



AUSA BACKGROUND BRIEF



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DEPOT MAINTENANCE

EXECUTIVE SUMMARY

Continuing defense budget cuts and the resulting decrease in acquisition funds have led to an increased pressure to reduce the number of service-operated depots and plants and to limit the maintenance workload at Army facilities. A 1993 Joint Chiefs of Staff (JCS) study on depot maintenance concluded that the existing Department of Defense (DoD) depot capacity exceeds future requirements and that there is a need to streamline and consolidate the existing depot base.

Many private companies view depot maintenance activities as an alternative opportunity to sustain their own production and research capabilities at a time when military procurement is severely limited. In their view, shifting most of the depot maintenance workload to private industry is the best way to preserve a viable sector of the industrial base.

The services believe that it is important to retain a core depot-level maintenance support capability to reduce operational risks by providing ready and controlled resources to respond to contingency requirements and provide a basis for surge mobilization.

The congressional "Depot Caucus" has consistently supported the military depot maintenance system and has opposed attempts by DoD to divert more maintenance and repair work to the private sector.

The 1995 Defense Base Closure and Realignment Commission is sure to play a major role in determining the future of many Army depot facilities.

ISSUE

How much and what types of core capabilities should be maintained in Army arsenals, depots and plants to meet peacetime and emergency needs, and at the same time provide a mobilization base?

BACKGROUND

The Army's arsenals, depots and plants have always played important roles in developing and maintaining weapons and other equipment, as well as supplying many of the basic weapons needed by the Army. The first of these, Springfield Armory in Massachusetts, was established in 1777 to support the Continental Army.

Since the end of World War II, the number of Army-owned facilities has declined from more than 220 to just three arsenals, nine maintenance depots and 11 ammunition plants. By 1997, when the recommendations of the 1993 Defense Base Closure and Realignment Commission have been implemented, there will be only five maintenance depots and eight ammunition plants remaining in the Army depot system. Much of this decline can be attributed to the growth of private defense industries, which over the past 50 years have become the major developers and producers of advanced, sophisticated weapon systems and other military equipment. With a few exceptions (Watervliet, New York, and Rock Island, Illinois, e.g.) the **primary** role of Army depot facilities has generally evolved to one of rebuild and maintenance.

The pressures of sharply lower defense budgets and reductions in military procurement are precipitating changes in the accepted policy for dividing work between the government and private sectors. Both sectors are shrinking, and the rebuild and overhaul work previously performed almost exclusively in government facilities is becoming more appealing to the private sector.

Legislation Affecting Depot Maintenance

The basic legislative provision governing the operation of arsenals, depots and manufacturing plants is the Arsenal Act [10 U.S.C. Section 4532(a)]. The act provides that “the Secretary of the Army shall have supplies needed for the Department of Army made in factories or arsenals owned by the United States, so far as these factories or arsenals can make those supplies on an economical basis.” The wording is unique to the Army and has not changed since it was first enacted in 1920.

The DoD Acquisition Law Advisory Panel, also known as the “Section 800” Panel, in its 1993 report recommended several changes to the Arsenal Act. The panel recommended changing the word “shall” to “may” to conform to the wording of the provision applicable to the Air Force; substituting “Secretary of Defense” and “Department of Defense” for “Secretary of the Army” and “Department of Army” respectively; and deleting the words “so ... basis.” This recommendation is opposed by Army Materiel Command, as it would tend to dilute the effectiveness of the Arsenal Act as a basic underpinning of the Army depot system.

The most controversial legislative provision affecting depot maintenance is Section 2466, Title 10, Chapter 146. In 1991, Section 2466 was amended to require that a minimum of 60 percent of depot-level maintenance and repair activities in the Army and Air Force be performed by government employees. The National Defense Act for Fiscal Year 1993 extended this requirement to the Navy and Defense agencies and shifted the emphasis to a prohibition against contracting out more than 40 percent of depot workload to the private sector.

JCS Depot Maintenance Consolidation Study

The JCS Depot Maintenance Consolidation Study, published in January 1993, concluded that existing DoD depot capacity exceeds future requirements by 25 percent to 50 percent and that there is a need to streamline and consolidate the existing depot system. The study further recommended

that all depot-level maintenance activities be consolidated under a single authority. The study contained a particularly significant and controversial observation pertaining to the future of government depots: "We recognize that full contracting out of depot maintenance functions to commercial industry is also a long term possibility." However, this comment was tempered by the acknowledgement that "with the elimination of organic depot capability, there is a distinct probability that the commercialization process would become a sole source environment with potentially higher costs."

In 1993, DoD announced that it intended to establish several "pilot" acquisition programs that would include the responsibility for depot-level maintenance support as part of the procurement package. However, attempts by DoD to move in this direction have been resisted, at least for the time being, by the congressional "Depot Caucus." The House version of the FY 1994 Defense Authorization Bill (H.R. 2401) contained a provision prohibiting the Secretary of Defense from authorizing long-term depot-level maintenance by nongovernment personnel. This provision was modified during the House/Senate conference to a "Sense of Congress" (Section 345, Conference Report on H.R. 2401) that an appropriate amount of depot maintenance and repair on new weapons systems be assigned to government facilities in order to maintain the critical depot-level capabilities of DoD.

Depot Maintenance Controversy

Depot-level maintenance accounts for approximately \$13 billion of the defense budget for Fiscal Year 1994. Most of this \$13 billion goes to government depots. The Army's share of this is approximately \$1.3 billion.

Depot maintenance includes overhaul and rebuild, modifications, conversions and upgrades to extend service life of systems. Under the current provisions of law (10 U.S.C. 2466), DoD is prohibited from contracting out more than 40 percent of depot workloads to the private sector.

Although some depot work may be too specialized, or too low in volume to be performed economically in the private sector, the prevailing industry view is that government facilities and work forces are being protected in a time of general defense downsizing at the expense of the private sector. Industry advocates contend that it would be more beneficial to the industrial base to shift a greater share of the work to the private sector in order to sustain the research, development and production capabilities that are not usually available in depot facilities.

Industry representatives are strongly opposed to a statutory limitation on the amount of repair and maintenance work that can be performed by private industry. They also believe that military facilities are taking work away from the private sector by competing with private industry for maintenance work from the other services. It is their contention that making them compete with depots for the limited workload available to private industry is unfair because of the differences in private sector and government cost factors that are considered in the competitions.

The services all believe that there is a need to retain some core depot maintenance capabilities in government facilities in order to provide the rapid response needed to meet requirements in emergency situations and contingency deployments and that elimination of all organic depot capability

would pose unacceptable risks to readiness and sustainability. A DoD Depot Maintenance Study Group examining “core work load” recently concluded that “the depots are necessary because they can rapidly increase output and change priorities without contractual encumbrances.”

As an example of response to emergency requirements, depot commanders cite the dispatch of almost 1,000 maintenance personnel from Army depots to establish forward depot facilities and provide maintenance support in Saudi Arabia during the Gulf War; providing supply and maintenance personnel, along with water purification and power generating equipment, during Hurricane Andrew and the floods of 1993; and the special deployments to support U.S. and UN forces in Somalia. Generally, the Army believes that if the maintenance capability existed solely in the private sector, it would not be as responsive to meet emergency needs. It should be noted, however, that in the case of Desert Shield and Desert Storm, private industry also sent a substantial number of support personnel to the theater of operations.

Congressional “Depot Caucus”

The Depot Caucus, which is primarily composed of members of Congress with government depot facilities in their districts, is a major player in this arena. The Depot Caucus has been extremely successful in protecting existing depot facilities by preventing the transfer of workload to the private sector. In previous years, they have successfully placed provisions in defense authorization acts establishing required workload levels for government depots and limiting the amount of work available to private industry.

During the past year, the Depot Caucus proposed three major provisions concerning depot maintenance issues in the House version of the Fiscal Year 1994 Defense Authorization Bill (H.R. 2401). These provisions prohibited the Secretary of Defense from consolidating the depot system under a single entity and implementing any new procurement policy giving long-term, major maintenance responsibility to private industry rather than to the government depots. Perhaps the most important proposal was to amend Title 10 by changing the requirement that 60 percent of the overall depot maintenance workload must be performed in government facilities to a requirement of 60 percent of the workload for each commodity type.

Only the provision prohibiting consolidation of the depot system (Section 341) was approved by the House/Senate conference, and the prohibition is effective only during Fiscal Year 1994. The remaining proposals were covered in a “Sense of Congress,” which does not have the force of a law.

Defense Depot Task Force

Section 341 of the National Defense Authorization Act for Fiscal Year 1994 establishes a Defense Depot Task Force to assess the management and performance of DoD’s depot-level maintenance activities. The task force is charged to determine which functions and activities should be performed by government facilities and which would best be performed by the private sector. As part of its evaluation, the task force will also examine management and structure of depot-level activities, allocation of workload between government facilities and the private sector, performance levels, work rates and prices, and how core capabilities and requirements are determined.

Defense Base Closure and Realignment Commission

There has been a significant reduction in the DoD depot structure as a result of the last three rounds of the Base Closure and Realignment Commission. So far, DoD has reduced its maintenance depots by almost 30 percent.

During the 1993 round of base closing hearings, some private companies campaigned before the commission to add some depot maintenance facilities to the base closure list because the repair workload could be transferred to private plants. There were indications that members of the commission were receptive to the argument that diverting work to private industry by closing government facilities would be a viable approach to maintaining the private sector industrial base.

At one of the final base closure hearings, the commission chairman stated that it was his opinion that Air Force maintenance facilities were clearly superior to Army and Navy facilities. This statement, coupled with ever-increasing pressure from private industry, could well mean that during the 1995 round of base closures/realignments, more Army depots will be vulnerable to closure or realignment action.

CONCLUSIONS

The Army and the other services need to retain an organic depot-level maintenance and repair capability in order to provide essential, responsive support for military operational requirements during contingency and emergency operations. However, the services must realistically establish the required minimum core capabilities and workload levels they need to meet military requirements during peacetime and emergency situations.

Determining the required core capabilities and the proper allocation of capabilities and the distribution of workloads between government depots and private industry will certainly be the most challenging issue facing the Defense Depot Task Force. While overall cost-effectiveness considerations must be a major factor in its determinations, the need to support and preserve critical research, development and production capabilities in the civilian industrial base and, at the same time, retain a core depot capability cannot be ignored.

The congressional Depot Caucus will continue to be a major player in any actions to consolidate and close government depots or to divert a larger share of depot-level maintenance to the private sector. Clearly, unless the members of the Depot Caucus are satisfied that the defined core capabilities are reasonable and sufficient, there is little chance that the present allocation of workload between the government and private sectors will be changed.

The 1995 Defense Base Closure and Realignment Commission is almost certain to consider Army arsenals and depots as candidates for closure, even if they are not included in the Secretary of Defense's list of bases recommended for closure.

(This *Background Brief* was prepared by Lieutenant Colonel Austin E. Miller, AUS Ret., an Institute of Land Warfare Research Fellow, and the ILW Staff.)

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