



United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-272637

February 28, 1997

The Honorable William S. Cohen
The Secretary of Defense

Dear Mr. Secretary:

We are terminating our assignment regarding the Air Force's F-22 advanced tactical fighter program in view of the Air Force's December 1996 decision to restructure the F-22 program. That decision rendered moot many of the issues on which we had planned to report. There remain, however, three issues that we would like to bring to your attention. They involve the inflation rates the Department of Defense (DOD) directed the Air Force to use to estimate the cost of the F-22 program, the requirement for two-seat F-22s for training, and the plan to buy 70 F-22s during the low-rate initial production phase.

HIGHER INFLATION RATES SIGNIFICANTLY
INCREASE ESTIMATED COST

For budgeting purposes, DOD directed the Air Force to use inflation indices that may cause an understatement of the estimated cost of the F-22 program. DOD required the Air Force to assume an inflation rate of about 2.2 percent per year for all years after 1996. The Air Force, however, in estimating the most probable cost of the F-22 program, used an estimated inflation rate of 3.2 percent. Increasing the inflation rate from 2.2 percent to 3.2 percent for the production program prior to its restructuring would have added about \$4 billion to its estimated cost. Moreover, the higher inflation indices could have significant budgetary implications for more than the F-22 program. We are concerned that the use of the 2.2 percent rate on all defense acquisition programs could cause a substantial understatement of funding requirements. We issued a report in

GAO/NSIAD-97-100R F-22 Restructuring

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December 1996¹ that discusses the overall impact of inflation indices on the defense budget.

REQUIREMENT FOR TWO-SEATER EXISTS
BUT FUNDING HAS BEEN DEFERRED

For a number of years, the F-22 program has included a requirement to develop and produce some aircraft in a two-seat configuration for training crews. However, to reduce funding requirements, the activities to develop and produce 42 aircraft in a two-seat configuration have been deferred and the applicable costs deleted from the estimated total cost of the program. The 42 aircraft are now planned to be delivered in a single-seat configuration. It is unclear why funding for the two-seat configuration was deleted when activities to develop and produce the two-seat configuration have merely been deferred. Moreover, the Defense Appropriation Act for fiscal year 1997 required the Air Force to make available at least \$1 million to assess the budgetary, cost, technical, operational, training, and safety issues associated with a decision to eliminate development of the two-seat aircraft. If a decision is made to go forward with development and production of the two-seat F-22, the estimated total cost of the program will increase by over \$500 million.

QUANTITIES PLANNED FOR LOW-RATE INITIAL
PRODUCTION HAVE NOT BEEN EXPLAINED

The Air Force's F-22 restructuring plan calls for buying 70 F-22 aircraft during the low-rate initial production (LRIP) phase of the program. This represents about 16 percent of the total planned production quantity. For programs entering the engineering and manufacturing phase after 1994, 10 U.S.C. 2400 requires the Secretary of Defense to explain to the Congress why any planned LRIP quantities need to exceed 10 percent of the procurement quantity. Although this provision of 10 U.S.C. 2400 is not retroactive to the F-22 program because the program entered that phase in 1991, the restructuring of the program is closely related to the issues that culminated in that legislation. Also, we issued a report in February 1997² recommending that the Secretary of Defense revise DOD's weapon acquisition policies to require that (1) annual quantities of weapons bought during LRIP be limited to the minimum necessary

¹Future Years Defense Program: Lower Inflation Outlook Was Most Significant Change From 1996 to 1997 Program (GAO/NSIAD-97-36, Dec. 12, 1996).

²Weapons Acquisition: Better Use of Limited DOD Acquisition Funding Would Reduce Costs (GAO/NSIAD-97-23, Feb. 13, 1997).

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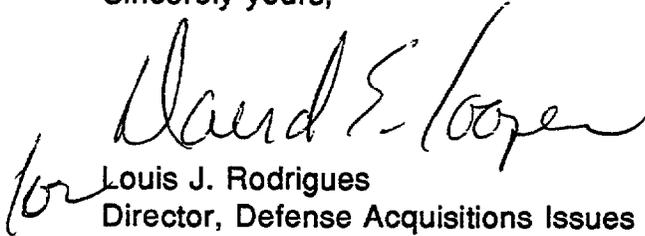
to complete initial operational testing and evaluation and prove the production line and (2) rates and quantities not be increased during low-rate production to ease the transition into full-rate production unless DOD clearly establishes that the increase is critical to achieving efficient, realistic, and affordable full production rates and can be accomplished without affecting the efficient production of proven systems. Accordingly, it would seem appropriate to provide Congress an explanation of the rationale for buying 16 percent of the total planned production of F-22s under LRIP. Providing such an explanation would demonstrate DOD's intent to comply with the spirit of the law.

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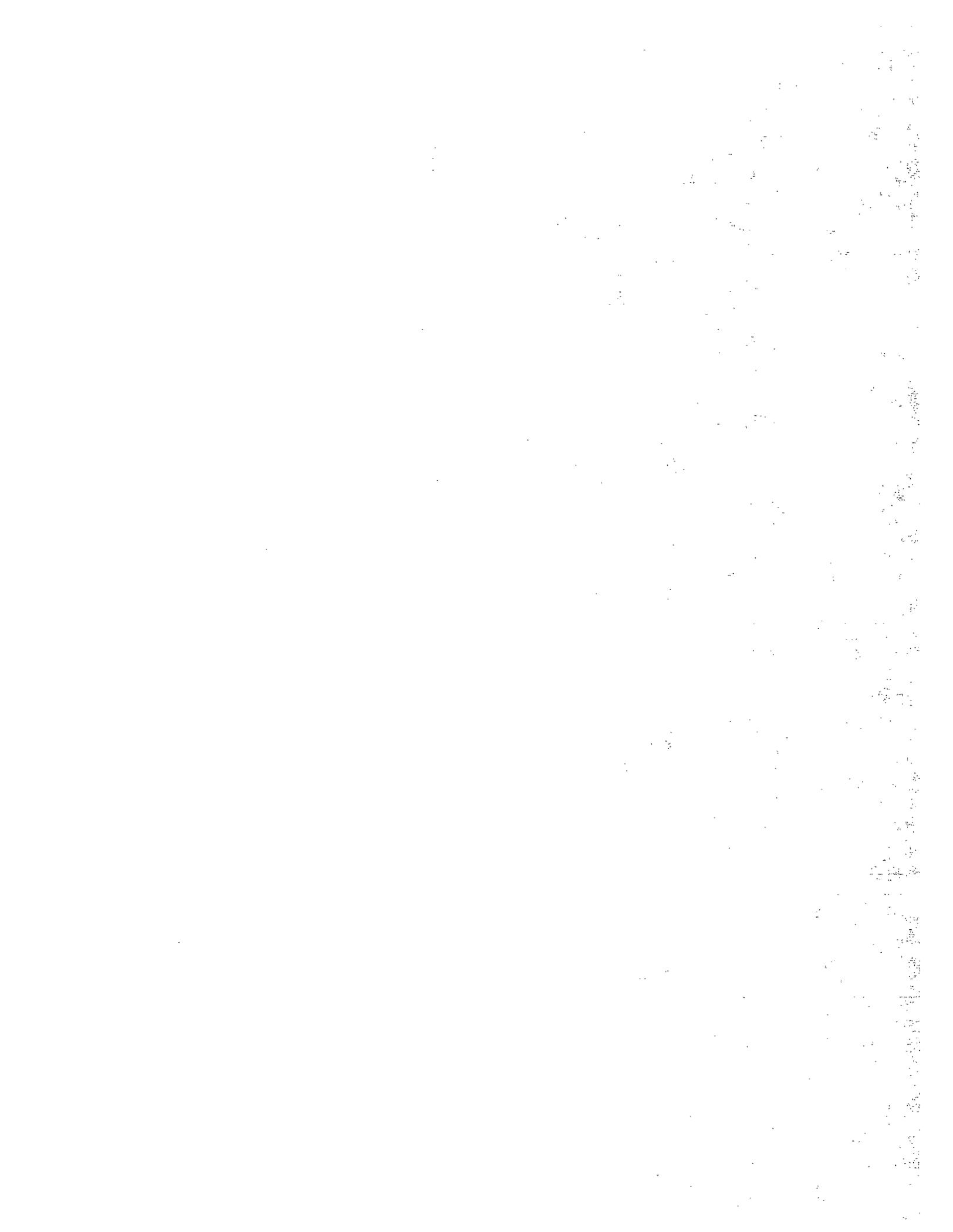
We would appreciate your response to the issues discussed in this letter within 30 days. A copy of this letter is being sent to the Secretary of the Air Force, the congressional defense and budget committees, and Members of Congress who have specifically requested reports concerning tactical aircraft.

Although we are terminating the assignment, we plan to continue monitoring the program and the restructuring activities. We will advise you of our plans for monitoring them as they develop. Please contact me on (202) 512-4841 if you have any questions or concerns about this letter.

Sincerely yours,


for Louis J. Rodrigues
Director, Defense Acquisitions Issues

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