



SAF/SB Media Summary

28 January—3 February 2011

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ARTICLE SUMMARIES

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SMALL BUSINESS

Congressional Committees Target SBA Programs for Cuts

Government Executive

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Obama Plans to Give Small Business a Boost

Los Angeles Times

The president's budget will include continued tax breaks and \$2 billion to be invested directly in small businesses. Small businesses will get some continued tax breaks under the proposed budget that President Obama is planning to submit this month. "Entrepreneurs embody the promise of America: the belief that if you have a good idea and are willing to work hard and see it through, you can succeed in this country," Obama said in a statement. "And in fulfilling this promise, entrepreneurs also play a critical role in expanding our economy and creating jobs."

Alaska Native Firms Shift Stimulus Work to Outsiders

ProPublica

When Alutiiq Manufacturing Contractors won a \$28 million stimulus contract to replace windows at a federal building in Boston, it wasn't just a win for Alutiiq natives on Alaska's Kodiak Island. The company, which can obtain large government contracts without competition under a program meant to help Alaska natives, took what's become a common step. It subcontracted out \$23 million, or about 80 percent of the project, to a more experienced firm—in Alabama. Critics of Alaska Native Corporations (ANCs) say such pass-throughs increase costs for taxpayers and undermine the intent of the contracting privileges by diverting benefits to non-native firms. ANCs respond that they are simply trying to build the most-qualified team to do the government's work.

SAF/SB internal document—not for public release.



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Best and Worst States for a Small Business

San Diego Union-tribune

Location, location, location. It's the mantra real estate agents live by — and it can be vital for small businesses. States differ wildly on tax and business-specific programs that can make or break a business, especially a small startup. Many states are increasingly courting small businesses and startups, and conventional wisdom says small businesses create two-thirds of all jobs. "The climate for a startup almost anywhere, frankly, is about as positive as I have ever seen it," says Dr. Charles Morrissey, an associate professor at Pepperdine University's Graziadio School of Business and Management.

PDC Says Diversity Efforts Paying Off

Portland Business Journal

The Portland Development Commission says its efforts to channel work to small, minority and woman-owned businesses is paying off. The city's economic development agency said Wednesday that disadvantaged firms secured contracts worth \$26 million in 2010, or 23 percent of all PDC work. The annual report quantifies PDC's efforts to strengthen disadvantaged businesses, which became a central theme four years ago when critics said disadvantaged firms were underrepresented in public projects.

SBA Expects First Contracts in New Woman-Owned Business Program by Summer

Washington Technology

The Small Business Administration's Women-Owned Small Business Federal Contract Program becomes official this week, opening new opportunities for those small businesses. The program goes into effect Feb. 4, and SBA officials said today they expect the first contract awards under the program by the fourth quarter of fiscal 2011. SBA Administrator Karen Mills said woman-owned businesses are one of the fastest growing business sectors, and are playing a key role in creating jobs and driving the U.S. economy.

New VA office to Serve as Advocate for Tribal Veterans

Air Force Print News

Department of Veterans Affairs officials have announced the creation of a new Office of Tribal Government Relations to ensure the more than 200,000 veterans who are American Indians, Alaska Natives, Hawaiian Natives or are part of the Alaska Native Corporations receive the VA benefits they have earned. "There is a long, distinguished tradition of military service among tribal peoples," said Secretary of Veterans Affairs Eric K. Shinseki. "VA is committed to providing these Veterans with the full range of VA programs, as befits their service to our nation." About 200,000 veterans are represented by the 800 tribal governments officially recognized by the U.S. Although VA officials have long provided benefits to veterans in tribal lands, the new office will further strengthen and expand that relationship.



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BUDGET & ACQUISITION

Defense Business Transformation: DOD Needs to Take Additional Actions

Defence Professionals

The U.S. Department of Defense (DOD) spends billions of dollars each year to maintain key business operations intended to support the warfighter, including systems and processes related to the management of contracts, finances, the supply chain, support infrastructure, and weapon systems acquisition. We have designated a number of these areas as high risk because of their vulnerability to fraud, waste, abuse, and mismanagement and because of opportunities to achieve greater efficiencies and free up resources for higher-priority needs.

Pentagon Reaching CR Budget Crunch Point

Defence Professionals

With the U.S. government operating on a continuing resolution (CR) through March 4 because Congress failed to pass FY11 appropriations legislation, the Department of Defense is facing crunch time. During a trip to Ottawa, Canada, Defense Secretary Robert Gates called the possibility of having to operate the rest of the year under the CR "the crisis on my doorstep." Secretary Gates said that failure to pass the funding legislation will represent a \$23 billion cut in the defense budget in the current fiscal year. "It's the worst of all possible kinds of reductions, in significant measure because it comes halfway through the fiscal year," Gates told reporters traveling with him, including Jim Garamone with the American Forces Press Service.

Air Force Takes Delivery of Robots

United Press International

The U.S. Air Force has received small unmanned ground vehicles for explosive ordnance disposal teams from Boeing and iRobot Corp. of Massachusetts. The 30 SUGVs are part of the first task order under an indefinite-delivery/ indefinite-quantity contract that runs through September 2012. "We are pleased to work with iRobot to enable Air Force EOD technicians to perform reconnaissance while reducing their exposure to unexploded ordnance," said Mike Huddleston, Robotics program manager for Boeing Network & Tactical Systems.

Pentagon Cutting Exquisite Programs

San Diego Business Journal

With the DoD keeping a closer eye on spending, the defense industry's main customer has less tolerance for the "exquisite" program. That was one of the messages that Robert O. Work, undersecretary of the Navy, delivered Jan. 26 at the San Diego Convention Center during the West 2011 military conference. The Pentagon is cutting programs that Work calls exquisite — meaning programs that are highly capable but very expensive — and shifting money to programs it decides are more worthy, Work said. This comes as Pentagon leaders increasingly view the federal budget deficit as a risk to national security. The undersecretary told the defense business community to wait for President Obama to release his budget, on Feb. 15 or thereabouts, to get a better idea of the Pentagon's spending plans. He listed the upgraded Presidential Helicopter program as one of the exquisite programs that deserved cutting.



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Lynn: Defense Budget Plans Strike 'Right Balance'

American Forces Press Service

The Defense Department's plans to cut \$78 billion from its budget over five years and find more than \$100 billion in savings for reinvestment was a collaborative effort and a reasonable balance between military needs and budget constraints, Deputy Defense Secretary William J. Lynn III said today. "Some will argue that our proposals cut defense too much, others will argue it doesn't cut enough," Lynn told the House Armed Services Committee. "We believe it strikes the right balance for these difficult times." Lynn was accompanied by the vice chiefs of each of the services, each of whom agreed that the budget plans were a collaborative effort that included service leaders. "We were part of that process and agreed with the decisions that have been made," Gen. Peter Chiarelli, Army vice chief of staff, said.

INDUSTRY

Senators Aim to Stave Off 3 Percent Tax Withholding for Contractors

Government Executive

Senators from both sides of the aisle are attempting to preempt a controversial requirement that the government withhold 3 percent of its total payments to most contractors for tax purposes. Last week, Sens. Scott Brown, R-Mass.; Olympia Snowe, R-Maine; and Amy Klobuchar, D-Minn., unveiled a bill to repeal a mandate that federal, state and local governments with expenditures of more than \$100 million withhold 3 percent of payments for products and services worth more than \$10,000, including nonconfidential or classified contracts, grants to for-profit companies, and farm and Medicare payments. The requirement is scheduled to take effect on Jan. 1, 2012.

LEADERSHIP

Kehler succeeds Chilton as commander of Strategic Command

Air Force Print News Today

Air Force Gen. Kevin P. Chilton passed the flag of U.S. Strategic Command to Air Force Gen. C. Robert Kehler Jan. 28, giving the nation's nuclear deterrent mission a new commander. General Chilton, a pilot who served 10 years with NASA and flew three space shuttle missions, retired after 34 years of service. General Kehler assumed command after serving as the commander of Air Force Space Command at Peterson Air Force Base, Colo. Defense Secretary Robert M. Gates presided over the ceremony. Outside the hangar where the ceremony took place were aircraft important in the command. From B-52 Stratofortress and B-2 Spirit bombers, to F-15 Eagles, to U-2 reconnaissance planes, the aircraft served as a backdrop to honor General Chilton's career from the Air Force Academy class of 1976 to orbit to today.



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Deputy Secretary Lynn and Service Leaders Testify on Defense Efficiencies

American Society of Military Comptrollers

Deputy Secretary Bill Lynn told the House Armed Services Committee (HASC) this week that DoD's new budget plan "strikes the right balance for these difficult times." Testifying along with the Vice Chiefs of the Army, Navy and Air Force, and the Assistant Commandant of the Marine Corps, Lynn said the fiscal pressures facing the U.S. require DOD to "make the most out of every dollar entrusted to us."

CYBERSECURITY

Rangeview CyberPatriot Team Advances

The Aurora Sentinel

A team of students from Rangeview High School has advanced to the final round of a national cyber security competition organized by Northrop Grumman and the Washington-based Air Force Association. According to the Air Force Association, the Rangeview team is among the finalists in the CyberPatriot contest, a national cyber security contest that offers winners college scholarships and a free trip to Washington, D.C. Teams of five students and one coach from high schools across the country participated in the contest, which features online scenarios where teams defend a computer network from real-life computer threats.

REMOTELY PILOTED AIRCRAFT

Small, Hybrid-Powered, Manpackable UAV is Goal of Air Force SURGE-V Program

Military & Aerospace Electronics

U.S. Air Force researchers are asking industry to build a hybrid-powered manpackable unmanned aerial vehicle (UAV) that weighs less than 20 pounds and is able to carry a 4-pound electro-optical payload on missions over rough terrain lasting at least four hours. This small UAV must be able to be carried and operated by only one person on battlefield situational awareness missions.

OP-ED

PERSONAL OPINION: Belt Tightening and a Paradigm Shift Lie ahead for Robins

The Warner Robins Patriot

How the Air Force's three air logistics centers – including the one at Robins Air Force Base – might be impacted by Defense Secretary Robert Gates' efficiency push has not been identified. But clearly the massive and costly task of aircraft sustainment is uppermost in his mind. In fact, depot maintenance and supply chain management – both fundamentals of an air logistics center – were specifically mentioned when Gates announced that he planned to squeeze \$154 billion in efficiencies over the next five years. Last week, Air Force Secretary Michael Donley added more clarity, telling an Air Force Association crowd that he believed modifying depot and supply chain processes could trim about \$3 billion from operating costs.



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Small Business

Congressional Committees Target SBA Programs for Cuts

By Robert Brodsky, Government Executive, January 28, 2011

The Small Business Administration could look considerably leaner in the coming months if House and Senate lawmakers have their way.

The lead congressional committees in charge of federal small business policy are planning to scale back or eliminate programs within SBA that might no longer be serving their intended purpose.

On Tuesday, Sens. Mary Landrieu, D-La., and Olympia Snowe, R-Maine, the chairwoman and ranking member respectively of the Senate Small Business and Entrepreneurship Committee, sent letters to SBA Administrator Karen Mills and agency Inspector General Peg Gustafson requesting recommendations for programs that could be targeted for cuts.

"Like the American people, Congress must continue to evaluate and determine what spending is necessary to meet current needs and demands while identifying and eliminating needless spending," the lawmakers wrote. "Accordingly, we take this responsibility seriously and will dedicate time and effort in this Congress to determine the best path forward."

The letters ask for a list of programs by Feb. 10 that could be "eliminated or substantially reduced without undermining the SBA's ability to serve the needs of small business owners."

The committee is planning to hold a hearing on proposed SBA program cuts sometime in February. Committee spokesman Richard Carbo said the inquiry will be deliberate and focus on programs with a history of underperforming and that are failing to deliver "the most bang for their buck."

"Sen. Landrieu doesn't want this to just be a reckless cost-cutting hunt," Carbo said on Friday. "She wants to really dive deep into why some programs might be underperforming and where there are ways to make efficient cuts that won't harm small businesses."

Christopher Averill, a Snowe spokesman, said the senator does not have a list of programs she is looking to eliminate, but rather would focus on programs that are "duplicative or ineffective."

SBA spokeswoman Hayley Meadvin said the agency will respond in writing to the senators.



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The agency also faces additional scrutiny -- and an arguably more skeptical audience -- from the House Small Business Committee and its new chairman, Rep. Sam Graves, R-Mo.

On Wednesday, the committee adopted its oversight plan by voice vote. The eight-page document outlines a host of small business programs, functions and policies that will face tough oversight from the panel.

The plan also includes a section detailing a dozen small business programs and offices that could face cuts in an effort to reduce the federal deficit. The list includes SBA's Patriot Express Loan Program, Drug-Free Workplace Program; Office of Policy, and Office of Native American Affairs.

Several SBA policymakers also could be targeted, including regional administrators, advocacy regional advocates and deputy district directors, the report said. The Treasury Department operates two of the programs on the list -- the Small Business Lending Fund and the State Small Business Credit Initiative.

The plan stated that programs could be eliminated as a result of their ineffectiveness or their duplication at other agencies.

"The committee will focus particularly on streamlining and reorganizing of the agency's operations to provide maximum assistance to small business owners," the report said. "Offices that primarily provide assistance or advice to headquarters staff that do not promote the interests of small businesses or protect the federal government as guarantor of loans will be recommended for cuts or elimination."

The proposal suggested that employees could be reassigned to "more critical functions at SBA, such as positions as procurement center representatives."

The committee also plans to hold hearings and to investigate SBA lending and entrepreneurial development programs, burdensome federal regulations, the misuse of small business contracting programs and the cost effectiveness of the Obama administration's insourcing policies.

<http://www.govexec.com/dailyfed/0111/012811rb1.htm>

Obama Plans to Give Small Business a Boost

By Sharon Bernstein, Los Angeles Times, February 1, 2011

Small businesses will get some continued tax breaks under the proposed budget that President Obama is planning to submit this month, the White House said. Also unveiled was a private-public initiative, led by AOL co-founder Steve Case, to help find funding for and otherwise support small business.

SAF/SB internal document—not for public release.



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"Entrepreneurs embody the promise of America: the belief that if you have a good idea and are willing to work hard and see it through, you can succeed in this country," Obama said in a statement. "And in fulfilling this promise, entrepreneurs also play a critical role in expanding our economy and creating jobs."

The White House said Monday that its budget proposal would include the recommendation that a temporary tax cut for those who invest in small businesses be made permanent. Investors who put money into small businesses and hold on to the investments for at least five years would get a break in capital gains taxes after they sell.

The Case-led initiative, called the Startup America Partnership, has already begun bringing in large companies to help smaller ones through investments, education and mentoring. It also aims to help scientists develop products based on knowledge gained from federally funded research.

"America's story has been forged in large part by entrepreneurs who have against great odds created innovative products and services that have changed the world — and created millions of jobs," Case said.

The partnership, which does not need congressional approval, has received commitments of \$200 million from Intel Capital, the investment arm of chip maker Intel Corp., for new investments in U.S. companies; \$150 million from IBM Corp. for programs that promote entrepreneurship in the U.S.; and \$4 million from Hewlett-Packard Co.

Facebook Inc. has signed on to hold up to 15 "start-up days" around the country to give business owners access to experts who can help them.

The partnership will also receive funding from the Case Foundation and the Ewing Marion Kauffman Foundation. Carl Schramm, chief executive of the Kauffman Foundation, will serve on its board.

Another set of programs, to be run by the U.S. Small Business Administration, will provide \$2 billion in government-backed investment directly to small businesses. About half the money will be used to fund green start-ups and those owned by women, minorities, veterans and others that the federal government defines as underserved. The rest will be invested in existing businesses that are poised to grow but need funding to do so.

Gary Toebben, president of the Los Angeles Area Chamber of Commerce, welcomed the efforts aimed at small businesses.

"I'm pleased that the president is talking about business growth and the creation of jobs," Toebben said.

But he cautioned that small businesses are essentially local — so federal action may not be enough.



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"The president might say to every state and local government, 'You can help too,'" Toebben said. "Because there's only so much the feds can do."

<http://www.latimes.com/business/la-fi-small-business-obama-20110201,0,780788.story>

Alaska Native Firms Shift Stimulus Work to Outsiders

By Michael Grabell and Jennifer LaFleur, ProPublica, January 27, 2011

When Alutiiq Manufacturing Contractors won a \$28 million stimulus contract to replace windows at a federal building in Boston, it wasn't just a win for Alutiiq natives on Alaska's Kodiak Island.

The company, which can obtain large government contracts without competition under a program meant to help Alaska natives, took what's become a common step. It subcontracted out \$23 million, or about 80 percent of the project, to a more experienced firm—in Alabama.

Critics of Alaska Native Corporations (ANCs) say such pass-throughs increase costs for taxpayers and undermine the intent of the contracting privileges by diverting benefits to non-native firms. ANCs respond that they are simply trying to build the most-qualified team to do the government's work.

ANCs have been under fire by some members of Congress who want to strip them of the special advantages they have over other minority firms. But some key questions have been unanswered in the debate: How often do ANCs use subcontractors? And who is getting a share of their business?

An analysis by ProPublica, drawing on detailed reports of federal stimulus projects, shows for the first time that ANCs turned to subcontractors at twice the rate of all other federal contractors and significantly more often than other small, minority-owned firms.

And at least some of this work has gone to large firms—General Electric, Kiewit and Lockheed Martin—the stimulus reports show, echoing government audits that have fueled the criticism of ANCs.

Through September, ANCs had won stimulus contracts worth \$823 million for 742 projects, according to the most recent government data. More than 350 projects, or nearly half, rely on subcontractors to do at least some of the work.

By comparison, all other stimulus contractors subcontracted more than 5,600 of nearly 26,000 stimulus projects, or 22 percent. Other minority-owned firms hired subcontractors on 33 percent of their projects.



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ProPublica's analysis is based on government data compiled for our Recovery Tracker [1], an ongoing project to follow stimulus spending. The data offer a previously unavailable window into ANC activity because Congress specifically required stimulus recipients to report subcontractors to the public, unlike the rules governing other federal contracts.

ANCs receive more than \$5 billion in federal contracts each year, so the stimulus projects account for a significant share of their revenue. Because subcontracting data isn't available for other contracts, it's possible that the overall subcontracting ratio for ANC projects could be different.

After reviewing ProPublica's findings, Scott Amey, a contracting expert at the Project on Government Oversight, said the lack of complete subcontracting data is a barrier. At a minimum, Amey said, the analysis "raises a red flag with ANC contracts."

Sen. Claire McCaskill, D-Mo., released an investigation [2] of ANCs in 2009 as chairwoman of a Senate subcommittee that oversees federal contracting. She has said outside contractors and consultants are cashing in at the expense of Alaska natives. McCaskill and Rep. Bennie Thompson, D-Miss., have introduced bills to roll back ANC privileges so they are no different than other small minority firms.

"Alaska Native Corporations are subcontracting huge amounts of their work, which is hindering the program's ability to help Alaska natives," McCaskill said in a statement to ProPublica. "Alaskans deserve a program that will provide a leg up for individuals," she said, but the program "in its current form is not effectively achieving that goal."

ProPublica reported last month [3] on the Cape Fox Corporation in southeast Alaska, where outside consultants made millions in fees. While contract revenue skyrocketed over just a few years, Cape Fox's native shareholders saw few jobs and no increase in their regular dividends as a result.

The Native American Contractors Association, which represents many tribal firms, says such cases are few and far between and that the program is working as intended.

The contracting program is "one of the only federal Indian programs that is working to improve the lives of native people," Sarah Lukin, the association's executive director said in December. "Now is not the time to roll back the clock on years of socio-economic progress."

Helped by Special Exemptions

ANCs were created by Congress in 1971 to provide economic benefits, such as dividends and jobs, to natives whose ancient lands were taken for the Alaska oil pipeline. Congress later allowed ANCs to participate in the



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U.S. Small Business Administration's business development program, which allows minority firms to receive no-bid contracts with a goal of eventually graduating to compete on their own.

In recent years, ANC subsidiaries have come to dominate the SBA program.

While other firms in the program have a limit of \$3.5 million on contracts for services and \$5.5 million on contracts for goods, ANCs are exempt and have won awards exceeding \$100 million.

The exemption makes ANCs a potentially lucrative partner for large firms acting as subcontractors. And government contracting officers turn to ANCs to avoid lengthy competitions and meet their small business contracting goals. ANCs also may compete for contracts.

The stimulus reports suggest that ANC subcontracting sends a substantial portion of revenue to outsiders. Of the \$470 million in ANC stimulus projects that are at least halfway completed, native corporations awarded about \$200 million to other contractors, ProPublica found.

For example, Suulutaaq Inc., owned by Yup'ik Eskimos and Athabascan Indians in villages along the Kuskokwim River, won a \$57 million contract to replace bridges on the flood-prone Napa River in California. It subcontracted two-thirds of the work, mostly to a division of Kiewit Corp., one of the largest construction firms in the world.

Facility Support Services LLC, owned by natives in Juneau, won a \$14 million contract to build a testing facility for energy-efficient appliances at the National Energy Technology Laboratory in Morgantown, W. Va. It subcontracted 75 percent to TJR Enterprises, a Hispanic-owned firm that has worked at the lab for several years but doesn't qualify for no-bid contracts anymore because it already completed the SBA program.

Under SBA rules, firms in the minority business development program cannot outsource more than 85 percent of construction contracts. The stimulus reports show that ANCs were above this limit in 40 construction projects. The largest ANC stimulus contractor, CCI Group, subcontracted 95 percent of some of its projects at the Army's Fort Wainwright near Fairbanks, according to reports it filed.

The SBA says that doesn't necessarily indicate a violation because the limit doesn't apply until a contract is complete, and one contract may contain hundreds of projects over several years.

There's no rule specifying what type of work a prime contractor has to perform. Many, such as Alutiiq Manufacturing Contractors, mainly do back office work managing the project. But at least some employees have to be doing construction, said SBA contracting official Calvin Jenkins.



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Some larger ANC's have begun to question whether other ANC's are living up to the goals of the SBA's program if they perform only the bare minimum of work.

"The intent is to create these long-term successful businesses," said Aaron Schutt, chief operating officer of Doyon Ltd., an ANC that represents a vast area of central Alaska including Fairbanks. "One measure of success is how much you rely on subcontractors. There should in my opinion be a lessening of that reliance in your overall business as you mature in the program."

The native contractors group says ANC's use subcontractors for the same reason other federal contractors do—to assemble a qualified team to handle the work in a timely and cost-efficient manner.

Lukin said the government's stimulus reports provide only a snapshot of ANC contracts, making it impossible to discern whether firms are complying with the subcontracting limit. The only way to judge would be to examine the full contracts when they're completed, she said.

But such information isn't publicly available. Until the stimulus, federal agencies weren't required to report subcontractors. The government began reporting subcontractor data on large contracts last fall, but that information won't be available on most contracts until later this year.

Big Contractors Cash In

Past reports that large multinational corporations obtained work through ANC contracting preferences have helped drive the controversy over native corporations.

Olgoonik Corporation, based on Alaska's North Slope, received \$225 million in military construction contracts, but much of the work was done by Halliburton, according to a 2005 article in Mother Jones magazine.

In 2006, the Government Accountability Office reported [4] that contracts to guard Army bases were awarded to Alutiiq LLC and Chenega Corp. but subcontracted to the giant security firms Wackenhut Services and Vance International.

Alutiiq's heavy use of subcontractors also came under fire in 2009 by McCaskill's subcommittee. The report used the Afognak Native Corporation, which owns Alutiiq, as a case study. It noted that from 2000 to 2008, Afognak paid subcontractors more than half the revenue on 91 of its nearly 300 contracts.

In addition to Kiewit, other large contractors received stimulus subcontracts from ANC's, though for lesser amounts. Lockheed Martin received \$1.4 million, or 17 percent, of a NASA spacecraft project from ASRC Aerospace, an ANC firm representing natives on the North Slope. It also subcontracted 17 percent of another NASA project to GE Aviation Systems.



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Alutiiq's project in Boston calls for replacing windows at the John F. Kennedy Federal Building to make it more energy efficient.

The subcontractor, Physical Security LLC, based in Bessemer, Ala., describes itself as one of a handful of companies that make blast-resistant windows. It has worked on the U.S. Embassy in Moscow, the new Oklahoma City federal building and the Pentagon after 9/11.

In contrast, according to federal procurement records, Alutiiq Manufacturing Contractors has four employees and says it specializes in producing modular buildings for offices and health clinics. The JFK Building contract is seven times larger than the annual revenue of \$3.7 million it reported in 2010.

Afognak spokeswoman Jana Turvey said the subsidiary now has 45 employees, and its parent company has prior experience with projects of similar size and complexity.

Unlike other minority businesses, ANC firms are allowed to cite the past performance and experience of other subsidiaries owned by their parent company when making the case for a contract.

Many federal agencies use no-bid minority contracts because they are quicker than soliciting and reviewing competitive bids. But GSA issued its first notice on the JFK project in May 2009—10 months before giving the no-bid contract to Alutiiq Manufacturing Contractors in March.

With Afognak's reliance on subcontracting, it reported a profit margin of just 2 percent in 2009. But because Afognak has only 750 shareholders and had \$733 million in contracts, it was still enough to pay the typical native shareholder about \$24,000 in dividends.

Such a large dividend is unusual, however. Most ANC shareholders receive less than \$500 a year in dividends, according to an earlier ProPublica review [5] of ANC financial documents.

Perpetual Access to Contracts

The SBA program is meant to help minority-owned companies grow by giving them access to no-bid contracts for nine years or until they have the revenue and experience to graduate. But McCaskill and other critics say some ANCs have no intention of standing on their own.

Under SBA rules, minority business owners can participate in the program only once. But tribal corporations are exempt and can keep receiving no-bid contracts indefinitely.

ANCs may have multiple subsidiaries in the program at one time, and once a subsidiary grows too large for the program, an ANC can simply create a new firm in the same industry to remain eligible.



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One example of this occurred with CCI Group, the stimulus contractor that subcontracted 95 percent of some of its projects. The company is owned by the Bristol Bay Native Corporation, which represents Yup'ik Eskimos and other natives in southwest Alaska.

According to the corporation's 2008 annual report, CCI Group was formed in 2008 after another Bristol Bay subsidiary, CCI Inc., graduated from the SBA program, making it ineligible for no-bid contracts. But that didn't mean Bristol Bay's access was shut off.

"CCI Group was formed during 2008 to pursue work that CCI Inc. will no longer be able to accept," the report said. Duncan Morrison, a top employee at CCI Inc., moved over to become president and CEO of CCI Group. Morrison declined to comment, and Bristol Bay did not return calls.

Under the stimulus, CCI Group has received \$106 million in projects, more than any other ANC subsidiary. But much of that work has been subcontracted out, including 20 construction projects in which the subcontract exceeded 85 percent of the project cost.

The SBA hopes that after the agency invests government resources to help a firm, it will be successful, contracting official Jenkins said. But under the law, there's nothing the agency can do if an ANC starts a new firm to keep getting no-bid contracts. Congress allowed it to foster economic development in the native communities and because some ANCs support thousands of natives.

In November, McCaskill and Thompson introduced bills that would eliminate ANCs' ability to have more than one subsidiary in the SBA program and to subcontract to larger firms. "We've seen that a very small portion of these companies' profits are reaching native Alaskans," McCaskill said at the time, "so it's time to acknowledge the fact that this program is not effective for either native Alaskans or taxpayers."

In December, McCaskill told the Tundra Drums newspaper, which is owned by an ANC, that she would be open to alternatives to help Alaska natives, but not through "noncompetitive, huge multimillion dollar contracts."

The legislation hasn't received much attention in the new Congress yet and has been widely criticized by ANCs, native groups and Alaska's congressional delegation.

"In Washington, we are forced to respond to attacks on your success in the 8(a) program," Sen. Lisa Murkowski, R-Alaska, told attendees at the 2010 annual convention of the Alaska Federation of Natives. "All of these unfortunate situations remind us that we must remain vigilant against those who would try to reverse the progress that's been made over the last 50 years."

<http://www.propublica.org/article/alaska-native-firms-shift-stimulus-work-to-outsiders>



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Best and Worst States for a Small Business

By Laurie Kulikowsk, San Diego Union-Trustee, February 1, 2011

Location, location, location. It's the mantra real estate agents live by — and it can be vital for small businesses.

States differ wildly on tax and business-specific programs that can make or break a business, especially a small startup.

Many states are increasingly courting small businesses and startups, and conventional wisdom says small businesses create two-thirds of all jobs.

“The climate for a startup almost anywhere, frankly, is about as positive as I have ever seen it,” says Dr. Charles Morrissey, an associate professor at Pepperdine University's Graziadio School of Business and Management.

In Rhode Island, for instance, state Rep. Donna Walsh introduced a bill Jan. 19 to eliminate the corporate tax for many small businesses. The legislation would eliminate Rhode Island's minimum corporate tax, now \$500 for firms grossing less than \$250,000 annually, and set up a graduated tax system based on gross receipts.

“Besides equity, its greatest benefit is to provide tax relief for small businesses and startups to whom every dollar counts,” said Walsh, who is on the state's House Committee on Small Business.

Ideally for small businesses, states could compete to be known to be as welcoming to them as Delaware is to larger firms. Delaware claims to be where more than 50 percent of all U.S. publicly traded companies and 60 percent of Fortune 500 companies are incorporated.

The state is pro-business and shareholder friendly, with modern corporation statutes and well-developed case law that facilitates business planning; a helpful state legislature; and a nonjuried Court of Chancery dealing specifically with corporate issues.

Once firms get beyond \$20 million to \$25 million in annual revenue, they should consider changing to a corporation, says Mariano Sori, a state taxation expert at True Partners, but small businesses that intend to expand can also take advantage of the environment.

Morrissey, who led Pepperdine business school's entrepreneurship program, notes that many student business plans lack “location strategy,” which could be detrimental to a startup's success.



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“In many cases the business models assumed they would be in a location that would be startup friendly,” which isn’t always the case, Morrissey says. “It’s no coincidence that the Apples and Googles just happen to come from very few areas,” he says.

The five best and worst states for small businesses were compiled by the Small Business & Entrepreneurship Council as part of its annual Small Business Survival Index, released in December. The index ranks states by their public policy climates for small business and entrepreneurship, measuring the costs and burdens of state government on small business and looking at policy areas that enable competitiveness and growth.

Low labor costs and a lack of corporate income tax are common denominators in the best states, while the opposite is true for some of the worst states, experts say.

“A lot of states have instituted programs for small businesses, or even large businesses, that want to relocate to the state,” Sori says, citing grants, tax credits and temporary property tax reductions. When entrepreneurs can choose where to base a business, things to look at include corporate income tax rate, property tax and the sales tax burden.

Best: South Dakota

The top small-business-friendly state is South Dakota, which boasts, like some of the other top states, no taxes on personal income, individual capital gains, corporate income, corporate capital gains or estate transfers.

The state, home to historical Mount Rushmore, also has the lowest crime rate, a low level of state and local government spending and a low number of health insurance mandates, the SBE Council reports.

New Gov. Dennis Daugaard is saddled with the task of fixing the state’s budget as he takes office. He has said he is opposed to raising taxes, instead preferring spending cuts.

Daugaard, a Republican, plans to spur economic growth in the state by fostering innovation and encouraging businesses in high-tax states to move to South Dakota and businesses already in South Dakota to “increase their production and the number of people they employ,” he said in his State of State Address in January.

He also said he plans to move money into the \$10 million Revolving Economic Development Initiative Fund and revamp the state’s “bureaucratic” microloan program for small businesses, among other measures.

“We have the best business climate in the nation, and I intend to keep it that way. Our first advantage is our low tax burden,” Daugaard says.

Second-best: Nevada



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It's understood that "what happens in Vegas stays in Vegas," but small-business owners will be happy to know the state also doesn't want them leaving.

Nevada does not tax personal income, individual corporate gains, corporate income or corporate capital gains. It also has no death taxes and low workers' compensation costs, according to the council report.

On the downside, Nevada does have high consumption-based taxes, high unemployment taxes and a high state minimum wage.

It is among states hardest-hit by the housing crisis, and unemployment tops 14.5 percent. Bringing in jobs will be a high priority for the state's new governor, Republican Brian Sandoval.

"We cannot burden struggling businesses with tax increases. ... We must allow sunseting taxes to expire at the end of June and provide businesses the environment in which to begin hiring again," he said, referring to a tax package passed in 2009 that included temporary reductions to payroll taxes for small businesses, among other measures. The package is set to expire June 30.

Third-best: Texas

The Lone Star State has no taxes related to personal income, individual capital gains, corporate income, corporate capital gains or estates. Texas also boasts a low level of state and local government spending and low workers' compensation costs, the SBE Council says.

The state does have high property and consumption-based taxes, as well as a large number of health insurance mandates and a very high crime rate, the council notes.

According to the website of Republican Gov. Rick Perry, Texas has brought in more jobs than any other state in the past 10 years.

It boasts a business-friendly atmosphere, particularly for startup technology firms. The Texas Enterprise Fund functions as a "deal closing" fund to enable the state to compete "directly with incentives offered" in other states, and the Emerging Technology Fund helps early stage tech firms as they get their footing.

Since October, Perry's office has hosted 14 "Small Business Forums" across the state offering business owners access to information on work force development, training grants, expanding markets and other business growth opportunities.

Fourth-best: Wyoming



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Home to Yellowstone National Park and Grand Teton National Park, Wyoming boasts no tax on personal income, individual capital gains, corporate income, corporate capital gains or estates.

It also has the lowest electric utility costs and very low gas and diesel taxes, according to the SBE Council.

On the other hand, Wyoming has high property and consumption-based taxes and high unemployment, as well as high workers' compensation costs.

Wyoming's new governor, Republican Matt Mead, owns farming and ranch operations in the state and is considered likely to make job and small-business measures a priority.

Fifth-best: Washington

The state is home to a number of well-known corporations, including Microsoft, Boeing, Starbucks and Costco, but it has plenty to offer small businesses.

Washingtonians and their businesses enjoy a lack of taxes on personal income, individual income, corporate income and corporate capital gains. The state also boasts low electric utility costs, according to the SBE Council's report.

That being said, Washington has high unemployment taxes, "very high" consumption-based taxes, a large number of health insurance mandates and a high state minimum wage.

Yet Washington has a renewed focus on business, particularly small businesses. Democratic Gov. Chris Gregoire signed an executive order in October to facilitate small-business recovery in her state.

Among other things, the order directs state departments to "review current practices, tax and rate structures with the goal of reducing state imposed costs for small businesses," as well as to find ways to reduce the complexity of the state's sales tax system.

"I want our business owners spending less time understanding what tax rate they should pay and more time ensuring their business succeeds," Gregoire said.

Additionally, the governor is looking to consolidate small-business licensing, registration and certification guides into one resource and to develop strategies for streamlining regulatory processes.

Worst: District of Columbia



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Our nation's capital has the second-highest corporate tax rate income, behind Pennsylvania, and high personal-income, individual capital-gains rates and corporate capital-gains taxes.

The Washington, D.C., area also has high property taxes, an added tax for S-corporations, high electric utility costs, an imposed estate tax and a higher crime rate than any state, according to the SBE Council.

Democratic Mayor Vincent Gray says he is looking to support small businesses in the area. One way is by increasing the opportunities for small businesses to compete for government contracts.

Second-worst: New Jersey

New Jersey has a history of being unfriendly to business.

Like others on the "worst" list, New Jersey has high personal income and corporate income taxes as well as individual and corporate capital gains. It also has the second-highest property taxes in the nation, behind New Hampshire, according to the SBE Council's report.

On the other hand, the Garden State has fairly low consumption-based taxes, a low crime rate and low gas and diesel taxes, the report notes.

Gov. Chris Christie seems dedicated to keeping businesses in New Jersey, but his plans are unclear.

The Republican governor "quietly dismantled" the state's program for minority- and women-owned small businesses last year, according to media reports, but signed into law Senate Bill No. 2370, which calls for expanding New Jersey's Business Retention and Relocation Assistance Grant program.

The program has helped businesses preserve jobs, expand operations and reinvest through the award of corporation business tax credits. Through the program, corporations will get a maximum tax credit of \$2,250 per year for six years, per job retained in the state versus the previous one-time tax credit incentive of \$1,500 per job retained.

In an address this month, Christie said he plans to put forth proposals to reform the state tax system.

Third-worst: New York

New York has high personal and corporate income tax rates and taxes on individual and corporate capital gains. It also has high property taxes, high consumption-based taxes, high gas and diesel taxes, an added estate tax and poor private property protections, among other things, according to the SBE Council.



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“New York is a real killer because the state imposes a 7.1 percent corporate tax rate and New York City has their own tax rate of 8.85 percent,” says Sori, the state taxation expert. “If you’re doing business in the city of New York, it’s almost 16 percent.”

On Democratic Gov. Andrew Cuomo’s agenda as he relocates to Albany is transforming New York’s economy. “Business built New York, and we are declaring that New York is once again open for business,” he said in his State of the State address.

Priorities include “holding the line on taxes and working to lower taxes in the future,” specifically property taxes. Cuomo is looking to foster job creation, in part by enhancing the state’s Excelsior Tax Credit Program, he says.

Cuomo also wants to expand support for minority- and women-owned small businesses, including “directing state agencies to double the current Minority and Women-Owned Business Enterprises participation goal from 10 percent to 20 percent; ease bonding restrictions for these business owners and expand the Owner-Controlled Insurance Program model to improve opportunities for small businesses,” according to his address.

Fourth-worst: California

California has high personal and corporate income taxes as well as high taxes on individual and corporate capital gains. And the list goes on. According to the SBE Council, California has the highest gas and diesel taxes, an additional tax for S-corporations, an added estate tax, poor private property protections, a large number of health insurance mandates and high workers’ compensation costs.

California is suffering a \$28 billion fiscal deficit and has the worst credit rating among the 50 states, says new Gov. Jerry Brown, a Democrat who also led the state in the ’70s and early ’80s. The Golden State has one of the highest unemployment rates in the country — 12.5 percent as of December. Thousands of Californians face foreclosure on their homes as a result of the housing bust.

Brown proposes a \$12.5 billion cut to California’s state budget to close a large deficit and is reconsidering various tax credits, including the small-business-focused Enterprise Zone Hiring Credit, as he takes on a multiyear effort to shore up the state budget.

The jobs credit was one of the best in the country but cost the state much-needed revenue, True Partner’s Sori says.

Still, the state prides itself on supporting venture capital and the entrepreneurial spirit, especially in technology. It’s home to Apple, as well as to countless other high-tech firms packed into its Silicon Valley.



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Fifth-worst: Vermont

Vermont is on the list of states with high taxes on personal and corporate income, as well as high taxes on individual and corporate capital gains. The state also has high property taxes, high electric utility costs and high workers' compensation costs, according to the SBE Council's report, as well as poor private property protections.

On the flip side, the Green Mountain State has very low crime and no individual or corporate alternative minimum tax, the SBE Council says.

Vermont's new governor, Democrat Peter Shumlin, a small-business owner himself, pledged to create jobs and relieve taxpayers of the high burden of state taxes. In his inaugural address last month, Shumlin put forth an aggressive agenda in which fostering entrepreneurship and combating the high cost of health care were priorities.

<http://www.signonsandiego.com/news/2011/feb/01/best-and-worst-states-small-business/>

PDC Says Diversity Efforts Paying Off

By Wendy Culverwell, Portland Business Journal, January 28, 2011

The Portland Development Commission says its efforts to channel work to small, minority and woman-owned businesses is paying off.

The city's economic development agency said Wednesday that disadvantaged firms secured contracts worth \$26 million in 2010, or 23 percent of all PDC work.

The annual report quantifies PDC's efforts to strengthen disadvantaged businesses, which became a central theme four years ago when critics said disadvantaged firms were underrepresented in public projects.

John Jackley, director of PDC's communications and business equity activities, said disadvantaged businesses have contracted to perform 35 percent of all work on PDC-sponsored projects since 2006, with more than 1.6 million hours of work performed by minorities.

In all, disadvantaged firms have secured more than \$100 million in work since 2006.

"It's not an afterthought like it was five years ago," said Bruce Warner, executive director.



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In 2010, disadvantaged businesses secured contracts for \$26 million or 23 percent of all work awarded, with 7 percent going to minority-owned firms, 5 percent to woman-owned firms and 11 percent to small businesses.

Of the 445,204 hours worked on PDC projects in 2010, 22 percent were performed by minority and female workers. Overall work was down sharply because of the recession.

At South Waterfront, minority participation increased to 28 percent in 2010, from 16 percent five years ago.

The report comes in advance of a major study into contracting disparities in Portland. The “disparity study” is due in late February and will guide future efforts to direct contracts to disadvantaged businesses.

Courts have held that public agencies must prove disparities exist before they can enforce contracting goals, even aspirational ones.

<http://www.bizjournals.com/portland/news/2011/01/28/pdc-says-diversity-efforts-paying-off.html>

SBA Expects First Contracts in New Woman-Owned Business Program by Summer

By Matthew Weigelt, Washington Technology, February 1, 2011

The Small Business Administration’s Women-Owned Small Business Federal Contract Program becomes official this week, opening new opportunities for those small businesses.

The program goes into effect Feb. 4, and SBA officials said today they expect the first contract awards under the program by the fourth quarter of fiscal 2011.

SBA Administrator Karen Mills said woman-owned businesses are one of the fastest growing business sectors, and are playing a key role in creating jobs and driving the U.S. economy.

“That’s why providing them with all the tools necessary to compete for and win federal contracts is so important,” she said in a statement. Federal contracts can help energize these companies’ expansion.

Contracting officers will now be able to set aside specific contracts for woman-owned small businesses for the first time through the program, which will help agencies reach their goal of awarding 5 percent of their contracts to women, SBA said.



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Agencies have struggled to meet the 5 percent goal, with woman-owned companies averaging around the 3 percent mark the past several years, despite a drop to 1 percent in 2007.

The launch of the program has faced problems through the years. The George W. Bush administration determined that women business owners were under-represented in only four industries, including kitchen cabinet-making.

In the rule revised by the Obama administration, officials identified 83 industries in which women are eligible for federal contract assistance under the new program. (Read an unabridged list of the industries.)

SBA will post the final regulations on its website Feb. 4.

SBA recommends women business owners who want to participate in federal contracting should read through the program's requirements and download the documents they need to demonstrate their eligibility for the program.

To qualify, a company must be a small business that is at least 51 percent unconditionally and directly owned and controlled by one or more women who are U.S. citizens.

<http://washingtontechnology.com/articles/2011/02/01/woman-owned-small-business-contracting-program-sba-launch.aspx>

New VA office to Serve as Advocate for Tribal Veterans

Air Force Print News, February 1, 2011

Department of Veterans Affairs officials have announced the creation of a new Office of Tribal Government Relations to ensure the more than 200,000 veterans who are American Indians, Alaska Natives, Hawaiian Natives or are part of the Alaska Native Corporations receive the VA benefits they have earned.

"There is a long, distinguished tradition of military service among tribal peoples," said Secretary of Veterans Affairs Eric K. Shinseki. "VA is committed to providing these Veterans with the full range of VA programs, as befits their service to our nation."

About 200,000 veterans are represented by the 800 tribal governments officially recognized by the U.S. Although VA officials have long provided benefits to veterans in tribal lands, the new office will further strengthen and expand that relationship.



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Stephanie Elaine Birdwell, an enrolled member of the Cherokee Nation from Oklahoma, has been selected as the office's first director. A former social worker, she has spent nearly 15 years working on tribal issues with the Bureau of Indian Affairs and, most recently, the Bureau of Indian Education.

She will oversee a six-person office responsible for "establishing, maintaining and coordinating a nation-to-nation, federal-tribal relationship," according to a VA briefing.

The office has a charter that officially extends to veterans who are American Indians, Alaska Natives, Native Hawaiians and Alaska Native Corporations.

<http://www.af.mil/news/story.asp?id=123240588>

Budget & Acquisition

Defense Business Transformation: DOD Needs to Take Additional Actions

The U.S. Government Accountability Office, Defence Professionals, January 27, 2011

The U.S. Department of Defense (DOD) spends billions of dollars each year to maintain key business operations intended to support the warfighter, including systems and processes related to the management of contracts, finances, the supply chain, support infrastructure, and weapon systems acquisition. We have designated a number of these areas as high risk because of their vulnerability to fraud, waste, abuse, and mismanagement and because of opportunities to achieve greater efficiencies and free up resources for higher-priority needs.

In 2005, we identified DOD's approach to business transformation as a high-risk area because (1) DOD had not established clear and specific management responsibility, accountability and control over business transformation-related activities and applicable resources; and (2) DOD lacked a clear strategic and integrated plan for business transformation with specific goals, measures and accountability mechanisms to monitor progress. Because of the complexity and magnitude of the challenges facing DOD in improving business operations, we have reported the need for a chief management officer (CMO) with significant authority and experience to focus the necessary attention and sustain progress. We also recommended that DOD develop a comprehensive, integrated, and enterprisewide transformation plan, supported by a strategic planning process. Moreover, we recommended that DOD institutionalize in directives the roles, responsibilities, and relationships among the various business-related entities and committees that comprise its management framework and expand that framework beyond business systems modernization to all business transformation efforts.



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Both DOD and Congress have taken actions to address DOD's management of business transformation efforts. For example, DOD designated the Deputy Secretary of Defense as the CMO for DOD in May 2007. In the National Defense Authorization Acts for Fiscal Year 2008 and Fiscal Year 2009, Congress took steps that included:

- designating the Deputy Secretary of Defense as the CMO for DOD;
- creating a deputy chief management officer (DCMO) position;
- requiring the secretaries of the military departments to designate the department under secretaries as CMOs;
- requiring DOD to develop a strategic management plan (SMP); and
- requiring the secretary of each military department to establish a business transformation office and to develop business transformation plans.

In January 2009, we reported on DOD's progress in implementing its management framework and developing a strategic plan for business transformation. For example, DOD had issued directives broadly defining the responsibilities of the CMO and DCMO, established an office of the DCMO, designated an Assistant DCMO, established governance entities, and named CMOs or acting CMOs in the military departments. However, DOD had not clearly defined the authority, roles, and relationships for some positions and entities, including decision-making authority for the DCMO, the relationship between DOD's DCMO and the military department CMOs, and the responsibilities of various governance entities. Further, the military departments were in the early stages of responding to legislative requirements, and DOD's first SMP, issued in July 2008, did not identify specific business areas, strategic goals, objectives, or performance measures.

Since we last reported, a DCMO has been confirmed by the Senate, DOD has updated its SMP, and DOD and the military departments have continued to refine their management approach to business transformation. This report, which consists of this letter and the enclosed slides, addresses their progress since January 2009. We performed this review under the authority of the Comptroller General to conduct evaluations on his own initiative. Our objectives were to assess the extent to which DOD and the military departments have taken additional steps to (1) implement management frameworks for business transformation and (2) develop business transformation plans, supported by a strategic planning process, that enable them to align goals and planning efforts and to measure progress.

To assess progress in implementing management frameworks for business transformation, we compared DOD and military departments' actions to best practices for implementing CMO positions and related statutory requirements in the National Defense Authorization Acts for Fiscal Years 2008 and 2009. We also reviewed DOD and military department guidance related to these positions and entities. To assess progress in developing business transformation plans supported by strategic planning process, we assessed DOD's updated 2009 SMP and the Air Force's 2008 strategic plan by comparing them to results-oriented management best practices and key elements of a strategic plan, which we identified by reviewing prior GAO work⁹ and the Government Performance and Results Act of 1993. We also met with Army and Navy officials to



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determine the status of their planning efforts. For both objectives, we interviewed DOD officials, including the DCMO; the Director of the Business Transformation Agency; the Under Secretaries of the Air Force, Army, and Navy in their capacities as CMOs; and the Director of Business Transformation for each military department. To determine the involvement of the CMO, DCMO, and military department CMOs in the Secretary of Defense's recent efficiency initiative and selected GAO high-risk areas, we met with these officials and reviewed relevant documents and our prior and ongoing work on the high-risk areas. We conducted this performance audit from July 2009 through January 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

SUMMARY

DOD and the military departments have taken additional steps to strengthen their management approach to business transformation. Opportunities exist, however, for the CMO and DCMO to take on a greater leadership role in implementing a departmentwide effort to achieve more efficiencies in its operations and to ensure results in individual business areas. Since January 2009, DOD has filled key positions, such as the DCMO and military department CMOs; established entities, such as a governance board to identify business process improvements; and undertaken various activities. For example, in July 2009, the CMO issued an updated SMP which identifies business priorities and related reform initiatives. In May 2010, the Secretary of Defense announced a major initiative to reduce overhead costs, intended to find more efficient and effective ways of doing business. Our work shows that key strategies for successful implementation of the CMO position include defining roles, responsibilities, structures, processes, reporting relationships, and ensuring a high level of authority. The CMO and DCMO have responsibilities, under statutes and department guidance, related to improving the efficiency and effectiveness of business operations, but they have not been assigned specific roles for integrating, monitoring or otherwise institutionalizing the ongoing efficiency initiative in the long term. The military department CMOs are leading efforts to implement the initiative in their organizations.

Without assigning a specific role for the CMO and DCMO, it is not clear how DOD will establish accountability and leverage those positions to provide the leadership necessary to implement, integrate, and otherwise institutionalize the Secretary of Defense's recent efficiency initiative and sustain momentum and progress in the long term. Further, while DOD continues to take some actions to address weaknesses in individual business areas, we continue to see opportunities for the CMO and DCMO to provide the leadership needed to implement reforms and achieve goals reflected in the SMP, including those in areas we have identified as high risk. For example, DOD has significantly improved the timeliness of processing personnel security clearances but has yet to clearly define the specific roles and responsibilities of the CMO, DCMO, and military department CMOs for financial management improvement efforts, and to include clear performance measurement



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information and resource needs in its Logistics Strategic Plan, which guides efforts to improve supply chain management and other logistics processes.

DOD and the military departments have made limited progress in developing business transformation plans, supported by a strategic planning process, which enable them to align goals and planning efforts and to measure progress. We have previously reported that agencies that are successful in achieving business transformation strive to undertake strategic planning and establish a plan that includes goals and measures that align at all levels and that links resource needs to performance. DOD's 2009 SMP identifies priorities and reform initiatives but lacks some key elements, such as a description of the problems to be addressed, measurable goals, and funding priorities. The military departments are in varying stages of their planning efforts—the Army issued its plan in October 2010 and the Navy issued its plan in November 2010. The Air Force has a 2008 strategic plan that according to Air Force officials covers business transformation, but the plan does not define transformation or related goals. Air Force officials expect to develop specific business priorities and issue a separate plan in March 2011. DOD is in the early stages of measuring progress. While the 2009 SMP describes a strategic planning process, DOD has not set up internal mechanisms, such as procedures and milestones, by which it can reach consensus with the military departments and others on priorities, synchronize the development of plans with each other and the budget process, and guide efforts to monitor progress and take corrective action. Without a strategic plan containing measurable goals and funding priorities, supported by a clearly defined planning process, the department will not have the tools it needs to set strategic direction for business transformation efforts, fully align efforts to develop plans and budget requests that reflect business priorities, measure progress in implementing reform initiatives, and institutionalize its strategic planning efforts across administrations.

<http://www.defpro.com/news/details/21520/?SID=10f544637b65660c9a481a25d8510ec1>

Pentagon Reaching CR Budget Crunch Point

By K. Chaisson, Defence Professionals, February 1, 2011

With the U.S. government operating on a continuing resolution (CR) through March 4 because Congress failed to pass FY11 appropriations legislation, the Department of Defense is facing crunch time. During a trip to Ottawa, Canada, Defense Secretary Robert Gates called the possibility of having to operate the rest of the year under the CR "the crisis on my doorstep." Secretary Gates said that failure to pass the funding legislation will represent a \$23 billion cut in the defense budget in the current fiscal year. "It's the worst of all possible kinds of reductions, in significant measure because it comes halfway through the fiscal year," Gates told reporters traveling with him, including Jim Garamone with the American Forces Press Service.

The budget request was for \$549 billion, and the continuing resolution allocates \$526 billion. War funding will not be affected since the Defense Department will receive \$159 billion for operations in Iraq and Afghanistan

SAF/SB internal document—not for public release.



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this fiscal year. But the Pentagon would probably have to use operations and maintenance accounts to compensate for the difference between the budget legislation funding and that provided by a continuing resolution, "This would be done by stretching out programs and making cuts in training and readiness," Gates said. In past years, where CRs were more short-lived and did not stretch out for the whole year, the DoD was able to get back on track after the annual appropriations bill was signed, replacing the money it "borrowed" from Operations and Maintenance or Training accounts. "Frankly that's how you hollow out a military, even in wartime. It means fewer flying hours, fewer steaming days, cuts in training for home-stationed ground forces, cuts in maintenance, and so on," the defense chief warned.

The current continuing resolution runs out March 4. Gates said that if lawmakers don't pass the appropriations bill before that date, "this new Congress would be responsible for a cut that's nearly twice the size of our fiscal '12 proposal, and much, much more damaging."

Gates pledged to do all he can to ensure military families and wounded service members don't bear any of the brunt. "I will do everything in my power to protect all the money associated with family programs, and I mean that. I will protect the money associated with family programs and with wounded warriors, and so on," Gates said.

Garamone pointed out that Secretary Gates questioned the seriousness of members of Congress who are up in arms about cuts to defense in fiscal 2012, but are ignoring the effect the continuing resolution will have on the services. "In short, talk about not cutting defense in [fiscal 2012], as far as I'm concerned, is simply rhetoric without action on the [fiscal 2011] defense budget that's already in front of the Congress."

Secretary Gates also discussed some of the congressional concerns over his proposed \$78 billion cut in the projected defense budget over the next five years. "The impact on the services is very modest," he said. Of the \$78 billion, \$54 billion in savings comes from reductions in defense agencies and other cuts. About \$14 billion of the cut comes from changes in assumptions, Gates explained. For example, Gates said that inflation is lower than anticipated and pay raises will be smaller than the ones that were figured into budget projections. "So \$68 billion of the \$78 billion won't touch the services, really, at all," he said. "An additional \$4 billion comes from restructuring the Joint Strike Fighter program, and I would argue that's actually to the advantage of the services. And \$6 billion is from the force reductions in '15 and '16. The bottom line is that only about \$10 billion comes out of anything having to do with the troops or investment funds or capabilities," Gates said.

<http://www.defpro.com/news/details/21624/?SID=8163487db69ad4ff4eea82b5f5627ed6>



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Air Force Takes Delivery of Robots

United Press International, February 1, 2011

The U.S. Air Force has received small unmanned ground vehicles for explosive ordnance disposal teams from Boeing and iRobot Corp. of Massachusetts.

The 30 SUGVs are part of the first task order under an indefinite-delivery/ indefinite-quantity contract that runs through September 2012.

"We are pleased to work with iRobot to enable Air Force EOD technicians to perform reconnaissance while reducing their exposure to unexploded ordnance," said Mike Huddleston, Robotics program manager for Boeing Network & Tactical Systems.

Boeing and iRobot developed the SUGV family of vehicles under an alliance that began in 2007.

The robot is designed to give troops real-time awareness of critical situations and allow them to complete missions from safe standoff distances. SUGV is ideal for a variety of missions, including EOD, route clearance and reconnaissance.

As the prime contractor, Boeing provides program management, contracts and quality-control support from offices in Huntsville, Ala.; iRobot is responsible for engineering, design, manufacturing, training and logistics services, with the majority of work conducted in Bedford, Mass.

http://www.upi.com/Business_News/Security-Industry/2011/02/01/Air-Force-takes-delivery-of-robots/UPI-58821296569033/

Pentagon Cutting Exquisite Programs

By Brad Graves, San Diego Business Journal, January 31, 2011

With the U.S. Department of Defense keeping a closer eye on spending, the defense industry's main customer has less tolerance for the "exquisite" program.

That was one of the messages that Robert O. Work, undersecretary of the Navy, delivered Jan. 26 at the San Diego Convention Center during the West 2011 military conference.



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The Pentagon is cutting programs that Work calls exquisite — meaning programs that are highly capable but very expensive — and shifting money to programs it decides are more worthy, Work said in separate appearances before a luncheon audience and before a gathering of defense industry reporters.

This comes as Pentagon leaders increasingly view the federal budget deficit as a risk to national security.

Work limited his remarks to program cuts that had previously been announced. The undersecretary told the defense business community to wait for President Obama to release his budget, on Feb. 15 or thereabouts, to get a better idea of the Pentagon's spending plans.

He listed the upgraded Presidential Helicopter program as one of the exquisite programs that deserved cutting.

Amphibious Vehicle Panned, Praised

Work also defended the Pentagon's recent decision to cut the U.S. Marine Corps' Expeditionary Fighting Vehicle, an armored truck for amphibious landings. General Dynamics Corp. is the prime contractor, and prototype vehicles have occasionally been spotted off Marine Corps Base Camp Pendleton near Oceanside. If funded, the vehicle will need an inordinately large amount of the Marine budget, Work said.

The vehicle, however, has a local champion in Rep. Duncan D. Hunter, R-El Cajon. Hunter, who served with the Marines in Iraq and Afghanistan, released a statement Jan. 25 that said cutting the program "would do far more harm than good, especially when the core competency of the Marine Corps centers on amphibious operations."

Work, also a Marine veteran, disagreed. "People who say if you lose the vehicle, you lose amphibious assault, are not credible," Work told a group of reporters.

"The opportunity costs on the Marine Corps are too high," Work said during the luncheon speech.

In his remarks, Work made repeated references to "opportunity costs" of programs he called capable but too expensive. Opportunity cost is a concept in economics that states that a commitment to one course of action cuts off the benefit of doing something else.

A Nod to Northrop

During his lunch address, Work said savings from cutting expensive programs and waste could go to buy the U.S. Navy additional Fire Scout drones. The unmanned helicopter is a product of Northrop Grumman Corp. Northrop does office work related to a wide range of unmanned aircraft in Rancho Bernardo.



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Some \$1 billion in savings could go toward a “midrange” Navy drone with the ability to take off vertically, Work said. Other savings could go toward an unmanned fighter plane that could fly off aircraft carriers. Work dubbed the latter program “Predator off the carrier.” The reference was to the Predator drone built by the Poway-based Aeronautical Systems unit of General Atomics, though it was unclear whether the undersecretary was using “Predator” generically, as a term for any brand of unmanned aircraft, or whether he literally meant a General Atomics product.

Work told his luncheon audience that Pentagon officials were having “a vigorous debate” about unmanned carrier aircraft, though he did not elaborate.

Contractors, Military Compare Notes

In other news from the conference:

- Kevin McNally, a program manager for information assurance and cybersecurity at the San Diego-based Space and Naval Warfare Systems Command, said the government must dramatically speed up its acquisition process when it comes to handling defenses against malicious code. The adversary does its work in days and hours, McNally said, while the traditional military acquisition process takes years.
- Marty Chanik, vice president for development at Northrop Grumman’s shipbuilding segment, praised a San Diego-based competitor. Nassco/General Dynamics Corp. and its president, Fred Harris, have deftly produced T-AKE dry cargo and ammunition ships. It is an example of “serial production” that the government needs to fund more, Chanik said. Nassco is building 14 T-AKE ships and plans to deliver the last in late 2012.

Chanik addressed the need to cut down the number of shipyards in the United States, saying the industrial base had been established to support a 600-ship Navy. Currently, the U.S. Navy has roughly half that number of fighting ships.

<http://www.sdbj.com/news/2011/jan/31/pentagon-cutting/>

Lynn: Defense Budget Plans Strike ‘Right Balance’

By Lisa Daniel, American Forces Press Service, February 26, 2011

The Defense Department’s plans to cut \$78 billion from its budget over five years and find more than \$100 billion in savings for reinvestment was a collaborative effort and a reasonable balance between military needs and budget constraints, Deputy Defense Secretary William J. Lynn III said today.



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“Some will argue that our proposals cut defense too much, others will argue it doesn’t cut enough,” Lynn told the House Armed Services Committee. “We believe it strikes the right balance for these difficult times.”

Lynn was accompanied by the vice chiefs of each of the services, each of whom agreed that the budget plans were a collaborative effort that included service leaders.

“We were part of that process and agreed with the decisions that have been made,” Gen. Peter Chiarelli, Army vice chief of staff, said.

Acting on Defense Secretary Robert M. Gates’ directive, the services already have found more than \$100 billion in savings. They expect to redirect those savings to spend \$70 billion on improved weaponry and technical capabilities and \$28 billion on higher-than-expected operating expenses in the next five years, Lynn said.

The Army will realize savings partly from terminating its SLAM-RAM -- Standoff Land Attack Missile and Rolling Airframe Missile – programs, as well as its nonline-of-sight air missiles. With the savings, the Army will invest more heavily in Abrams tanks, Bradley fighting vehicles and Stryker wheeled vehicles, Lynn said.

The savings will allow the Navy to buy six more ships, including a destroyer, he said.

Gates made tough decisions, Lynn said, in terminating programs such as a new presidential helicopter, the F-22 fighter jet, the Future Combat System and the Expeditionary Fighting Vehicle. “The department needs to make hard decisions early on [in procurement], and we are endeavoring to do that,” he said. “We’ve often balanced in favor of performance, but then the budget and the schedule suffers. We’re trying to balance better.”

Quoting Gates’ earlier statements, Lynn said the budget plans represent “reasonable, responsible, and sustainable defense spending for the next five years.”

The budget cuts \$78 billion from the department’s top line over five years, giving it a \$553 billion baseline budget – a modest increase – for fiscal 2012, Lynn said. The cut was made in keeping with Obama administration efforts to lower the deficit, he said.

“The strength of our national defense depends on a strong economy as well,” Lynn said.

The cuts will mean freezing most civilian personnel hiring through 2013, and cutting the department’s contractor work force by 10 percent for three years, Lynn said.



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The department also will seek savings through its TRICARE medical system, for which costs have nearly doubled in 10 years, he said. The budget would lift TRICARE enrollment fees – which have remained unchanged since the program began 15 years ago -- for working-age military retirees, stop subsidies to nonmilitary hospitals, and adjust pharmacy co-payments, he said.

Other streamlining measures include closing U.S. Joint Forces Command and merging its essential functions into other areas, eliminating the Business Transformation Agency, and doing away with the position of assistant secretary of defense for network and information integration, Lynn said.

Force structure will grow 2 to 3 percent for fiscal 2012, then decline to the point of no growth in fiscal 2015 and 2016, the deputy secretary said.

Under the plan, the Army would lose 27,000 positions in end strength, and the Marine Corps would lose 15,000 to 20,000. Those reductions would not begin until after U.S. troops are scheduled to leave Afghanistan in 2014, Lynn said, and still would leave end strength higher than it was when Gates took office in December 2006, he said.

Even with the cuts, when the National Guard and Reserve are factored in, the Army will have 47,000 more soldiers in 2015 than it had in 2006, Chiarelli said.

<http://www.defense.gov/news/newsarticle.aspx?id=62588>

Industry

Senators Aim to Stave Off 3 Percent Tax Withholding for Contractors

By Robert Brodsky, Government Executive, February 1, 2011

Senators from both sides of the aisle are attempting to preempt a controversial requirement that the government withhold 3 percent of its total payments to most contractors for tax purposes.

Last week, Sens. Scott Brown, R-Mass.; Olympia Snowe, R-Maine; and Amy Klobuchar, D-Minn., unveiled a bill to repeal a mandate that federal, state and local governments with expenditures of more than \$100 million withhold 3 percent of payments for products and services worth more than \$10,000, including nonconfidential or classified contracts, grants to for-profit companies, and farm and Medicare payments. The requirement is scheduled to take effect on Jan. 1, 2012.



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Sens. David Vitter, R-La.; Richard Burr, R-N.C.; James Inhofe, R-Okla.; Johnny Isakson, R-Ga.; and Roger Wicker, R-Miss., have introduced similar legislation.

"Many of our Massachusetts companies are hit with a 3 percent withholding tax for simply doing government contract work," Brown told the North Suburban Chamber of Commerce in Woburn, Mass., on Monday. "I am introducing legislation to repeal that tax, which will give these businesses more capital to invest and create jobs."

If the requirement is not repealed, then companies will lose funds needed to operate day-to-day activities and could be forced to finance the additional amount, or pass along added costs to the government, Brown's office said.

The provision was included in the 2005 Tax Increase Prevention and Reconciliation Act in an effort to ensure that individuals and companies with outstanding tax debts do not receive new payments from the federal government. Critics suggest that numerous regulatory and legislative measures have been passed in recent years increasing the tax compliance of companies that receive government payments.

The withholding process would closely mirror the withholding system on individual salaries and wages. The government would set aside 3 percent of the gross payments and the information and funds would then be transmitted to the Internal Revenue Service. At the end of the year, the amount withheld would be credited toward taxes owed.

On Friday, the Government Withholding Relief Coalition wrote to Rep. Darrell Issa, R-Calif., the new chairman of the House Oversight and Government Reform Committee, urging him to focus on the law and its impact.

"The provision is already proving costly and will increase exponentially as the implementation deadline moves closer," the group of 116 business associations argued. "If this tax is not repealed, it will cost companies and governments at all levels substantial amounts of money. These exorbitant expenditures will be at the expense of hiring new employees, expanding businesses, and providing government services at a time that neither the public nor private sector can absorb such unnecessary costs."

The coalition noted the law makes no attempt to specifically target delinquent tax cheats and punishes all companies and individuals, including those with a clean tax record. Implementing the provision also will impose significant administrative costs and reporting requirements on governments and companies, the group said.

In an April 2008 memorandum to the House and Senate Armed Services committees, James Finley, then-deputy undersecretary of Defense for acquisition and technology, wrote that implementing the provision would cost the Pentagon more than \$17 billion in the first five years -- a price tag that included escalating



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costs that contractors charge. The provision could also "limit the number of companies willing to enter into the government market, thereby reducing competition and access to new technologies," Finley wrote.

The law initially was set to go into effect on Jan. 1, 2011, but a provision in the 2009 Recovery Act delayed the implementation date by one year. The IRS issued a proposed rule implementing the provision in December 2008 and is scheduled to release its final rule soon.

http://www.govexec.com/story_page.cfm?articleid=47006&oref=todaysnews

Leadership

Kehler succeeds Chilton as commander of Strategic Command

By Jim Garamone, Air Force Print News Today, January 31, 2011

Air Force Gen. Kevin P. Chilton passed the flag of U.S. Strategic Command to Air Force Gen. C. Robert Kehler Jan. 28, giving the nation's nuclear deterrent mission a new commander.

General Chilton, a pilot who served 10 years with NASA and flew three space shuttle missions, retired after 34 years of service. General Kehler assumed command after serving as the commander of Air Force Space Command at Peterson Air Force Base, Colo.

Defense Secretary Robert M. Gates presided over the ceremony. Outside the hangar where the ceremony took place were aircraft important in the command. From B-52 Stratofortress and B-2 Spirit bombers, to F-15 Eagles, to U-2 reconnaissance planes, the aircraft served as a backdrop to honor General Chilton's career from the Air Force Academy class of 1976 to orbit to today.

Navy Adm. Mike Mullen, the chairman of the Joint Chiefs of Staff, noted General Chilton's "detour" to being a shuttle astronaut.

"Across the services, officers who take a detour around the 'standard career path' like General Chilton did rarely return to their home service, and when they do, they don't always get the chance to succeed," the chairman said. "It is difficult to compare their value relative to their peers, so rather than embracing their diversity of experience as a benefit, we thank them for their service and send them on to the next chapter in their lives.



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"But the Air Force thankfully brought (General Chilton) ... back into the fold," he continued, "and the Air Force, STRATCOM and our nation are better for it."

Secretary Gates thanked General Chilton and his family for their years of service and talked of his high expectations for General Kehler. He also expressed his thanks to the men and women of U.S. Strategic Command.

"Our nation looks to the men and women of STRATCOM to continue to provide the traditional strategic nuclear deterrent, while also taking on new strategic missions that reflect the technologies and threats of the 21st century, most notably in space and cyber," Secretary Gates said.

General Chilton took over the command when it was facing challenges in control and accountability for America's strategic nuclear mission.

"(General Chilton) has led the way in reforming the management of the nuclear enterprise, overseeing the creation of the Air Force Global Strike Command, providing more training for our nuclear Airmen and restoring the nuclear mission to its proper place of honor," the secretary said. "(General Chilton) was also a tireless, principled and effective advocate for the New START treaty with Russia, a service for which (President Barack Obama) and I are grateful."

The threats continue to grow, Secretary Gates said, and are coming from new quarters. He spoke of his recent visit to Northeast Asia and the dangers posed by the North Korean push to gain nuclear arms and the means to deliver them.

"Not only is North Korea determined to carry out nuclear tests and develop ICBMs that could potentially threaten the U.S., they have also proliferated these dangerous technologies in the past," he said. "And even as the United States pursues a more constructive relationship with China, we and our allies cannot ignore the Chinese military's recent advances in missile, space and cyber warfare."

The secretary expressed confidence that the command will not lose a step as Kehler takes the reins.

"A former leader of our ICBM force, General Kehler has spent the past three years leading Space Command and oversaw the standing up of the 24th Air Force, our nation's first true cyber command," he said.

Admiral Mullen echoed Secretary Gates' sentiments.

"We are at the dawn of a new age where the space and cyber domains present a strategic landscape that promises great opportunities, but sobering responsibilities," he said. "Where the click of a mouse can be as devastating as any kinetic attack ever could and an orbital trajectory can become more contested than any



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sea-lane ever was. So as we march into this new age, I have the highest confidence (General Kehler) is the right person to lead us."

The new commander called the security challenges facing the United States complex, unremitting and compelling, and said addressing those challenges requires the complete focus of all members of the command.

"From high-end strategic deterrence to confronting the diverse demands of hybrid and irregular warfare, our ability to respond when called depends on the skill and dedication of the great men and women serving in STRATACOM," he said.

"Answering the call means that we must provide a safe, secure, effective and ready nuclear deterrent force," he continued. "Answering the call means we must work with the other combatant commanders to provide capabilities to support their on-going operations. Answering the call means we must ensure uninterrupted capabilities from space and improved awareness of objects and activities in space. And answering the call means we must enhance the nation's cybersecurity and ensure cyber support for operations."

Air Force Chief of Staff Gen. Norton A. Schwartz presided over General Chilton's retirement from the service. He called the general an inspiration and effective leader, who through natural talent, perseverance and a little luck excelled in all aspects of his service.

General Chilton thanked the men and women of Strategic Command and the surrounding community. He thanked his mentors through the years and friends from his hometown of Los Angeles, from his Air Force Academy class, the Air Force, NASA and beyond for gathering for his retirement. He thanked Secretary Gates and Admiral Mullen for their trust and confidence and support. He especially thanked his family for their sacrifices.

<http://www.af.mil/news/story.asp?id=123240555>

Deputy Secretary Lynn and Service Leaders Testify on Defense Efficiencies

American Society of Military Comptrollers, January 29, 2011

Deputy Secretary Bill Lynn told the House Armed Services Committee (HASC) this week that DoD's new budget plan "strikes the right balance for these difficult times." Testifying along with the Vice Chiefs of the Army, Navy and Air Force, and the Assistant Commandant of the Marine Corps, Lynn said the fiscal pressures facing the U.S. require DOD to "make the most out of every dollar entrusted to us." He was referring to the plan

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announced by Secretary Gates in early January to lower the FY2012-2016 budget plan by \$78 billion (as part of the administration's deficit reduction plan) and to achieve \$100 billion in savings within the DoD budget.

To achieve the budget reductions, Secretary Gates called for a civilian personnel freeze and a 10 percent annual cut in contractors who support government staff through 2013, reductions to general and flag officer and senior civilian positions, changes to organizational structures, and increases to some TRICARE enrollment fees and adjustments to pharmacy co-pays. Lynn said the FY2012 base budget request (to be submitted to Congress in less than three weeks) will be \$553 billion, an increase over the FY2011 budget request, but \$13 billion lower than the amount projected for FY2012 in last year's budget plan. He also revealed that the FY2012 budget request for Overseas Contingency Operations would be \$120 billion, compared to \$160 billion in FY2011.

The \$100 billion savings objective would be achieved, according to Lynn, from reorganizing, consolidating, or eliminating organizations, implementing better business practices (such as reducing the number of data centers and improving the acquisition process), and terminating programs such as the Marine Corps' Expeditionary Fighting Vehicle (EFV) and the Army's SLAMRAAM surface-to-air missile. The plan allows the Military Departments to keep the savings and reallocate them to higher priorities. Lynn said \$28 billion of the savings would be used to pay for higher operating expenses, while the remainder (about \$70 billion) would be used to fund high priority military capabilities." Lynn said the efficiency savings would allow the Navy to buy more ships and develop a new generation of electronic jammers. Gen. Chiarelli, Army Vice Chief of Staff, told the Committee that the Army had determined through a review of air and missile programs that \$1 billion saved from terminating the SLAMRAAM missile could be used to upgrade the PATRIOT missile and counter rocket and counter mortar programs, among others. Gen. Breedlove, Air Force Vice Chief of Staff, said that efficiency savings would enable the Air Force to develop a new long-range penetrating bomber.

Lynn also expressed concern over the continuing delay in final congressional action on the FY2011 DoD appropriations bill. Lynn warned that the department's effectiveness and efficiency would decline if FY2011 funding was continued at the FY2010 level.

HASC committee members questioned the witnesses closely on a number of issues, especially the proposed termination of the EFV, planned reductions to Army and Marine Corps troop strength levels in 2015 and 2016, and increases to TRICARE fees and co-pays. HASC Chairman McKeon (R-CA) told Lynn that he agreed that DoD programs should be reviewed closely to make sure that limited resources were spent on the highest priorities. But, he would not support proposals that would put added stress of servicemembers and their families or jeopardized national security.

<http://www.asmconline.org/2011/01/deputy-secretary-lynn-and-service-leaders-testify-on-defense-efficiencies/>



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Cybersecurity

Rangeview CyberPatriot Team Advances

The Aurora Sentinel, January 27, 2011

A team of students from Rangeview High School has advanced to the final round of a national cyber security competition organized by Northrop Grumman and the Washington-based Air Force Association.

According to the Air Force Association, the Rangeview team is among the finalists in the CyberPatriot contest, a national cyber security contest that offers winners college scholarships and a free trip to Washington, D.C. Teams of five students and one coach from high schools across the country participated in the contest, which features online scenarios where teams defend a computer network from real-life computer threats.

The Rangeview team has beat out about 190 teams in three rounds, completing more problem sets than any other team in the region. The team will travel to Washington, D.C. later this year on an all-expenses-paid trip. Jason Millman, Isaac Grant, Jericho Jones, Kyla Soloman, Lucas Nicodemus and Joshua Smith are on the Rangeview CyberPatriot team that will travel to the finals later this year.

http://www.aurorasentinel.com/email_push/news/article_7e398a12-2a40-11e0-9a6a-001cc4c002e0.html

Remotely Piloted Aircraft

Small, Hybrid-Powered, Manpackable UAV is Goal of Air Force SURGE-V Program

By John Keller, Military & Aerospace Electronics, February 2, 2011

U.S. Air Force researchers are asking industry to build a hybrid-powered manpackable unmanned aerial vehicle (UAV) that weighs less than 20 pounds and is able to carry a 4-pound electro-optical payload on missions over rough terrain lasting at least four hours. This small UAV must be able to be carried and operated by only one person on battlefield situational awareness missions.

The Air Force Research Laboratory at Wright-Patterson Air Force Base, Ohio, released a broad agency announcement (BAA-11-01-PKP) last Friday for the Small Unmanned Renewable energy long Endurance Vehicle (SURGE-V) program. The goal is to develop a hybrid power/propulsion system for small UAVs.

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The SURGE-V hybrid-powered UAV must be able to land on rough terrain, and operate in winds stronger than 35 knots, in temperatures as cold as 30 degrees below zero Fahrenheit, and at altitudes as high as 25,000 feet in sandy, dusty conditions, as well as in fog, light rain and snow, and high humidity.

The SURGE-V program is in three parts. First, the program seeks to design a hybrid propulsion system that runs on renewable energy. Second, the program will concentrate on demonstrating the integrated power system and payload on a SURGE-V UAV. Third, the program will conduct flight demonstrations of the integrated system.

The total cost of the program will be about \$2.2 million, Air Force officials say.

http://www.militaryaerospace.com/index/display/mae-defense-executive-article-display/9886524833/articles/military-aerospace-electronics/executive-watch-2/2011/2/small_-hybrid-powered.html

[Op-Ed](#)

PERSONAL OPINION: Belt Tightening and a Paradigm Shift Lie ahead for Robins

By Gene Rector, The Warner Robins Patriot, February 1, 2011

How the Air Force's three air logistics centers – including the one at Robins Air Force Base – might be impacted by Defense Secretary Robert Gates' efficiency push has not been identified. But clearly the massive and costly task of aircraft sustainment is uppermost in his mind.

In fact, depot maintenance and supply chain management – both fundamentals of an air logistics center – were specifically mentioned when Gates announced that he planned to squeeze \$154 billion in efficiencies over the next five years.

Last week, Air Force Secretary Michael Donley added more clarity, telling an Air Force Association crowd that he believed modifying depot and supply chain processes could trim about \$3 billion from operating costs.

Although Donley did not identify those modifications, savings of that magnitude may require revolutionary changes at a time when Air Force depots have a number of factors working against them:



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- The nation's international aspirations have not diminished in recent decades except to shift from Cold War brinksmanship to fighting a multi-front war on terror.
- Aircraft readiness expectations remain high.
- Key weapon systems are aging and showing the effects of constant use.
- Sustaining those systems has become increasingly complex, costly and much more difficult to plan and predict.

Retired Air Force Maj. Gen. Ron Smith, who struggled with some of the same issues as Warner Robins Air Logistics Center commander, framed the challenges during a recent interview.

"The cost of maintaining readiness is enormous and getting much, much higher," he noted. "And efficiency doesn't just mean identifying folks who are sitting on their butts and not doing anything. They could be working themselves to the max, but if the process is inefficient, then the system is inefficient."

Therefore, he expects the depot process to receive intense and high-level scrutiny ... and the options will not placate the faint of heart.

"You either reduce readiness levels or you're going to have to get more readiness for each dollar you spend," Smith said. "It's going to take more than just talk or merely getting more productive hours out of your workers."

A decision to change international aspirations and readiness expectations will have to come from higher levels. The local focus must be on process and related costs.

Smith suggests that a number of factors might come into play. On the supply side, reducing the gap between demand planning and supply execution is critical. Mechanics must have spare parts when and where they need them. As for contractor repair of components, the focus should be on repairing only the number necessary to maintain stockage levels.

How the depot is funded and accounts for costs must also be reviewed. "It might be useful to examine how we fund commercial industry to do aircraft maintenance compared to how we fund ourselves," Smith pointed out. "For that matter, how we determine flying hours and the maintenance cycle are fair game. Some of those ways are pretty archaic and there may be better ways to do them."

Whatever paradigm emerges, it could cause leaders to revisit the old adage: "Close enough for government work."



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“That has negative connotations,” the general pointed out, “but we may need to turn that into a positive. In other words, we need to become so darn efficient that we can be just a little bit off and still be really, really good.”

Two certainties are emerging, Smith conceded. One is the inevitable, on-base belt tightening that lies ahead. A second is very necessary input from the community.

“The community has got to stand up,” he said, “and play a role in helping to find ways of reducing the cost of operating Robins Air Force Base.”

http://warnerrobinspatriot.com/view/full_story/11193795/article-PERSONAL-OPINION-Belt-tightening-and-a-paradigm-shift-lie-ahead-for-Robins?instance=opinion_commentary_main_column