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U.S. Air Force Officials Hold News Briefing on the Air Force's F.Y. 2015 Budget

LIST OF SPEAKERS

MARTIN:

Good afternoon. I'm Major General Jim Martin, Air Force Director of Budget. And it's my pleasure to brief you on the Air Force's fiscal year 2015 president's budget.

Next slide, please.

Over the next 25 minutes, this is what I plan to cover. We'll start with the clear vision we've received from our senior leadership on what this budget should accomplish. Then we'll discuss the guiding principles used to support the Department of Defense guidance and combatant commander requirements.

Then we'll look across the five-year defense plan and illustrate the difference of operating at the president's budget versus sequestration limitations.

Then I'll provide the highlights of the F.Y. '15 budget and I'll walk you through each appropriation.

Finally, we'll show you areas where the Air Force would invest if additional funding was appropriated under the president's opportunity growth and security (INAUDIBLE).

Next slide.

As I mentioned, our senior leadership provide the clear vision and direction to what our F.Y. '15 president's budget should accomplish. Simply put, we must align the resources to build the most capable Air Force ready for a high-end threat that is affordable in 2023 and to achieve this, we must make every dollar count.

We must seek to maximize savings and leverage opportunities to rebalance personnel and a force structure across the total force, active Guard and

reserve, while still preserving capability. And we do this by leverage the unique attributes of our total force.

However, our challenge in a constrained funding environment is to maintain the balance between having a ready force today and a modern force tomorrow.

And we attempted to strike that balance by using a very deliberate process which stayed focused on Defense guidance and funding constraints because without consideration of both, our plans would be unrealistic and unexecutable.

Next slide.

As you can see clearly, this was no easy task. And we were forced to make some very difficult choices in this budget. But as I mentioned throughout every step of the process, we worked very hard to make every dollar count so we could protect the minimum capabilities for today's warfighting efforts while also investing in the capabilities needed to defeat potential high-end threats of the future.

This was the focus of our 2023 framework which reserves capabilities that make the Air Force unique with innovate airmen who are highly trained, well equipped and ready to deliver those core missions our combatant commanders have expected since our inception in 1947.

Therefore, when we built our budget, we took a bold but realistic approach based on the guiding principles you see on the slide. First, we must remain ready across the full spectrum of operations by providing our airmen with the training and equipment required to win the fight tonight and the fight tomorrow.

Due to funding constraints, when forced to cut capabilities or what we call the tooth, we must also cut the associated support structure and overhead or what we call the tail.

As we get smaller, we will continue to maximize the contribution of the total force, active duty Guard and reserve, weigh not only costs but also operational impacts.

And as I stated before, we will remain focused on the unique capabilities the Air Force provides the joint force, especially when faced with the full-spectrum high-end threat.

Again, we stayed focused on these guiding principles throughout the process so we can make every dollar count.

Next slide.

This slide highlights some of the difficult choices that we had to make and how we attempted to strike that delicate balance between a ready force today and a modern force tomorrow, while also recovering from last year's sequestration impacts.

So to strike that balance, we did several things. First, we continued to seek efficiencies and cut overhead. We reduced management headquarters and consolidated activities to achieved a 20 percent savings.

We supported military compensation recommendations and will reinvest those savings back into readiness so our airmen have the resources to remain the best trained and the best equipped Air Force in the world.

To prevent deeper cuts to readiness and personnel, we had to fund military construction facilities sustainment and installation support at minimum levels. And we will also continue to put limitations on TDYs and contract services.

Second, we will attempt to balance capability, capacity, and readiness. Although a difficult choice, we divested entire fleets, such as the A-10 and the U-2 and focused on global, long range, and multi-row capabilities, especially those that can operate in contested environments. We did this because divesting entire fleets saves billions versus millions, and because it allows us to not only divest the aircraft, but also the fixed costs associated with infrastructure, logistics, personnel, and base operating support.

However, these tough choices were still not enough to save billions needed to live within current and future funding constraints, so we also had to reduce some tactical fighters, command and control, electronic attack, and inter-theater airlift assets.

We also favored funding new capabilities over upgrading legacy equipment. Since 1990, our aircraft inventories have decreased from approximately 9,000 to approximately 5,000, and our average aircraft age has increased to 27 years. So, as our current fleet continues to get older and smaller, potential adversaries are investing in new technology. That's why our top three acquisition priorities remain the KC-46 (ph), the F-35, and the long range strike bomber.

Bottom line: as we transition from combat operations in Afghanistan, we will keep no more force structure than we can afford to keep ready. Tough choices were necessary to absorb billions of dollars in funding reductions, while also maintaining the balance of readiness today, and investing in platforms that can deliver rapid, global, and multi-row capabilities against potential high-end threats of the future.

Next slide. Before I begin with the F.Y. '15 highlights, I believe it's important that we review last year's sequestration impacts and our current F.Y. '14 execution plan with the recent passage of the bipartisan budget act. Just a year ago, in F.Y. '13, we were living with the drastic impacts of sequestration. We stood down approximately one-third of our active duty fighter and bomber units for more than three months. We initiated civilian furloughs, putting extreme stress on our civilian airmen, who had not seen a pay raise for three years. We limited facility repairs to emergency only, and delayed critical weapon system sustainment requirements, which included aircraft overhauls and engine repairs.

With congressional help, the Air Force was able to realign \$1.7 billion back into operating accounts. This allowed us to cover our overseas contingency requirements and resume flying operations, but the budget realignment came at the expense of future modernization. Of the flying units affected by the F.Y. '13 sequestration, only about 50 percent have returned to pre-sequestration readiness levels. And after deferring well over \$1 billion out of weapon system sustainment and facility maintenance, it will take several years of full funding to eliminate the backlogs.

Certainly, a second year of sequestration would have been devastating to our Air Force, so we appreciate the temporary relief the bipartisan budget act provides. Modest relief in F.Y. '14 or '15 does put us on a gradual path to readiness recovery. It allows us to fund flying hours and weapon system sustainment to near the original F.Y. '14 P.B. request, which provides some stability to our civilian airmen, avoids the need for furloughs, and offers limited relief for civilian hiring freezes.

The appropriation also shields our highest recapitalization programs, sustains multi-year procurement contracts, and keeps munition programs at minimum sustainment rates. It also provides some funding to support force management actions needed to achieve personnel reductions in savings in F.Y. '15.

As you can see, the bipartisan budget act does provide some relief from sequestration in F.Y. '14 and '15, but we are still more than \$8 billion below our original F.Y. '15 planning number. So, in this request, we've identified \$7 billion for additional requirements in the readiness, munitions, aircraft procurement, modifications, as well as funding to reduce the backlog in need of facility repairs. All of these are included as part of the president's opportunity, growth, and security initiative.

Next slide. So, as you can see from the previous slide, even with modest relief from sequestration, it could make a difference in capability. So the purpose of this slide is to show that comparison through the Five Year Defense Plan.

To do that, I'll draw your attention to the blue line on the chart. It shows the projected Air Force funding in our president's budget submission. The red line at the bottom shows the estimated funding at sequestration limits.

What's really important on this chart is the gap between the blue and the red lines. That gap represents lost Air Force capability if forced within sequestration limits.

The boxes at the bottom provide the comparison and the narrative. The blue box shows what we had to do and what we can do under the president's budget submission to meet minimum capability requirements. And the red box highlights the drastic actions required under sequestration.

As I mentioned earlier, the Bipartisan Budget Act didn't solve all our problems. And we still have significant shortfalls in several readiness areas, but it did prevent drastic actions and allows a gradual path to readiness recovery.

Just like F.Y. '14, the relief in '15 allows us to fund flying hours, critical weapons systems sustainment requirements and support readiness components such as flag exercises, rain support, simulators and weapons schools to support high end full spectrum training. It preserves our top re-capitalization and multi-year procurement programs, and invests in the next generation of fighter training and space capabilities. It also accelerates the recovery of munitions inventory levels.

However, when we look beyond F.Y. '15, and examine funding at sequestration levels, our biggest challenge remains how to pay the bill and still support national defense requirements now and in the future. So to pay the bill, we had to make more difficult choices and we were forced to cut -- if -- if at sequestration levels, we would be forced to cut the -- the entire KC-10 tanker

and Global Hawk Block 40 fleets, sacrificing our current tanker and ISR capability.

We would be unable to shield or protect our top three re-capitalization programs, such as the F-35. We would also be forced to take cuts in ranges and maintenance programs preventing efforts to return to adequate readiness levels.

So the bottom line: The president's budget submission provides some relief, but we still had to make tough choices and shortfalls still remain. But, under sequestration, we would have to take drastic actions resulting in an Air Force that's less ready, less capable, less viable and most notably unable to execute the defense strategy.

Next slide.

Now, we'll move on to the details of our F.Y. '15 president's budget.

Which I'll -- it appears that the information is not on the chart, so I'll direct you to the handouts that you have.

So when you look at the handouts, you'll see there's a lot of information on this chart. So before I walk you through the information let me give you the bottom line up front.

When forced to take large, immediate cuts to our budget there's only a few places where you can go to absorb large reductions. Without sufficient time to reduce capacity and infrastructure of personnel force structure, we simply can't avoid cuts to readiness or future capability.

Now, let me walk you through the chart.

The bar on the left represents our total Air Force budget. The top block is what we refer to as non-blue, which is the portion of the Air Force budget that is not directly under our control, that (sic) managed by other departments or agencies.

The remainder of the budget, or Air Force blue budget, is our focus for today's brief.

In the bracketed area, you see that -- you'll see the Air Force blue budget for F.Y. '15 which is \$109.3 billion or roughly 22 percent of the DOD budget.

Now, I'll draw your attention to the pie charts in the red outlined section. Of the \$209.3 billion Air Force blue budget, approximately \$73.4 billion, or 67 percent, supports day-to-day operations at our bases around the world.

These requirements include, military and civilian pay, which make up 55 percent of day to day operating costs; flying hours, weapon systems sustainment and match (ph) comm (ph) readiness funding is 48 percent. Facility requirements and installation support represent the remaining 7 percent of the total day-to-day operating cost.

The gray boxes at the bottom highlight our top procurement and RDT&E programs. These top programs total \$19.6 billion, or about 57 percent of our investment accounts.

So hopefully you can see that the largest portions of our budget are in people, readiness and future capability.

So without sufficient time to reduce capacity, large and immediate reductions will have drastic impacts on these programs.

Now, let's look at each appropriation, starting with military personnel.

The F.Y. '15 military personnel budget request supports a total force end-strength of approximately 483,000. The balance -- it balances the total force mix of active, Reserve and Guard components necessary to perform the Air Force core missions.

However, as budgets come down and personnel costs continue to rise, the Air Force simply has to get smaller. Reducing our headquarters overhead, eliminating force structure and rebalancing crew ratios will result in as much as 25,000 airmen over the five year defense plan.

This is a reduction of approximately 18,800 for the active duty, 3,800 for the Reserves, and approximately 1,800 for the Air National Guard.

Realignment efforts will also reduce Air Force headquarters funding by 20 percent in F.Y. '15, and our combatant commands will reach that same 20 percent goal by F.Y. '19.

As you can see, our plan is very aggressive. So we can achieve savings early in the process and reinvest those savings back into readiness and modernization.

In F.Y. '14 and '15, we are implementing a full range of force management actions designed to bring faces down to be within the range that end-strength

requirements. We'll use voluntary incentive programs for separation and retirement first, and then involuntary measures only as needed to achieve the authorized end-strength.

As mentioned, our budget request also includes DOD's proposed military compensation reforms. Again, another very tough choice to prevent deeper cuts to readiness and investments in future capabilities.

But that being said, our people remain our most important asset. And, as General Welch (ph) has said on many occasions, we are lucky enough to have men and women who take great pride in serving their country. They love what they do. And Secretary James has made it very clear that people are our number one priority.

Therefore, we will reinvest compensation savings back into programs which will provide our airmen the equipment and training that allows them to be their very best now and in the future.

Certainly, pay and benefits will remain an important part of that equation. So we will continue to review compensation to provide our airmen with the pay and benefits that values their service and sacrifice.

Next slide.

As stated, our airmen, both military and civilian, are what makes our Air Force successful. Now and in the future, we want our all-volunteer force to be ready across the full spectrum of operations.

So in the operations and maintenance account, we've focused limited resources on the readiness and the key people programs.

As I mentioned, the bipartisan budget act certainly provided some relief to our near-term readiness concerns for F.Y. '15. However, the road to readiness recovery is not a short-term fix and will take years to fully rebuild.

To return to full-spectrum readiness, the Air Force must manage personnel and OPSTEMPO as well as fund all the necessary readiness components, such as flying hours, weapons system sustainment, ranges, simulators and training.

So this budget request attempts to do just that, by funding all executable flying hours to capacity. That's 1.2 million hours for active, Guard and Reserve.

It also restores to our Ph.D. level warfighter programs, such as Red Flag -- such as Red Flag exercises and advance weapons schools, and funds critical weapons system sustainment requirements.

Again, all of these are critical components to achieve full- spectrum readiness.

The request also supports ISR requirements for a search capability of 71 cats (ph) by the end of the five-year defense plan.

The request also funds our most critical space and cyber capabilities and sustains the nuclear enterprise operations with full funding for ICBMs and the B-2 and the B-52 fleets.

Our funding for people programs provides some stability to our civilian personnel program, while still achieving savings associated with the 20 percent headquarters management reduction.

Additionally, we added billets and fully funded the sexual assault, prevention and response program. We also supported our core airmen programs, child care, fitness center and food services. But we will look to reduce our appropriated fund support to other NWR (ph) accounts.

And unfortunately, we will continue to put stress on facility sustainment and installation support, funding those programs at minimum levels.

Next slide.

The military construction, military family housing and base realignment and closure budget request is funded at minimum levels, again, necessary to absorb funding reductions and minimize the impact to readiness accounts. So the F.Y. '15 MILCON budget, the only resources are highest priority requirements.

Approximately 50 percent will go to honor our commitment to the combatant commanders, for the U.S. Strategic Command headquarters project, U.S. Cyber Command Joint Operations Center, and the Joint Intelligence Analysis Complex. We also fund Asia-Pacific projects by allocating \$77 million for the fuel cell maintenance hangar, combat communications facility, Red Horse logistics and satellite fire station projects. All of these are located in Guam.

Funding will also support new mission bed-downs for our most important procurement programs -- the KC-46, the F-35 and the F-22. Additionally, we funded projects for the Guard and Reserve components critical for remotely

piloted aircraft and KC-46 bed-downs, as well as KC-135 operations. Finally, we are able to fund one dormitory project at Hanscom.

But critical requirements still remain, and again, they are highlighted in our request for additional funding at the end of this brief.

Next slide.

As mentioned, we prioritize funding new capabilities over upgrading legacy equipment. So in our RDT&E appropriation, we invested in the capabilities needed to defeat potential future high- end threats. Therefore, we preserved efforts for the KC-46, F-35 and long-range strike bomber programs, while reducing or deferring investments in other areas of the portfolio.

The \$16 billion included in this request allows us to sustain the design and developmental efforts for the long-range strike bomber; maintain developmental and operational testing for the F-35 Block 2-B and 3-F modifications; and continues development and test efforts to support KC-46 first flight in June of this year.

To ensure we maintain our advantage in technology, we minimize reductions to S&T and T&E to keep those activities on track. This budget also begins efforts for the next generation JSTARS aircraft, and we expect that future replacements to provide more operational capability, advanced radars, and communications, but with lower operating costs.

We also included funding for Global Hawk sensor upgrades and have allocated funding to replace our 40- and 50-year-old T-38 (inaudible). (inaudible) to provide all student pilots a trainer that better -- that allows better transition to our more advanced aircraft.

Next slide.

The \$18.5 billion procurement budget allows us to preserve production ramps for our top acquisition programs, sustain our approved efficient space procurement strategy, and keep our munition procurement inventory consistent with planning levels. As you can see, there was an increase in the appropriation from F.Y. '14 to F.Y. '15. This is mainly due to the maturing of the KC-46 program, which includes a first production lot of seven tanker aircraft.

In F.Y. '15, we will buy 26 F-35s and our ramp will continue to grow to 60 aircraft per year by F.Y. '18. As part of the C-130 multi- year procurement program, we buy 13 C-130 variants; seven C-130Js in support of global

mobility; four 8C-130s in support of personnel recovery; and two MC-130s in support of special operations.

We are also able to redistribute contract savings from our recently awarded ELV contract to help address some of our critical requirements.

MARTIN:

Also, this budget allows us to sustain our approved efficient space procurement strategy currently employed on our AHF (ph) and CBRS (ph) programs.

We also managed to keep our munitions levels consistent with years past. And although we met minimum sustainment rates to keep costs -- unit costs under control, we're concerned that our inventory levels remain low. So, with additional funding, we will raise those inventory levels to sustain current and future requirements.

Lastly, this budget allocates funding to fit out the STRATCOM (ph) headquarters and also support our C-2 capability for network infrastructure.

Next slide. This chart shows the planned procurement quantities of our major acquisition programs, and illustrates our commitment to recapitalizing our air and space superiority assets. And as I discussed earlier, the bipartisan budget act provided us much-needed relief, and put us on a gradual path to readiness recovery. But there are still many unfunded executable requirements that are critical to Air Force capabilities now and into the future.

Next slide. The capability shortfalls that I've mentioned throughout this brief are highlighted here as part of the president's opportunity, growth, and security initiative. If additional funding was to recede, we would invest in the categories you see on this slide. In our readiness accounts, we would seek additional funding for training, ranges, vehicle support, and munitions: all necessary to maintain an adequate readiness posture.

We had also -- we would also accelerate recapitalization efforts for F-35s, MQ-9s, and C-130s. And we would also fund deferred aircraft modifications for our legacy aircraft, and upgrades to our more advanced platforms. Last, but not least, we would invest in reducing the enormous backlog of facility requirements across our Air Force.

And so, these programs total \$7 billion and represent some of the areas where we made tough choices. These requirements are ready to execute, and

with additional funding, it would certainly help us recover from sequestration and accelerate efforts to improve readiness.

Next slide. As I said in the beginning, the objective of our F.Y. '15 budget request was made very clear. We must build the most capable Air Force, ready for a high-end threat that is affordable in 2023. Our budget submission attempts to do just that. And throughout every step of the process, we work very hard to make every dollar count, focusing on readiness today and capabilities needed to defeat a high end threat in 2023. As I mentioned, as we look past F.Y. '15 at sequestration levels, we will not be able to fund all the capabilities needed to perform the missions our nation and our combatant commanders expect.

However, with some relief of sequestration, this president's budget will help preserve capabilities needed for today's fight and allow our airmen to serve in an Air Force that is ready, modern, and lethal against potential threats in the future.

Next slide. That concludes my briefing, so now I'll open it up for questions. By the way, you can find more information about our budget by clicking on that QR code. Today it will include this briefing, as well as our budget overview book, and later it will be populated with our justification materials.

QUESTION:

(inaudible) can you give us some detailed numbers on the J-STARs and T.X. (ph) programs? You're also a weather satellite follow-on program, and I know you're going to do a space briefing later tomorrow, or whatever, but just if you could sort of walk us through the decision on the AEHF seven and eight (ph) and the deferral, just to give us straight highlights to it.

MARTIN:

That's quite a few questions in one.

QUESTION:

I know, right?

MARTIN:

OK. Well, let me start -- let me start with the T.X., OK? Like I said, it does put funding in this budget for the T.X., and about \$600 million over the fidef (ph) and so that program will probably start in F.Y. '17, and as I mentioned, it replaces our 40 - 50 year old air -- T-38 fleet, provides more advanced pilot training, so that our pilots can transition to our more advanced aircraft.

QUESTION:

When you say it's (inaudible) start in 2017, you mean there will be a contract awarded in 2017?

MARTIN:

Right. Yes, that's correct. Mm-hmm.

QUESTION:

So, when do you expect to launch, like, an RFP and all of that?

MARTIN:

Well, I don't have that information. So, T.X. was first. OK? J-STARS. OK. Funding for J-STARS in F.Y. '15 is about \$100 million and it -- and about \$2.4 billion over the FYDP is what's in that program. And, again, it begins the transition, so.

QUESTION:

And then the satellite programs?

MARTIN:

OK. The satellite programs? OK. And you were asking for AHF?

QUESTION:

Right. You're starting a new weather satellite follow-ons...

MARTIN:

Yes.

QUESTION:

... and then you're -- but you're canceling the seven (ph) and eight (ph)?

MARTIN:

Right, that's correct. So I need to get you more information on the weather satellite follow-on question.

QUESTION:

(INAUDIBLE)

(CROSSTALK)

QUESTION:

Can you say that again?

MARTIN:

Five hundred million across the FYDP.

OK?

We'll go to somebody in the back. There you go.

QUESTION:

Oh...

MARTIN:

Yes, you.

QUESTION:

OK. The funding request doesn't include funds for the F-16 CAPES program, and I wonder if the Air Force is planning to invest in smaller scale, more affordable upgrades to the platform, or if those are just going away?

MARTIN:

Well, you know, as I mentioned, one of the very tough trade-offs that we had to make in this budget is, you know, we favored buying new capability over upgrading legacy equipment.

And the F-16 CAPES program is of those programs where we took some risk. But we do have money in the budget to handle some key modification programs for our legacy equipment so we can keep it ready.

But the F-16 CAPES program is one program that we decided not to fund.

QUESTION:

(INAUDIBLE) one of those key modernizations that are included in the budget that are related to the F-16 specifically?

MARTIN:

OK. Well, let me give you a list -- what I'll do is afterwards we'll give you a list of those modifications as well as some other modifications for other legacy equipment.

But, again, if you look at our requests for the Opportunity, Growth, and Security Initiative, some of the modifications for our legacy aircraft are included in that. OK?

Yes.

QUESTION:

But not the CAPES?

MARTIN:

Not the CAPEs, no.

QUESTION:

Can you tell us about the A-10? There is a re-winging program under way. What happens to that? Does it stop or does it phase out? And what does it cost you to terminate it?

MARTIN:

Well, that's part of the overall savings for the A-10. That's part of the A-10 divestiture that will save us about \$3.7 billion over the five-year defense plan. And it's part of the wing replacement program, that program is 500 million, so that would be on top of the 3.7.

QUESTION:

So it's not part of it, it's on top of it.

MARTIN:

It's on top of it, yes.

QUESTION:

And do you -- are A-10s the only fighters that are being taken out, or are there others as well?

MARTIN:

As I mentioned, in fact, if you'll go back to the "Tough Choices" slide...

QUESTION:

(INAUDIBLE) fighters?

MARTIN:

Yes. Note we are taking out additional fighters: F- 15Cs.

QUESTION:

Taking them all out now?

MARTIN:

No, just -- if you'll remember, when I talked about "Tough Choices," we talked about fleet divestitures, which are the A- 10 and the U-2s. Then we talked about having to reduce some of our fleets.

And we talked about tactical fighters. And so we do reduce F- 15Cs by 51. And that leaves us about 172 left.

QUESTION:

Any other aircraft, F-16s?

MARTIN:

No F-16s.

QUESTION:

So in the (INAUDIBLE) category, it's A-10s and F-15Cs?

MARTIN:

Correct.

Yes?

QUESTION:

Hi, Colin Clark, Breaking Defense. The two F-35As in the OGSI, why are they there? And essentially what's the rationale for placing them there instead of in the regular budget?

MARTIN:

Well, you know, as I mentioned, we're buying 26 F-35s. We bought 19 in FY14, 26 in this budget. And then we ramp to 60, you know, by FY18.

As part -- again, we talked about "Tough Choices." And when you have to save billions in your budget, this is one area that we had to reduce the quantity down by two so that we could essentially balance the books.

Well, actually, there were four that were reduced from 30 down to 26. Two were due to congressional marks for advanced procurement, and then we decided to take two out of the bunch ourselves. OK?

Lot of hands up. I'll pick you.

QUESTION:

(INAUDIBLE) with Inside Defense. Sir, we need you to say on the rescue helicopter, CRH, not funded in this budget?

MARTIN:

Actually, breaking news, we have made a decision to fund the CRH. So there is money in F.Y. '14, and so the CRH is now funded. And more details on that announcement will come out later today.

QUESTION:

(OFF-MIKE)...

QUESTION:

When was this decision made?

MARTIN:

It was made today.

(LAUGHTER)

MARTIN:

In fact, I was informed of the decision before I walked no here.

QUESTION:

Can you comment on how much money's gonna be in the F.Y. '15 budget for CRH?

MARTIN:

Well, actually in F.Y. '15 there is no money in the budget, but there's enough money in F.Y. '14 that will allow us to carry us through F.Y. '15.

QUESTION:

Sir, could you just (inaudible) why now is the right time to start funding KC-46 procurement and whether the Air Force is concerned if they're -- it's introducing concurrency between development and production here (inaudible)?

MARTIN:

Well, you know, the tanker -- you know, the tanker fleet is an important part of Air Force capability. So some of those unique capabilities that provide -- and with the KC-10 fleet, with this age and with, you know, the commercial version of the KC-10s coming down it's -- it's harder to sustain those aging platforms.

So we decide is (sic) to make sure that we keep the KC-46 program on track so we have that capability that are combatant commander expect.

QUESTION:

Thanks. Meagan (inaudible) Defense Daily.

On the procurement accounts. So it looks like the Air Force is going up about \$2 billion compared to F.Y. '14. Army and Navy both decreased by \$1 billion and \$3 billion. I'm wondering if that's a reflection of OSB priorities in some of your major acquisition programs, or if that was a -- you know, a decision that the Air Force made to prioritize procurement over other types of spending?

MARTIN:

Right, well it -- again it does fit with our theme of buying -- re-capitalizing our force over upgrading legacy equipment, but the big change in our procurement account was really those seven KC-46s that we bought in F.Y. '15.

QUESTION:

(OFF-MIKE) from Inside Defense.

Could you just talk to me a little bit about the Block 30 Global Hawks now (inaudible). So there's no money to procure any more Block 30 Global Hawks. The U2 is slated for (inaudible) in 2016. And, any sort of transfer of the sensors could take quite a few years, so what's going to take over that high altitude ISR mission?

MARTIN:

Well, the Global Hawk Block 40 will do that as, you know, we -- we talked about that program. You're right, we will divest the U2s beginning in F.Y. '16, but we've invested \$500 million for the sensor upgrades.

And so, we invest in the sensor upgrades and we're also trying to transfer those U2 sensors from the U2 to the Global Hawk Block 30 so we can maintain that capability.

But we'll leverage the -- the Block 30s and the other ISR capabilities so we can meet combatant commander requirements.

QUESTION:

(OFF-MIKE) I was wondering if you could tell us more about the new money for next generation engine? How will that be spent? Do you see a competition coming, or will it feed into existing efforts?

MARTIN:

Well, it's about -- I think it's about \$1.4 billion that we have in -- in the -- and again, it starts the -- it starts the process of looking at that new engine, which we have said that of course will be much more fuel efficient, and we'll also give us increased capability.

So just starting that process right now, with that timing.

But that -- that is one of the programs, if we have to go back to sequestration levels, we'll be at risk.

QUESTION:

Question on the personnel front.

The Air Force has been saying since around last September that, if -- if sequester -- sequestration continues, you have to cut 25,000 over five years. But then the -- the limited sequester relief came in and the 25,000 over five years is still -- still on the table.

Did the Air Force consider using some of that sequester relief to mitigate some of those cuts? And, why not?

MARTIN:

No, I mean, because, you know, again when I showed the chart, that didn't really show up here on the screen, you know, highlighted portions of our budget. And, we realized as we've moved forward under severe funding constraints that we have to get smaller.

So that was a decision that we tied to force structure reductions, headquarters management reductions. So again, it was all tied to something, some capability that was going to go away in order to make sure that we protect near term readiness and also invest in the future.

(UNKNOWN)

Sir, we've got time for just one more.

MARTIN:

One more question.

Wow.

(LAUGHTER)

QUESTION:

Aaron (inaudible) Defense News.

Just one or two follow ups to questions that have been asked.

The first is on the F-16 case program. Obviously, there's an international partner involved who will be directly affected by this. How does that factor into the decision?

My second follow-up is on the question about CRH. When you say that a decision has been made on it, does it mean a contract will be awarded shortly? Is there a date when it'll happen?

MARTIN:

On the CRH, a contract will be awarded this year, yes.

And then -- and on the F-16 CAPES, again, go back to a major theme. We had to save billions in this budget. And we made some very tough choices. We've made choices that we really didn't want to have to make but had to because of where we needed the reductions that we had to take.

The F-16 CAPES program was a tough decision. But certainly if we get feedback on capability lost, that's something every year we go through this deliberate process where we review capabilities and requirements to meet combatant commander requirements, also with international partners.

And that will -- could be a part of the equation as we move forward. But this fiscal year, that was one of the tough decisions that we had to make.

QUESTION:

It sounds like you're leaving the door open to maybe revisiting CAPES down the road.

Is that a fair assessment?

MARTIN:

I'm not saying that. I'm not saying that. I'm just saying that it was a very tough decision that we had to make this fiscal year. But every year we go through a process where we revalidate and reevaluate the capabilities that we need across the Air Force.

So if that requirement comes up as a capability that we need, then maybe we'll look at it again. But I'm not opening the door.

MODERATOR:

All right, thank you, everyone. If you have any other questions, feel free to (INAUDIBLE).

QUESTION:

CRH. You need to tell the --

(CROSSTALK)

CQ Transcriptions, March 4, 2014

List of Speakers

MAJOR GENERAL JIM MARTIN (USAF), AIR FORCE DIRECTOR OF BUDGET