



Chairman's Report September 2019

Stay the Financial Course

For the last two years, I have reported on our efforts to balance the AFA budget by imposing stringent budget cuts on many AFA programs after the 2016 Convention. Because of budget cuts – most of which have not been restored – and a lot of hard work cutting expenses and gaining new contributions, I am pleased to report that our budget has been balanced for 2017 and 2018 and is projected to be balanced for 2019. However, our unrestricted budgeted surplus for 2019 is only ~\$27,000 in a budget of some \$20 million. We have been able to balance the budget in 2017 and 2018 in large part because of higher than budgeted levels of attendance (including corporate attendance in the Exhibit Halls) at both the Air Warfare Symposium and the Air, Space Cyber conference. In fact, we reached an all-time high of 12,000 attendees at ASC in 2018 and expect more attendees this year. As a result, it is likely that revenue from our Conferences will again top budgeted estimates. Nonetheless, to keep the budget balanced, the Board has had to maintain painful cuts that impact travel, grants and scholarships, staffing, the Magazine, field support payments, and many other areas. No one is happy about these cuts, but they have been necessary and, I regret to say, they will have to continue at least until a planned expansion of the exhibit floor at ASC occurs in 2020.

Because of an enormous amount of hard work by the staff, National Officers, the Board, and volunteers throughout the country, revenue and donations are looking up in 2019. A huge thank you to all who have contributed. However, more is needed and with the urging and support of the Executive Committee, our new President and EVP have made fundraising a priority activity for the staff. We need a more concerted and organized effort from all chapters, as well as the Board, National Officers, and staff, to identify potential significant donors, to canvas our communities for community partners, and to identify possible donors outside of our traditional concentration in the aerospace industry.

While there is some good news, there is also a lot of bad news associated with cutting the deficit. I remain particularly concerned that because of travel restrictions, National Officers, the President and EVP have not been able to regularly travel to the field, nor has the Field been able to travel to the Doolittle Building as it did in the past. We reinstated the annual RP/SP meeting in November 2017 and 2018 – even though each meeting costs over \$50,000 – and we will hold it again in 2019 because without that meeting, we substantially impair communications between the Field and the Headquarters and we eliminate one of the key parts of our Emerging Leaders Program. At the same time, in-person Board meetings have been limited to two, one at ASC and

one at AWS. This is by no means ideal, as anyone who has had to suffer through a video teleconference can attest.

AFA is also facing two areas of particular financial risk. The first is our IT infrastructure. Falar and his team did a terrific job moving AFA onto a modern, cloud-based financial system and migrating AFA's office systems into Office 365, also in the cloud. That team also took a good swing at moving AFA off IMIS and onto a modern Salesforce-based system. However, Falar has chosen to move on to other opportunities and we are left with only a partially completed system. The same appears to be the case with the new website infrastructure. This is an unfortunate, but not unpredictable outcome of a major IT change. Bernie Skoch has agreed to take over as CIO and is working with the Field Council and the EXCOM to establish configuration control for the further changes required to move Salesforce and the Adobe web server to success. While the needed configuration changes are becoming clear, how much additional cost will be incurred in this effort is still to be determined.

The second area of major risk is the Doolittle Building itself. Bluntly, it is old and needs significant capital improvements. For example, part of the building flooded this year because the ageing cooling system broke. The staff has retained real estate advisers to develop a long-term plan for capital improvements and the 2019 budget contains funds to fix immediate problems like the gate to the parking garage, which would not reliably open, and is now upgraded. Our new Doolittle Leadership Center (DLC) initiative also includes the potential to offer defense industry and other donors increased opportunities to provide financial support for modernized war gaming and seminar workspaces in the Doolittle Building.

Looking ahead, it is very likely that we will be able to balance the budget for 2020, but program funding will remain essentially static, as costs are rising in approximately the same amount as currently understood increases in anticipated revenue. We must continue to focus on generating revenue and doing so will require fundraising at every level of our Air Force Association.

Recruit and Develop AFA Leaders

While we continue to enjoy exemplary volunteer leadership in many areas of AFA, we need to redouble our efforts to develop qualified younger leaders for all levels of AFA. The first job of leaders is to build the next generation of leaders. There is a terrific cohort of recently retired officer, enlisted and civilian Airmen in just about every state, plus our USAF base and wing populations. Our AFA staff is now working with Headquarters Air Force to offer transitioning Airmen the opportunity to connect to the AFA network, including into local chapter leadership. The challenge for all of us is to encourage both current and recently retired active duty, Guard, Reserve and Civilian Airmen to join AFA and take active leadership rolls. For this to happen, we need a value proposition and an increasingly relevant association that motivates them to join AFA. I know our Vice Chairman for Field Operations, President, and Doolittle Building staff are working hard on this opportunity. But, again, without vigorous help from chapters near bases, this effort will fall short.

Create a strategic plan

The last Strategic Plan covered the period 2015 through 2018. The Fresh Look teams examined that plan and recommended that AFA adopt a new planning process more closely tied to our financial capabilities. At the September 2018 Board, we took the first step toward such a plan by holding a comprehensive review of all AFA programs that depend on national funding. The purpose was to examine where we spend our money in order to set a baseline for a new plan. At about the same time, I asked Buster Douglas to chair a revitalized Strategic Planning Committee. Buster and his team have made a good first cut at the structure of a new plan, which he will present to the Convention this year as part of an effort to find consensus among all the parts of AFA. This is going to be tough because AFA remains in close to a zero-sum situation, where any expansion of one activity will largely have to be at the expense of another program.

Blocking and tackling

Over the past year, we have examined some critical issues that require basic blocking and tackling adjustments. Let me discuss several of them.

- Tax free status of AFA. There has always been a concern that AFA's educational programs, especially those conducted on Capitol Hill, could be viewed as lobbying activities inconsistent with AFA's tax-free status. We have had tax counsel look at these issues and based upon her advice, AFA has made certain tax elections that, we think, will avoid any future issues. We also had a lobbying law expert look at our interactions with the Hill and Air Force leadership to make sure that we are not required to register as a lobbyist and that AFA's activities stayed consistent with our tax advice.
- The AFA Defined Benefit Plan. AFA discontinued its defined benefit pension plan some years ago when it became an unsustainable financial burden. However, employees covered by the plan are still entitled to certain levels of benefits and various federal regulations require AFA to segregate sufficient assets to be able to pay pensions as they become due. The regulations create a source of instability and risk because they are based on fluctuating interest rates, legislation that may end, and assumptions about the growth of AFA assets over an uncertain future. In the past, for example, AFA's liability has changed by several millions of dollars between one year and the next. The Board determined to increase the rate at which current assets are moved into the plan to the level of \$1.6M per year – a rate that we anticipate will eliminate further liability in about seven years. The Board also voted this year to offer lump-sum payments to some 50 covered employees in order to reduce the volatility of AFA's potential exposure. Even so, liabilities created by this Plan will remain a very serious risk for AFA's financial future.
- Restructuring of AFA Corporations.
 - As a result of *afa21*, the Aerospace Education Foundation, a not for profit and tax free corporation under Internal Revenue Code § 501(c)(3), was renamed as the Air Force Association and the former AFA was renamed the

AFA Veterans Benefit Association, a 501c19. AFAVBA continued to sell insurance and AFA clothing and executed several other revenue-generating programs. AFAVBA also held title to the AFA headquarters building in Arlington, VA, to limit any possible liability arising from the building. We are now concerned that changes in the membership of the AFAVBA may no longer allow it to qualify as a 501c19. At the same time, activities such as insurance sales that would have created tax liability for AFA no longer create tax issues. Therefore, the Board took steps in 2018 to close the AFAVBA once it could transfer its assets and contracts to AFA. AFAVBA has transferred its revenue programs to AFA and AFA will continue to run them. The Doolittle Building has not yet been transferred. With the advice of legal counsel, the Board voted to transfer the Building to a special purpose corporation that will be a subsidiary of AFA in order to continue to limit any liabilities that may arise from operation of the Building. The receiving corporation is intended to be a tax-free entity under the provisions of Internal Revenue Code § 501(c)(2), once it is approved for 501c2 status by the Internal Revenue Service. The receiving corporation has been formed and an application has been submitted to the IRS to obtain tax-free status for this new entity. We anticipate approval will occur this year or early next year depending on how long the IRS process takes, after which the AFAVBA will transfer the Building and AFAVBA will be dissolved. The Board has voted to approve articles of dissolution but our attorneys will not file them until all assets are transferred and various statutory formalities are complete.

- Air Force Memorial. The Air Force unilaterally exercised its option to take over operation of the Memorial in 2017. As a result, the Board (with the concurrence of the Air Force Memorial Advisory Committee) voted in 2018 to dissolve the Air Force Memorial Fund after transferring its \$2 million in remaining funds to restricted funds held by AFA. In addition, the AFMF owned certain trademarks and service marks that use the Memorial logo. The Air Force requested that those marks be transferred for safekeeping, and the Board agreed subject to AFA's ability to continue using the marks on a royalty free basis. That transfer is complete. With all assets transferred, and after certain formalities are accomplished, the Memorial Fund will be dissolved in the near future.

Because all of the actions having to do with AFAVBA are contingent on the IRS approval of the tax-free status of the new real-estate holding corporation, the Board will be bringing this reorganization proposal to you at this Convention to provide the Board unquestioned authority to complete execution of these actions when the IRS has favorably ruled. You have been provided a read-ahead on this issue and we will be standing by to answer questions at the Convention. At that time, we will ask you to concur with all of these actions.

- Future use of Memorial funds. The Board believes that the \$2 million in restricted funds raised for the Memorial should be used at the Memorial in accord with the

wishes of the donors of those funds. In 2018 the Board approved a proposed gift of \$1 million to the Air Force through the Air Force District of Washington (AFDW), which has operational control of the Memorial. The Chief has also proposed some changes to the Memorial to make it more useful for official functions, particularly in bad weather, and the AFA gift may fund part of those improvements. However, talks with AFDW have slowed due to AFA's change of President and issues raised by USAF lawyers.

- AFA Information Technology. For years AFA has been modernizing IT systems in a piecemeal fashion, making improvements but sticking with older software which is increasingly difficult to support and falls short of meeting today's demands. Two years ago, the Board approved the start of an effort to replace our existing accounting, membership, web server, and office systems with modern, cloud-based systems that will allow us to provide the services and security for our members that we truly need. The accounting system, headquarters web server, and headquarters office systems are complete for now. Still to be finished are the IT infrastructure required to replace IMIS, a model web server for the Field, and an "app" that would allow easier access to AFA IT services. Bernie Skoch, our new CIO, is working with the Field Council tech team and the staff to create a unified list of requirements and a plan to get to a working interim solution for Salesforce. It is also apparent now that many chapters lack the IT skills required to use the new system and that we will need to create a formal help desk function to guide many through the new systems. I anticipate that the Board will be considering soon a proposal to establish a configuration control committee – which with hindsight should have been created at least a year ago – and a way forward for both Salesforce and the Adobe web server. Salesforce in particular has been an area of frustration to all who need membership data and fixing it has the highest priority.
- AFA/MI GSA Professional Services Sector Contract. A year ago, the Board voted to explore the possibility of AFA and/or MI becoming a contractor under the GSA PSS Schedule to avoid repeated obstacles that have stymied the ability of MI to contract with the Air Force for advisory services that the Air Force wanted to buy from MI. We are now close to being awarded such a contract. Under federal contracting rules, companies on the GSA Schedule negotiate labor and indirect rates with GSA, after which any government agency can issue task orders for work to be done at approved rates using a streamlined and quick process. The President and the Executive Committee will monitor early contract awards to ensure that AFA has sound policies and practices for performing this work. In the future, parts of AFA other than MI may also want to use the GSA contract to do work for the federal government and the current structure permits that to be done.

We have much to be proud of

Your Chairman, EXCOM, Board, President and EVP have been focused intently since 2016 on ensuring the long-term future of AFA, and they have had the luxury to be so focused because so much of the daily activities of AFA run like clockwork, often with little or no involvement with the Doolittle Building. Because we have so much to be proud of, I want to

discuss some of these activities while acknowledging that the Chairman's contributions to these activities are often slim to none.

Aerospace Advocacy, STEM, Wounded Warrior, and Education Programs

We have much to be proud of with our crown-jewel programs: *AF Magazine*, the *AFA Daily Report*, CyberPatriot, the Mitchell Institute, StellarXplorers, Teacher-of-the-Year, and the Wounded Airman Program. Breakfast programs run by AFA and by Mitchell Institute on Capitol Hill are well attended and profitable. The series on nuclear deterrence run by Peter Huessy is particularly timely given the recent national focus on North Korea, hypersonic missiles, and the need to revitalize our nuclear enterprise. All AFA publications and programs provide outstanding advocacy and education, moving our mission forward and serving our Air Force, our members, and the public. Underpinning all of this, of course, are AFA Chapters around the country that promote a dominant Air Force and support aerospace education, our Airmen and their families.

Advocating for a dominant Air Force -- Mitchell Institute

The Mitchell Institute for Aerospace Studies had a remarkable 2018 and continues to grow in stature and influence as the country's only aerospace power think tank. This past year the Mitchell Institute team engaged in a number of efforts that have influenced the direction of aerospace strategy and legislative support for the national security relevance and importance of aerospace dominance. These included testimony at the request of Congress and significant educational events inside and outside of Washington that discussed aerospace power topics with defense leaders and key figures from government, industry, the financial sector, media, academia, and the broader policy community. Mitchell is also very close to being financially secure.

Advocating for Airmen -- Air Force Magazine

Air Force Magazine and the electronic content created by the Magazine staff in the *Daily Report* and on the AFA website continues to be a first class journal of what airmen of yesterday and today have accomplished and of the equipment and support our airmen need. It has been and continues to be a major reference source for historians of air power. The editorial team is an AFA crown jewel. On the other hand, *Air Force Magazine*, like all print magazines, has gone out of favor with advertisers. Print advertising revenue has dropped more than \$1 million over the last decade and the growth of advertising on AFA's electronic media has only recently started climbing. As a result, the Magazine and related electronic publications lose about \$2 million a year. The Board directed some \$500,000 in cost cuts in 2018, but the EXCOM has recently asked the staff to provide options for cutting additional costs on the print side of the house. This is painful, but probably necessary if AFA is to remain stable financially.

Air Force Relations, ASC and AWS

Our relationship with senior Air Force leaders remains strong, with excellent communications and support of our major programs. The challenge remains in building the same relationships with the Air Force legal community particularly at the wing level and below, a challenge well known to our field units. Despite messages of support for AFA from the top of the Air Force, many of our chapters continue to face Judge Advocates who block our efforts to support Airmen. The President and I have discussed this pressing problem with the General Counsel and the TJAG, both of whom support the AFA position, and there is hope that JAGs in the field will become more permissive of AFA activities. However, please continue to raise to the President

your problems at the wing and base level if you cannot overcome them locally. We have very good access to senior leaders in Washington and around the country and can try to intervene.

USAF participation and support of our Air Warfare Symposium in Florida and our Air, Space and Cyber Conference at the Gaylord has improved and expanded. As a result, in both content and participation, those events are the best in years. Our goal is to continue to expand both events, offering increased opportunities for professional development for Airmen and our members, and expanding and selling-out our exhibit space. However, we are not able to expand our operations at the Gaylord National until 2020 and at the Rosen Shingle Creek for several more years when additional space will become available.

Wounded Airman Program

The Wounded Airman Program continues to perform valuable services to the Air Force community. AFA has been there to support wounded Airmen in emergency situations with more than \$11,000 so far this year. We have also provided 56 Airman for Life grants to veteran wounded Airmen to attend the DoD Warrior Games and Air Force rehabilitative events. A particular highlight of this year was AFA's Hospitality Suite at the Warrior Games swimming competition where over 40 AFA volunteers and Field leaders came together to support over 1,000 wounded warriors and caregivers. Our Wounded Airman Program continues to be financially stable and flexible enough to serve the changing needs of our Airmen and our Air Force.

Field Operations/Field Council

Headed by Vice Chairman of the Board-Field Operations Mac MacAloon, the emphasis for our Field organizations and Field Council remains on shoring up our association's foundation at the chapter level. We have pockets of brilliance and many steady performers, but still too many chapters (approximately 40 of 198 authorized) that are essentially dead. On the other hand, several that were dead have been resuscitated recently.

The Field Council continues to work many initiatives to make life easier for our Chapters. Our field leaders, especially those on the Field Council and our RP/SPs deserve great credit for their continuing dedication to our cause. The need to identify and groom a new generation of Field leadership remains a high priority. In that regard, I am happy to report that our Emerging Leaders Program remains very strong and is apparently the key to broadening the leadership of AFA.

Aerospace Education

Jim Hannam, Vice Chairman-Aerospace Education, heads an active Aerospace Education Council that is trying with success to work through cuts in support to education programs. Rolls Royce signed on as a major sponsor of Teacher of the Year, which is a colossal accomplishment and puts TOY on a very sound footing. In recent meetings the President and I had at Rolls Royce, their senior leadership expressed their continuing interest in working with AFA on education programs. This is unquestionably a great partnership. However, it is not our only great partner.

CyberPatriot, AFA's flagship STEM education program, continues strong growth in all program areas with the continuing support of the Northrop Grumman Foundation, which is now joined by a number of other major companies. Sponsorship remains strong, enabling the program to be fully self-funded including its full share of indirect costs. CyberPatriot has grown to more than 6300 teams this year with over 24,000 participants. Surveys of CyberPatriot graduates show more than 87% plan to attend a four-year college programs, and more than 71% plan to attend in STEM fields, well above the 18% National Average. Chapters have a golden opportunity to "fly

the AFA flag" in their communities by promoting this leading AFA program to local schools and youth groups, and soon to senior citizens.

Our ties with AFJROTC, CAP, and Arnold Air Society/Silver Wings also remain strong. AFJROTC and CAP were early adopters of our signature STEM Programs, CyberPatriot and StellarXplorers. On the flip side, AFA Chapters support AFJROTC and CAP units in their AORs with financial support, programs such as model aircraft building, AFJROTC Drill meets, any many other things. As both AFJROTC and CAP have moved into flight training, so has your AEC with the Vertol Systems sponsorship of the Destin Flight Works Pilot Training Scholarship (\$10K for 3 years).

Many states and chapters have been assisting local AAS/SW chapters and attending AAS/SW's area conclaves (ARCONs) and the National Conclave (NATCON) – but we need more chapters to participate. Remember, AAS/SW members are AFA members too! Make them an active part of your chapter if they are in your AOR. Also, keep in mind that many of our Emerging Leaders started their AFA careers in AAS/SW, so this is a very important partnership for AFA's future.

The AEC's scholarship programs continue to labor under the cuts imposed after 2016, with only minor relief. But there are some bright spots: (1) Trident University has provided a full ride scholarship for AFA Members; (2) Delta Dental has given five \$2K grants to military spouses, military dependents, and transitioning service members for the advancement of oral health and wellness; and (3) Vertol Systems has provided a flight training scholarship.

The Challenge of a Space Force

In the near future, we are likely going to have a Space Force or Corps. All indications are that Congress will establish such an organization though the problems it addresses are far from obvious. While AFA has argued that a Space Force does not fix any problem that Congress or the President has identified – and may in fact make matters in space worse through the confusion of reorganization and the cost of a new bureaucracy – it is now time to face the political reality that the force will shortly be with us. We need to advocate for a sensible budget and organizational structure for the new force -- there will doubtless be devils in the details of getting the new force off the ground and AFA's educational programs in the Washington AOR may be particularly useful for establishing a common framework for discussion.

If AFA is to be relevant to space warriors, it probably needs to change its name and mission statement as well as the composition of the Board to include more space expertise. Moreover, there is already competition from the Space Foundation and something called the National Security Space Association for the hearts and minds of spacemen. Our bottom line must be to advocate for a sensible organization and budget for air, space and cyber as a whole, recognizing that for many years to come, the women and men of the Air Force today will be the same people who will be the space and cyber warriors in whatever organization Congress and the President create.

This also feeds into the conundrum we face with StellarXplorers. As some will recall, this program started at the request of the Air Force and is partially funded by the AFRL STEM program office. It is not at all clear that AFRL will continue to have a STEM program focused on space once a separate Force/Corps is established. Equally, we have been unable to find a sponsor for

StellarXplorers with sufficient funds to provide a professional staff to support the volunteers who have given blood, sweat and tears to get StellarXplorers to the point it is today. Clearly, if we want to be the professional organization for a new space organization, we cannot cancel StellarXplorers, but if we want to keep it, we have find a way to pay for proper staffing of that program.

Wrapping up

As of the date of the Convention this year, Congress is again promising to pass a Defense Appropriation on time. Let us hope that happens. As many have said, in failing to provide adequate and timely appropriations, Congress has done more damage to our military in recent years than have our enemies. After decades of war, the Military Services deserve better of our elected leaders and AFA needs to make that point not only in Washington, but also in every state. This is not the time to give up on advocating for a strong defense and for adequate **and timely** appropriations. The continued willingness of our volunteer leaders and members at every level to provide their time, talent and resources to this effort are more important than ever.

As I finish by third year as Chairman, I want to thank all of those who have served with me on the Board and staff for the last three years. It has been quite a ride!!

I am especially grateful to Larry Spencer for his service to AFA and to Orville Wright for taking on the job of President and for convincing Doug Raaberg to accept the position of Executive Vice President. I am also deeply indebted to all the staff for their exemplary work in a time of tight budgets and spending restraint. We have a great headquarters team and we should thank our lucky stars every night that we enjoy the support of such a loyal and hardworking group of people. While the Field may be the heart of AFA, our wonderful staff keeps the organization breathing and moving forward in concert with the Field. Let us all make AFA a team effort using the best of all of its parts.

F. Whitten Peters
Chairman of the Board
Air Force Association