

TALKING POINTS

VIRTUAL HILL CRAWL

FY 21 BUDGET: What is probability that budget will be passed by 1 October? What are the options being considered? Is the likely outcome a Continuing Resolution to begin the FY? What is the status of the NDAA for FY 21? With the significant increase in the federal deficit is it likely there will be a call for a reduction in the Defense Budget for FY 21?

General Response: Being an election year, there is a high likelihood we will see a Continuing Resolution.

Note: The remainder of our questions were answered by recent news.

COVID 19 IMPACTS: The Defense Industry is incurring additional costs to comply with the guidance being promulgated by the CDC and others, is there a plan that will allow the impacts being experienced by the companies to receive compensation? There is discussion about passage of a bill that will legislate payments to essential industry employees (HERO PAY), what is the status of this legislation? Will there be provisions to reimburse the impacted companies?

Discussion: This topic became more of an informative discussion where we expressed that the ship repair industry is being asked to submit REAs to recuperate our COVID-19 related costs. We explained to the legislative staff how the REA process typically works and that in many cases, small companies cannot afford to carry the burden of these COVID-19 related costs for years until their REA is processed and paid. We asked that the legislators consider our industry's position and advocate for appropriations to be made to pay our incurred COVID-19 related costs.

UPWARD OBLIGATIONS: The Navy has submitted a proposal on how to address the upward obligation issue, what is the status of that proposal being accepted?

Discussion: This topic became more of an informative discussion where we explained what upward obligations are. Specifically, we mentioned that currently \$4M is the amount of growth to a contract that the government is allowed to authorize without additional approval. We explained that because of years of deferred maintenance, more often than not, we exceed that threshold. When we do exceed the threshold, the time associated with receiving the approval for the additional work leads to ship availabilities not being completed on time. We then informed the staffers that \$10M-\$15M is where we're looking to see that threshold moved to. We asked our legislators to support this legislation when it comes to the hill.

RETENTION REDUCTIONS: Due to the COVID-19 crisis, the Navy has reduced retentions on ship repair contracts to 1% from 10% to ensure cash flow to the ship repair industry. What is the possibility to keeping the retention percentage below 10% once the crisis is over?

Discussion: This topic became more of an informative discussion where we discussed the Navy typically withholding the full 10% of the contract value that they're lawfully allowed to withhold. We mentioned that the reduction of the retention to 1% has significantly helped industry with cash flow issues and asked our legislators to support keeping them as close to 1% as possible when the discussion regarding increasing the retention % comes up.

GAO REPORT ON SHIP REPAIR: The GAO Report that was released recently gave an assessment of the MACMO contracts that the Navy is using. While the GAO has determined that there is cost savings, they were critical of the ability to deliver ships on time. Do you have any questions of industry about the ship maintenance process?

Discussion: This topic became more of an informative discussion where we explained the content of the GAO report to the legislative staff. We summarized the report by telling the legislative staff that the GAO concluded the Navy saved money by switching to the MACMO type contract, but they still aren't getting ships completed on time. We explained to the legislators that the Navy has some onus for delayed completion of ship availabilities and that we are looking for them to take a proactive approach to supporting on time completion of ship availabilities.

NAVAL BASE SAN DIEGO: Investment in the infrastructure at Naval Base San Diego is being made but more needs to be done. Pier 14, a new pier, would be a welcome addition to the installation as a maintenance pier. The number of ships to be homeported in San Diego is planned to go to 88, this is a significant increase and many of the new ships will be of the LCS class and these cannot be breasted out.

Discussion: This topic became more of an informative discussion where we explained what breasted out meant and why the LCS trimaran variants cannot support being breasted out. We explained that the appropriations for pier 14 @ NBSD seem to always fall at the bottom of the list and asked that they support prioritizing those appropriations if given the opportunity to.

WORKFORCE DEVELOPMENT: Building the workforce of the future for the ship repair and shipbuilding industry in San Diego is a significant need. Investment in vocational education is not a priority and with the adverse impact on the state budget due to COVID-19 there is a real need for federal investment in vocational training. There are over 20,000 disenfranchised youth in San Diego – this is a resource that cannot be ignored.

Discussion: This topic became more of an informative discussion where we explained the majority of the studies that have been done have concluded that the industrial base is already short-handed and that short-handedness is driving costs up. Reason being, the methods that are having to be employed to close the gaps between resources available and resources required are more costly. Things like overtime, borrowing labor from other shipyards, and temporary/seasonal labor all have additional costs associated with them.

Here in San Diego, industry has taken a proactive approach and modeled what could be one of the most productive vocational programs in a public high school that there is. The El Cajon Valley High School's welding and fabrication program, which has been largely propped up by the Ship Repair Industry, is placing students directly in to high paying jobs, with the skills they need, right out of high school.

We would like to earmark additional funding to continue to do similar things throughout the county. Even if that comes in through grant dollars.