

WATCH ON WASHINGTON: THE FUTURE OF MCAS CHERRY POINT AND FLEET READINESS CENTER EAST

Early Winter 2011-2012

Released December 19, 2011

During September 2011, the Craven County Board of Commissioners, through the support of the Craven County Economic Development Commission and the North Carolina Department of Commerce, organized an effort to achieve the objectives and action items set out in this report.

Objectives

The team's primary objectives are to:

1. Defend FRC East and its 3,500 civilian professional and skilled labor jobs.
2. Support FRC East's mission in light of the Department Defense's assessment of F-35B depot work and expand that mission to make FRC East the Center of Excellence designated as the primary depot for short takeoff and vertical lift (STOVL) aircraft.
3. Promote the acquisition and deployment of the F-35B Joint Strike Fighter.
4. Secure the long term viability of MCAS Cherry Point.



FRC East

Source: U.S. Department of Defense



F-35B Sea Trials. Photo provided by U.S. Department of Defense

Local and State Efforts Update

Hugh Overholt testified before the N.C. House Select Committee on Military Affairs... His presentation emphasized the importance of FRC East to the state's economy and outlined our local commitment to growing the FRC East mission and protecting the F-35B. Committee member Norman Sanderson expressed strong support for MCAS Cherry Point. We will look to Representative Sanderson and the Speaker to fully support local efforts to defend MCAS Cherry Point.

Jamie Norment and Hugh Overholt advocated in Washington, D.C. during the week that the FY2012 Defense Authorization Bill was passed... They advanced the effort to protect the F-35B and FRC East in meetings with Representative Jones and his staff, Senator Hagan's military legislative advisor, and Governor Perdue's representative in the capital. **They also participated in a planning session and debriefing with the Cassidy team and Craven County Commissioner Scott Dacey.**

Craven County Economic Developer Jim Davis organized a viewing of a presentation by the Association of Defense Communities entitled **"Surviving the Budget Knife: What Changes in DoD Spending Mean for Defense Communities."** The presentation emphasized

the Congressional contacts will be critically important for local communities during a BRAC. Also, communities must study and use the information about their bases that was contained in the 2005 BRAC reports as well as recent EISs and other studies. This information will help communities defend their bases and, if needed, prepare for a closure or major realignment.

Governor Perdue wrote the President on November 23, 2011, advocating for the F-35B and FRC East. "I challenge anyone to find another FRC or Depot across the DoD enterprise with the level of workforce development support that is provided here in North Carolina, and I urge consideration of FRC East as the preferred site for maintenance across all JSF variants," she wrote. We are working with the Governor's office to facilitate a one-on-one meeting between her and the President to discuss FRC East and the MCAS Cherry Point.

Representatives G.K. Butterfield, Walter B. Jones, Jr., and Howard Coble and Governor Perdue urged the acting Undersecretary of Defense of Acquisition, Technology, and Logistics to support FRC East in a November 28, 2011. They wrote that the "facilities and capabilities found at FRC East are unique, making it an invaluable resource" for the DoD. "We believe the best way for the [DOD] to maintain readiness and manage cost is to continue to utilize FRC East..." they wrote. They also cautioned the DoD that JSF Depot Source repair changes or budget changes should not be undertaken without input and support from Congress.

Senators Hagan and Burr continue to provide support for our efforts. Senator Hagan speaks regularly with senior DoD officials about the F-35B and FRC East. **In a conversation with Secretary of Defense Panetta, she specifically urged him to maximize the use of FRC East.** The senators' staff continue to coordinate

efforts and communicate directly with DoD officials.

Efforts are underway to bring House Armed Services Chairman Buck McKeon (R-CA) to MCAS Cherry Point and FRC East. No details on when this might occur, but it will be a significant opportunity for stakeholders to take our message directly to the senior political leadership. This would be Representative McKeon's first visit to MCAS Cherry Point and FRC East.

Plans advance for a visit by John B. Johns, Deputy Assistant Secretary of Defense for Maintenance Policy and Programs. We expect Sec. Johns to tour FRC East and meet with local stakeholders on February 1, 2012. He is responsible for the DoD's \$90 BILLION maintenance program. He is the senior DoD civilian official tasked with operating the depot program.

On the Calendar

Mid-January 2012...Cassidy team to travel to Craven County to brief stakeholders and meet with officials at FRC East and MCAS Cherry Point.

Early January 2012...U.S. Congress reconvenes after Christmas break.

January 27, 2012...Lt. General Robling will be in Havelock for Eastern Carolina Aviation Heritage Foundation event...scheduling time for Hugh Overholt to meet with Lt. General Robling to discuss F-35B issues.

February 1, 2012...Deputy Assistant Secretary of Defense for Maintenance Policy and Programs John B. Johns will come to MCAS Cherry Point for meetings with stakeholders...including focus on FRC East's future.

Mid-February 2012...President Obama expected to release proposed fiscal year 2013 Department of Defense budget.

February 3, 2012....Report from DoD about the F-35B's probation status expected to be released.

Action Items for 2012

The following action items support the objectives set forth on page one. This list is a summary of strategic plans. It does not present detailed information about the many meetings and discussions we expect to have with stakeholders and government officials because of the sensitivity of those conversations. In addition, there are strategic action items that may not be reported here because they are in process or not ready for publication.

1. Draft resolutions for county, municipality, and civic boards to adopt in support of the FRC East and the F-35B.
2. Work with the N.C. Department of Commerce to secure additional funding for our lobbying effort.
3. Assist N.C. Sec. of Commerce Crisco with a Washington, D.C. briefing of DoD leaders about the importance of FRC East.
4. Continue to coordinate our efforts with the Governor's office, ACT, and the N.C. Military Foundation.
5. Work with Representatives Jones and Butterfield to recruit additional representatives to join the House Depot Caucus.
6. Pursue DoD Defense Access Road Program grants to improve Slocum Gate and access to medical care. Congress has appropriated \$300 million for improvements to military installation access roads that can benefit medical access. This is an opportunity to secure federal funding.

7. Continue to support personal communications between Governor Perdue, the North Carolina Congressional Delegation, on the one hand, and the Pentagon and Office of the President on the other hand. Direct conversations with senior leaders in the DoD and White House can advance our efforts significantly.

8. Monitor regional efforts to defend NAS Oceana Virginia and MCAS Beaufort in South Carolina.

9. Educate Congressional leaders about the core work at FRC East and the 50/50 rule. It is important that we oppose efforts to remove FRC East work from North Carolina.

10. Brief and seek continued support from Tonya Williams, who was Rep. Butterfield's chief of staff, but is now Vice-President Biden's Legislative Director.

11. Bring key out-of-state Congressional leaders to Craven County to tour FRC East and meet with stakeholders.

12. Bring Key DoD officials to Craven County to tour FRC East and meet with stakeholders.

13. Support the transfer of helicopter repair programs from other depots to FRC East.

14. Promote use of FRC East as the primary facility for working with recently purchased British Harriers. The recent deal struck with the UK for the purchase of British Harriers brings with it the potential for increased airframe and engine work at FRC East. This could result in additional need for private-sector warehouse leases, additional skilled labor positions, and additional engineering positions required to process, strip, repair, and prepare the British jets.

15. Monitor for possibility of a 2015 BRAC and work to prepare community for BRAC.

16. Brief N.C. Advisory Commission on Military Affairs about challenges and opportunities facing FRC East and MCAS Cherry Point.

FRC East Opportunities and Concerns

FRC East is the region's largest employer of professional engineers and skilled labor. **MCAS Cherry Point and FRC East generate nearly \$2 BILLION in economic impact every year on Craven, Carteret, Jones, and Pamlico Counties.**

Any federal defense budget reductions in depot maintenance costs would not be effective because they would be more than offset by other increased costs and detriments to depot operations and efficiencies.

Removing FRC East responsibilities would increase overhead rates as much as 20 percent for other FRC East work and for MCAS Cherry Point operations. Removing work from FRC East will cause it to lose synergies that result from current co-location with MCAS Cherry Point.

Moving F-35B depot work would not result in any significant savings. F-35B is vastly different from F-35A and F-35C variants, having 70% different parts. **F-35B will require the DoD Vertical Lift Center of Excellence's expertise and experience with vectored thrust flight systems.**

Washington, D.C. Update

Federal Budget Woes Threaten Military

Under the Budget Control Act, the failure of the "Super Committee" to produce recommendations to cut the deficit at least \$1.2 trillion over 10 years and see them enacted will trigger automatic, largely across-the-board

spending cuts, called sequestration. **However, those are not scheduled to take effect until 2013**, giving lawmakers and the White House a year to come up with other potential ways to reduce or eliminate the sequesters.

The Pentagon is preparing its fiscal 2013 budget proposal. It is to be released in February 2012—at a level of about **\$525 billion**, about **\$5 billion more than the fiscal 2011 level, but well below the \$571 billion on which the Pentagon had been planning**. That would keep DoD spending below the new statutory spending caps, but would be above the limit that would be set by sequestration.

Under sequestration, if it happened, the DoD base budget would total about \$472 billion, about the equivalent to what it was in fiscal 2007 (adjusted for inflation), according to sources.

Super committee's draft budget cuts made no mention specifically of the F-35B. This is a strong indication the DoD had worked with the Super committee to avoid F-35 cuts...**Contrary to media reports, the military is planning for reduction**, although Panetta does not want to publicly disclose any plan documents....

DC politicians have not yet settled on how they will campaign on the military reduction issue...**Need to make the case for the following:**

- Why the F-35B should not be a casualty of the Super Committee failure.
- Acceptance of the fact that there will probably be a BRAC and that FRC East and MCAS Cherry Point must not be a "shared sacrifice" with other bases.
- Now that we are through the first and second hurdles (Carter memo and Super Committee), we need to make a case for MCAS Cherry Point and FRC

East to be "receiver facilities," as that will position us for fewer cuts and possibly growth.

National Deficit Reduction Efforts Could Devastate Defense Spending

Worst-Case Scenario: Automatic Cuts (also called Sequestration). Secretary Panetta has said this scenario would be "devastating." In FY 2013, this would amount to a 23% cut if the president exempts military pay and benefits. In FY 2013, this would amount to an 18% cut if the president does not exempt military pay and benefits. DoD would be forced to furlough a large number of civilian personnel, curtail training, reduce forces and cut back on weapons purchases.

When asked if the triggers would be like shooting ourselves in the foot, Secretary Panetta responded, **"We'd be shooting ourselves in the head."**



F-35B Testing. Photo provided by U.S. Department of Defense

But Congress will probably avoid sequestration. Senators John McCain (R-AZ) and Lindsay Graham (R-SC) have already stated that they oppose sequestration because it is a "draconian action. **This is not an outcome that we can live with, and it is certainly not one that we should impose on ourselves.** The sequester is a threat to the national security interests of the United States, and it should not be allowed to occur."

Sequestration remains a concern, however: President Obama has said that he would veto any effort to repeal sequestration absent Congress approving a sizeable deficit reduction plan.

Approved Defense Legislation Impacts F-35B

House and Senate negotiators on the fiscal 2012 defense spending bill have minimized cuts to the F-35 program, reducing the President's proposal for 32 stealth fighters by just one aircraft, but trimming the request for advance procurement dollars for future Air Force (A variant) and Navy (C variant) jets. F-35B saw no reduction in its funding of \$1.26 billion for fiscal year 2012

The legislation's report encourages the "Joint Strike Fighter Team to review processes and oversight of concurrency changes and establish a process that will reduce the time it takes to discover a problem, develop a solution, and implement this solution to reduce future concurrency change costs."

The final fiscal year 2012 National Defense Authorization Act (NDAA) provides for "critical" needs during a "difficult" fiscal climate and "pragmatic modernizations" to the nation's aircraft fleet. **Though cuts to the defense budget will have a "profound effect on the defense industrial base," the bill will "adequately sustain critical assembly lines, shipyards, and manufacturing expertise that keep our wartime military properly equipped and supplied."** The measure will provide authorization for funding of \$8.5 billion for F-35 Joint Strike Fighter development and procurement for the Navy, Marine Corps, and Air Force, and \$2.1 billion for the MV-22 Ospreys for the Marine Corps.



Osprey funding continues...for now. Photo provided by U.S. Department of Defense.

The NDAA also clarifies the definition of "depot-level maintenance and repair" activities and revises requirements for core capability determination, establishment, and reporting to "ensure we continue to maintain a ready and controlled source of repair for equipment needed to support combatant command operations and contingency plans." **The bill also requires core depot-level maintenance requirements to be identified and incorporated into acquisition decision milestones, to "ensure that life-cycle sustainment planning is done early in weapon system development efforts."**

Washington, D.C. lobbyist Daniel Sheehan contributed to this report

F-35B's Probation Could End Soon...If Current Trends Continue and Testing Shows Progress

Senator McCain sponsored an amendment to the NDAA that requires the Secretary of Defense to submit a report on the status of the development of the F-35B...**Cassidy reports that Marine Corps aviation expects the F-35B to come off of probation in the next sixty days...**But McCain's report could cast the F-35B in a poor light...or demonstrate its strengths.

Senator Carl Levin (D-MI) stated that the Defense Authorization Bill puts the Lockheed Martin Corp. "on notice that we have lost patience with continued overruns, and are determined to protect the taxpayer from further cost increases, without unnecessarily jeopardizing the heavy investment that we have already made by prematurely terminating the program."

McCain explained that the bill calls on DoD to negotiate a fixed-price contract for the next production lot that:

- requires Lockheed Martin to assume an increased share of any cost overruns;
- requires a lower ceiling price than the contract for the previous lot required; and
- ensures shared responsibility for reasonable concurrency cost increases caused by overlap between production and development of the aircraft.

Our industry contact reports that this fixed-price contract approach is not significantly different from what has happened in the past, but will need to be monitored because of the political pressure.

Last-Minute Language Added to NDAA that Can Hurt FRC East

Lawmakers who have military depots in their states have long been protective of their workload, as private defense contractors have sought to capture more of it for themselves.

The NDAA contains language that was added at the last minute that may, according to many senators such as Senator Inhofe, "change how core depot workload is defined and executed at all (Defense Department) depots, shipyards and arsenals, as well as our industrial base."

Senator McCain, the top Republican on the Senate Armed Services Committee, said the NDAA gives the Defense secretary the power to waive the requirements that "core" work be done at military depots.

"Such a waiver could move significant amounts of depot work to the private sector," McCain said.

Though the defense bill does not scrap the law that generally requires military depots to get half of the work, it makes other changes that weren't clearly understood by the senators.

It was that uncertainty that frustrated senators who have been comfortable with how the current law is working.

Senator Carl Levin (D-MI), the chairman of the Senate Armed Services Committee, said the changes raise numerous questions that must be studied next year.

"We will then take action to repeal or modify anything that needs to be repealed or modified in these provisions during our consideration of next year's" defense bill, Levin said.

In the meantime, Levin said, the Defense Department should "make as little change as possible in the status quo with regard to these functions during the next year."

BRAC Possibility Looms

Reports from insiders indicate that the President may request a base realignment process as part of his fiscal year 2013 DoD budget. This would begin the Congressional process for implementing BRAC. This could result in a BRAC as early as 2015.

MCAS Cherry Point and FRC East Economic Impact: What is at stake. Table provided by MCAS Cherry Point.

FY10 ECONOMIC IMPACT SUMMARY
Including Tenant Command & Additional FY10 Economic Impact Data

SALARIES	
MILITARY	
ACTIVE	\$336,236,239
RETIRED	\$140,652,000
CIVILIAN	
APPROPRIATED	\$402,505,140
NON-APPROPRIATED	\$17,138,512
RETIRED	\$143,317,632
PROCUREMENT	\$410,152,955
CONSTRUCTION, MAINTENANCE & SERVICE CONTRACTS	\$182,764,520
UTILITIES	\$15,642,715
EDUCATION, TRAINING & TRAVEL	\$19,782,398
HEALTH & MEDICAL	\$61,722,511
CONTRIBUTIONS	\$2,942,657
CONCESSIONAIRE REVENUE OPPORTUNITIES	\$9,283,858
	\$1,742,141,137 *

Summary total is comprised of the MCIEAST reported impact for Cherry Point of \$1,379,516,892 plus the Tenant Command & Additional FY10 Impact of \$362,624,245.

What Can You Do?

Regional leaders and citizens are essential members of our effort to support and defend Cherry Point. You should write members of North Carolina’s Congressional delegation and tell them to fight for the F-35B and FRC East. Direct, personal contacts with them would be welcome, too. You also should let your local county commissioners, mayors, and council members, as well as North Carolina House and Senate members, know that they should become engaged on this issue. Local civic organizations and clubs should also express their concern and support for Cherry Point

through resolutions that can be shared with our Congressional delegation.

Please contact James W. “Jamie” Norment, local counsel, jwn@wardandsmith.com, 252-672-5453 or Jim Davis, Craven County Economic Developer, at edc@yescraven.com or 252-633-5300, for more information about how you can participate in our efforts.

Several regional stakeholders make this report possible. These stakeholders include the Craven County Board of Commissioners, Craven County Economic Development Commission, North Carolina Department of Commerce, the Military Support Coalition, and Allies for Cherry Point’s Tomorrow. However, this report contains the independent analysis of Cassidy and Associates and Ward and Smith, P.A. The authors are solely responsible for the content of this report. The authors do not speak for any Department of Defense official and do not necessarily represent the official positions of any government entity or civic organization.

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