

United States Senate

WASHINGTON, DC 20510

COMMITTEES:
APPROPRIATIONS
COMMERCE
HEALTH, EDUCATION,
LABOR, AND PENSIONS

June 7, 2023

The Honorable Christine Elizabeth Wormuth
Secretary of the Army
Department of the Army
101 Army Pentagon
Washington, DC 20310

The Honorable Doug Bush
Assistant Secretary of the Army
Department of the Army
101 Army Pentagon
Washington, DC 20310

Dear Secretary Wormuth and Assistant Secretary Bush:

I write to you today with concerns about the Army's management of Tactical Wheeled Vehicle procurement programs, including the five-year contract recently awarded to AM General to manufacture 20,000 Joint Light Tactical Vehicles (JLTVs). As you know, Tactical Wheeled Vehicles play a critical role in supporting U.S. servicemembers and their missions, providing transportation for Soldiers, Marines, munitions, water, and fuel. The JLTV is one such important vehicle, and I believe the Army is risking a gap in production of this platform. I am concerned that the Army overlooked critical company information during the award process—specifically AM General's "very high credit risk" as a result of the leveraged buyout its private equity ownership group used to acquire the company—and the impact of high leverage on the company's ability to stand up a new production line in a timely fashion.

The JLTV contract was awarded on a "best value determination" with indications from the Department that AM General prevailed due to a low bid. This low bid has raised serious questions about the company's ability to carry out the mission-critical production given its financial position. The company's credit has been downgraded since it was acquired in a leveraged buyout by KPS Capital Partners in 2020, which saddled the company with \$675 million in expensive debt. By increasing the chances of delayed delivery or a default, the award appears to pose a risk to the Tactical Wheeled Vehicle industrial base and the fighting men and women who depend on it.

As a new entrant to JLTV production, AM General would incur significant startup costs. For example, AM General will likely need to make significant investments in re-tooling and upgrading its equipment and production lines to meet the Army's exacting JLTV standards. Furthermore, it is unclear whether the company has the advanced paint facilities needed to ensure that coatings are applied appropriately to resist corrosion (a key component of the Army's strategy for reducing maintenance costs). Additionally, production of the JLTV will require AM General to hire hundreds more workers and train them on production lines that have not even been built yet. Lastly, the company will have to identify and qualify suppliers and negotiate new contracts that can meet the Army's standards. To my knowledge, such outreach was not done in advance of the bid.

These costs are all the more concerning when considered against the company's increasingly precarious financial position. On December 21, 2022, S&P, a credit ratings agency, noted the company's "highly leveraged risk profile." On January 19, 2023, Moody's Investor Service issued a credit opinion on AM General that said, "the company has limited capacity to absorb unanticipated operating or financial setbacks." The report goes on to give AM General a "negative" credit rating outlook, which recommends that its bonds be considered "speculative grade" often referred to as "junk bonds." It is difficult to imagine how AM General will be able to invest in these new production lines while it has "weak liquidity with limited access to [a] revolving credit facility," as described by Moody's. In addition to the high start-up costs and a weak financial position, AM General's reported low bid on JLTV and the historically low-margin nature of TWV manufacturing contracts could create a scenario in which the JLTV award lowers the company's profitability and actually worsens its finances. There seems to be sufficient evidence to justify further inquiry into how the company will bear these startup costs given its credit situation.

Increased costs due to debt service is a well-known consequence of a leveraged buyout and a hallmark of the private equity business model. Often, private equity owners will drastically cut costs and sell off assets in order to make the company more attractive to a strategic buyer. Relatively frequent "exits" are necessary for private equity owners to generate income from the investment. If KPS intends to use the contract to sell AM General to a competitor, it could cause further delays as the new ownership group gets acquainted with the business.

This award raises further concerns when considered alongside other budget decisions made by the Army in recent years. Year after year the budget request for the Army includes procurement amounts for the Family of Medium Tactical Vehicles (FMTV) and the Family of Heavy Tactical Vehicles (FHTV) that fall below the minimum sustaining rate necessary to keep the production line running and skilled workers in place. Some years, the budget request for these categories falls well below the minimum sustaining rate – by more than \$100 million – raising questions as to the Army's commitment to providing clear demand signals to industry. The Government Accountability Office (GAO) found in a 2021 report that the Army does not have a plan to regularly update its tactical wheeled vehicles strategy and that inconsistent communication from the Army hinders industry's ability to partner with the Army on critical elements of procurement and modernization.

Despite this decision to shift production of the JLTV from Oshkosh to AM General, the Army has given no indication of a plan to meet Oshkosh's minimum sustaining rate by other orders. I am concerned that when work for tactical wheeled vehicles is divided between two manufacturers, annual budget requests will not provide enough work for both companies to sustain their workforce and supplier networks. In the case of Oshkosh Defense, its workers and suppliers have seven years of successful JLTV production, continually incorporating lessons learned, data captured, process improvements, and quality metrics to ensure the customer and the warfighter get the absolute best product possible. During that period, JLTV has been among those rare programs performing on schedule, under budget and delivering promised capabilities—with no Nunn-McCurdy breaches. To date, the company has delivered over 20,000 vehicles to our men and women in uniform.

In closing, I urge the Army to carefully scrutinize the business model of AM General's ownership group and its commitment and ability to successfully execute the contract. I also ask that you fully review AM General's finances and make a determination that the company is able to execute the contract, as well as answer the following questions:

- What is the status of the Tactical Wheeled Vehicles Strategy that was due for release in 2022 and has been delayed?
- What is the status of creating a directive within the Army to routinely update its Tactical Wheeled Vehicles strategy, according to the GAO's 2021 recommendation?
- What other measures is the Army taking to improve communication with industry regarding the service's assessment of needs for tactical wheeled vehicles?
- What is the Army's plan for managing the health of the defense industrial base for tactical wheeled vehicles? Please include in your response the role that industry's minimum sustaining rates play in your preparation of the annual budget request.
- How did the Army evaluate AM General's financial position and its poor credit rating when it decided to award the company the JLTV contract?
- If AM General defaults on its debt, will the Army reevaluate the award granted to the company?
- Given the concerns about the steep challenge of AM General's plan to stand up a new production line for a vehicle it has never before produced, and concerns about the fundamental viability of AM General as a company, what is your plan to mitigate these risks to the warfighter?
- What is the Army's plan and evaluation framework for addressing a potential future request from AM General for a contract renegotiation or price adjustment in the event the company is losing money on the contract?
- How does the Army plan to supervise AM General's progress in order to ensure a smooth transition between manufacturers so that there is no disruption to delivering this platform to the force?
- To avoid a potential break in production, the Army must exercise continuous and rigorous oversight of AM General's schedule performance and acknowledge problems well before Oshkosh Defense produces its last JLTV. In fact, acknowledging performance issues and initiating the process of negotiating and awarding an extension or bridge contract to Oshkosh Defense must consider important factors such as the ordering and availability of long lead-time materials and vehicle quantities to interest the supply base in quoting for parts and services. What assurances can you provide that the Army will be prepared to take timely and necessary steps to extend the JLTV contract with Oshkosh Defense should such an extension be needed?
- How does the Army plan to support suppliers in their transition between customers?
- If AM General is sold by its private equity ownership group, will the Army conduct additional vetting of the new ownership group? If so, how long will such vetting take? If not, why not?

Thank you both for your prompt attention to this matter and for your longstanding service to our nation. I look forward to our continued collaboration as we work towards the shared goal of fielding capabilities that best enable our warfighters to defend the nation.

Sincerely,

A handwritten signature in blue ink that reads "Tammy Baldwin". The signature is written in a cursive style with a large, stylized initial "T".

Tammy Baldwin
United States Senator