and sustaining newer platforms that have the cutting-edge capabilities the warfighter needs, while simultaneously maintaining aging legacy fleets. As part of the development of the President's FY2023 budget proposal, the Services undertook an extensive review of their TACAIR portfolios, to determine the proper balance between those two competing priorities. The President's FY2023 budget for the Department reflects the results of that analysis.

As Secretary of the Air Force Frank Kendall stated in a speech to the Air Force Association's Air, Space, and Cyber Conference in September 2021, "We will not succeed against a well-resourced and strategic competitor if we insist on keeping every legacy system we have. Our one team cannot win its one fight to deter China or Russia without the resources we need and a willingness to balance risk today to avoid much greater risk in the future." The Services must have the flexibility to manage their TACAIR portfolios, in order to ensure that the sufficient funding is available to operate and sustain the platforms that have the capabilities the warfighter needs to face a near-peer competitor.

In order to modernize the U.S. Services tactical fighter portfolios, the Department requires Congressional assistance to divest of aging weapon systems, consistent with the President's Fiscal Year 2023 budget proposal. Without such flexibility, the U.S. Services will be forced to reduce procurement buys and flying hours, which impacts readiness and increases sustainment costs on a cost per tail per year and cost per flight hour basis, respectively. Allowing the

Department to manage force structure requirements across a portfolio will enable the U.S. Services to acquire and sustain F-35s while developing more realistic affordability constraints.

Organic Depot Capacity and the Organic Industrial Base

Activation of organic depot repair capacity to meet enterprise requirements is one of the Department's top F-35 sustainment priorities. Currently, there are 38 activated workloads at six U.S. military depots, providing 72 percent of component repairs for activated workloads and 22 percent of all F-35 component repairs. Improving repair cycle time is a critical factor to enabling fleet readiness outcomes. Current plans to increase organic depot capacity are facing funding challenges, supply chain delays as a result of the pandemic, and commerciality assertions on required technical data by certain suppliers. Although the vast majority of the initial 68 depot workloads are still projected to be activated and meeting demand by 2024, seven are now projected to be activated in the 2026-2028 timeframe, and eleven will be activated by 2028.

Ongoing readiness issues with the F135 engine availability and power module repair capacity mirror the challenges seen with air vehicle depot repair capacity. The Department is focused on executing a comprehensive engine sustainment strategy that includes: Increasing Heavy Maintenance Center (HMC) Tinker Throughput, Standing Up Additional Repair Capacity, Reducing Demand, and Integrating Engine Spares Requirements. Over the past year, the Air Force, F-35 JPO, and Industry have successfully increased power module repair capacity at HMC Tinker. HMC Tinker exceeded its power module repair projection for 2021, and the program met nearly 98 percent of its overall repair projection. The program is currently on track to meet its power module repair projection for 2022. However, projected depot repair is insufficient without additional funding to meet increases in demand as scheduled engine overhauls begin. As a result, the combined impact of both unscheduled and scheduled engine

inductions on F-35 readiness requires the Department and industry partners to align performance metrics that optimizes engine availability while reducing sustainment costs.

Depot repair capacity challenges for both the air vehicle and the engine are reflective of larger challenges facing the Department's organic sustainment industrial base. In my testimony before this committee in October of last year, I described the OIB as "one of our most important strategic assets... our nation's readiness and war-sustaining insurance policy." I cited five major challenges facing the OIB in my statement to the subcommittee: operating during the pandemic, aging infrastructure and equipment, workforce issues, supply chain instability, and balancing the sustainment requirements of new and legacy systems.

All of these challenges facing the OIB as a whole are also challenges for the F-35 sustainment enterprise, but I would like to focus on balancing the sustainment requirements of new and legacy systems. I spoke earlier of the cost implications of that challenge, but there is also a significant potential impact on the health of the OIB. The Department met its 50/50 goals in 2021, but maintaining the proper balance between organic and contractor sustainment is a continuing challenge for the Department. This problem will only be exacerbated as legacy systems, which are largely sustained organically, are divested. As legacy fleets are retired, the health of the OIB depends on optimizing organic capacity to support the Department's modern weapon systems.

In support of this effort, the F-35 JPO is collaborating with the Services, Defense Logistics Agency, and Industry stakeholders on an Organic Pathfinder Pilot Program, focusing on Supply Chain Management (SCM). The program's intent is to provide a business case to transition selected parts to organic SCM by process-mapping select components using the Navy, Air Force and Defense Logistics Agency (DLA) sustainment activities. Though still in its initial stages, the

Department's objective is to delayer the supply chain to leverage strategic sourcing efficiencies using existing U.S. Services business processes and working capital funds. The Department anticipates that this pathfinder will reduce overall sustainment costs for the F-35 enterprise. Initiatives such as the organic supply chain pathfinder will ensure the Department maintains a proper balance between organic and contractor sustainment while supporting combatant commanders in a contested logistics environment.

Performance Based Logistics (PBL) Contract and Technical Data Issues

The Department delivered a request for proposal for a supply support-focused Performance Based Logistics (PBL) to Lockheed Martin in November 2021; a proposal is expected by the end of the year. The Department is focused on negotiating a contract that will incentivize improved fleet readiness while remaining cost neutral. The Department has not reached a final decision on whether to move forward with a PBL, but continues to explore whether such an agreement would be in the best interests of the warfighter while meeting NDAA cost certification requirements. Past examples have demonstrated that well-structured PBL agreements with well-defined performance measures and performance incentives can improve readiness outcomes.

The Department remains committed to obtaining the provisioning and cataloging technical data needed to transition to organic supply chain management as a condition of entering in to any PBL agreement. As I have discussed, a transition to organic sustainment is important not just for the F-35 sustainment enterprise, but for the health of the OIB and the resiliency of the Department's Working Capital Funds. The Department will not be able to increase the organic supply chain management role in F-35 sustainment without delivery of the technical data in question.

FY2022 NDAA F-35 Provisions

The Department acknowledges congressional intent, through Section 142 of the Fiscal Year 2022 NDAA, that transitions acquisition and sustainment functions from the F-35 JPO to the U.S. Services. The Department is already working with the Services and the F-35 JPO to develop a plan by October 2022, to support transition of management, planning, and execution of the F-35 Program to the Services by the statutorily required dates. The outcome is projected to normalize Service ownership in the management and execution of the F-35 Program.

The Department's initial plan will set out the concept of operations, timeline, and key milestones for the transition. It will include collaboration from Service leadership, who will have a key role in executing the transition, with support from OSD and the F-35 JPO. Both a staff-level working group and a senior-level steering group have been meeting regularly to discuss the key issues related to the transition. Collectively, we are fully committed to working together, along with our international and industry partners to ensure a seamless transition.

The Department similarly acknowledges the intent of Congress in Section 356 of the FY 2022 NDAA, that the Secretary of Defense must certify that any PBL contract agreement for the air vehicle or propulsion either increase fleet readiness or reduce sustainment costs before entering into a PBL contract. The Office of the Under Secretary of Defense for Acquisition & Sustainment staff is collaborating with the Office of Cost Assessment and Program Evaluation to complete the sustainment cost certification for the Secretary. The Department needs greater transparency from industry partners on cost and readiness data in order to perform this analysis, and to enable more effective management and oversight of the program; my staff, along with their counterparts in the F-35 JPO and the Cost Assessment and Program Evaluation team, are actively engaged with Lockheed Martin on this issue.

Conclusion

The challenges facing the F-35 program justifiably command a great deal of attention, both inside and outside of the Department, due to the scale and complexities of the program, as well as the importance of the capabilities the platform provides to the warfighter. The challenges facing the F-35 sustainment enterprise are reflections of larger issues facing the Department's sustainment enterprise, and any solution to the F-35's issues must account for that reality, if we are to deliver the capabilities the warfighters at an affordable cost.

I appreciate the opportunity to have these meaningful discussions with this Committee as we aggressively address F-35 sustainment requirements and the capabilities of the defense sustainment enterprise. Thank you very much for your time and I look forward to answering your questions.