

DEPARTMENT OF DEFENSE FISCAL YEAR 2011 BUDGET

HEARING BEFORE THE COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES ONE HUNDRED ELEVENTH CONGRESS SECOND SESSION

HEARING HELD IN WASHINGTON, DC, MARCH 4, 2010

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DEPARTMENT OF DEFENSE FISCAL YEAR 2011 BUDGET

THURSDAY, MARCH 4, 2010

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to call, at 10:05 a.m., in room 210, Cannon House Office Building, Hon. John M. Spratt, Jr. [Chairman of the Committee] presiding.

Present: Representatives Spratt, Becerra, Scott, Langevin, Larsen, Schrader, Ryan, Hensarling, Garrett, Lummis, Austria, Latta.

Chairman SPRATT. Let me call the hearing this morning to order and explain to our two witnesses that we still have a Democratic Caucus going on, and members will be coming in as the morning goes along.

But you have a short time frame yourselves. We need to get under way. Today's hearing is on the 2011 Defense Budget. I want to welcome our witnesses, Deputy Secretary of Defense Bill Lynn, the Under Secretary of Defense Comptroller Bob Hale.

Secretary Lynn and Secretary Hale, I believe that you have to leave here at 12:15 or thereabouts to make another commitment in the Pentagon before returning to the Hill to testify before the Senate. With those constraints in mind, I will rely or be riding the gavel today and asking Members to keep their questions confined to the five-minute rule.

Our first priority in Congress is to ensure that we have a military that is second to none and with the understanding and support of the men and women who serve in uniform, especially when they are in harm's way.

We must also be realistic about what we can afford over the long run. The Congressional Budget Office analyzed the defense plans developed by the Bush Administration the year before he left. They found a significant gap between planned programs and outyear projections. They concluded that tens of billions of dollars per year would have to be added to those plans to pay for their implementation.

One of the goals of this hearing is to get a better sense of whether or not we are closing this gap. Is this Administration adjusting defense plans so they are in sync with fiscal reality, more affordable and sustainable? Is it still sufficient to meet the security challenges our country faces? That is a key question.

Last year the Administration and Congress took on the problem of cost weapons—of cost overruns in major weapon systems by implementing acquisition reform, by canceling some weapons pro-

grams no longer needed, by restructuring those that were experiencing problems. It was a good start. In fact, CBO estimates that the acquisition changes proposed in the 2010 budget will reduce outyear costs. Let us hope so.

While the CBO analysis concluded that more funding will still be needed to finance defense plans, particularly for operations and support, that is the sum of military personnel, O&M, and revolving fund activities. This makes up more than 60 percent of DoD's budget.

Under defense plans included in the 2010 budget, CBO estimated that the operations and support funding needed would be continuing—propose a continuing requirement of a real growth of about two percent a year, which is a substantial increase compounded over time.

The cost of our overseas operations in Iraq and Afghanistan will also continue to be significant for some time to come. The defense budget for this year includes a full-year estimate for 2011 of \$159 billion—that's in 050.

Place holder estimates of \$50 billion a year are put in the budget for each year thereafter. And Bobby Gates, Secretary Gates, has testified that this is not a realistic number. But it is a plug to indicate there will be a cost. That cost is yet to be determined.

This is an improvement over where we were a couple of years ago when there was no accounting, no recognition of these costs beyond the budget year.

I hope today we can get a better sense, a better understanding of the Administration's overseas plans, the assumptions that were made in the development of these cost estimates, and what is their likely extrapolation over five years to conform to our budget.

Again, I welcome each of you. And I appreciate you coming and I think the whole Committee does. And I want to give Mr. Ryan an opportunity to make an opening statement himself before we move on to your testimony.

Mr. Ryan.

Mr. RYAN. Thank you, Chairman. I would also like to welcome our witness, Deputy Secretary Lynn. We had your predecessor Gordon England here quite a few times. So we look forward to seeing you here quite a few times in the future.

I want to take a second to note that Chairman Spratt and I, along with a few other members of this Committee, recently had the opportunity to visit Afghanistan to see firsthand the hard work and the dedication of our men and women in uniform. And it is impossible not to be impressed with the size, complexity, and the capability of DoD.

Most of all, we are humbled by the skill, the dedication of our soldiers, airmen, sailors, and Marines. And we are very thankful for what they do and for what you do as well.

I want to simply say though I am disappointed that once again the President's budget uses the enacted war level of \$130 billion to create the illusion of savings. What I mean when I say this is it does this by inflating the baseline to assume the 2010 level of war spending continues every year for the next decade and then claims three quarters of a trillion dollars savings by not funding DoD at these levels for the duration of this budget.

Now this is something that OMB does. I realize this is not something that DoD does. But that is a pretty embarrassing gimmick that we saw last year from the Administration. And reusing it this year, certainly doesn't lend any credibility to the President's numbers.

That aside, I do appreciate you providing us with a full request for the war in 2011 and for using the \$50 billion as a placeholder for the future.

We all know this isn't going to be the exact number. And I think most assume it will be much higher. But at least it is an acknowledgment by the Department that the Global War on Terrorism should be accounted for in the budget.

Finally, with the incredible rate of growth the Department has experienced in the past decade, I am somewhat concerned that at least some of it is going to be very difficult to slow. A few examples, military and civilian pay, fuel costs, and certainly TRICARE and the Defense Health Program.

All of these have been growing much faster than inflation. Yet I see the President's budget projects real growth in the Department of just one percent over the next five years.

What I don't see are any meaningful reforms to help you achieve that growth rate. I would imagine that it will be a pretty significant challenge on your end.

So as far as the federal budget becomes increasingly squeezed, the deficits in debt threaten not only our economic security but our national security. I want to simply ask that the Department do everything it can, working both internally and with Congress, to address these cost drivers before they consume your budget, because above all else we must ensure that our men and women in uniform have the resources necessary to do the extraordinary task that are asked—that our Nation has asked them to do.

Thank you.

Chairman SPRATT. Thank you, Mr. Ryan.

Let me, as a matter of housekeeping detail, say that, ask unanimous consent, any member who cares to file an opening statement may have it inserted in the record at this point. Without objection, so ordered.

[The statement of Mr. Latta follows:]

PREPARED STATEMENT OF HON. ROBERT E. LATTA, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF OHIO

Good Morning. Chairman Spratt and Ranking Member Ryan.

First I want to thank the Chairman and Ranking Member for holding this hearing on a very important issue. I would also like to recognize our distinguished witnesses, Deputy Secretary of Defense William Lynn, III and Under Secretary of Defense Robert Hale. I want to thank you for all of your hard work you do to protect our men and women in uniform, and I look forward to hearing your testimony this morning.

I represent the largest manufacturing district in Ohio. Over the last decade, Ohio lost over 600,000 manufacturing jobs, which included significant defense manufacturing jobs. Ohio has been a leader for many years when it comes to producing material our men and women in the Armed Forces use each and every day to protect America and ensure its security. The Midwest continues to host the majority of the country's automotive industrial base, including those committed to supporting specialized military vehicle requirements. I hope the Department of Defense will take the necessary steps to sustain their military vehicle industrial base under the Fiscal Year 2011 Defense Budget and the Quadrennial Defense Review (QDR).

One of the concerns I have with the President's Fiscal Year 2011 defense budget is that the Army will cease to purchase new High Mobility Multipurpose Wheeling Vehicles or "Humvees" because the Service has met its purchase goals for the vehicle. However, nowhere in the budget does it state that the Department of Defense will fulfill the requirement needs of the National Guard. The Ohio National Guard currently has 75.4 percent of their Humvee requirements fulfilled, and over 60 percent of their total number of Humvees is over 20 years old. Currently the Army National Guard has a shortfall in 20 states for a total need of 5,000 Humvees. These numbers are alarming to me, having worked with the Ohio National Guard during my tenure in the Ohio General Assembly, and now in Congress, to make sure our men and women in the National Guard have had what they need to fulfill their stated mission. I would like to know if the Department of Defense will plan to ensure that the National Guard's Humvee fleet is modernized.

For the foregoing reasons, Congressman Joe Donnelly of Indiana and I have formed the Congressional Humvee Caucus. This caucus will serve as an informal, bipartisan group of House Members dedicated to advocating for the best vehicle mix for the U.S. Armed Forces and National Guard and the important role played by the High Mobility Multipurpose Wheeling Vehicle. The Humvee has served as a versatile, high-performance four-wheel drive, air transportable tactical vehicle for over 25 years. We want to work to educate the Administration about the unique and integral role the Humvees have played for the defense of our country and maintaining homeland security and effective emergency response.

According to the FY10 Presidential Supplemental and the FY11 Overseas Contingency Operations Afghanistan Security Forces Fund (ASFF), production costs for Humvees will total \$1.3 billion for the Afghan Security Forces and the Afghan National Police in 2011. This procurement will not be for our troops but will provide Cargo, Enclosure, Up-Armored, and Ambulance Humvees to the Afghans. U.S. manufacturers will build Humvee's for the Afghan Security and Police Forces, but will vehicle production use the same American manufacturers and suppliers, and will these vehicles be the same Humvees produced for our troops?

I look forward to working with the committee as budget deliberations continue, and I look forward to working on the issue as a co-chair of the Humvee Caucus with Congressman Donnelly.

With that Mr. Chairman, I yield back.

Chairman SPRATT. Once again, we welcome both of you to the Committee today. Is each of you to make a statement?

Mr. LYNN. I think I will make a short opening statement.

Chairman SPRATT. Secretary Lynn will make the opening statement. We will make your statement in its entirety part of the record so that you can summarize it.

Mr. LYNN. Absolutely.

Chairman SPRATT. And we would encourage you to take your time and cover particularly the points that you would like to make to the Committee about your budget for the forthcoming year.

Thank you again for coming. And we look forward to you testifying. The floor is yours.

**STATEMENT OF WILLIAM J. LYNN, III, DEPUTY SECRETARY;
ACCOMPANIED BY ROBERT F. HALE, UNDER SECRETARY OF
DEFENSE, U.S. DEPARTMENT OF DEFENSE**

STATEMENT OF WILLIAM J. LYNN, III

Mr. LYNN. Thank you Chairman Spratt, Congressman Ryan, Members of the Committee. Thank you for the opportunity to discuss the President's fiscal year 2011 budget request for the Department of Defense.

As the Chairman indicated, we have a full statement that I have submitted for the record. And I appreciate your including that in the record. I will summarize it for you. And then turn to your questions.

I would like to begin with a word of gratitude for your support for the men and women of our armed forces. Everything we are doing and the budget as a whole is directed towards their success.

The President's top line budget request for fiscal 2011 totals \$708 billion. This includes \$549 billion to fund base defense programs, \$159 billion to support overseas contingency operations, and \$33 billion to pay for the additional 30,000 troops being deployed to Afghanistan.

The base budget represents an increase of 3.4 percent over last year's budget. That equates to about 1.8 percent after adjusting for inflation.

As a share of the economy, that is as a share of Gross Domestic Product, DoD outlays remain flat at approximately 4.7 percent.

Our budget reflects three overarching priorities, all of which are based on this year's quadrennial defense review that was just issued.

First, the budget continues the rebalancing of America's defense posture. It emphasizes capabilities needed to prevail in current conflicts while still enhancing our ability to respond to future threats.

To prevail in current wars, the budget increases Special Operations Forces, helicopter lift, intelligence surveillance and reconnaissance and other enablers of the forces engaged in our current conflicts.

By increasing military pay, fully funding the military health system, and improving family support, the budget also reaffirms the Nation's commitment to the all-volunteer force.

To meet future threats, the budget allocates \$189 billion to conventional and strategic modernization programs. Funds are included for the F-35 Joint Strike Fighter, a new aerial refueling tanker, new ships, missile defense programs, space capabilities, and a new Cyber Command.

Second, the budget continues the reform agenda established by Secretary Gates in the fiscal 2010 request. In last year's budget, Secretary Gates recommended cancelling or curtailing programs that if taken to completion would have cost the taxpayers \$330 billion.

This year he has proposed cutting seven additional major programs. These include the Next Generation Cruiser, the Navy Intelligence Aircraft, the EP(X), the third-generation infrared surveillance system, the Net-Enabled Command and Control System, DIMHRS or the Defense Integrated Military Human Resources System. It proposes curtailing the C-17 after the current buy. And it proposes not funding an alternative engine for the Joint Strike Fighter.

Further procurements of the C-17 and the joint strike fighter alternative engine are two systems in particular that we are opposed to funding further. We have considered the metrics of each carefully. Our bottom line is that continuing either would not serve the interest of the taxpayer, the military, or our partner nations.

We are also continuing to reform the way the Defense Department does business. This includes strengthening our acquisition workforce and reducing our reliance on private contractors.

Our goal is to serve as good stewards of taxpayer dollars as we provide the war fighter with the world-class capability.

Third, this budget makes a strategic choice to resource America's military needs. President Obama has funded real growth in the military and in other national security agencies even as he—even as he imposes a spending freeze on domestic agencies.

In DOD real growth is projected at 1.8 percent this year and approximately 1 percent when averaged across the fiscal 2010 to 2015 time frame.

Modest real growth in the DoD base budget is necessary for several reasons. Some of our costs such as pay and benefits increase with inflation. Other significant expenses, especially healthcare, are growing faster than inflation. So because the total costs of sustaining the force is growing faster than inflation, DoD needs real growth simply to maintain present force levels.

Making cuts in the size of our forces or our operations while we are engaged in two conflicts is simply not an option. Nor can we responsibly defer preparing for new threats that we may face as we go into the future.

Mr. Chairman, in closing we believe that the fiscal year 2011 budget request represents the minimum funding needed to provide for the defense of the United States and its people. It gives us the tools to prevail in the wars we are in while making investments appropriate for meeting future threats.

We strongly urge Congress to support our full defense request in its upcoming budget resolution and in subsequent funding allocation.

Mr. Chairman, that concludes my opening statement. Mr. Hale and I are available to answer whatever questions you might have. [The statement of William J. Lynn, III, follows:]

PREPARED STATEMENT OF WILLIAM J. LYNN, III, DEPUTY SECRETARY,
U.S. DEPARTMENT OF DEFENSE

Mr. Chairman, members of the committee, thank you for the opportunity to discuss the President's fiscal year 2011 budget request for the Department of Defense.

On behalf of our Servicemen and women—as well as DoD civilian employees—I would like to thank the committee for your support of the Department's vital missions. Our troops have shown incomparable bravery and compassion in their service in Afghanistan, Iraq, Haiti, and in many other countries around the world.

The budget request for fiscal year 2011 is, in the judgment of Secretary Gates and DoD's senior leadership, what is needed to sustain and rebalance our forces to address the national security threats we face today and anticipate in the future.

This budget continues the reform agenda established by President Obama and Secretary Gates in the FY10 budget. Building on the FY10 initiatives, the 2010 Quadrennial Defense Review (QDR) assessed the threats the U.S. faces in the coming years, established strategic priorities, and identified key areas for investment.

PRESIDENT'S FY 2011 BUDGET REQUEST

The President's topline budget for FY 2011 requests \$708 billion for DoD. This amount includes \$549 billion in discretionary budget authority to fund base defense programs, an increase of more than \$18 billion over the \$531 billion base budget enacted in FY 2010. The increase amounts to 3.4 percent, or 1.8 percent real growth after adjusting for inflation. The FY 2011 request includes an additional \$159 billion to support overseas contingency operations, primarily in Afghanistan and Iraq.

It should be noted that, even with modest real growth, DoD outlays as a share of Gross Domestic Product (GDP) will remain flat at 4.7 percent in FY 2010 and FY 2011. Considering only the base budget, DoD consumes about 3.5 percent of GDP.

GROWTH IN THE DOD BUDGET TOPLINE

As the President stated in his budget message to Congress, "Our future is dependent on maintaining American leadership abroad and ensuring our security at home." The President's budget request for DoD accordingly reflects the administration's commitment to modest, steady, and sustainable growth in defense spending.

In making his budget decisions, President Obama carefully balanced our national security needs with our economic needs, including the deficit. Even as the President imposes a spending freeze on domestic agencies, he has made a strategic choice to continue funding modest growth in the military and in other national security agencies. Real growth is projected at 1.8 percent this year and approximately 1.0 percent when averaged over FY 2010-15.

Modest real growth in the DoD base budget is necessary for several reasons. DoD has some costs that increase with inflation, such as pay and benefits. Other costs are growing faster than inflation. In particular, military health care expenses are likely to increase by as much as five-to-six percent per year over the next five years, reflecting the rise in overall U.S. health care costs and increasing use of the TRICARE program.

Because the total cost of sustaining the force is growing faster than inflation, DoD needs real growth simply to maintain present force levels. Sustaining our current size and capabilities is essential to prosecute current wars, meet U.S. commitments worldwide, and conduct unanticipated operations, including relief efforts for natural disasters. We cannot afford to make cuts in the size of our force or our operations while we are at war.

DOD must also enhance capabilities for which we have an identified need and prepare for new threats we may face in the future. Building the capacity of partner nations to support U.S. counter-terrorism operations has emerged as a crucial national security priority. The budget therefore includes higher funding under the Section 1206 Train and Equip authority. The budget also increases support to defend our computer networks against cyber attacks, enhance our space capabilities, and deploy advanced missile defense systems.

We urge Congress to support our full defense request in its upcoming budget resolution and in subsequent funding allocations by House and Senate Appropriations Committees. The bottom line is this: We need modest real budget growth to sustain and equip a military at war while also preparing for the future.

THEMES AND PROGRAMS IN FY 2011 BUDGET REQUEST

The base budget for FY 2011 request reflects three overarching institutional priorities.

First, it reaffirms and strengthens the nation's commitment to care for the all-volunteer force, which Secretary Gates has called our greatest strategic asset.

Specifically, the FY 2011 budget includes \$138.5 billion for military pay and allowances, including a 1.4 percent pay raise; \$2.2 billion for enduring programs to support wounded, ill, and injured Service Members; \$50.7 billion for the Unified Medical Budget and the Military Health System that serves 9.5 million beneficiaries; \$8.1 billion for military family support programs; and \$18.7 billion to fund critical military construction and family housing requirements.

Second, the proposed base budget continues the rebalancing of America's defense posture by emphasizing capabilities needed to prevail in current conflicts, while still enhancing capabilities that may be needed in the future.

For the wars we are in, especially the conflict in Afghanistan, the budget provides for more rotary-wing aircraft; the addition of 1,500 new helicopter pilots per year by 2012; increased Intelligence, Surveillance, and Reconnaissance (ISR) support; enhanced Electronic Warfare platforms; and increased funding for Special Operations Forces.

The FY 2011 base budget also allocates \$189 billion to conventional and strategic modernization, including:

- \$10.7 billion for continued development of the F-35 Joint Strike Fighter and procurement of 42 aircraft;
- \$864 million to support development of a new aerial refueling tanker;
- \$25.1 billion for procurement of new ships, equipment, and research and development;
- \$3.2 billion support the restructuring of the Army's Future Combat Systems;
- \$9.9 billion for missile defense;
- Funds to strengthen U.S. capabilities in space and to stand up a new U.S. Cyber Command.

These advanced weapons and capabilities are essential to keep us ahead of our adversaries. We need weapons systems that give U.S. forces an overwhelming advantage in combat, which will both save lives and shorten conflicts

Third, the President's budget will continue the Department's commitment to reform the way DoD does business, especially in the area of acquisition.

To ensure that every defense dollar is spent wisely, the FY 2011 base budget will bolster the capability and size of our acquisition workforce. The eventual creation of 20,000 new positions in the federal acquisition workforce will enhance our ability to oversee programs and generate independent cost estimates, in compliance with Congressional legislation. We ask the Congress to support our in-sourcing initiative to hire new civilian workers in place of contractors, a move that will ultimately reduce costs and operational risks. Our goal is to serve as good stewards of taxpayer dollars as we provide the warfighter with world-class capability.

An important component of acquisition reform is having the discipline to curtail or end unneeded and troubled programs. In last year's budget, Secretary Gates recommended canceling or curtailing programs that, if taken to completion, would have cost the taxpayer \$330 billion dollars. This year he has proposed cutting seven major systems, including:

- The Next Generation Cruiser CG(X)
- The Navy Intelligence Aircraft EP(X)
- The Third Generation Infrared Surveillance system (3GIRS)
- The Net Enabled Command and Control System
- The Defense Integrated Military Human Resources System (DIMHRS)
- The C-17
- An alternate engine for the Joint Strike Fighter.

The C-17 and the JSF alternate engine, as Secretary Gates has already discussed, are two systems in particular that we are opposed to funding further. Three department studies completed over the past five years each confirm the adequacy of our current strategic airlift capacity. The C-17 is an excellent plane. But we already have 194 C-17s and will have procured 223 when the currently authorized procurements are completed. This is in addition to 111 C-5s.

The second JSF engine is similarly a capability that careful review has found to be more costly than the benefits it would provide. We took a fresh look at this issue, considering the \$2.9 billion of additional funding it would take to develop a second engine to take it to competition, the downstream complications of separate maintenance regimes, potential savings achieved through competition, and the development status of the original engine. Our bottom line is that pursuing a second engine would not serve the interests of the taxpayers, our military, our partner nations, or the integrity of the JSF program.

FY 2011 COSTS FOR OVERSEAS CONTINGENCY OPERATIONS

Besides the base budget, the FY 2011 budget request contains funds to support overseas contingency operations. As Secretary Gates has said repeatedly, DoD's highest priority is to provide troops in the field with everything they need to be successful.

We are asking for \$159.3 billion to fund military operations in Afghanistan and Iraq in FY 2011. Included are funds for:

- Operations (\$89.4 billion),
- Force Protection (\$12 billion),
- IED Defeat (\$3.3 billion),
- Afghan and Iraqi Security Forces (\$13.6 billion),
- Coalition Support (\$2.0 billion),
- Commander's Emergency Response Program (\$1.3 billion), and
- Reconstitution or resetting of equipment (\$21.3 billion).

The budget supports a responsible drawdown of U.S. forces in Iraq and transfer to Iraqi responsibility and control. The budget also supports the growth of forces in Afghanistan, including a supplemental request of \$33.0 billion in FY 2010 to pay for the additional 30,000 troops that President Obama has ordered to be deployed.

LONGER TERM PROSPECTS

As we conduct a responsible drawdown in Iraq and eventually leave Afghanistan, the Department's war-related costs will decline. Because we cannot accurately forecast wartime costs more than about one year in advance, DoD's long-term budget contains a placeholder of \$50 billion per year for wartime spending from FY 2012 through FY 2015.

Long-term trends in the base budget depend largely on threats to U.S. security and the forces and equipment that must be maintained to counter those threats. If

we must maintain current force levels, we can expect the base defense budget to require some continued real growth.

We will continue to search for ways to minimize this growth and to achieve efficiencies in all areas of the defense budget. Health care is one area in particular where the introduction of efficiencies may yield cost savings. If present trends continue, we can expect health care to consume 10 percent of DoD's budget by 2015. We have proposed some health care efficiencies in this budget. Our goal is to work with Congress to continue providing high-quality health care while slowing cost growth.

CLOSING

Mr. Chairman, in closing I want to thank you and the Committee for the opportunity to testify about the Department's topline budget. Your support of our troops and their families is deeply appreciated. We are confident that the choices and priorities contained in the FY 2011 budget request will provide for the defense of the United States and its people. We are committed to ensuring that our Armed Forces have the tools to prevail in the wars we are presently engaged in, while also making the investments necessary for the future.

Mr. Chairman, that concludes my opening statement. I welcome the Committee's questions.

Chairman SPRATT. Thank you very much, Mr. Lynn.

Let us talk about the \$50 billion plug for the current fiscal year—for the forthcoming fiscal year 2011. The Administration has included an additional sum that will take overseas contingency, expeditionary costs, call it what you will, Iraq and Afghanistan, up by \$130 billion if I am not mistaken over and above what is already provided. Is that correct?

Mr. LYNN. The—

Chairman SPRATT. So that you have a total of 159—

Mr. LYNN. It is not—it is a total of nearly \$160 billion I think.

Mr. HALE. 159.3 in fiscal 2011.

Mr. LYNN. That is just—when you add in the \$33 billion that will be required to increase the troops, that is a slight reduction from fiscal 2010.

Chairman SPRATT. Now that is for 2011?

Mr. LYNN. That is for 2011.

Chairman SPRATT. But 2012, 2013 and the out years to the extent you show those, the number is \$50 billion.

Mr. LYNN. That is correct.

Chairman SPRATT. Now how was that number derived?

Mr. LYNN. That number is not derived by any analysis of operations. It is just too difficult to forecast troop levels and operational costs into the future. So that number is, I think you indicated—the word I would use is plug. That is a plug.

As Congressman Ryan said, we know that there are going to be some costs going into the future. We don't know exactly what those costs are. So we put a placeholder in. And that placeholder is \$50 billion.

Chairman SPRATT. We will we be filing a budget resolution that looks out over a span of five years? What are the prospects that we can see a significant reduction below the 160 number for next year? So that the years that are now plugged years, \$50 billion, will be that or something in that range. In other words, is \$160 billion coming down in the five-year span that we look like? Is it realistic to expect that we will actually be spending less than 160, two, three years from now?

Mr. LYNN. If you are looking out that far, I think that

that is realistic. It is as I say difficult to forecast. But the plan right now is to draw—is to continue the draw down in Iraq. We will be down to 50,000 troops in September. And we will be out by the end of fiscal 2011. We are on track on that plan.

We will be examining where we are in Afghanistan looking towards adjusting troop levels towards the summer after this in Afghanistan. So there is the possibility that we would look at lower levels two to three years from now.

Chairman SPRATT. So there is a distinct possibility that the out year number in the future years, three, four, five, could be substantially less than the \$160 billion we are talking about for the upcoming year?

Mr. LYNN. That is correct.

Chairman SPRATT. One of the elements of the defense budget, which has risen inexorably but not gotten a lot of attention is the personnel and support costs. Will you comment on what we are doing to try to contain those costs given the increases we have seen over the last several years?

Mr. LYNN. Well I think we are trying to do two things, Mr. Chairman. One is we are trying to restrain all of our costs, including operations and support costs. An important initiative in that area is the in-sourcing initiative. We are bringing functions back into the government that were outsourced in earlier years. That should produce some savings and it should produce better oversight, which may in the end actually also lead to savings.

But another thing that we are trying to do with operation and support costs is to budget for them accurately, so that we are not assuming things in the out years that we don't think are going to happen. There is sometimes a tendency with those costs to assume that you are going to get savings that nobody has any realistic plan to achieve. So we have tried to both have concrete plans to achieve savings while at the same time have realistic budgeting.

Chairman SPRATT. Do you have a number or range for how much we have budgeted as opposed to how much we have planned, the planning/budgeting shortfall so to speak?

Mr. LYNN. If I am understanding your question right, I think we have budgeted for O&M and personnel at the levels we expect will occur. I hope frankly we can—

Chairman SPRATT. Over the full FYDP?

Mr. LYNN. Over the FYDP. I mean especially in the next couple of years. By the fifth year of the FYDP there is a great deal of uncertainty.

We have about two to three percent real growth programmed into the O&M budget. And historically that has been what has happened. I hope we can hold it down and make use of it for other needs. But I think it is realistic to have it there.

Chairman SPRATT. Acquisition reform, procurement R&D, the investment accounts. Are the acquisition reforms you are making saving money? Achieving their potential or does more need to be done?

Mr. LYNN. We think we are taking the right steps on acquisition reform in terms of independent costing. In terms of trying to fix the requirements at the outset and in terms of trying to bring the appropriate expertise into the government.

I think over time that should restrain acquisition costs. But in some instances, particularly in the near years, that may increase your budget. When you use independent cost estimates, if you—you tend to increase the initial estimate rather than decrease it. Usually the independent cost estimate is higher.

And we, for example, with the joint strike fighter, we have gone with the independent cost estimates this year. That has increased the budget. That has increased the request.

Now we think that that was going to happen anyway. The independent cost estimates tend to be more accurate. It is a more efficient means to program as if you get the costs right up front. And if you program it right up front, in the long run that will save the government money. But I can't give you budget savings in the near years.

Chairman SPRATT. I put this question to Mr. Hale, Secretary Hale. Are you satisfied with the management reporting cost variance-type systems that we have in place now, the SAR, the executive reports that are disseminated in the E-Ring and other things that keeps you abreast of what is happening in the field?

Mr. HALE. Yes. I think they are reasonable. I will say DoD's financial systems are strongest at providing information about how we have spent against the money Congress appropriated. That is what those systems were designed to do.

They aren't as strong in providing cost-type information for particular activities or initiatives that we are undertaking. We are trying to do better there. But often times it requires special reports or special exercises.

So I think in general we have the financial information that we need. It could be better. And there are a number of initiatives under way to make it better.

Chairman SPRATT. You've got two items here in the—on page five of your testimony about the different elements, military personnel, O&M. And down to the bottom line which is other, minus 22.6 percent. That's a pretty big hit on other. What is taking the hit under that category, that heading?

Mr. HALE. Those are, I believe, revolving funds. And it is a complex part of the budget. But among other things it has a National Defense Sealift Fund in it. And we are buying one less ship.

But let me expand on that for the record. I think there are no major policy decisions there. Have I got that right?

Chairman SPRATT. Let me ask you one overarching question. I have been on the Armed Services Committee for all of the 26 years that I have been here. And we have seen the QDRs come and go.

Your most recent one is like previous ones in that the question it leads you to ask as you finish it is \$738 billion is a whale of a lot of money, a lot more than we thought we would be spending just a few years ago on national defense.

By comparison to what our allies are spending, it is even dramatically more, the percentage of GDP in absolute dollars and by every other measure. What are we doing or can we do to make our allies pull more of the load in policing the world and carrying out the missions that we are carrying out in Iraq and Afghanistan and other places in the world today?

Mr. LYNN. Well, it is always a difficult challenge, because you are dealing with sovereign nations and they make their own decisions. I think Secretary Gates has been particularly frank recently with our European allies in his belief that they need to increase their national defense contributions.

That said, I think the support that we are getting in Afghanistan and the increased support we are getting in Afghanistan from our European and other allies is critical to the mission there. So it is always an uneven story. And we have to push hard. But we have limited control.

Chairman SPRATT. Thank you very much. And answer any questions that Mr. Ryan may have for you please.

Mr. RYAN. Okay, thank you, Chairman.

We had a number of hearings last year to go into the cost drivers. We had, you know, CBO, GAO, CRS come by. And they did a fine job of identifying the cost drivers, you know, escalating military personnel costs, TRICARE, weapon systems costs.

What we haven't heard is, you know, what is DoD doing to address these cost drivers. Can you tell us kind of what is in the President's budget? This is sort of the first full President's budget. What is in here that is going to address these cost drivers?

Mr. LYNN. Well, I will ask Bob to expand. Let me start. I think the first thing that this budget—where this budget differs from prior ones is the discipline in the acquisition amount.

We have taken on some of the programs. This has not always been popular. But there are programs that are either not performing to the level that we would like, and we have cancelled those. There are other programs that are strong capabilities but in very narrow niche areas.

And we have come to the conclusion in a cost benefit analysis that we should not be buying those kind of exotic capabilities for very narrow purposes.

And then finally, probably the most controversial, there are very good programs such as the F-22 and the C-17 that we simply have enough capability in. And we propose ending the programs with the current buys. So I think that is a critical step.

A second step is the one that I mentioned to Chairman Spratt is in the acquisition reform context. We want to budget for these things right, right out of the box.

So we have taken a strict look at our largest program, the Joint Strike Fighter, and we have come in with higher budgets. But we think that that is what it is going to take to bring this program in. And we think in the end having honest budgeting is going to be the most effective cost control mechanism.

Mr. RYAN. Those are weapon systems. What about the other cost drivers?

Mr. LYNN. In the personnel area, we have now achieved close to parity in terms of civilian and military pay. So we are no longer proposing to add to the employment cost index, which has been—over the past several years we have been adding a half a percent a year.

This year we proposed a pay raise at exactly the employment cost index. So that will—particularly if that—when you reflect that

over the whole course of the FYDP, that is multiple billion dollars in savings.

In the medical area we have taken some steps in terms of pharmacy pricing, in terms of pricing to Medicare costs that we think will help bring down our healthcare costs. But I would say frankly I think that is probably a large open area.

It is one we need to work closely with Congress frankly, because in the end you are talking about medical benefits for—

Mr. RYAN. Yes.

Mr. LYNN [continuing]. Servicemembers and their families and retirees. These are people who have contributed enormously. And so we need to treat them fairly.

On the other hand, copays and deductibles have effectively been frozen since the mid-1990s. You cannot sustain that forever.

Mr. RYAN. So Iraq is kind of, I guess the mission has matured to a place where we are much more comfortable with the operation. And we feel like we have advanced our goals and objectives there.

As I mentioned, the Chairman and I just went to Afghanistan in January where we were nowhere near that stage of the operation. It is my opinion that the July 2011 announced deadline was counterproductive for achieving our objectives, even though we all want to have a deadline in our own minds.

Assuming that that deadline is flexible, based upon what we are doing in Helmand and Marja and the success of that, where we are headed to Kandahar, and the operations that are forthcoming, where do you see this time line unfolding? And do you think the COIN is working?

I mean, the counterinsurgency strategy, which we are now employing in these areas, do you from your lens see it working? Are we kind of where you thought we would be at this stage in the game? And what do you think that the real time line is with respect to getting this mission to the maturation, the government working, and all of those things that we have seen in Iraq?

Mr. LYNN. I mean I think we have seen some important elements of progress. I think General McChrystal has described the situation as dire but no longer deteriorating. You know, we have not turned the corner. I wouldn't say that at this point. But I think we have taken some important steps. I think the operation in Marja is one of them. I think it represents a major effort to implement the COIN strategy that you described.

The military side of that operation is we are starting to get to the completion of at least the initial phases of the military side. But if the COIN strategy is truly to work, it is the civilian and the Afghan side—

Mr. RYAN. Right.

Mr. LYNN [continuing]. That has to be married to that. And we are just—I mean, we are just putting in place the Afghan governance and bringing in the security forces.

And so I think—yeah, I think we have to say we haven't seen the full results of that yet.

Mr. RYAN. Do you think it can all be pulled off by July 2011?

Mr. LYNN. In Marja, yes.

Mr. RYAN. All right. I am talking Afghanistan.

Mr. LYNN. I think we are going to see over the course of the next year and a half important indicators of whether we are on the right path.

I think that in many ways one of the important things that we need to do over the next year and a half is change the direction of the momentum. And the momentum had been working against us.

I think as General McChrystal has indicated, we have at least slowed, if perhaps started to reverse that momentum. And reversing that momentum is important in terms of capturing the allegiance of the population. If they think they are on the winning side, that is a critical element in the success of the strategy.

And, yes, I do think over the next 18 months we will get important indicators as to whether we are achieving that.

Mr. RYAN. All right.

Chairman SPRATT. I do think the gentlemen will agree one of the messages we took back home from the Ambassador, General McChrystal, and others was that this particular date had had its salutary effect on the Afghans with whom they deal, making it clear to them that this was not an indefinite, open-ended commitment. And they bore a major part of the responsibility of making it work. And we heard that pretty consistently up and down the line while we were there. Let us just hope it works out.

Mr. Becerra.

Mr. BECERRA. Mr. Chairman, thank you. Secretary, thank you very much for being here, appreciate it.

Please convey to everyone at the Pentagon that we appreciate the response that was had to some of their requests by our troops to improve certain services, to be able to respond as quickly as possible to some of the requests by our soldiers in the field.

And I appreciate that we seem to have done a much better job from when we first started in Iraq to now be able to respond in a much quicker manner to the requests of the soldiers that are out there. And I think from point A to point B it has worked a lot faster than it was before. Now when there is a concern expressed by the soldiers on the ground, that we need to adapt to the situation. I think that has gotten to the generals a lot faster and to the Pentagon. And I appreciate that very much.

Mr. Chairman, I am actually going to focus on something that is very discreet. And the Secretaries may not be prepared to answer this. So we may have to take this under advisement and respond back.

I hope you can respond to some of this, because it is a small, discreet issue. But in my eyes, it could become very big, and it is in regards to Afghanistan.

I have some general concerns about how we conduct this engagement in Afghanistan, because I don't believe that we should continue asking for supplementals, asking this to be deficit spending. I believe that if our soldiers are prepared and having to face the possibility of death that we should be prepared and ready to accept the payment of this so that our soldiers know that their children aren't going to pay for this war that they are fighting.

And so having said that, let me go to this discreet issue. I am concerned that having visited in Afghanistan that I am hearing

from folks that a lot of the Afghan companies that we are contracting with to try to help Afghan—this Afghan first, a policy that we have to try to lift the Afghan population, so that they can care for themselves, they can fight for themselves, they can purchase and manufacture for themselves, may not succeed. We are the biggest purchaser in Afghanistan today. We are the biggest supplier in Afghanistan today.

But what I am hearing too often is that too many Afghani companies that are trying to contract, legitimately contract with the federal government through DoD for some of the services that are out there, are finding some real difficulty.

And it is basic stuff like getting paid. We may think in terms of having a credit line in this country, a small business, and therefore you are able to float your payments a bit. So you are going to take a loan out from a bank so you can pay your employees for the work you have done. And 15 days later, 30 days later, you get the money from the contract you had from the federal government.

A lot of Afghani companies don't have that kind of float. They don't have that kind of credit eligibility. And they don't have the time to wait 30 days, 40 days, 60 days, 90 days for payment by the federal government for work they have performed and performed well.

And what I am hearing on the ground is that some of these Afghani companies are going under, because they haven't been paid by the federal government for work they have performed well.

I don't know if you have heard that. But that would panic me, because we are trying to set a good impression. And the worst thing we can do is say that we asked them to do something and they performed. And then they didn't get paid in time before they had to go under, because they couldn't pay their employees.

Mr. Secretary, I don't if that is anything you have heard.

Mr. LYNN. I am not aware of it. Bob, are you?

Mr. HALE. I have not. I will check. I will say there is a balance we have to strike. And that is there have to be some internal controls. We have to have some kind of invoice, some sort of proof the work was done.

Mr. BECERRA. That I understand, Mr. Secretary.

Mr. HALE. And we have had difficulties, which I think are getting fixed in terms of getting both finance and accounting personnel, and even more important, contracting officer representatives trained over there. These are U.S. people now who check the work, who check the bills.

We have been focusing—I have joined in a team with Secretary—

Mr. BECERRA. Mr. Secretary, let me stop you there. I want to check you on that.

Mr. HALE. Okay.

Mr. BECERRA. I want you to get me the numbers that show that. I am going to give you specific cases.

Mr. HALE. All right. I will.

Mr. BECERRA. Let me give you another example.

Mr. HALE. We are up to about 90 percent on CORs and finance and administration people, because I monitor this very carefully. But we will be glad to get you the specifics.

Mr. BECERRA. Okay. Let me give you another example that was given to me that I wanted to raise with you. In about three weeks, on March 25th and 26th, there will be a conference that will be held here. It is the Second Afghanistan Aviation and Defense Summit here in D.C.

The stated purpose of the conference is to focus on business opportunities that will aid in the recovery process of Afghanistan and help in the effective implementation of the country's development programs.

Here is the problem. Afghanistan businesses will not attend. Afghanistan businesses will not attend this conference, which is there to help Afghanistan lift itself up.

Why? They can't get visas to come into the country to submit bids or to talk to the potential federal agencies.

Most of them don't have the kind of money it takes to be flying all the way to the U.S. to participate. But they do point something else out to me. Afghanistan government officials are being flown over to the U.S. to Washington, D.C. to participate in this conference.

Why? So they can talk to the potential bidders about this work in Afghanistan. So this is the craziness that I am hearing. You are going to send our government officials to the U.S. to participate in these conferences, to bid on contracts in our country.

But we the businesses of Afghanistan can't participate, because we can't attend the conferences, either because of your visa requirements, or terrorism alerts, or we don't have the money to pay for something like that.

I hope that we can follow this up and have further conversation, because this is what drives everyone crazy is when we hear a legitimate Afghani company saying to me, "We may have to go under, because we performed. But we didn't get paid on time. And I don't have the money to pay my employees."

I hope that we can follow up, Mr. Secretary, on this. I think it is just one of those things that we just have to recognize how we can best do business in Afghanistan to help the Afghanis.

By the way, I am not saying outsource jobs, American jobs, that we Americans should be doing to anyone else. I am saying work that is being done in Afghanistan that Afghani companies should be able to do with Afghani workers so we can help them lift themselves up so they don't have to continue to depend on us. We should help them where we can. And I hope I can follow up with both of you on this.

Mr. LYNN. Absolutely.

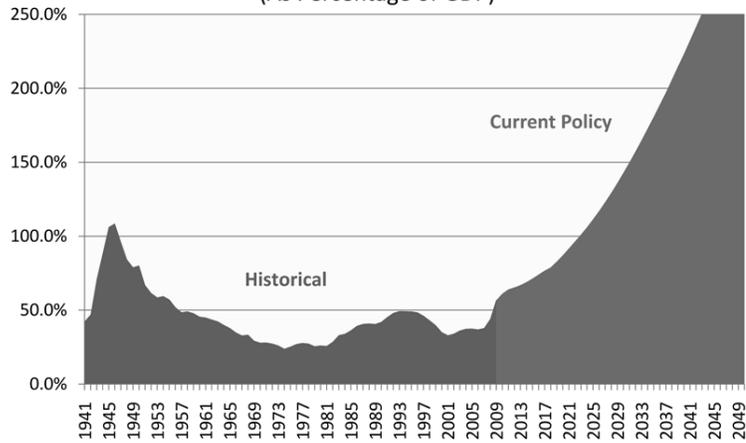
Mr. BECERRA. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

Mr. HENSARLING. Thank you, Mr. Chairman. Welcome, Mr. Secretary.

One, I want to let you know that I was heartened to hear you use the phrase "cost benefit analysis." That is a phrase that is not often heard within the confines of the Budget Committee. We always hear about the benefits of a certain spending request. We just don't often hear them run against the cost, so thank you for that.

The Ranking Member actually focused on a number of issues that I wanted to focus on. So I really want to step back, get away from the trees, and look a little bit more at the forest long-term. Can I have the debt chart pulled up, please?

Debt Held by Public (As Percentage of GDP)



Source: Office of Management and Budget / Congressional Budget Office

Mr. HENSARLING. I mean, clearly we all know that we are looking at a sea of red ink for as far as the eye can see.

We have had the CBO Director, Dr. Elmendorf, testify, “The outlook for the federal budget is bleak. U.S. fiscal policy is on an unsustainable path.”

We have had the Director of OMB, Dr. Orszag, say that ultimately the ten year—the deficit numbers that are in the President’s ten-year budget are unsustainable, because they do not drop below three percent of GDP.

Former Comptroller General David Walker in looking at our long-term spending patterns said, “They are a fiscal cancer that threatens catastrophic consequences for our country.”

I am sure you are aware that Moody’s has recently opined that within the next few years if America does not put forth a long-term plan to deal with that sea of red ink that our AAA bond rating could be jeopardized.

Clearly Greece has been in the forefront of the financial headlines. And so I guess my question is to what extent do you believe that this particular sea of red ink that we are looking at, which as we know doubles the national debt from fiscal year 2008 in five years and triples it in 2010, if we don’t get this house in order, do you believe there is a long-term threat to our national security?

Mr. LYNN. I think certainly the underpinnings of our national security is the health of our economy. So absolutely there are national security implications for these numbers.

That said, I think what the President has done is try to balance concern for the fiscal situation that we are in and the needs of specific national security programs. And I think that is what led him to the conclusion that in the budget that he proposed there would

be a domestic freeze. But there would be some modest real growth in the national security related agencies.

I think he is trying to balance the concern that you identified for the overall state of the economy with specific needs in the national security arena that are needed to meet threats that we face. Of course we are in two wars and so on.

Mr. HENSARLING. If I could, Mr. Secretary, I would like your reactions to a couple of news articles that have come across my desk recently. I mean, clearly you know that we continue to be quite reliant on the Chinese to buy our debt. I think I read perhaps Japan became our number one debt holder recently. And then somebody recounted the numbers and it was China yet again.

But I think in rough terms they hold about \$800 billion of our debt. I think now we are right at that tipping point whether the majority of our debt is foreign owned.

On February 10th, the Washington Times reported, "China's military stepped up pressure on the United States on Monday by calling for a government sell off of U.S. debt securities in retaliation for recent arm sales to Taiwan." Do you have any comment on that?

Mr. LYNN. I mean, I think the Chinese, as they said they would, have criticized the sale to Taiwan. We thought it was in our national security interests. And we are working with the Chinese. We hope it—

Mr. HENSARLING. No. But more specifically, Mr. Secretary, leveraging the debt that they hold—leveraging the debt of ours that they own to attempt to impact our national defense policy.

Mr. LYNN. I am not sure where you are going, sir.

Mr. HENSARLING. Let me read you another headline that came up in Bloomberg January 29th. "Russia urged China to dump its Fannie Mae and Freddie Mac bonds in 2008 in a bid to force a bail-out of the largest U.S. mortgage finance companies, former Treasury Secretary Henry Paulson said."

Again, I just—are these harbingers of things to come, again, if we do not tackle this particular debt problem?

Mr. LYNN. I am not sure whether the things that you described are actually going to occur. I do think we need to tackle the debt problem. I think that the President has proposed a commission to do exactly that, proposed it with leaders of Congress.

I think the important element of that commission is that you have—you can't just slice out one or two elements. You have to take on all aspects of the challenge. You have to take on entitlements. You have to take on revenues. You have to take on discretionary budgets. And that that is the approach in this commission.

So I think that that kind of approach is exactly the right approach to deal with the challenge that you have identified.

Mr. HENSARLING. I appreciate your level of optimism. I see I am out of time.

Chairman SPRATT. Mr. Larsen.

Mr. LARSEN. Thank you, Mr. Chairman.

Mr. Secretary, just a tale of two kinds of boomers. The first one is the ones we tend to deal with here in terms of the broader budget, the baby boomers.

In 2019 they come flooding into Medicare, into Social Security. And because of the costs of Social Security and Medicare, the issues that you related to on the Fiscal Reform Commission become that much more important.

How do we deal with those increasing entitlement costs coming into the system in 2019, which squeezes out a lot of dollars to do other things perhaps?

But there is another boomer that is coming in 2019 that you are probably more intimately familiar with. And I want you to tell me what you are going to do about it. In 2019 the Navy is expecting to start with the SSBN-X Program. And the costs to that program, at least looking ahead, is so much and is slated to be so high that it potentially could squeeze out a lot of the ship building budget in the DoD, unless we make that commitment to the projected costs of that program.

We had a hearing yesterday on this in the Seapower Subcommittee. We are going to have another hearing specifically on SSBN-X and Seapower. And one question I have for you is what kind of commitment does OSD have, and perhaps OMB have, to fulfill the dollar commitment necessary to follow through on SSBN-X, as well as on the rest of the Navy ship building budget?

It looks good on paper so far. But I guess there is a little bit of concern on the Committee about whether or not what happens in reality will follow what happens on paper. Can you talk about—can you talk about the SSBN-X Program, the dollar amounts necessary for it, and its impact on the rest of the ship building budget?

Mr. LYNN. Sure. You are correct in identifying that it is an important modernization program that we maintain our core nuclear deterrent through the SSBN Program, which is going to have to be modernized in the 2020 to 2040 time frame.

The costs of that are going to be substantial. And almost surely can't be absorbed within the current levels of the Navy shipbuilding program. So it doesn't come up in the current fiscal year plan which only goes to 2015, which is just the—

Mr. LARSEN. Right.

Mr. LYNN [continuing]. Very beginnings of that program.

But in the 40—the 30-year, excuse me, don't make it 40. The 30-year shipbuilding plan that we have submitted to Congress we are projecting that there will have to be an increase in the—in that shipbuilding plan to accommodate at least some of that—of the costs of the SSBN.

And that is indeed what we are planning on at this point. That is one of the—we talked about, you know, is there a need for real growth in the defense budget or not. That is a specific reason why you would see you need at least some level of real growth extending out in a predictable fashion for the defense budget.

Mr. LARSEN. Okay. I think in April we have a hearing scheduled with Seapower specifically on this issue and we are going to have to explore it more.

On acquisition reform, Secretary Hale, Secretary Lynn mentioned F-35 and the cost estimates coming in. What is the—what is the—maybe—I think you can answer this. What is going to be—what will be the first DoD program that starts from infancy to the end where our acquisition reforms will be applied?

Mr. HALE. Well it won't be the F-35, which is well along at this point.

Mr. LARSEN. Absolutely, I'm sorry.

Mr. HALE. If I could give you a name it would be something early in its life cycle that will experience the full efforts.

Mr. LYNN. I don't know that we have a specific program. Let me give you one that I know you are quite familiar with is the tanker program.

Mr. LARSEN. Yes, sure.

Mr. LYNN. On that program, we have taken an approach of using the fixed price model even in the development phase. And that is a little bit controversial. But we think it is possible in this instance, because the technology is within the current bounds. Both competitors have the technology in hand. The Air Force fully understands the requirements that we have.

And we have tried to set those requirements up front so that we get the plane that we want on day one rather than going through engineering change proposals to alter the design to finally get the plane that we want, which is a source.

For all those reasons we think we can use a fixed price contract. Using a fixed price contract means that we should be able to hit the budget and cost estimates that we use, because the risk, unless it is on inflationary and other items out of the contractor's control, is with the contractor. So it is very much in their interest to bring those costs in on target.

So that is not exactly what you are saying. It is not an independent cost estimate. But it is an acquisition reform that is intended to gain accurate costs and so that we know up front what we are paying for and what we are getting.

Mr. LARSEN. All right, thank you. Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Latta. We have a vote in ten minutes. And I think we can accommodate everybody and allow our witnesses to leave—

Mr. Latta. Well thank you very much, Mr. Chairman. Gentlemen, thanks very much for being with us today. I really appreciate your testimony.

Through the years I have done a lot of work with the Ohio National Guard and trying to make sure that we have—are meeting the needs of our Reserve and our Guard units.

And one of the things that recently has come to my attention is, you know, the concern of keeping the Guard modernized. And a lot of times they sometimes get, I don't care if it is the Army Guard or the Air Guard, they sometimes get the hand-me-downs, you might say.

But I have recently seen that the Army has noted in their budget they are going to discontinue procuring any new Humvees. However with the understanding that 60 percent of the National Guard's Humvee fleet is over 60 years old, or I'm sorry, over 20 years old, pardon me, and that the early models are significantly less capable than the current models, what is the DoD's plan to ensure that the Army's Humvee fleet is modernized?

Mr. LYNN. We have hit the requirement on Humvees. And so we are proposing to not purchase more beyond the next year for the Army.

However, that doesn't mean that we would be ending the upgrade programs. We would be—the Humvees that we have, we would continue to upgrade those. And then there are future programs that may come in at some point and replace the Humvees in some of their roles. But that is a number of years out.

Mr. LATTA. Let me ask this then. Also I have seen, according to a fiscal year 2010 Presidential supplemental, and also in the fiscal year 2011 Overseas Contingency Operations Afghanistan Security Forces Fund, that production for Humvees will total about \$1.3 billion for Afghan security forces and the Afghan National Police in 2011.

I guess my question is are these units going to be at the same standard that the U.S. Humvees are right now, or are they going to be a lesser category you might say without the armored plating, or what will these units look like?

Mr. LYNN. I guess I am going to have to take that unless—

Mr. HALE. Yes. I think I will need to take that for the record. I think they will be up armored Humvees. But we have to get you the facts for the record.

Mr. LYNN. But that is an important broader point is although the Army has hit their requirement that does not mean that there would not be continued sales from foreign militaries and indeed potentially other branches of the U.S. military may still buy some.

Mr. HALE. There will be some Air Force and Marine Corps purchases as well.

Mr. LATTA. Okay. And then finally with these—on the Afghan Security Force sales and things of this nature, will they be all U.S. made, or are they going to be contracted? I know there is some questions about different contractors and things like that in Afghanistan. But will these all be U.S. contracted, or are they—

Mr. HALE. For the Humvees now?

Mr. LATTA. Right.

Mr. HALE. I think they will be U.S. purchases.

Mr. LATTA. Okay, thank you. I yield back, Mr. Chairman. Thank you.

Chairman SPRATT. Thank you, Mr. Latta. Mr. Schrader.

Mr. SCHRADER. Thank you, Mr. Chairman. I appreciate the opportunity.

I am concerned about the statements that are being made about reforming the acquisition process. It sounds good. When I look at the budget it looks like there is a seven percent increase in our weapons procurement systems. But I would hope we would find a reform that actually would lower our costs going forward rather than increasing it. Could you juxtapose those two items for me, please?

Mr. LYNN. Sure. I mean, there are multiple things going on here. There is an increase in the overall modernization accounts. We think that that is what is needed to frankly buy the equipment that is needed for our national security, both in the wars that we are fighting now as well as potential future threats.

As I mentioned in the testimony, there are also substantial program terminations that we have proposed. The terminations in the last budget, the one that Congress approved last year, fiscal 2010 that we are now executing, that if you took to completion all of the

programs that were terminated there, it would have been an additional \$330 billion. If you—

Mr. SCHRADER. What are the terminations the President—what does the total amount dollar wise that the President's proposing this budget cycle for terminations?

Mr. LYNN. I don't have the lifetime number. In the fiscal 2011 the biggest two are the C-17 and the alternate engine.

Mr. SCHRADER. Right. I just—

Mr. LYNN. If you added those two programs in, it would be on the order of an additional \$3 billion.

Mr. SCHRADER. Okay. I was just trying to get a handle compared to the 330, 3 billion doesn't sound like very much.

Mr. HALE. The 330 was, as Mr. Lynn said, at cost to complete. I don't also have in my mind the cost to complete for the terminations. It would be—that are proposed this year. It would be much less than 330.

But as he said, the savings in fiscal 2011 are about 3 billion. By contrast, if I remember correctly, last year's terminations resulted in savings of about 10 billion, 10 or 11 billion.

Mr. SCHRADER. My comment would be I wish the Administration would go back the other way. I keep pushing Congress a little bit to be a little more aggressive in dismantling some of these programs. And hopefully in reform acquisition we should be setting targets to do better with less.

Clearly the Cold War is over. I mean, we still need some nuclear capability. I appreciate that. But the Cold War is over. What sort of draw down has gone down on our intercontinental ballistic missile systems and our military personnel in Europe seeing as how we have to apparently build up our forces in the Middle East?

Mr. LYNN. I am going to have call back from memory. But I think at one point we had over 300,000 troops in Europe. And now we are down to around 100,000. I will check those and get those for the record.

Our ICBM levels I think are at 450 currently. I am not sure what the high. But they were in the midst of negotiations with the Russians to try and reduce by a relatively substantial mutual number the strategic nuclear delivery vehicles.

Mr. SCHRADER. So you envision those going down, continuing to go down?

Mr. LYNN. Absolutely.

Mr. SCHRADER. Last question is Al-Qaeda. Are they primarily in Afghanistan or Iraq, or what is the current theology here?

Mr. LYNN. Well, Al-Qaeda is in numerous countries around the world. I think that the general intelligence would tell you that the leadership locus would be in the ungovernable areas on the Pakistan/Afghan border.

Mr. SCHRADER. That goes to my concern a little bit. It seems like we are fighting this land war in Afghanistan, finally getting out of Iraq. And yet Al-Qaeda is more on the periphery, perhaps as you say in the Pakistan/Afghan border, maybe in Yemen.

I am not sure why we are devoting so much of our resources in an area where Al-Qaeda itself is not present. And we should be spending a little more time, perhaps with the drone systems that

seems to be working very well, and Special Forces units in the hot-bed areas where Al-Qaeda really is. Why are we not pursuing that?

Mr. LYNN. Well, I think we are. I think we are pursuing with our partners in Pakistan and in Yemen I think we are pursuing aggressive campaigns against Al-Qaeda as well as the operations in Afghanistan. I don't think it is an either/or proposition.

Take the border, you are trying to put pressure on that border area from both sides. The Pakistanis have taken important steps with some assistance from us. And on the Afghan side we are trying to put pressure on the other side. The hope is to stabilize the situation with a holistic approach.

Mr. SCHRADER. Thank you very much. I appreciate it.

Chairman SPRATT. Let me tell you where we are. We have a vote in one minute on the House floor. Mr. Scott has called and said as soon as he votes he would like to come and ask some questions.

I can go ahead and recognize at least Mr. Garrett, maybe Mrs. Lummis. But we have got two votes following this. Would you prefer to come back? Would you prefer to proceed at this point?

Mr. GARRETT. I would prefer to proceed. I only have one point that I want to raise. And I will submit the rest of my questions in writing.

Chairman SPRATT. Okay. Mr. Garrett.

Mr. GARRETT. Thank you. And as I said, I will be submitting some additional numbers questions and what have you to you afterwards.

But right now I just want to get to one personal matter back in the District. I was not familiar with a program that was out there until a couple of years ago. It is a program. It is called the Joint POW/MIA Accounting Command or JPAC and all the extensive work that they actually do.

I will just give you the one example that we have been dealing with now. It is dealing with folks from the Lessing family. This is a gentleman, Army Captain Warren Lessing, who was killed way back in World War II when his aircraft crashed off the coast of Newfoundland, Canada.

Now JPAC has been involved. As you know, they are involved with excavations and underwater excavations and the like to try to recover our fallen heroes to bring back their remains when they are identified.

Now these were identified some time ago. And the family has actually been—his granddaughter has been working on it now for over a decade. Our office became involved about two years ago. I am trying to do it.

And I do want to say clearly that JPAC has been very responsive to our office with this over the time and has filled us in on what they are doing and has looked out to see everything that they can do.

But the problem apparently is that there is a cue out there or a list out there of about a dozen other—a little less than a dozen other excavations that they can—need to do. And the type of work that they do is limited, because the folks that they can get involved with it because it is highly dangerous and underwater and what have you. And there are only so many divers that they actually have experts, only a couple I think.

Are you all familiar with this program? I assume you are.

Mr. LYNN. At a general level, yes.

Mr. GARRETT. Yes. I just appreciate maybe if not here whether you can bring back to us as to what the prospects are for funding of this program so that we can make sure that when we do know the whereabouts of our fallen heroes, that they can come excavate them and bring back their remains to their families and do it in a timely manner.

His son is now 80 years old and would like closure before he passes on so they know whatever actually happened to their father.

Mr. LYNN. We would be happy to get that for the record.

Mr. GARRETT. Okay. I thank you.

Chairman SPRATT. Ms. Lummis there is zero time left to vote. We can ride it out if you would like. What is your preference.

Ms. LUMMIS. Mr. Chairman, I have a staffer here. And if I could just leave—plant three seeds of questions with you and ask you to follow up with him.

Mr. LYNN. Sure.

Ms. LUMMIS. It will take 30 seconds.

Chairman SPRATT. Go ahead.

Ms. LUMMIS. Okay, thanks, Mr. Chairman.

One is are we making any discernable progress towards a clean audit?

Number two is you mentioned modest real growth in your budget, 2012 and forward. We are talking one percent real, three percent nominal growth. Can you really do it for that, and I am curious about how with rising fuel costs, et cetera.

And question number three is in Wyoming we have a lot of new, little national defense oriented research companies that are doing some really cutting edge work on technology, biodefense, and other things. What are you doing to help encourage these small businesses so they can compete with larger defense contractors for some of these really cutting edge technologies?

Thank you very much. And my staffer will follow up with you. Thanks so much for being here. Thanks, Mr. Chairman.

Chairman SPRATT. Thank you now, appreciate it.

If you could bear with us. We have got two five-minute votes after this vote. Mr. Scott at least had some questions. We will be back as quickly as we possibly can.

In the meantime, if you need to use the telephones or any other facilities here, they are yours at your request. Thank you for your patience.

Mr. LYNN. Thank you, Mr. Chairman.

[Recess.]

Chairman SPRATT. Call the hearing back to order and recognize Mr. Scott of Virginia.

Mr. SCOTT. Thank you, Mr. Chairman. I appreciate you coming back.

One question I had was on the BRAC closure of Fort Monroe. When that was closed there was some speculation about cleaning up. Do we have the sufficient funds to clean up Fort Monroe, so that when it is turned over to the Commonwealth of Virginia that it will be as clean as it was when we gave it to you?

Mr. HALE. I mean, I need to check specifics for you, Mr. Scott. But we generally budget for environmental cleanup of BRAC closure sites. So I think the answer is going to be yes.

Mr. SCOTT. Okay. We said during the consideration that if you close it, you have got to clean it. So it had to be part of the calculation.

In terms of changing the home porting of an aircraft carrier from Norfolk to Mayport, I understand that their—I haven't seen the risk assessment, which quantifies the hedge against uncertainty. During the Cold War there didn't seem to be much of a problem, because there was no other East Coast nuclear facility. And the question I have is the—just the dredging or otherwise making Mayport available just in case something unusual happened, would that—why would that not be sufficient in the outside chance that something did happen rather than move—changing the home porting?

Mr. LYNN. We looked at that, Mr. Scott. And we came to the conclusion that strategically the country was better protected if we continued the policy of having two carrier ports on each coast.

That would require putting a nuclear facility at Mayport since we no longer have any conventional carriers. In the Cold War that you referred to, we had a mix of conventional and nuclear—

Mr. SCOTT. No. It is just—one of the uncertainties you are hedging yourself against would that be hurricanes? Would that be one of the uncertainties?

Mr. LYNN. You would be hedging both against manmade and natural disasters.

Mr. SCOTT. So we would be moving a carrier to Florida from Norfolk to hedge against hurricanes?

Mr. LYNN. It would be a broader calculation than that. It would be against all forms of natural disasters and terrorist attacks.

Mr. SCOTT. Where could we find the risk assessment?

Mr. LYNN. We provided briefings to the Armed Services Committee. I will make sure that you get it.

Mr. SCOTT. Thank you. And once the initial costs—this is the Budget Committee. So we want to know all the budget implications. After the initial expenditure, what are the recurring costs that would be involved?

Mr. LYNN. I mean, I think you are aware the initial costs were on the order of \$700 million. I don't have the recurring costs. But we can get that for the record.

Mr. SCOTT. Have you considered the recurring costs? What would the—what kind of costs would we be talking about?

Mr. LYNN. We have considered it as part of the analysis. But I don't have the numbers in my head.

Mr. SCOTT. Have you considered the—if the average age on these aircraft carriers is about 22 years old, something like that, they need to be constantly trained. Where would that training take place? For a carrier in Mayport, where would the continual training take place? Would they have to come to Norfolk to get recurring training?

Mr. LYNN. I guess I am not certain.

Mr. SCOTT. You don't know. Okay. On maintenance—

Mr. HALE. I think, Mr. Scott, I think they would go to training ranges in the Caribbean.

Mr. SCOTT. But if they are—but they—if they were in Norfolk they could training right there in Norfolk. No temporary duty?

Mr. HALE. It would depend on the kind of training I think.

Mr. SCOTT. Okay. As I understand it, the aircraft carrier will be gone about half the time. What is the shore maintenance staff doing the 50 percent of the time the ship isn't there?

Mr. LYNN. The same kinds of things that they would be doing in Norfolk. There is a series of preparations and other functions. There is a continual work up function for all kinds of ships.

Mr. SCOTT. Would they be in Mayport, or would they be in Norfolk?

Mr. LYNN. There would be a permanent staff in Mayport.

Mr. SCOTT. Now I understand that the permanent staff would be about 50. But when the ship shows up you would haul people from Norfolk, 700 and some people from Norfolk, to be in Mayport. Is that not true?

Mr. LYNN. You are going to have address that to the Navy. I am not certain, sir.

Mr. SCOTT. If that is true, would that cost be considered? Did you consider that cost?

Mr. LYNN. We did an analysis of the costs and came to the conclusion that the danger of putting all of your carriers on one port on the East Coast was not a risk that we wanted to take.

Mr. SCOTT. But we haven't seen that assessment. I understand that according to the Navy, the expected level of resources over the near and mid-term will not sustain every program objective, warranting a willingness to consider tradeoffs in even our most deeply held priorities.

What kind of tradeoffs are we talking about in terms of ship acquisition, aircraft procurement, ship repair and maintenance, and shore infrastructure? What kind of tradeoffs are we talking about? What would this do to our ability to achieve a 313 ship fleet if we spend a billion dollars in this operation?

Mr. LYNN. In the shipbuilding plan that we have submitted, we have a plan that would get over the 300 ship target. And it includes the costs of the facility in Mayport.

Mr. SCOTT. Then what other tradeoffs, even in our most deeply held priorities, that the Navy was talking about?

Mr. LYNN. I am not sure what you are referring to.

Mr. SCOTT. You said 300. Is that the same as 313?

Mr. LYNN. I think it is a little less. The 313 number is a number that the CNO laid out. The shipbuilding plan lays out a range that goes from the 285 we are at now, up over 300, and stays over 300 for most of the ship.

It is hard to have a point target, because when you have ship acquisitions and ship retirements, you go up and down in individual years. So I think it is better to look at it is that you want to be in the low 300s. And some years that might be 313. And some years it might be a little higher. And in other years it might be a little bit lower.

Mr. SCOTT. And is there a deficit in shore infrastructure and ship repair and maintenance in the Navy budget right now?

Mr. LYNN. We have increased the Navy maintenance budget this year. And we have tried to budget two to three percent real growth, which is what we anticipate those kinds of budgets to have.

Mr. SCOTT. But is there a backlog? There is no backlog?

Mr. LYNN. I believe there is a backlog.

Mr. SCOTT. A huge backlog. Is there not a huge backlog in Navy ship repair and maintenance and shore infrastructure that the Navy needs to come up with?

Mr. LYNN. There is always a rolling backlog. We will get you the numbers.

Mr. SCOTT. Thank you, Mr. Chairman.

Chairman SPRATT. What is in the budget this year for the proposed moving of the carrier from Norfolk to Mayport?

Mr. LYNN. There is very little money in for this year. It is over the course of the FYDP.

Mr. HALE. There is just two million. In the fiscal 2011 budget, there is two million for planning and design for the Mayport move.

Chairman SPRATT. Mr. Ryan.

Mr. RYAN. Thank you, Mr. Chairman. Gentlemen, thank you for your testimony here today and the work you are doing on behalf of the country.

I would like to turn just to a couple of issues, first on the acquisition side. Obviously, we all have responsibility to make sure that taxpayer dollars are spent wisely. And right now with the economy in the downturn, our dollars are particularly being stretched thin.

I want to ask on our acquisition reform issues. Secretary Lynn, in your testimony you outline some of the steps DoD is taking right now to continue reforming the acquisition process and ensure defense dollars are in fact spent wisely.

How will creating 20,000 new positions in the federal acquisitions workforce lead to greater efficiencies and cost savings? And next, what additional programs in this year's budget are being recommended for discontinuation? And in your opinion, will any of these programs make our defense posture any weaker or our troops any less safe?

Mr. LYNN. The 20,000 is—about half of those 20,000 are new positions and about half of them are in-sourcing of functions that are currently being performed by contractors. When you in-source the positions, we think that we will get a percentage savings. That it is cheaper for us to do it in-house, as long as it is a relatively permanent function, than it is to outsource the cost of an individual is less. We will get you some numbers on that for the record.

In terms of the cancellation, there were seven major programs that were cancelled or curtailed this year. The two largest were the C-17 where we proposed to end the buy at the current level of 223, which is what Congress has authorized to this point.

And the alternate engine for the Joint Strike Fighter, which we would propose not to go forward. We think in terms of the first program, we have at this point more lift than the studies suggest that we need. So we think we can curtail the C-17 program at this point within the acceptable risk.

And with the alternate engine, there—we think also that we can contain any risks there. And it will be a more cost-effective way to proceed with the single engine. We don't think that the potential

savings from competition outweigh the substantial up-front costs of bringing a second engine to production.

Mr. RYAN. Any other examples that you can give me?

Mr. LYNN. We stopped work on a next generation infrared satellite, called 3GIR. We have stopped the next generation cruiser called CGX. There is Navy electronic warfare aircraft called EPX. There is a command and control system. I forgot—

Mr. HALE. Net-Enabled Command and Control System.

Mr. LYNN. Net-Enabled Command and Control System. And then there is a integrated—something called the Defense Integrated Military Human Resources System, which is called DIMHRS, which was a large IT project which frankly had just gone way over budget and schedule and was not working. And we have decided to take a different approach, tackling each of the services individually rather than trying to do it on a government-wide basis. Excuse me, a department-wide basis.

Mr. RYAN. Thank you.

Mr. LANGEVIN. Before my time runs out, on another issue. First of all, I want to applaud Secretary Gates who recently testified before Congress that the Pentagon has taken the first steps toward repealing “don’t ask, don’t tell.” I think it is an antiquated policy. And I think we ought to be judging people on their service and not on their sexual orientation. But, obviously, a thorough review won’t be completed until the end of next year.

Let me ask you, how much money have we spent recruiting and training new soldiers to replace the thousands discharged under “don’t ask, don’t tell”? In other words, how much has this policy cost the government? And how much will it cost to wait another year?

Obviously, the military being stretched so thin right now, you know, we need the best and the brightest that are serving. And they shouldn’t be I don’t think disqualified because of their sexual orientation. So I would like you to answer that question if you would.

But also, you know, why spend additional time and resources on further review of this policy at the risk of losing more distinguished servicemembers? Why not repeal the policy now and keep our highly-trained soldiers who are already serving with honor and distinction?

Mr. LYNN. We are trying to strike the appropriate balance. There are many issues involved in repealing this policy. We have to institute policies on benefits, on fraternization, conduct, housing. We have to look at how we are going to move the force to a new policy in terms of implementation. There is training. There is leadership issues. And we want to do this in a very thorough and thoughtful manner. And that is the reason for the timing.

I understand your concern about discharging individuals as we look to change this policy. And for that reason we are taking a look at what kind of flexibility we have within the current law to tighten up the regulations and to narrow the basis on which you would see any further discharges under the current policy.

Mr. LANGEVIN. Does the Secretary have the authority to suspend the policy for now, pending the outcome of the review?

Mr. LYNN. No. We don't think—I think the best—I yield to the lawyers. But I don't think—I mean, it is—the “don't ask, don't tell” policy is the law. Congress has passed the law.

We have implementing regulations that, for example, tell you at what level of seniority an officer—the disposition has to be made at, because it has to be made—can it be done at a colonel level or a more senior level?

Those kinds of things are implementing the law. We think we can make changes in those kinds of things. But can we just ignore the law, no, we don't think we can.

Mr. LANGEVIN. Okay. I am not saying you ignore it. But did we have the opportunity to suspend it?

Mr. LYNN. We don't think we have the basis to suspend it I guess was the word you used.

Mr. LANGEVIN. Okay, thank you.

Chairman SPRATT. Secretary Lynn, Secretary Hale, thank you very much for coming, for your forthright answers. And we will get you out of here on schedule back to the Pentagon.

We look forward to working with you this year for a significant defense budget for next year. Thank you again for your participation.

[Whereupon, at 12:00 p.m., the Committee was adjourned.]

