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IMPACTS OF A CONTINUING RESOLUTION AND SEQUESTRATION ON ACQUISITION, PROGRAMMING, AND THE INDUSTRIAL BASE

HEARING

BEFORE THE

SUBCOMMITTEE ON TACTICAL
AIR AND LAND FORCES

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

HEARING HELD
FEBRUARY 28, 2013

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IMPACTS OF A CONTINUING RESOLUTION AND SEQUESTRATION ON ACQUISITION, PROGRAMMING, AND THE INDUSTRIAL BASE

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON TACTICAL AIR AND LAND FORCES,
Washington, DC, Thursday, February 28, 2013.

The subcommittee met, pursuant to call, at 9:08 a.m., in room 2118, Rayburn House Office Building, Hon. Michael R. Turner (chairman of the subcommittee) presiding.

OPENING STATEMENT OF HON. MICHAEL R. TURNER, A REPRESENTATIVE FROM OHIO, CHAIRMAN, SUBCOMMITTEE ON TACTICAL AIR AND LAND FORCES

Mr. TURNER. Good morning. We will call to order the hearing of the Tactical Air and Land Forces Subcommittee.

The Tactical Air and Land Forces Subcommittee meets today in open session to receive testimony on the impacts of sequestration and the continuing resolution, CR, its impacts on acquisition, programming, and the industrial base.

Before I continue with my opening statement, I want to pause for a moment just to say I voted against this mess. And I voted against this mess because I thought we would be right here, right where we are, with this clock ticking, 14 hours and 15 minutes until sequestration hits in what I believe will be devastating impacts upon our national security and our Department of Defense.

Now, it is noted that there is a pause button there, and I truly believe that the President of the United States is the only one who can hit that pause button. We need him to come to the table with a workable plan. And we certainly are hopeful that once sequestration does hit and the effects that we hear today, that a responsible plan will be brought forward in order to set this off.

I noted that in talking to some of the witnesses before we opened, that they thought that perhaps this clock was their opening statement clock, but they don't get 14 hours for their opening statement.

But I think this demonstrates the fact that it is imminent; it is upon us. Today, the panel that we have that will be speaking will be the last word on sequestration before we are in the post-implementation of sequestration, before we begin to see its effects. And that is why this committee continues its efforts on oversight and our detailed examination of the harmful impacts of the continuing resolution on sequestration, on the military's ability to protect national security interests of our Nation.

We have already heard very candid testimony from the military service chiefs during the full committee hearing on February 13th, on how these forced budget cuts will be devastating to military training and force readiness.

General Dempsey, chairman of the Joint Chiefs of Staff, stated, "We built a strategy last year that we said we can execute and absorb $487 billion. I can't sit here today and guarantee you that if you take another $175 [billion] that that strategy remains solvent. . . . What do you want your military to do? If you want it to be doing what it is doing today, then we can't give you another dollar."

Today, we plan to leverage the information gained from that hearing and provide our members with the opportunity to gain a better understanding of how the CR and sequestration would impact defense acquisition, programs, projects and activities, and their associated industrial bases across the country.

One of the most tragic aspects of our current situation is that sequestration was never supposed to happen, and there were numerous opportunities to avoid it.

By laying out the details of the impacts of sequestration, the Department of Defense could have helped us in our education campaign to avoid the catastrophic cuts we are now facing.

On the eve of sequester, it is my hope that this hearing will aid to provide greater clarity concerning the details and levels of risk that will be associated with the arbitrary cuts mandated by sequestration on all major defense acquisition programs, including how these severe reductions will impact local communities, small businesses and ultimately the military's ability of meeting the national military strategy.

These details will help to illustrate the depths of these impacts and help us make our case to Congress and the Nation.

And I want to underscore what I just said. The Department of Defense has been very slow to provide information, both to Congress and to the Nation, as to what the impacts of these cuts will be. Because of that, it has stunted the debate and the conversation about how to avoid them, because many of the actual details of their effects could not be evaluated and known.

Ironically, the sequestration conversation has been seated in a context of savings and fiscal austerity. However, it seems apparent that allowing these cuts to take place would, ultimately, cost our country more than it saves, while simultaneously costing jobs.

Second- and third-tier vendors, mostly small businesses, will be affected if these cuts are enacted, many of which are referred to as "single points of failure vendors," meaning only one company is qualified to provide a particular part. And once that capability is lost, it will take significant capital and time to regain that capability. This, in turn, will put people out of work and dramatically drive up cost.

We need to be assured that the Department and the military services are conducting the appropriate level of analysis to assist the impact of sequester on our industrial base. For example, the Army indicates that every procurement program would be affected. Quantities would be reduced by 10 to 15 percent, and that these

mandated sequester reductions affect more than 1,000 companies in more than 40 States.

For the Army alone, over 3,000 vendors will be affected. The Army has stated the total economic impact would be approximately $15.4 billion, the Marine Corps, $2.4 billion, the Navy is over $20 billion. I witness the devastating effects of these reactions each time that I return home.

My community, in southwest Ohio, includes Wright-Patterson Air Force Base, the home of the Air Force Materiel Command and the Air Force Research Laboratory. Recent information provided by the Air Force has indicated that over 14,000 civilian employees at the base face potential furloughs.

The base provides cutting-edge research and development, as well as real-time intelligence, surveillance, and reconnaissance that enhances the lethality and survivability of our warfighters who are in harm's way. Every State is going to be impacted by sequestration.

As I stated before, I voted against this. And I think, certainly, our discussion today will be incredibly important as we try to learn the information that will give us the ability to advocate for these cuts to be set aside.

I would like to welcome our distinguished panel of witnesses. Representing the Army today, we have Ms. Heidi Shyu, Assistant Secretary of the Army for Acquisition, Logistics and Technology. We have Lieutenant General James Barclay III, Deputy Chief of Staff, G–8.

Representing the Navy and Marine Corps, we have Mr. Sean J. Stackley, Assistant Secretary of the Navy, Research, Development and Acquisition, RDA. We have Vice Admiral Allen G. Myers, Deputy Chief of Naval Operations, Integration of Capabilities and Resources; Lieutenant General John E. Wissler, Deputy Commandant for Programs and Resources.

And then representing the Air Force, we have Lieutenant General Michael R. Moeller, Deputy Chief of Staff for Strategic Plans and Programs; Lieutenant General Charles R. Davis, Military Deputy, Office of the Assistant Secretary of the Air Force for Acquisition.

We thank each of you for being here. We appreciate that you will, on the House side, be the last word on the effects of sequestration before we are actually implementing sequestration.

And it is my pleasure to introduce my good friend, and bipartisan colleague, Ms. Sanchez.

[The prepared statement of Mr. Turner can be found in the Appendix on page 39.]

STATEMENT OF HON. LORETTA SANCHEZ, A REPRESENTATIVE FROM CALIFORNIA, RANKING MEMBER, SUBCOMMITTEE ON TACTICAL AIR AND LAND FORCES

Ms. SANCHEZ. Thank you, Mr. Chairman. And as always, it is a pleasure to serve with you on this subcommittee. And to the young lady and the gentlemen before us, thank you for being here to discuss the effects of sequestration, especially on our second- and third-tier suppliers, and the need to have the type of tactical equip-

ment, in particular, that is required to train up our troops and to keep our troops out in the field. So I appreciate that.

Obviously, we have had many hearings on sequestration in the Congress. And the fact that we are, you know, less than a day away from the trigger of sequestration coming about is—I don't think that this hearing, quite frankly, is going to have an impact on what starts tomorrow. I am glad that recently the President said that this will be a continuing, ongoing sort of situation, once it starts in place, because it really signals to the fact, I hope to the American public, that this isn't a fiscal cliff. This is a concern. And the Congress really needs to get back to the table and do its job.

I think it is a little frustrating—I think it is a little frustrating for my colleagues on this committee, myself, too, to really want to sit down at the table in a very bipartisan manner and figure out where some of these cuts need to be made. The fact that we have sequestration is really because many of us in the Congress have not been either asked to be at the table, or the people at the table who want to be at the table, who can really help to make some of these cuts, not just in defense, but in all areas of the budget, much, for example, in a sense, to what the Simpson-Bowles report told us 2 years ago.

Americans want Washington to tighten their belt. And to do that, we need to find waste. We need to find programs that don't work. We need to, maybe, make decisions between several different types of programs and decide which one will we invest in for the future, and which one do we just not have the resources to do that.

And I think the people in front of us have—so many of you, I mean, although you all look young—believe me—decades of acquisition and procurement and, you know, really understanding how the military is one of those operating pieces of the Government that works well.

So, for me, it is a shame when we see sequestration coming, whether the program is good or not, whether it has been working well or whether people have been under budget, whether they have been ahead of time, and say, "well, we just need to cut 10 percent from that."

And those programs, you know, we all look around, and whatever job we have, and we see, you know, some waste or some inefficiencies, and then those programs will be able to say, "You know, this program is not working. This is the piece that we have to eliminate from here."

Quite frankly, that is our job. That is Congress' job. It is not the President's job. One person cannot sit there and have an eyeball to everything, to every first-, and second-, and third-tier situation that is going on.

So I hope that you will give us information so that we can work together, if the leadership gives us that ability, from both sides and from both Houses, to sit down and really get this done in the right way.

I am more worried, quite frankly, about what comes about on March 27th. That is the appropriations process. Now, I have been here 17 years. When I first came to the Congress, we actually got several appropriation bills passed and put through. Maybe not all—at that time, I think it was 13; maybe now it is 12. Maybe not

all of them, but certainly defense bill was one of those that we were able to put through as an appropriations process.

And you know, especially in the last couple of years, we have seen the CR process, over and over and over again, tied to politics of who will win the election and maybe we will get a better chance, and one side will get more of what they want, and the other side will get less or what have you.

But, you know, now we are just at a 2-month, 4-month, 6-month, end-of-the-year CR and the American public doesn't, in a lot of ways, understand what that means. But it basically is a lurch and a start, a lurch and a start, a stop and a start, sort of a process for all, not just the military, but for all our departments at the Federal level.

So, March 27th comes along, and what type of a CR extension will we have? Or will we not have one? I mean, I have a lot of my colleagues saying, you know, that they are willing to see the Government shut down. I don't want to see that happen, because I understand what the impact is to production line. I understand what the impact is. I understand the nervousness of our troops and our families about what that means.

And it is not just for the military, but it is our Federal workers. I happen to be one of those people that believe that the majority of our Federal workers go to work every day wanting to do a good job for Americans. And they have already not had raises in the last 3 or 4 years. Now they are looking at maybe up to 20 percent of what, effectively, is a pay cut for them and for their families. And, believe me, most of them make a lot less than what you and I make, Mr. Chairman.

So, I hope this hearing will really paint a picture for us of what the CR process also will do with respect to our readiness, our ability to do what is one of the number one things our Government should do, which is to keep Americans safe and be ready to be out there and do this.

So, I look forward to this hearing, Mr. Chairman. And thank you.

Mr. TURNER. Thank you, Ms. Sanchez.

Turning first then to each of our panelists. Secretary Shyu, we will begin with you.

STATEMENTS OF HON. HEIDI SHYU, ASSISTANT SECRETARY OF THE ARMY FOR ACQUISITION, LOGISTICS AND TECHNOLOGY, U.S. DEPARTMENT OF THE ARMY, AND LTG JAMES O. BARCLAY III, USA, DEPUTY CHIEF OF STAFF, G–8, U.S. ARMY

Secretary SHYU. Thank you, very much.

Chairman Turner, Ranking Member Sanchez, and members of the subcommittee, thank you for the opportunity to testify before you today.

Mr. TURNER. Ma'am, would you please move the microphone closer?

Secretary SHYU. Okay, how about now? Okay, so I will start over. Chairman Turner, Ranking Member Sanchez, and members of the subcommittee, thank you for the opportunity to testify before you today on the impact of sequestration and a continuing resolution

and its effects to the Army acquisition programs, as well as the industrial base.

I will ask that my statement be entered into the record. I would like to take this opportunity to highlight some key points. The reality is that the sequestration provision in the Budget Control Act would cause sharp reductions in soldier equipment investment.

Every single piece of soldier equipment under development or in production will be affected in the implementation of sequestration in some manner. All of our carefully planned timelines for delivering new capability to soldiers will be necessarily delayed. Costs to the Army, over the long term, will likely increase. The impact will be felt long after this fiscal year.

As we consider the impacts of these budgetary decisions today, the Army's equipment needs are significant. We are conducting combat operations in Afghanistan today. Equipment use over the past decade must be reset, while deferred modernization is now in need of attention and investment.

We must also continue to prepare for the uncertain and emerging threats of the future, which holds an increasingly complex and less predictable environment.

The fiscal impacts to Army acquisitioning and equipment modernization programs are attributable to the estimated $12 billion reduction to the Army's budget during the remaining months of the current fiscal year, using the DOD's [Department of Defense] planning assumptions for sequestration.

This incorporates a $6 billion reduction in Army's operation and maintenance accounts, representing approximately 51 percent of the total Army's reduction due to sequestration in fiscal year 2013, a significant reduction of about $3 billion in Army procurement accounts, applied equally across over 400 Army programs, and almost a billion dollars reduction in RDT&E [Research, Development, Test & Evaluation] investment across the Army.

Every Army acquisition program will be affected by these cuts. Schedules for RDT&E-funded programs will be impacted. Procurement programs will be reduced across the board by roughly 9 percent.

The impacts to the industrial base will be significant. Based on our current assessment, impacts of sequestration and the CR could result in thousands of jobs lost or not realized, which affects 40 States and the District of Columbia.

The almost a billion dollars in reduction to RDT&E accounts may result in the closure of some of the DOD's high-performing computing centers, impacts on grants and partnerships with universities and other affiliated research institutions, and potential loss of critical expertise through indiscriminate budget cuts.

Moreover, the broad effects of sequestration will significantly impact the acquisition workforce. Overall, we anticipate that the funding shortfalls will result in a large number of contract changes relating to the program quantities and schedule.

These changes will increase the burden on contracting workforce. Contracting personnel, program management, and cost analysts who are charged with the responsibility of getting the best value for the taxpayer will be potentially subject to a 22-day furlough.

Compounding our difficulties is the effect of a yearlong CR with sequestration on all programs. These impacts include the Army being unable to award the multiyear contract for Chinook [CH-47 heavy-lift helicopter] production; the Army will be unable to commence Paladin PIM [M109 Paladin Integrated Management self-propelled howitzer] low-rate initial production; reduced Apache helicopter [AH–64 attack helicopter] production quantities in the current fiscal year; and the inability to procure the new common sensor payload for the Gray Eagle [MQ-1C unmanned aircraft system], which provides high-definition intelligence, surveillance, and reconnaissance capabilities to our warfighters.

In closing, the Army will continue to provide soldiers with the best equipment available. Their sacrifices deserve no less. We hope that the impacts discussed today will summon a renewed dedication to the needs of our force, which has consistently answered the Nation's call for service throughout its history.

Mr. Chairman, members of the subcommittee, we thank you again for your steadfast and generous support of the outstanding men and women of the United States Army, its civilians and families. And we look forward to your questions.

Thank you.

[The joint prepared statement of Secretary Shyu and General Barclay can be found in the Appendix on page 42.]

Mr. TURNER. Thank you, Secretary Shyu.

Secretary Stackley.

STATEMENTS OF HON. SEAN J. STACKLEY, ASSISTANT SECRETARY OF THE NAVY (RESEARCH, DEVELOPMENT & ACQUISITION (RDA)), U.S. DEPARTMENT OF THE NAVY; VADM ALLEN G. MYERS, USN, DEPUTY CHIEF OF NAVAL OPERATIONS, INTEGRATION OF CAPABILITIES AND RESOURCES (N8), U.S. NAVY; AND LTGEN JOHN E. WISSLER, USMC, DEPUTY COMMANDANT FOR PROGRAMS AND RESOURCES, U.S. MARINE CORPS

Secretary STACKLEY. Chairman Turner, Ranking Member Sanchez, distinguished members of the subcommittee, it is a pleasure to appear before you today to address the impacts of the continuing resolution and sequestration on our Department of the Navy acquisition, programming, and industrial base.

Joining me today are the Deputy Chief of Naval Operations, Vice Admiral Myers and the Deputy Commandant, Lieutenant General Wissler.

And with the permission of the subcommittee, I propose to provide a brief statement and submit a separate formal statement for the record.

The Navy-Marine Corps team is this Nation's expeditionary force in readiness, a balanced air-ground naval force, forward deployed and forward engaged, performing missions around the globe, on the ground in Afghanistan; providing maritime security along the world's vital sea lanes; missile defense in the Mediterranean, the Sea of Japan; intelligence, surveillance, and reconnaissance where needed, as needed; persistent presence at sea, with an embarked Marine force ready to move ashore.

They are conducting antipiracy patrols, global partnership stations, humanitarian assistance. And they are quietly, reliably on patrol, providing strategic deterrence, and all the while training for the next deployment, the next operation, the next crisis, the next contingency.

The Department of the Navy's 2013 budget request, as authorized by this committee, provides the resources needed to meet this full range of missions and the overarching defense strategy. It balances the resources required to execute today's mission against today's threat and the investment required to execute tomorrow's mission against a future threat.

The Department greatly appreciates the committee's work in passing the 2013 National Defense Authorization Act. Today, however, we are here to discuss the unfinished work of the Congress, as it relates to defense appropriations and the pending sequestration.

Account by account, program by program, the $170 billion authorized for Navy and Marine Corps by the Armed Services Committee is severely undercut by the shortcomings of the continuing resolution and the across-the-board cuts posed by sequestration.

Further, authorities for the multiyear procurement of 98 MV–22 aircraft [Osprey medium-lift tilt-rotor aircraft], 10 DDG–51 destroyers [*Arleigh Burke* class guided missile destroyers], 10 *Virginia* class submarines [nuclear-powered attack submarines] and the near $5 billion worth of savings these multiyear provides, and authority to start construction of the next aircraft carrier, *John F. Kennedy* [*Ford* class aircraft carrier USS *John F. Kennedy*], to start the refueling complex overhaul of the CVN–72 *Abraham Lincoln* [*Nimitz* class supercarrier USS *Abraham Lincoln*], these lay idle.

In terms of the dollar impact of the continuing resolution, now about to enter its sixth month, operations and maintenance funding authorized by this committee is reduced by about $4 billion for the Department of the Navy.

Procurement and research and development funding authorized by this committee is reduced by about $5 billion; $5 billion in new start and multiyear authority lays idle. And with no ability to reprogram under the continuing resolution, in excess of $14 billion of the funding authorized by this committee for 2013 falters.

To these constraints we add the impact of the budget reduction imposed by sequestration, approximately $12.9 billion across the Navy and Marine Corps. And to these numbers we add the method by which it is applied, indiscriminately, line by line, and the timing with which it is applied, halfway through the year, thus compounding its impact.

And we are left with stark choices. In fact, absent the ability to realign our reduced funding levels in accordance with our priorities, these are not so much choices as they are *fait accompli* results of a distortion of the budget process which Congress has otherwise faithfully executed in prior years.

The first impact hits operations, because we operate forward and maintain the high state of readiness such operations demand. Therefore, when the flow of funds for our operations and maintenance is cut, our operations are cut in real time.

Thus, the *Truman* [USS *Harry S. Truman* supercarrier] Battle Group deployment, scheduled this past month, has been canceled, and aviation and ship depot maintenance for the third and fourth quarters, it is next, affecting as many as 300 aircraft and over 1,000 engines planned for depot work.

Training is curtailed, and readiness will follow because of cuts to steaming hours and flight hours and maintenance and procurement of spare parts, thus impacting next year's operations and our ability to surge our forces in response to crises.

Procurement of new weapons systems follows next. Pending determination of whether there will be sufficient funding to execute our ship and aircraft and missile and vehicle contracts, decisions regarding cancellation, reduction, or delay hang in the balance.

Thus, the *Abraham Lincoln* aircraft carrier sits pier-side at Norfolk Naval Base, pending sufficient funding to start her refueling complex overhaul at Newport News. The *John F. Kennedy*, the next aircraft carrier, its build plan is in disarray.

And on factory floors in Tucson, Arizona; and Huntsville, Alabama; Tewksbury, Massachusetts; and Morristown in New Jersey, and Amarillo, Texas; and Philadelphia, Pennsylvania; in St. Louis, Missouri; Dallas-Fort Worth; Lima, Ohio; Bath, Maine; Groton, Connecticut; Quonset Point; Bethpage, New York; St. Augustine, Florida; Palmdale, California; and on and on and on, the skilled workers at critical defense production facilities across the country are bracing for the potential indiscriminate drawdown of our force structure, done in a fashion that will defeat the combined efforts of the Department and the Congress to improve the affordability of our weapons systems, thus irrationally compounding the budget challenges we face today.

Next, modernization; the development of those advance capabilities that are critical to ensuring our future military superiority suffers benign neglect under the compounding impacts of a continuing resolution subject to sequestration.

In total, no less than 15 combat aircraft and unmanned systems are at risk, and a bow wave of unfunded requirements for the balance of the aviation program is yet unresolved.

Three hundred missiles and weapons systems are at risk, cutting our inventory at a time when we are striving to restore our weapons to levels called for by the combatant commanders.

Most milestones tied to developing, testing, and fueling new weapons systems will be delayed. Virtually every Marine Corps major program is delayed or reduced, from the Joint Light Tactical Vehicle to ground/air task-oriented radar, to the Amphibious Combat Vehicle, to the modernization of the current inventory, which has weathered 10 years of warfare.

Greater than 100,000 jobs will be lost across the country as a result of these cuts to Navy-Marine Corps operations and programs, first affecting small business and critical suppliers, for they are the first to receive orders for many of our contracts. And, in general, they are the least prepared to weather the financial storm that is about to hit them.

Meanwhile, about 200,000 dedicated career civil servants face the prospects of being furloughed in 2013, impacting current and future operations at every military installation and on every fac-

tory floor responsible for the production of weapons, parts, and supplies for our forces.

Clearly, these examples do not capture the full magnitude, and they do not begin to approach the impacts that will result from subsequent budget-year reductions. Unabated, the reductions will profoundly affect the size and shape and readiness of your Navy and Marine Corps, and therefore the roles and missions which they are able to perform.

The Department and the Armed Services Committee share common responsibilities to protect the Nation, to take care of our men and women in uniform, and to protect the taxpayer. The course we are currently on fails to address these responsibilities in a deliberate way.

Again, I thank the committee for its work on the 2013 National Defense Authorization Act. Our appeal is that Congress complete its work on the 2013 budget request with the passage of an appropriations bill, and that this mechanism for addressing the Nation's budget impasse, which was devised to be so unacceptable that it would be averted, sequestration, somehow be reversed before we are driven to irreversible actions which impair our collective responsibility to provide for the Nation's defense.

Thank you.

[The joint prepared statement of Secretary Stackley, Admiral Myers, and General Wissler can be found in the Appendix on page 53.]

Mr. TURNER. Secretary Stackley, thank you so much for that very good opening statement, and the great examples of not only the dangers of sequestration, but also the impacts of you operating under a CR. I really do appreciate that.

General Davis.

STATEMENTS OF LT GEN CHARLES R. DAVIS, USAF, MILITARY DEPUTY, OFFICE OF THE ASSISTANT SECRETARY OF THE AIR FORCE FOR ACQUISITION, U.S. AIR FORCE; AND LT GEN MICHAEL R. MOELLER, USAF, DEPUTY CHIEF OF STAFF FOR STRATEGIC PLANS AND PROGRAMS, U.S. AIR FORCE

General DAVIS. Mr. Chairman, Ms. Ranking Member, thank you very much. And other committee members, I appreciate this opportunity.

First of all, you will notice right off the bat that I am wearing a slightly different uniform than my other Service counterparts here as the acting assistant secretary of Air Force for acquisition, kind of filling that role. Actually our Secretary, Secretary Donnelly, is filling that role.

Because of a variety of issues, notably climates and challenges within the things that are going on within the Department and the Air Force, we have not had a confirmed individual for that position for 4 years. And it has actually been vacant as an acting for over a year.

So right now, I am speaking on behalf of Secretary Donnelly that is filling the role in our Service acquisition executives. So thank you for that.

Joining me is Lieutenant General Mike Moeller, who runs our plans and programs. He will be able to talk to a lot of the budget issues.

I am going to talk in a slightly different vein this morning, as an acquisition professional, an individual that has spent a lot of time testing, flying airplanes, and then running major programs in major centers. And I will talk to you a little about what I see going on within our acquisition programs at a slightly different level.

I think our Chief and Secretary have given you a lot of information on the specifics of what is going to happen to our Service. I will tell you that, as we notice it start to evolve right off the bat, the first thing that gets hit is our small business, and then it goes very much to readiness from that point on.

Our small businesses; we are already seeing that we are about $170 million behind in obligations of where we were this time last year, because the first thing that will suffer in this is the operational accounts. You won't buy computers. You won't bring that individual on to repair the buildings. You won't bring that individual on to maintain landscape.

So they start to fall off right off the bat.

And then our Chief and Secretary talked about how very soon in the May timeframe we start losing the combat readiness capability of many of our squadrons, which is the core warfighting unit. And then the acquisition impacts become very insidious. They do not appear devastating in 2013, but I tell you that is just the bow wave of what comes in 2014 and 2015, because everything we do not do, every piece of equipment we do not plan for in terms of how we acquire and sustain, it becomes less capable and less clear on how you pursue that path next year.

So, the one thing I wanted to talk about is the fact that while all this is going on, obviously the Nation demands that the United States Air Force provide the air superiority and the ability of freedom of movement for all of our troops and all of our joint partners all over the world. And it has been over six decades since an enemy airplane has shot an American airman, sailor, soldier, anywhere on the ground.

And so one thing that we worry about is how we are able to maintain that with an aging fleet. And we will talk about that as the questions go.

We provide the unblinking eye for global intelligence, surveillance, and reconnaissance through space and a variety of other means. And we worry about maintaining that aging infrastructure in space as time goes on.

We also have to provide global mobility for any of our joint partners across the world, as well as the wounded ones coming back from the theater. And that becomes challenged, notably with new programs we are looking at to replace combat rescue helicopters.

And then, most importantly, we commit to the Nation that we will have the ability to strike any target anywhere in the world within a very short period of time. And we worry about how we modernize the forces to go do that as we go forward.

And to do those tasks, we ask our acquisition folks and our programmers and program managers to be able to navigate probably what is the most complex, chaotic, overregulated, overseen process

in the world to be able to deliver the combat capability to the Nation. And they do a magnificent job with a significant amount of American treasure every year to go do that.

But, as we go through this process, the thing that worries me most is that challenge has become much greater for these individuals as they work through that, because there are so many unknowns. Chairman, as you mentioned, the questions that hang out there that bother us.

Our acquisition program workforce, they fight through these innumerable policies and laws every year to try to deliver the combat capability that I said the Nation demands of the United States Air Force.

In the process, we as the leadership in the Department and within the Service demand that they build the most exquisite planned schedules, the most detailed cost estimates, the most, if you will, exquisite architectures of systems and the systems engineering that will deliver them, the technical baselines, the critical paths, the test plans, everything that will determine just how the systems that we have to meet the requirements of the Nation will perform.

And as they come to us now in this environment, the challenge that we have for all those work force individuals in the side is we cannot tell them some of the most basic questions that any type of activity demands. We can't tell them what was their baseline that they begin their program from. We can't tell them what the changes will be particularly in sequestration, and the numbers, and the percentages and the rules that will imply. We can't tell them where the continuing resolution will allow them to maybe transfer funds or not based on how that will evolve.

So they come to us with the most simple questions to be able to keep these programs intact, and we can't answer them. So what we are able to tell them is that everything that they produced, and everything that has been reviewed and on the books now is basically invalid, and that they have to go back and try to do all the drills and all the "what if" questions again to be able to restructure those programs to be able to deliver that capability.

And so when they come back and tell us that their programs and their schedules are not able to be fully fleshed out to the demands of the system, we just ask them to do more, and we ask them to go back, and we ask them to try one more time. And they do, because that is basically what these people do.

And while we are sending them back to redo these programs all hours of the days and nights and weekends, to be able to make sure we are prepared as best we can be to answer the questions that will come as soon as the actions hit, we tell them that probably you all have to plan for having 20 percent of your pay cut in the remaining period of time.

And when we have an acquisition work force of about 34,000 folks, all told, about 24,000 of those are civilians—and I got to tell you, the one question I get most whenever we sit down with these civilians and ask them, okay, what are your concerns about the furlough, the first question I have gotten—and I have gotten it five times—is, can I work during furlough?

And we have to tell them, no you cannot. It is against the law. It is illegal. And then when they come back from those periods, we

will have asked the military to kind of fill in the gaps and work for those individuals that are not there. So the impacts to our programs, our test centers, our acquisition centers will be dramatic.

We will tell them, we need you to start the exercise again, and we can't tell you what 2014 will look like; we can't tell you what 2015 will look like; right now, we can't tell you what 2013 looks like. But we need that program planned so we can try to start determining the impacts to the very critical missions we have to deliver to the Nation from the United States Air Force. And they go out and do it again, because that is just what they do.

So, I thank you for your comments that you made at the beginning. You share very much the concerns I know of our Secretary, our Chief, and certainly all members of the Air Force. We would be very honored to be able to answer any more questions you have related to that.

And I thank you for the support you have given, not only our collective warriors here, but certainly the United States Air Force.

Thank you.

[The joint prepared statement of General Davis and General Moeller can be found in the Appendix on page 68.]

Mr. TURNER. Thank you, General.

I appreciate your also underscoring the personal affects that sequestration is going to have, because that is something that we have to be very mindful of. As you know, we have held a full committee hearing on the issue of the effects of sequestration on readiness, on our men and women in uniform, on our civilian personnel. And the picture is bleak, and the stories are absolutely compelling.

Our hearing topic today is acquisition, programming, and the industrial base. So although we are looking at the issue of acquisition programming in the industrial base, we are still very mindful of the personal effects and the effects on our men and women in uniform, on our national security. As we have all said in all of our comments, this is certainly something that we shouldn't be doing to those who serve our Nation, especially those who serve our Nation in a way to keep us safe.

General Davis, you were talking about small business, and I am going to turn my question to that.

Secretary Shyu and Secretary Stackley, you also referenced the effects on small business. We know that large contractors are certainly going to be affected, but the number of vendors that are going to be affected, those down the chain, small businesses, will be critically affected.

And the way that we know that they will be critically affected is because they have less resources. They have less ability to shift the affects of this onto other assets. And so that puts them in a situation that they may actually fail.

And one of the things that I know that you are aware of, as I mentioned in my opening statement, is single-point failure vendors, and that is their failure can be our failure, where we currently look to in either a system or a program or a project the vendors that are down the line and those that have unique capability, are uniquely qualified, and that their solvency, their ability to continue to operate can affect overall the program.

We have a concern because obviously that goes to the issue of our being able to critically maintain those programs, but also as we are trying to maintain domestic production, and the threat that some of these operations, some of these critical aspects of our industrial base may feel even further pressure to go overseas, or for outsourcing.

I am going to ask each of you if you similarly share that concern. And if you do, if you have an example, or if you are aware of either a small business or a single-point failure vendor or a program that is subject to perhaps single-point failure as a result of vendor vulnerability, we would greatly appreciate that.

And before I begin asking you to answer this, and beginning with Secretary Shyu, I want to tell you, for all the generals and the admiral who did not give opening statements, at the end of this hearing, I will, as I traditionally did in the Strategic Forces Subcommittee, ask each of the panel members if they have anything that they would like to add to the record at the end.

So each of you will be able to make any additional statement that you would like at the end of this. I also will have the record open for an additional 5 days, if after you do leave this hearing, if you would like to submit in writing any additional comments or thoughts that you have that you would like to be included in this record. Please feel free to avail yourself of that also.

But I wanted to give you advance warning before I called on you at the end.

So on the question of single-point vendors and the effect on small business, we will begin with Secretary Shyu.

Secretary SHYU. Thank you very much for the question. This is an area that we have significant concerns. As you well know, due to the instability of the financial budget, it is very difficult for the primes even to do the planning, much less telling them the impacts to their immediate suppliers, the second tier, or the third tier, or the fourth tier on down.

And that is the biggest concern that we all have across the board. We look at our industrial base impacts continuously, okay? We look at not just on the production side. We look at the design aspect. We also look at component suppliers as well.

So, my fear is due to the instability of the current budget environment, it is very, very difficult to tell these companies that is multiple layers down, that provides a niche capability, how long they can survive the downturn because we don't have clear visibility in terms of the gap.

So, that is my biggest concern, sir.

Mr. TURNER. General Barclay, any comment?

General BARCLAY. No, sir.

Mr. TURNER. Secretary Stackley.

Secretary STACKLEY. Yes, sir. Let me throw some numbers your way to try to characterize this a bit. Something north of greater than 20 percent of the Department of the Navy's procurement and service contracting goes directly to small business. And of the balance that goes to larger defense contractors, another 20-plus percent goes to small business.

So in total, small business is our base in terms of our spending, either direct or indirect through the defense contractors. They

bring a cost structure and agility, a degree of innovation that is critical to development on the front end, and also response to emerging requirements on the back end. So they are core to the way we do our business.

And then let me offer you now some more specific examples. I am just going to quickly tick through some of these. First, the Department of the Navy is extremely unique in terms of some of our platforms, specifically nuclear submarines, and nuclear aircraft carriers. We build them at very low rates and no one else does. So the components that are assembled into the construction of these critical platforms, much of that industrial base is small business, almost a cottage industry that builds small numbers of critical items.

We have to work that small business base directly to ensure its long-term viability, its health and welfare come all of the ebb and flow of the budget cycle. So we maintain a very hands-on relationship with that particular small business.

Let me shift over to the aviation side. A specific example, there is one small business manufacturer in the country that is responsible for the forging, the hobbing and machining of most of the rotor heads for all of our rotary programs, one small business manufacturer, a single point of failure. And in fact he is struggling at this particular time.

So we are working closely with our aviation prime contractors to ensure that we work with their critical vendor as we work through the uncertainty of our programs during this period of time.

On the R&D [Research and Development] side of the house, we have a small business contractor who has brought forward a concept for going beyond what we refer to as "open systems architecture," in terms of automated test and retest. Extremely innovative, our large defense contractors are turning to this one source to figure out how to break down some of the technical barriers in our test programs to drive costs out. That small business contractor, his cash flow is hurting as a result of the current sequestration-CR uncertainty.

Further examples abound, but we are working directly with the small businesses, through roundtables around the country, as well as through our defense contractors, to identify the single points of failure and what we need to do near term, long term to ensure they are not inadvertently taken down by the current delays and potential cancellations in our contracting.

Mr. TURNER. Admiral, General, any comments?

General Davis.

General DAVIS. Sir, just a couple of points. I will highlight that probably just under 40 percent of our Air Force TOA [Total Obligation Authority] falls in the O&M [operations and maintenance] regime, and that is going to be the first thing that will start to drop off here very quickly. That is where our biggest challenges are. And that is where most of the contracts go to small businesses.

So anything across our bases and installations where just the most routine services generally are all set aside for small businesses. So out of roughly $44 million of O&M, a very large chunk of that goes to small businesses to do maintenance on buildings; to do military construction, which we have virtually no money for, to be able to run the services that operate most of these installations.

So anything related to any of our O&M accounts, which are certainly going to be the ones to suffer first, will feel the biggest extent of that.

As I mentioned in the opening statement, we know right now we are $170 million behind where we were in small business obligations compared to this point last year, simply because they have started pulling back the obligations on O&M because they know what is coming, to be able to just keep our fighter squadrons flying at a certain level.

Second part of it kind of goes to what Secretary Stackley was mentioning. For us, it really starts with the old mantra, "for want of a nail, the shoe is lost, the horse is lost, the war is lost." Our small businesses, the ones I have had experience with over time, and the ones that we continually have pop up that surprise us when they have a problem—because it does not take long for a small business to get in trouble real quickly.

We have small businesses that basically are responsible for doing things like building the fuses for most of our weapons. And it is the most challenging thing. It is the most underappreciated thing, but it is the one thing that will cause the reliability of our weapons to fail instantly.

We have had some very good success stories and we continue to bring these people on. We had a small individual in California once that manufactured surfboards. He competed and successfully won, and builds a very key component now as a bigger business for our joint air-to-surface standoff missile, JASSM [Joint-Air-to-Surface Standoff Missile], which is a key component of Global Strike.

We currently have a woman-owned disadvantaged small business that builds the target drones for our training across the Gulf and across the Pacific. And it is these weapons, these missiles, these drones that provide our crews the ability to employ like in wartime.

So, as you can see, they are not necessarily the leading edge on our weapons, but they are things we cannot execute if they are not there. And unfortunately, those would be the first ones to start fall off, because we will give up on training. We will give up on those areas first to be able to preserve the basic readiness we need for the AOR [Areas of Responsibility] and things like that. So we will see the fall-off in the small businesses to take hold. And as I mentioned, we are already seeing that to begin.

So really for us, the capability of the Air Force hinges on, in many cases, that nail that we don't have for the shoe. Then we have to wait a year later to figure out just how bad a shape we are in to try to go reconstruct part of that industry we don't have.

Mr. TURNER. I turn to my ranking member, Ms. Sanchez.

Ms. SANCHEZ. Thank you, Mr. Chairman.

Secretary Stackley, I actually would love for you to send over a report that shows that 40 percent of Navy acquisition goes to small business, because I have this discussion quite a bit, with all respect to our Services, with Nydia Velazquez, our ranking member on Small Business. And she feels, over time, and I have felt over time when I actually see the numbers, that we have really not ever met our goals probably in any of the Services with respect to where we want a piece of the action going to small business.

So, I would appreciate in detail any report you have that shows me that about 40 percent goes toward small business.

Secretary STACKLEY. Yes, ma'am.

[The information referred to can be found in the Appendix on page 93.]

Ms. SANCHEZ. That is another subject, but just because you mentioned it, I would love to see that.

Secretary STACKLEY. Can I clarify here?

Ms. SANCHEZ. I heard 20–20, but——

Secretary STACKLEY. Right. Yes, ma'am.

Ms. SANCHEZ. Okay. So, let me sort of place this in context because, you know, one of the things that the President has been doing is to go around the country and to talk about what sequestration might look like. So let me go down the line, because you have all been associated with the military in one way or another for quite a while, and ask you, to each of you, and I just would like a yes or no answer to this: waste, fraud, standing around, have you ever seen it in the workplace?

Secretary, have you ever seen any waste or fraud or standing around or not correctly used resources that the taxpayers put towards the military? Have you ever seen that?

Secretary SHYU. Yes, ma'am, there is.

Ms. SANCHEZ. Yes.

General BARCLAY. Yes, ma'am.

Ms. SANCHEZ. Yes, of course.

Secretary STACKLEY. Yes, ma'am.

Ms. SANCHEZ. Yes.

Admiral MYERS. Yes, ma'am.

General DAVIS. Yes, ma'am.

General MOELLER. Yes, ma'am.

Ms. SANCHEZ. Okay. You know, when taxpayers sit here and get angry about things, they are paying taxes and they are not being able to make ends meet or their lifestyle is changing or their quality of life is changing on them. So, you know, they believe that there is waste, fraud, abuse and other things going on. And in any workplace, you see things where efficiency isn't at 100 percent for whatever reason.

Here in the Beltway, we have the Pentagon, the largest office building in the world. Now, we have Pentagon, which some people are calling the "Pentagon South," another huge office building just south of that, that is going to be filled up with more Pentagon contractors and everything to it, so we are definitely growing all of this.

You know, I had a very close person to me who was in the military—I won't say what Service—who said at the end of the month, when they had jet fuel left over, they would go out and burn it down, because they were afraid they wouldn't get the same allocation the next month.

I have had people tell me—believe me, I sit on planes and people recognize who I am, a lot of armed forces people. And they tell me, you know, September comes around—October 1st is the first date, September comes around, and last month of the fiscal budget for the Federal Government, and I have got the "vultures"—that is what one of them called it—"vultures coming to my door telling me

I have got to spend down the funds at the end of the month. I need new computers; I need new things, even though," he said, "I just got new computers this year. And here I am basically signing away contracts or getting things or requisitions or whatever, and I am getting more stuff in."

By the way, this is usually at the lieutenant colonel level or the major level where I get these, you know, "If you would just let me cut the budget, Congresswoman, I would know how to do it, at least in my area of the Pentagon."

I say all of this because this is the context on which we are trying to fight for what we need versus what sometimes the taxpayer out there thinks is really going on.

So I think when I look at all of you that you have been in this long enough to understand, you know, we need to figure out how we get some of this under control. So maybe for, you know, into the record, but not directly today, you can give us some suggestions of how we get this more in line so that the American taxpayer feels confident when we are telling them we have efficiencies, we are effective, even when we have the type of cost overruns that they hear about in the newspaper or on the television.

[The information referred to can be found in the Appendix on page 94.]

Ms. SANCHEZ. My question—I am sorry, but I wanted to sort of give you an indication of where the taxpayer is coming from. And that is why it is hard, politically, for us not to cut. Because they do believe there are those inefficiencies, those abuses, et cetera.

So let's go to an area; Mr. Turner and I will be making a trip to see the F–35 [Lightning II Joint Strike Fighter]. And I have just been talking to some of our European allies about their acquisition of the F–35. And you know, I have been a strong proponent to do one production airplane that can be used across the Services, that will, in the long run, we hope, bring down the operation and maintenance and training cost for that production plane. But we have had a lot of problems with it.

And, specifically, recently, we have had the problem of the helmet design, for example. Jitter of images, night vision, acuity shortfalls; you know, there is a whole bunch of stuff behind that. So, I understand that we are trying to fix those problems so that we can make the plane work well.

Can anybody tell me what sequestration or the CR will do with respect to us trying to get that back on schedule and in line so that we can provide a top plane for our Services that is going to do what we think it should do?

Secretary STACKLEY. Let me start, ma'am.

With specific regard to the Joint Strike Fighter, the 2013 budget request includes about $2.6 billion for continued research and development and another $6.5 billion for procurement of aircraft parts, procurement in support of training, et cetera, et cetera.

The specific question and issue that you raised with regard to helmet-mounted display system, that is one of many ongoing developments associated with that critical capability. When we look at continuing resolution, and we look at sequestration, in terms of that critical program, our top priority is to keep development on track. We have about $5 billion remaining in the FYDP [Future

Years Defense Program] in terms of development funding to complete the remaining development, correction of technical deficiencies that have been identified thus far, testing and evaluation for the program.

If we don't keep the development on track, the whole program goes off track. So that is our top priority. The team that is in place is keeping focused on resolving those technical issues and executing the test program that has been laid out to date. And we will continue to work with Congress to weather CR, sequestration.

Ms. SANCHEZ. Do you believe that either the sequestration or the CR will affect that development and that team keeping on?

Secretary STACKLEY. The answer is yes, if we do not have any flexibility to be able to be able to move money to address the priorities within the program. So, for example, the $2.6 billion associated with research and development, the 9 percent across-the-board cut associated with sequestration, is going to remove about $250 million. That is in 2013. Sequestration goes against unobligated balances. So, in fact, there is another couple of hundred million dollars across the program that is affected by sequestration.

What we have got to do is manage cash flow, manage critical path, and, hopefully, gain some flexibility to be able to realign funding to go after those priorities, so that the development schedule doesn't delay, doesn't protract, doesn't extend and push ultimate fielding of that aircraft to the right.

Ms. SANCHEZ. And my last little piece to that, if you went the way of an alternate helmet design, would you have the flexibility as things sit now, if the CR just continued as it was? Or because of sequestration, would you have the flexibility to move to an alternate helmet design?

Secretary STACKLEY. Okay, first I want to be clear. The progress on the helmet-mounted display system is good. We see those issues as, basically, being retired in due time. However, when they first emerged, we did set up an alternative path to have an exit ramp from the HMDS [helmet-mounted display system] to a more traditional legacy type of capability. And we are keeping that on track for a downstream decision.

In the face of sequestration and CR, that would be at risk. If we do not, as I was describing earlier, have the ability to move funding to priorities, then we would be staring at, we have got two efforts, but one capability inside of this critical program. If the helmet-mounted display system looks like it is going green, then we would end up dropping the alternative parallel development.

Ms. SANCHEZ. Thank you, Mr. Chairman. I have other questions, but I will put them in for the record.

Mr. TURNER. Mr. Bishop.

Mr. BISHOP. Thank you, Mr. Chairman.

I suppose, General Davis, this would be addressed to you, or unless you want to defer to one of your colleagues here on the panel.

I would like to ask a question about nuclear modernization, even though I have a hard time saying that word, "modernization"—no, "nuclear." I just would like to like to ask for the impact of maybe the Air Force or the Navy—the impact of sequestration on modernization efforts? Or is there simply, in the base, a lack of funding that constricts those modernization efforts in the first place?

General DAVIS. Sir, I will start, then I will let General Moeller kind of come. We just, as of 2 days ago, completed a major review down at Air Force Global Strike Command of all their programs, their acquisition programs and their issues.

Mr. BISHOP. Mm-hmm.

General DAVIS. And so, there are two issues here, as you mentioned. We have significant modernization that we have to undertake now to be able to replace key items in our inventory that will reach a service life. And that has to start now.

We have three or four major programs we are trying to begin right now that have some uncertainty as we look at what the budgets will be. We need to replace the gravity-drop B61 [nuclear bomb]. We need to replace the air launch cruise missile. We are working very hard to replace the aging 60-plus-year-old B–52 [Stratofortress strategic bomber] with a new bomber that is in our program right now.

And that is just the air-breathing side. If you bring in the complexities of the systems that have to go on that, such as nuclear command and control, that, in some cases, is on a single thread type of capability right now, we have major other programs that need to be started within Global Strike Command, which we do not have the ability to do so.

And then if you work through the missile side of it, our fuses are aging out and other issues that we have to deal with.

So, right now, I will tell you, within the budget there is not the capability within our current constraints to be able to do all of those programs. So there is very much the debate going on about where we begin, where we invest, and which ones we take on next.

Mr. BISHOP. Maybe before General Moeller starts, I can try and narrow the focus a little bit. I do have some concern, at least personally, about our research and development that we are putting into the Minuteman III [LGM–30 land-based intercontinental ballistic missile], the ICBMs [intercontinental ballistic missiles], the Navy's D–5 [Trident II fleet ballistic missile], especially when the Russians seem to be going into a new generation, regardless, into these particular areas. And we don't even have the money to continue a warm-line funding past 2020.

Where that takes us in 15 or 20 years, to me, that is a significant issue and a frightening issue. And as I understand, you are talking about it is not really going to be impacted by sequestration because we haven't put enough money in that—we haven't put a significant amount of money in that funding line in the first place.

General DAVIS. Sir, I would say that the sequestration impacts on our nuclear forces only exacerbate the problem. We have a much bigger issue as we try to figure out how we divine the total Air Force budget in the future years to be able to meet those needs.

Mr. BISHOP. General, I cut you off.

General MOELLER. I can only add just a small piece here, Congressman, in that it is a function of delaying programs and the modernization efforts, but it is not an immediate impact. It is, in fact, having to determine strategic choices that will affect us in fiscal year 2016 and beyond.

Mr. BISHOP. Thank you.

Secretary STACKLEY. Sir, I would like to go ahead, and you touched on the Trident Program. The Trident II D–5 life-extension program is, in fact, very mature right now. In the 2013 budget request, we have got north of $1.2 billion that we have requested, that you have authorized to address 36, 37 weapons in 2013 alone. Sequestration, clearly, throttles that back.

The life-extension program is essential to ensure the continued service provided by the D–5 out through the 2042 timeframe. And it is closely coupled, not just with the current *Ohio* [*Ohio* class ballistic missile submarine] program, but the replacement program, which the development is also inside—the funding request is also included in the 2013 budget request, which is also throttled.

Mr. BISHOP. Gentlemen, I appreciate that answer. I have said in other venues before, and I truly believe this, if sequestration was the first cut we were asking of the military, I wouldn't really have much sympathy for you. But whereas every other area of our Government has been increasing its funding over the past 3 years, the military has taken not one, but three cuts.

So if it hadn't been for the first or the second cut, which put you back almost $1½ trillion in some of these funding areas, this third cut is going to be the one that when you talk about doom and gloom coming, I actually believe this.

And I am not skeptical of some of the statements that are coming from our military, simply because this happens to be cut number three. And so I appreciate—and this is one area in which I would have basic concerns of where we will be 20 years from now because of the funding decisions we are making right now.

Mr. Chairman, I have no more time, but I will yield back what I don't have.

Mr. TURNER. Very good. Thank you.

Mr. Barber.

Mr. BARBER. Thank you, Mr. Chairman. And thank you to all of the witnesses for being here today.

I wasn't here when sequestration was voted in in August of 2011. But I tell you this, I wouldn't have voted for it. As the chairman pointed out in his opening remarks, it was a disaster waiting to happen. And now we have less than 14 hours before the clock ticks down.

When that vote was taken, I had just returned to work following my recovery from the wounds I received on January 8th. And I saw the Congress inflict a wound on this country that we thought we would heal by now.

We haven't, and we have failed in our responsibility to do so.

Instead, we have squandered, week after week, the time we had to deal with this problem, long before we got to 13 hours, 47 minutes and 15 seconds before the sequester kicks in.

Included in that delay, in that time, we gave ourselves 2 months back on January 1st to come to grips with the problem. And we failed again.

Instead, we have put on the floor, time and time again, motions to adjourn, going home. I love to go home, but I would much rather be here working on this problem with my colleagues on both sides of the aisle.

I voted against all of those adjournments, because we should be here, dealing with this issue.

I grew up in a military family. I have worked for a long time with our men and women in uniform, with the civilians who work on bases, in garrisons across my district. I work with private companies that are critical to our defense, our national defense.

And we have absolutely squandered the time we could have taken to fix the problems that they are facing.

There is a morale problem in our military as a result of this uncertainty. There is a morale problem and an uncertainty in the economy as a result of our inaction.

Last Friday, I met with a group of representatives from my district, civilian employees of the Department of Defense, companies that provide for our national defense, firefighters, and others.

And one of my constituents described what we did in a way that I think is very apt. He said, "when Congress approved sequestration, it built a nuclear bomb which it never intended to explode. It designed a poison pill it never intended to have us swallow."

But here we are, now 13 hours, 45 minutes, 21 seconds and counting, before the bomb goes off and the pill is ingested.

It is simply unacceptable that we got to this irresponsible point.

When I came here last June, I came not as a partisan, but prepared to work across the aisle with anyone who was willing to find common ground to resolve this and other critical issues. And I remain here ready to do so.

My district is home to the Army garrison at Fort Huachuca in Cochise County, to the Davis-Monthan Air Force Base in Tucson, and just across the line—I claim it as if it was our own—the Air National Guard Fighter Wing. These are vital elements in our national defense and in our local economy.

And my question, Secretary, is for you in regard to the impact that sequestration and the continuing resolution will have. You made some important points that really struck me.

In your testimony, you said, for example, that every single piece of equipment used by our soldiers will be impacted if sequestration goes into effect. And as a result, equipment will not be modernized, timelines for delivery will be delayed, and costs will be overrun.

It is clear to me, at least, from your testimony, that sequestration will not only impact our forces in the next weeks and months, but will set them back for years.

My question is, since it appears in a few short hours, we will be allowing sequestration to kick in, we are likely see furloughs in our Army, could see losses in operability, how long, in your view, and how, in your view, will the economy recover from the $479 billion in cuts we have already taken and the further cuts that will take effect in this fiscal year?

Madam Secretary.

Secretary SHYU. Thank you very much for the question. I think your data are correct in terms of the impacts. And that is my biggest fear. The problem is we are facing, with the CR impact today, to do programs we can't start, production rates that were supposed to ramp up which we cannot do. There is a program that is in development that we arbitrarily put a ceiling on, so it is going to im-

pact in stretching out our programs and increasing the cost to the Army.

On top of that, now we are having a sequestration, which cuts uniformly. It is a buzz saw cut across all the programs.

So it is a double whammy on the impact of all of our programs.

So how do we recover from that? You can only recover if you have a full understanding of the limitation of the cuts and what is going to happen next. If we had a budget and if we know exactly what is going to happen this year and future years, we can at least start to do the detailed planning.

But the tremendous uncertainty that we are facing today is posing these challenges, because I can't tell, as my counterparts have already articulated, since each of our programs are being cut, we have to rework every single program.

To understand the long-term impact, it is hard to judge, without knowing what is going to happen to the future budgets.

So I have some significant concerns, sir.

Mr. BARBER. Well, I think it is well-said. You know, when I was at Fort Huachuca a week ago, a week ago tomorrow, I was talking to some local businesses. They are not involved in the defense industry, but very much affected by it.

I talked to a woman who runs a car dealership. And she hasn't had an order for a car in almost a month. And why? Because people don't know if they are going to have a job or if their job is going to be cut by 20 percent.

Let me just ask one quick question of you, Lieutenant General Davis.

I appreciate your testimony. We have taken, I think, a very irresponsible approach to our fiscal crisis. And just as our constituents—my constituents—could not cut their budget by 10 percent without going into foreclosure if they cut their mortgage, or having their car repossessed if they cut that, neither can companies nor our Department of Defense.

So I want to ask you, General, how do you build 90 percent of an airplane and how do you build 90 percent, in the case of the Navy, of a submarine? How do you make these decisions about which programs and assets to fund and which to leave behind?

How will you determine the priorities given the situation we are facing, which hopefully still can be reversed in due course. But if it does not change, how do you make these decisions? What priorities will you be looking at, from the Air Force perspective moving forward, if nothing changes?

General DAVIS. Yes, sir. I think it starts back where our Chief and Secretary have testified, that there are some very key priorities within the United States Air Force, and it starts with modernization.

We have fighters that are approaching 25 years old, trainers that are 40 years old, bombers that are in excess of 30 years old. So we have had to take what we have within our current modernization budget of roughly $35, $37 billion a year, and try to figure where those priorities. Our top three priority programs, the tanker, the bomber, the F–35, are about 15 percent of that budget.

And it is clearly imperative that, again, back to if we are going to maintain the missions that you have given the United States Air Force, that those have to be modernized.

So that means that other programs, of lower priority, if we are given the flexibility, will have to pay that 10 percent that will drop from those programs at some point.

And it will be very insidious as we go through this. As you take 10 percent out of the F–35 program, you lose a couple of airplanes this year. And then you lose a couple more next year. And then the challenge as we go through that program in the outyears, when we ramp up production, it gets quite significant numbers.

So again, it starts with the priorities that the Nation has given the Air Force. It starts with how the Chief and Secretary put those priorities into play within our budget. And then we go execute the programs to meet those, and we decide where we fill in that 10 percent and from what program it comes from.

And that bottom 20 percent to 30 percent of our modernization budget will be the first casualties of those programs.

Mr. BARBER. General, you just said something I think is very important. You said, "given the flexibility," you will make decisions in a different way than you would without that flexibility.

Hopefully, the least we could do is give you flexibility. But what if it doesn't happen? What if you don't get the flexibility?

General DAVIS. Sir, then, if that is the case, and we have done this in many cases in the past, you take a very surgical cut to pieces of that program that will move to the next year.

And then, as we often are asked to do, we tell the program managers, "tell me how you are going to live with that." And next year, we will tell them the same thing, and we will ask them the same question.

So what this means is that these programs that already, as was mentioned, somewhat struggle, they struggle even more as you push that capability piece out a year or a year or a year, and that falls off.

So you try to target the least important of those capabilities. You try to target, as you can, most of the inefficiencies and waste that may exist in the programs, because it does.

But very often, after you do that once or twice, you are now cutting the capability you asked to have in that program to begin with.

So we will do that, and have to do that across the board. And that is where the utter inefficiency of the process really takes hold, and that is where a lot of the waste occurs, because when you are not given the flexibility to manage the budget you have against your priorities, it creates extreme inefficiencies, and you lose capability quickly.

Mr. BARBER. Thank you, General.

Thank you, Mr. Chairman.

Mr. TURNER. Mr. Barber, thanks for the questions.

General Wissler, Secretary Shyu and Secretary Stackley have given us a great understanding of the impacts of the CR and sequestration and the overlying/arching issue of the uncertainty of the CR and the sequestration, that, in fact, operating in an environment of uncertainty it makes it incredibly difficult for planning.

The clock that we have that shows that we are now about 13.5 hours from when sequestration is going to hit, the sequestration that was never to happen, doesn't illustrate effectively that, in fact, sequestration is a 10-year program.

This is the first hit of sequestration that is going to go into place. Even if there is a patch for this fiscal year, we are facing this again just at the end of the year, with sequestration coming again, and then for the next, including this year, 10 in total.

If sequestration is fully implemented—and there are those who say we should just let it sit. You know, I am very mindful of the fact that defense spending is less than 18 percent of the overall Federal budget, and we are going to have 50 percent of the overall cost-cuts fall on less than 18 percent of the budget.

But if that happens, could you tell us what your procurement profile looks like over the next 10 years, assuming that sequestration is fully implemented?

If it is not just a year after year patch, and the uncertainty that we heard from the two secretaries impacted, but actually that the cuts are put and left in place, what programs would survive?

General WISSLER. Mr. Chairman, we have a fairly small procurement budget as it is, so we have already had to take—as a result of the previous cuts, we have had to look at all of our investments in a portfolio approach. And I will use our tactical vehicle strategy as an example of this 10-year problem.

So, if we look at our tactical vehicle portfolio, we have several key pieces in that portfolio that we must have in order for marines to be successful on the battlefield, not only today, but in the future. Certainly a future capability would be the Amphibious Combat Vehicle, and the ability to preserve our ability to come from the sea to place our forces ashore wherever the President decides they need to be, in a safe and a combat-effective manner.

We also have a responsibility to protect our marines as they go ashore from the threats that occur on the shore. And our current piece of that is our investment in Joint Light Tactical Vehicle. But in order to be able to afford a modernization over time in our entire tactical vehicle portfolio, we have had to, in a sense, put together timing for the investments in Joint Light Tactical Vehicle, Amphibious Combat Vehicle, upgrades and safety upgrades to our seven-ton truck, our large heavy haulers, as well as our Light Armored Vehicles and other members of that portfolio.

Sequestration, in the 1st year, will cause delays, delays in JLTV [Joint Light Tactical Vehicle] that could be as much as 2 years, and depending on the second, or the subsequent impacts to that program, could delay Joint Light Tactical Vehicle to a point where we won't be able to buy both Joint Light Tactical Vehicle and Amphibious Combat Vehicle at the same time.

If that happens, we will have to scale back our purchase on Joint Light Tactical Vehicle. Figured into that mix, in the middle, would be our Marine Personnel Carrier. We can't afford to fully invest in Amphibious Combat Vehicle for our entire lift requirement. We have a requirement to move marines around the battlefield in several of our operations plans and other things around the globe.

What would happen over time is we would be forced to make a decision on an investment, either level of or continued at all, in Joint Light Tactical Vehicle or the Marine Personnel Carrier.

And the reason that we would have to do that is because the Amphibious Combat Vehicle is replacing an amphibious assault vehicle that is now 40 years old, and will be 50 years old by the time we start to field those capabilities, a vehicle that doesn't have right now the ability to allow us to do what we need, given the security environment that we will operate in with our partners in the United States Navy.

That is the 10-year impact in that. It will cause us to make very hard decisions about our portfolio.

Our program is designed as a 10-year program. We intentionally looked at a 10-year investment program so that we could maximize our opportunity over time to use our limited assets. So that is how that 10-year program will affect us. It will cause us to make some very significant decisions, not only in those three vehicles that I mentioned specifically, but across our entire portfolio.

Mr. TURNER. Ranking Member Ms. Sanchez.

Ms. SANCHEZ. Mr. Chairman, I just wanted to add for the record that the sequestration talks we are talking about are on top of the cuts that we have all already worked on, these some, depending on how you count it, about $487 billion worth of cuts over 10 years, having started this past year.

So it is not like defense hasn't already taken—started down a path of taking its set of cuts. Now, Congress can always, and the President together can always reverse some of that, but I should note that, for the record, we are already on schedule, and we have already begun to do the drawdown of $487 billion cuts to our military services.

Just wanted to put that on the record.

Mr. TURNER. Mr. Barber, any closing comments before I offer closing comments to the panel?

Mr. BARBER. Thank you, no, Mr. Chairman.

Mr. TURNER. Thank you. Well, as I said when I opened this, I voted against the this mess, because I believed that we would be right here, right where we are, with this clock ticking down, 13 and a half hours away from the cuts that were never supposed to happen.

This obviously is a failure of leadership. But the White House, the Senate, and the House have all said these are the cuts that shouldn't happen and wouldn't happen. And on behalf of, you know, the members of this subcommittee, let me tell you how sorry we are that we are in this situation and watching the Department of Defense and our men and women in uniform be suffering what is a process that is egregious, was set up to be irresponsible, and certainly needed to be avoided.

With that, I want to give each of you an opportunity, if you would like, to make any closing statements on both the impacts and your thoughts as a result of this hearing.

And I will start with you, Secretary Shyu, if you would like.

Secretary SHYU. Thank you, Chairman.

I appreciate the opportunity to testify in front of you today. I think the congressmen here certainly fully understand the impact

of not just what we have already taken in terms of cuts, the significant chunk, but the CR impacts on top of that, and then the addition of the sequestration. So it has been a significant amount of turmoil within the building of planning, replanning, and what-ifs.

This constant turmoil is creating significant impacts on us looking ahead. And this type of instability has tremendous rippling effects, not just on the price, but on the second, third, fourth level of tiers of suppliers that we have.

And in addition to that, it is the unintended consequences of folks knowing that they will get a budget cut, they are not going to upgrade their kitchens, they are not going to do repairs. There is a huge rippling effect that will happen. And you may not see it exactly tomorrow, in 13 hours, but it is going to happen as a function of time.

So, anything you guys can do to help us sort through this mess will be sincerely appreciated.

Thank you.

Mr. TURNER. General Barclay.

General BARCLAY. Yes sir, Mr. Chairman.

Again, thank you for the opportunity to be here today. But to clearly state the impacts on the Army, if nothing is done to mitigate the effects of operations under a continuing resolution, the shortfalls in our funding of overseas contingency funds and operations, and the enactment of sequestration, the Army will be forced to make dramatic cuts to its personnel, its readiness, and its modernization programs, and hence putting our national defense at risk.

And I thank you for the opportunity to submit in writing and we will get that to you in the future.

Thank you, sir.

Mr. TURNER. Thank you, General.

Secretary Stackley.

Secretary STACKLEY. Yes sir, I am going to revert a little bit back to my opening statement with a slightly different twist. We recruit America's youth to don the cloth of the Nation. It is incumbent upon us to develop and deliver the most capable weapons systems we can, to put them in their hands, and to properly train them before we send them over the horizon to defend our Nation's interests.

This environment that we are in places that at risk. We owe those men and women far better, far greater. We need to go about that business.

Thank you.

Mr. TURNER. Admiral Myers.

Admiral MYERS. Chairman Turner, Ranking Member Sanchez, members of the subcommittee, for the Navy, the immediate impacts are readiness and training will be significant, the combination of sequestration and a full year of continuing resolution.

In the long term, without action from Congress to replace sequestration, we will be compelled to dramatically reduce our fleet size, limit our ability to support the defense strategic guidance, and unable to fully support the global force management allocation plan for our combatant commanders.

As the Chief of Naval Operations testified to the full committee a couple of weeks ago, the important qualities of our naval forces are the readiness to respond to crisis, and persistent forward presence. The Navy and Marine Corps are the first responders to crisis such as a terrorist attack, military aggression, or a natural disaster.

Operating forward at the strategic maritime crossroads, such as the Straits of Malacca, Hormuz, or Gibraltar, naval forces can contain conflict, deter aggression without escalation, and build partnerships.

Naval aviation is a critical component to the Navy's ability to carry out our full-spectrum operations. We do everything from delivering humanitarian assistance in disaster relief, at home and overseas, to maritime security operations to ensure safe passage of commercial vessels, to high-intensity sea control and power projection in a major contingency.

Helicopters and fixed-wing aircraft operating from nuclear aircraft carriers, large-deck amphibious ships, and shore installations, and helicopters operating from cruisers and destroyers, complimented by unmanned aerial vehicles, are key contributors to the capabilities of the Navy and Marine Corps.

The continuing resolution is based on fiscal year 2012 funding levels, and therefore includes fewer operating dollars than we proposed and Congress authorized. Extending for the whole year in fiscal 2013, the CR would provide the Navy $3.2 billion less in operating and maintenance funds than requested in our fiscal year 2013 budget.

In addition we have growth, growth that was unplanned in terms of cost for emergent ship repairs and also for increased presence in the Arabian Gulf. Adding the combined effect of the continuing resolution, the emerging cost and sequestration, the Navy has an $8.6 billion shortfall when it comes to operations in maintenance accounts.

For naval aviation, this shortfall results in reductions in our third and fourth quarter aircraft and engine depot maintenance. This is going to affect upwards of 327 aircraft that we were expecting to come out of that depot, and over 1,200 engines and engine modules. Our maintenance backlog will increase and the work to complete critical aircraft end service repair for our F/A–18 [Hornet fighter jet] high flight hour inspections is an example of the delays.

Mr. Stackley talked about furloughs and we are going to be furloughing or planning to furlough upwards of 186,000 civilians. And this will also negatively impact our ability to complete our depot maintenance repair on aircraft and engines. Our backlogs are going to increase. We will have fewer aircraft available for fleet operations and fewer aircraft in the fleet for our fleet replacement squadrons, which are training the pilots.

Looking past fiscal year 2013, the readiness for navy aviation, as well as the rest of the fleet, will continue to erode. It is going to erode and it is going to be visible with the material condition that we expect out on the flight line and on our ships. It is going to also show up in the reduction in the expected service life of our ships and aircraft. It is going to show up in the reduced proficiency of

our sailors and their confidence to work on the aircraft and effectively repair them.

And it is also going to damage the industrial base and increase the strain in the operational tempo of our sailors and civilians. We are going to have to look very carefully at the new capabilities that we are investing in, the things that we know we need to sustain the ability to defend this Nation. But we are going to have to fundamentally change the way the Navy is organized, trained, and equipped.

To do that in a comprehensive and a deliberate manner, we have got to base our decisions on a careful reevaluation of the defense strategic guidance.

Now, Mr. Stackley referred to the delay of the USS *Harry S. Truman* deployment. And we have reduced our carrier presence in the Gulf. We have reduced a number of deployments, 13 around the globe. The reduction and the delay of the *Harry S. Truman* deployment was all about trying to preserve longer-term and still robust naval presence in the Middle East.

But without action from Congress to avert the combination of sequestration and the reduced discretionary caps, we will be continued to be forced to make hard decisions that are going to result in reduced overseas presence. Those decisions are going to reduce our ability to respond to crises and reduce our efforts to support vital national security missions like counterterrorism and illicit drug trafficking.

Now, the Navy understands the importance of getting our Nation's fiscal house in order. And our role is to be good stewards of the resources. We should accomplish deficit reduction in a coherent and a thoughtful manner to ensure that we have the appropriate readiness, warfighting capability, and forward presence. And we ask that Congress act quickly to pass the fiscal year 2013 appropriations bill and avert sequestration.

If that proves untenable, we ask for the flexibility to implement these reductions carefully and deliberately versus the indiscriminate manner of what is in the law today.

Thank you for the opportunity to be here.

Mr. TURNER. Admiral, thank you.

We are going to pause on closing statements. Ms. Duckworth has joined us and I know she has a question. So we will yield 5 minutes to her and then we will conclude with the three of you. Thank you.

Ms. DUCKWORTH. Thank you so much, Mr. Chairman.

So I continue to be appalled by the continued publication of reports that speak to DOD contracting and acquisition waste. It is GAO [U.S. Government Accountability Office] report after GAO report, and even the DOD IG [Inspector General] itself has found extreme waste.

In 2003, the DOD's IG showed that $1 trillion that the DOD had spent could not be accounted for. More recently, in 2011, the Commission on Wartime Contracting reported that DOD wasted between $9 million to $12 million a day in improperly supervised contracts during wartime. In Iraq alone, between $30 billion to $60 billion was lost to waste and fraud.

I am concerned especially with sequestration. You know, as someone who had to buy my own flight gloves because we did not have enough to issue flight gloves to all of our pilots, it bothers me that we are wasting this kind of money.

Ms. Shyu, I know you don't speak for the entire DOD, but could you speak to what the Army might be doing to ensure that their practices in terms of acquisition and contracting are better supervised, that you have a better idea of what is going on with the various business lines? I see, for example, that in 2010, the Army was spending $119 million annually to lease 3,000 cars at a price tag of $40,000 a year in Iraq, and that we have spent $36.3 billion alone with KBR. Yet this single contractor could not account for $100 million in waste of Government property.

I am looking at the OIG's [Office of Inspector General] Web page right now, and just this month, the reports include things like "recovering organization, OCIE [Organizational Clothing and Individual Equipment] equipment from civilians and contractor employees remains a challenge."

If we are going into sequestration and we are laying off psychiatric nurses at Fort Belvoir who take care of our wounded warriors and furloughing them, what are we doing to take care and ensure that we do a better job of safeguarding the taxpayers' dollars when it comes to contracting and acquisition?

Secretary SHYU. Representative Duckworth, that is a great question. And first of all, I want to thank you for your service to the Army and to this Nation. You personally have sacrificed tremendously and I am incredibly grateful for what you have done. Okay.

I do want to let you know that one of the key things that we have initiated about a year and a half ago is an overall, across-the-board look across contracting in our enterprise procurement review. We conduct those reviews. My deputy assistant secretary of procurement conducts the review on a monthly basis. I conduct the review on a quarterly basis.

We now have visibility across every single command on how we are doing in contracting. We have established metrics. We have 15 set of metrics that we measure ourselves on. And we have the visibility to see how well we are doing within commands.

And this is relayed up. We have now quarterly meeting with all the parts who are really head of contracting within the commands. We share lessons learned. We discuss issues and challenges we have.

There has been a tremendous change, I can tell you. As a matter of fact, we will be more than happy to come by and brief you on all the things that we have been doing the last year and a half to improve this.

Ms. DUCKWORTH. Thank you. I would love to have that meeting and I would love to have that meeting with your colleagues in the other Services as well. I hope that it sticks. I hope that as we get into sequestration, that we are doing everything that we can. You know, some of these things are minor, improperly renewed contracts with vending machines on military bases, to the spectacular cost overruns of the F–35.

But we have a force that has a National Guard where 50 percent of its Black Hawk helicopters are still alpha models and have been

in service for a good 30 years. And those aircraft need to be modernized. We need to certainly be modernizing the CH–47s, but we can't do that in a time of budget restrictions if we are continuing to waste those dollars.

So I ask the whole panel to please remember that money is tight. We have to go after the fraud and abuse. And I know you are all doing the best job that you can, but we in Congress will do our job in watching you as you do that as well.

Thank you.

Mr. TURNER. Thank you, Ms. Duckworth.

Continuing, then, with closing statements, General Wissler.

General WISSLER. Chairman Turner, Ranking Member Sanchez, distinguished members of the panel, thank you.

We have talked a lot today about delays in contracts. We have talked about inefficiencies that result from the lack of multiyear procurements. We have talked about the potential for cancellations, if we look at this in a 10-yearlong piece.

But what we are really talking about in all of this is a direct impact to readiness and our ability to respond. The United States Marine Corps acts for the United States, if you will, as an insurance policy, a capability to respond around the globe when we are called, when called on, to that crisis that we may not have planned on; to do things like we did in Libya in 2011; to do things like we did in the Philippines most recently in humanitarian assistance and disaster relief; or Japan before that; or putting people ashore in Afghanistan.

And that insurance policy is important. And what we will do over this extended 10-year period is reduce our investment in that insurance policy.

Readiness is not a today thing alone. Readiness is both today and tomorrow's readiness. In the Marine Corps, we look at readiness across five pillars. We talk about our quality people. We talk about unit readiness. We talk about the ability to meet combatant commanders' demands. We look at it from an infrastructure perspective. We look at it also from the modernization perspective. And I talked briefly about modernization impacts earlier in simply our ground tactical vehicles.

But what we will do is we will erode readiness both near and far term. And we will continue to have to pay near-term readiness, because of the conflict that we are currently fighting in Afghanistan, in order to be ready to do what we have to do today, mortgaging our long-term readiness. It will affect every phase and every pillar of readiness and it will cause us to reduce that investment in our insurance policy.

And most importantly, it will affect people. And we briefly touched on some of the people today in our small businesses, and our people who ultimately won't be able to take the kinds of cuts and continue to support us with the tremendous service that they provide across a vast array of capabilities, be it small businesses that support trailers to the United States Marine Corps, to people who are working on very high-tech things like gallium nitride in our ground-to-air task-oriented radar. From the very complex to the very simple, we will hurt those people, their businesses.

And more importantly, we will hurt our marines and we will hurt our civilian marines. It is already been talked about, furlough. But furlough will attack a very real part of readiness. It is not just people in the headquarters when we talk about our civilian marines who will go on furlough. Ninety-five percent of the civilian marines do not work in the National Capital Region; 95 percent of the civilian marines are turning a wrench somewhere fixing a piece of equipment, making something ready so that as we bring our forces back out of Afghanistan, they can, in fact, execute that pivot to the Pacific, that we can rebalance our force to the Pacific to be ready to deal with the next, most difficult security problem we have.

In partnership with the Navy, we need to be forward present, and we won't be, because we won't have the resources to do it. The impact to our national strategy will be uncompromising. And then, in the end, as we go out and try and maintain this tremendous, All-Volunteer Force that has given their life, blood, and treasure over the last 10 years of combat, they will return home less trained, with a less positive view of what service in the cloth of our Nation means.

And that will, in turn, make it more difficult to recruit the next generation of All-Volunteer Force that will continue to keep this Nation free. It starts from the very beginning and rolls through all of those five pillars to modernization. And, at the end of the day, it attacks the very heart of readiness, the readiness of the force represented by all the gentlemen and women on this panel, to do the things that the Nation expects.

Thank you, sir.

Mr. TURNER. Well said, General.

General Davis.

General Moeller.

General MOELLER. Thank you, General Davis.

Mr. Chairman, thank you, Member Sanchez. Members of the subcommittee, thank you very much for the opportunity to speak with you today.

Rather than echo the concerns of the distinguished members of the panel, I will simply say that my number one concern, from a strategic planning and programming perspective, is the unprecedented levels of uncertainty.

As we begin the fiscal year 2015 budgeting cycle and look out over the next 5 and 10 years, we don't know where the starting point is. We do know that we will have a bow wave of readiness, must-pay bills to repair the degradation and readiness that we see already. We believe that will take between 2, 3, 4 years, depending on the levels of degradation that we see over the course of the next year to year and a half. At the same time, we must also continue to support combat operations, sustain strategic deterrents, and support to the Joint Force anywhere on the globe.

As we begin this planning cycle, I was talking to one of my civilian programmers who, in fact, will face the threat of furlough coming up. He said, "this future budget planning is like painting a color-by-numbers picture while blindfolded in the back of a C–130 [Hercules tactical airlifter], flying through a thunderstorm." I think that everyone sitting here would echo that. That accurately de-

scribes the level of uncertainty that we face as we look to the future.

We will have to make tough strategic choices to ensure that the Air Force balances competing requirements across our enduring contributions of air and space superiority; intelligence, surveillance, and reconnaissance; rapid global mobility; global strike; and command and control.

The bottom line is, in this fiscal crisis environment, we believe the choice to preserve readiness will drive us to make tough decisions about slowing the pace of modernization, sustaining capability or capacity, and looking to programs or force structure in order to make up the difference.

Through all this, our unchanging responsibility is to provide the world's most capable Air Force, ready to fly, fight, and win against any adversary today and tomorrow. However, in this current fiscal environment, the Air Force will be forced to make drastic choices that will have both immediate and far-ranging impact on our capability and capacity to provide air and space power effectively across the full spectrum of operational requirements.

Thank you, again, for the opportunity to speak.

Mr. TURNER. I want to thank all of our panelists for giving us a very good understanding of what the impacts of both operating under a CR and the effects of sequestration will have on both acquisition in our industrial base. You will be the last word in the House of Representatives as sequestration falls into place in approximately 13 hours from now, the cuts that were never intended to happen.

Thank you for your giving us this perspective. And we look forward to your continued dialogue, because without the additional information of what the effects of these cuts will be, we will not be able to amass the congressional and the presidential will to offset them. So please make that picture as clear as possible, even though the full effects won't be completely known until you are in the middle of implementation. But thank you.

With that, we will be adjourned.

[Whereupon, at 10:42 a.m., the subcommittee was adjourned.]

A P P E N D I X

February 28, 2013

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

FEBRUARY 28, 2013

Statement of Hon. Michael R. Turner

Chairman, House Subcommittee on Tactical Air and Land Forces

Hearing on

Impacts of a Continuing Resolution and Sequestration on Acquisition, Programming, and the Industrial Base

February 28, 2013

The Tactical Air and Land Forces Subcommittee meets today in open session to receive testimony on the impacts of sequestration and the continuing resolution (CR) on acquisition, programming, and the industrial base.

This hearing continues the committee's extensive oversight and detailed examination of the harmful impacts of the continuing resolution and sequestration on the military's ability to protect national security interests of our Nation. We've already heard very candid testimony from the military service chiefs during the full committee hearing on February 13th of how these forced budget cuts would be devastating to military training and force readiness. General Dempsey, the Chairman of the Joint Chiefs of Staff stated, "We built a strategy last year that we said we can execute and absorb $487 billion. I can't sit here today and guarantee you that if you take another $175 [billion] that that strategy remains solvent. . . . What do you want your military to do? If you want it to be doing what it is doing today, then we can't give you another dollar."

Today, we plan to leverage the information gained from that hearing and provide our Members with the opportunity to gain a better understanding of how the CR and sequestration would impact defense acquisition programs, projects, and activities and their associated industrial bases around the country. One of the most tragic aspects of our current situation is that sequestration was never supposed to happen and there were numerous opportunities to avoid it. By laying out the details of the impacts of sequestration, the Department of Defense could have helped us in our education campaign to avoid the catastrophic cuts we are now facing. On the eve of sequester, it is my hope that this hearing will aid to provide greater clarity concerning the details and levels of risk that will be associated with the arbitrary cuts mandated by sequestration on all major defense acquisition programs, including how these severe reductions will impact local communities, small businesses, and ultimately the military's ability in meeting the national military strategy. These details will help to illustrate the depths of these impacts and help us make our case to Congress and the Nation.

Ironically, the sequestration conversation has been seated in a context of savings and fiscal austerity. However, it seems apparent that allowing these cuts to take place could ultimately cost our country more than it saves while, simultaneously, costing jobs. Second- and third-tier vendors , mostly small businesses, will be affected if these cuts are enacted, many of which are referred to as "single points of failure" vendors, meaning only one company is qualified to provide a particular part, and once that capability is lost it will take significant capital and time to regain that capability. This, in turn, will put people out of work and dramatically drive up cost. We need to be assured that the Department and the military services are conducting the appropriate level of analysis to assess the impact of sequester on the industrial base.

For example, the Army indicates that every procurement program would be affected; quantities would be reduced by 10 to 15 percent, and that these mandated sequester reductions affect more than 1,000 companies in more than 40 States. For the Army alone, over 3,000 vendors will be affected. The Army has stated the total economic impact would be approximately $15.4 billion; the Marine Corps $2.4 billion; the Navy is over $20.0 billion. I witness the devastating effects of these reductions each time I return home. My community in Southwest Ohio includes Wright-Patterson Air Force Base, the home of the Air Force Materiel Command and the Air Force Research Laboratories. Recent information provided by the Air Force has indicated that over 14,000 civilian employees at the base face potential furloughs despite the fact that the base provides cutting-edge research and development as well as real-time intelligence, surveillance, and reconnaissance that enhances the lethality and survivability of our warfighters in harm's way. Every State is going to be impacted by sequestration.

As I've stated before, I voted against the Budget Control Act because I knew we would be here today discussing these types of harsh consequences that I just covered, and I have been working aggressively with my colleagues on this committee and Department of Defense to do everything we can to avert these catastrophic effects on our national security.

I would like to welcome our distinguished panel of witnesses:

Representing the Army:

- **Ms. Heidi Shyu,** Assistant Secretary of the Army for Acquisition, Logistics and Technology; and
- **Lieutenant General James O. Barclay III,** Deputy Chief of Staff, G-8.

Representing the Navy and Marine Corps:

- **Mr. Sean J. Stackley,** Assistant Secretary of the Navy, (Research, Development & Acquisition (RDA));
- **Vice Admiral Allen G. Myers,** Deputy Chief of Naval Operations, Integration of Capabilities and Resources (N8); and
- **Lieutenant General John E. Wissler,** Deputy Commandant for Programs and Resources.

Representing the Air Force:

- **Lieutenant General Michael R. Moeller,** Deputy Chief of Staff for Strategic Plans and Programs; and
- **Lieutenant General Charles R. Davis,** Military Deputy, Office of the Assistant Secretary of the Air Force for Acquisition.

Thank you all for your service and thank you all for being with us today.

RECORD VERSION

STATEMENT BY

HONORABLE HEIDI SHYU
ASSISTANT SECRETARY OF THE ARMY FOR ACQUISITION, LOGISTICS AND TECHNOLOGY AND
ARMY ACQUISITION EXECUTIVE

AND

LIEUTENANT GENERAL JAMES O. BARCLAY III
DEPUTY CHIEF OF STAFF OF THE ARMY, G-8

BEFORE THE

SUBCOMMITTEE ON TACTICAL AIR AND LAND FORCES
COMMITTEE ON ARMED SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

ON IMPACTS OF A CONTINUING RESOLUTION AND SEQUESTRATION ON ACQUISITION, PROGRAMMING, AND THE INDUSTRIAL BASE

FIRST SESSION, 113TH CONGRESS

FEBRUARY 28, 2013

NOT FOR PUBLICATION UNTIL RELEASED BY
THE HOUSE ARMED SERVICES COMMITTEE

Mr. Chairman, Ranking Member Sanchez, and distinguished Members of the Subcommittee, thank you for the opportunity to testify today. The fiscal outlook which the U.S. Army faces today is dire and, to our knowledge, unprecedented. The Army has been in a state of continuous war for nearly twelve years – the longest in our Nation's history. Today we have nearly 80,000 Soldiers committed to operations around the world with approximately 58,000 in Afghanistan. While the Army is committed to providing our Soldiers with the best equipment in the world at the best value possible for the taxpayer, tour current fiscal uncertainty due to continuing resolutions and sequestration will significantly disrupt our ability to meet these ongoing responsibilities.

The sequestration provisions in the Budget Control Act of 2011 would cause sharp reductions in Soldier equipment investment. Every single piece of Soldier equipment under development or production will be affected in the implementation of sequestration in some manner. Carefully planned timelines for delivering new capabilities to Soldiers will be necessarily extended or delayed; costs to the Army over the long term will be increased. These challenges are compounded by the limitations imposed under a year-long continuing resolution in the current fiscal year (FY). The terms and conditions of the current continuing resolution preclude us from initiating needed equipment programs and create significant inefficiency in the Army's ability to execute current programs. These combined effects are damaging to the Army's enduring commitment to the Soldier and the Army's commitment to prudent stewardship of public resources.

As we consider the impacts of these budgetary decisions today, it is worth noting that the Army is still called upon to conduct a spectrum of operations including combat

in Afghanistan followed by a planned retrograde of equipment and personnel from the region next year, presenting significant logistical challenges. Equipment used in combat operations must be made available for future use through reset operations, while other pressing modernization needs – deferred for years as a result of the Army's wartime focus – are now in need of attention and investment.

Additionally, the Army must continue to prepare for uncertain and emerging threats. Looking ahead, we cannot afford to overlook the needs of future Soldiers operating in an increasingly complex environment characterized by the proliferation of disruptive technologies that hold the potential to complicate future operations. The world is growing more complex and less predictable as we confront the impacts of our current fiscal uncertainty.

The disruption to the Army's acquisition and equipment modernization programs is first attributable to the estimated $12B reduction to the Army's budget during the remaining months of the current fiscal year using the Department of Defense's (DoD's) planning assumptions for sequestration. According to our estimates, this will result in a planned reduction of $5B in Operations and Maintenance, Army (OMA) accounts for the active force and approximately $1B in the Reserve Component operations and maintenance accounts. The remaining $6B reduction will be applied equally against Army procurement, military construction, and Research, Development, Test and Evaluation (RDT&E) investment accounts. As applied to Army equipment programs, we face a significant reduction of about $3B in Army procurement accounts and a reduction of almost $1B in RDT&E investment applied equally across over 400 Army programs.

The current FY 2013 Continuing Resolution, in general, funds the Army base budget at 2012 levels, which translates to a shortfall of over $6B in the OMA accounts relative to the President's Budget submission for FY 2013. This shortfall, combined with the effects of sequestration, will significantly hamper operations and readiness across the Army. In our investment accounts, the current Continuing Resolution also restricts the Army from commencing new programs or initiating planned multi-year contracts and planned production quantity increases. Timelines established to meet long-term Army and DoD goals, to include auditability of accounts and planned delivery of weapon systems and capabilities, are placed at risk by the fiscal environment.

According to current projections within research, development, and acquisition accounts, the combined effects of this budgetary predicament stemming from sequestration and a continuing resolution could result in thousands of jobs either lost or unrealized; affecting 40 states and the District of Columbia. These reductions are anticipated to impact over 300 companies doing business with the Army and many in the industrial base. To comply with required reductions, particularly in OMA accounts, the Army has already initiated planning efforts to furlough up to 251,000 civilians, Army wide, for 22 non-contiguous days over the last five months of the fiscal year.

Implementation of sequestration reductions across the Army will result in significant impacts to several Army programs. Procurement programs will experience reductions of roughly 9 percent across the board, which will affect several equipment programs:

- The Army will reduce planned FY 2013 production quantities for Apache AH-64; resulting in an increase in unit costs due, in part, to fixed costs already incurred in conjunction with planned production this year.
- OH-58 Kiowa Warrior replacement aircraft will be reduced, which exacerbates critical shortfalls in a fleet of aging aircraft with the Army's highest operational tempo for combat aircraft (329 on hand of a required 368).
- Under sequestration, the Javelin Missile would see an anticipated price increase of 12 percent attributable to reduced quantities from a planned quantity of 400.

The RDT&E accounts will see significant impacts as sequestration cuts are implemented across the Army. Every RDT&E program is affected to some extent; development programs, developmental testing, and operational testing efforts may be curtailed to accommodate reductions in specific programs. Overall, schedules for RDT&E programs are anticipated to see an extension in schedule ranging from six weeks to 18 months. Specific impacts include the following examples:

- Army Science & Technology (S&T) research programs will be reduced by over $300M; thereby resulting in potential impacts to affected academic institutions and industry across all 50 states and the District of Columbia. Up to 280 civilian personnel could be furloughed and 150 contractors could be terminated to accommodate the reductions. The Army risks losing critical expertise in S&T research, which is essential to the delivery of future capabilities to the Soldier.
- Sequestration impacts may result in the closure of some DoD High Performance Computing (HPC) Centers. The five existing HPC Centers are

used across the Department by scientists and engineers in key research and development efforts.

- We will only be able to issue half of our planned new individual Basic Research grants to University professors, and will be forced to terminate a number of existing grants impacting researchers at approximately 80 academic institutions across the country. This will have secondary impacts to graduate students and researchers.

Overall, we anticipate that the funding shortfalls may result in a large number of contract changes relating to procurement quantities or schedule. These changes will place increased pressure and demands on the largely civilian contracting workforce located in Army commands throughout the United States.

Under current fiscal planning guidance, this workforce is potentially subject to a Department-wide furlough for 22 non-contiguous days across the last five months of the fiscal year, when ongoing workload associated with contract awards, oversight, close-outs, and related negotiations must compete with modifications caused by sequestration for limited staff resources. There will be broad impacts on the Army's ability to make timely awards of contracts, provide small business opportunities, and conduct proper oversight.

In addition, the Army plans to cancel 3rd and 4th quarter depot maintenance orders to address the shortfalls in OMA under sequestration. Suppliers in the industrial base may be impacted by the reduction in Army purchase orders for parts and equipment. The reset of 1,000 tactical wheeled vehicles, 14,000 communications devices, and

17,000 weapons systems in Active and Reserve units may be impacted for three to four years following redeployment.

Army impacts related to a continuing resolution are both widespread and immediate, to include the following notable examples:

- Without statutory authority, the planned CH-47F Chinook multi-year production contract cannot be awarded, which provides for cost savings of $810M in the procurement of 155 aircraft over five years – a cost avoidance of 19.2 percent. Without the multi-year contract, CH-47 will likely encounter a production break in June 2013 and a potential two-year delay for renegotiation and re-start of production. This results in up to a 30 percent loss of buying power due to unit cost increases attributable to single year contracts. Quantity reductions may also lead to potential layoffs for the 2nd and 3rd tier suppliers.
- The Army is unable to start the production of modifications to the Paladin Integrated Management (PIM) program to increase reliability and maneuverability of this critical combat system. There is insufficient funding under continuing resolution rules ($120M of $167M) to complete the RDT&E of the PIM Modification program. This will also delay the Army's ability to proceed to Low Rate of Initial Production (LRIP) and a planned Milestone C this fiscal year.
- A new start program affiliated with the Army's auditing Enterprise Resource Planning program, the General Fund Enterprise Business System (GFEBS) will be delayed. This impact will impair the Army's ability to meet mandated statutory auditability requirements and add to the Army's reliance on legacy financial systems.

- The Army will be unable to procure the MQ-1 Grey Eagle new high definition common sensor payload in support of Warfighter requirements to provide an enhanced high definition critical Intelligence, Surveillance, and Reconnaissance capability. A six-month production gap for the air vehicle and associated ground equipment is also likely under a continuing resolution, which will result in increased unit costs.
- Under a continuing resolution, the Army is unable to commence competition and production of 223 Mid-Tier Networking Vehicular Radios (MNVR), which are key to the strategy to provide networked communications to platforms in combat operations.
- Under a continuing resolution, the Army's program for development of the Guided Multiple Launch Rocket System (GMLRS) Alternative Warhead faces an RDT&E funding shortfall in the current fiscal year which could result in a stop work in July 2013. Funding shortfalls could result in a 12-24 month delay in reaching a decision on Milestone C/Full-Rate Production Decision and Initial Operational Capability. As a result, the program will be at risk to field equipment in time to replace the GMLRS Dual Purpose Improved Conventional Munitions before the DoD Cluster Munitions Policy goes into effect in 2019.

The effects of either sequestration or a continuing resolution are harmful to the Army, which renders the prospect of withstanding both impacts together simply daunting. As reflected in today's testimony, our analysis shows there will be very real impacts to our equipment programs and the industrial base as a result of these fiscal challenges.

However, concern must be reserved for those impacts that cannot be discerned within the scope of this current fiscal year. As a professional acquisition workforce, we are rightly expected by our fellow citizens to prudently manage public investments in materiel in a determined and unyielding pursuit of the Soldier's safety and effectiveness. Our emphasis on achieving best value for the taxpayer and mitigating cost escalation through sound program management will be largely undone by the budgetary uncertainty and dramatic approach to reductions we are about to witness. We remain concerned that programs may face unanticipated schedule or cost impacts in the outyears traced to conditions imposed in the current fiscal year. We also worry that risks imposed on the Army's equipment programs will be enlarged or exacerbated by similar fiscal challenges that would result from the significant reductions in discretionary budget caps in every year from FY 2014 to FY 2021 as a result of the failure to replace sequestration with a balanced deficit reduction plan.

The Army will provide Soldiers with the best equipment available as needed; their sacrifice deserves no less. All equipping programs and priorities will be negatively affected by the application of sequestration. Likewise the defense industrial base will be adversely impacted and critical skill sets will be lost. We hope that the impacts outlined today will summon a renewed dedication to the needs of our force, which has consistently answered the nation's call for service throughout its history.

Mr. Chairman, Members of the subcommittee, we thank you again for your steadfast and generous support of the outstanding men and women of the United States Army, Army Civilians, and their Families. We look forward to your questions.

The Honorable Heidi Shyu

Assistant Secretary of the Army
(Acquisition, Logistics &Technology)
and
Army Acquisition Executive

Ms. Heidi Shyu, a political appointee, was confirmed as the Assistant Secretary of the Army for Acquisition, Logistics and Technology [ASA(ALT)] on September 21, 2012. Prior to this, she was asked to serve as the Principal Deputy, appointed November 8, 2010, and later as the Acting ASA(ALT), starting June 4, 2011.

As the ASA (ALT), Ms. Shyu serves as the Army Acquisition Executive, the Senior Procurement Executive, the Science Advisor to the Secretary of the Army, and the Army's Senior Research and Development official. She also has principal responsibility for all Department of the Army matters related to logistics.

Ms. Shyu leads the execution of the Army's acquisition function and the acquisition management system. Her responsibilities include providing oversight for the life cycle management and sustainment of Army weapons systems and equipment from research and development through test and evaluation, acquisition, logistics, fielding, and disposition. Ms. Shyu also oversees the Elimination of Chemical Weapons Program. In addition, she is responsible for appointing, managing, and evaluating program executive officers and managing the Army Acquisition Corps and the Army Acquisition Workforce.

Prior to this position, Ms. Shyu was the Vice President of Technology Strategy for Raytheon Company's Space and Airborne Systems. She also held several senior leadership positions there, including Corporate Vice President of Technology and Research, Vice President and Technical Director of Space and Airborne Systems, Vice President of Unmanned and Reconnaissance Systems, Senior Director of Unmanned Combat Vehicles, Senior Director of Joint Strike Fighter (JSF), and Director of JSF Integrated Radar/Electronic Warfare Sensors. As Director of JSF Antenna Technologies at Raytheon, Ms. Shyu was responsible for the development of lightweight, low-cost, Tile Active Electronically Scanned Antenna technologies. She also served as the Laboratory Manager for Electromagnetic Systems.

In addition to her extensive experience at Raytheon, Ms. Shyu served as a Project Manager at Litton Industries and was the Principal Engineer for the Joint STARS Self Defense Study at Grumman. She began her career at the Hughes Aircraft Company.

Ms. Shyu holds a Bachelor of Science Degree in Mathematics from the University of New Brunswick in Canada, a Master of Science Degree in Mathematics from the University of Toronto, Master of Science Degree in System Science (Electrical Engineering) from the University of California, Los Angeles (UCLA), and the Engineer Degree from UCLA. She is also a graduate of the UCLA Executive Management Course and the University of Chicago Business Leadership Program.

A member of the Air Force Scientific Advisory Board from 2000 to 2010, Ms. Shyu served as the Vice Chairman from 2003 to 2005 and as Chairman from 2005 to 2008.

Lieutenant General James O. Barclay III
Deputy Chief of Staff, G-8

Lieutenant General James O. Barclay III became the Deputy Chief of Staff, G-8 on 27 July 2012. Prior to assumption of this position, he served as the Army's Assistant Deputy Chief of Staff, G-3/5/7 United States Army, Washington, DC.

LTG Barclay received his commission in 1978 from the United States Military Academy at West Point in the Armor Branch. He is a 1990 graduate of the Army Command and General Staff College, where he earned a Master of Military Arts and Sciences Degree, and a 1998 graduate of the United States Naval War College where he earned a Master of Arts from in National Security and Strategic Studies.

LTG Barclay has held numerous command positions. His command assignments include: Commanding General, United States Army Aviation Center of Excellence and Fort Rucker; Commander, Aviation Brigade, later Chief of Staff, 4th Infantry Division (Mechanized), Fort Hood, Texas and OPERATION IRAQI FREEDOM, Iraq; 3d Battalion, 25th Regiment, re-designated 2d Battalion, 10th Aviation, 10th Mountain Division (Light), Fort Drum, New York; and Headquarters and Headquarters Company, 101st Aviation Battalion, 101st Airborne Division (Air Assault), Fort Campbell, Kentucky.

Previously, he was the Director, Joint Center for Operational Analysis-Lessons Learned, United States Joint Forces Command, Suffolk, Virginia; Assistant Division Commander (Maneuver), 1st Infantry Division, United States Army Europe and Seventh Army, Germany; Assistant Division Commander (Maneuver), 42d Infantry Division, OPERATION IRAQI FREEDOM, Iraq; Executive Officer to the Commander, Multi-National Force-Iraq, OPERATION IRAQI FREEDOM, Iraq; Executive Officer to the Vice Chief of Staff, United States Army, Washington, DC; and Executive Officer to the Deputy Chief of Staff, G-8, United States Army, Washington, DC.

LTG Barclay's awards and decorations include the Distinguished Service Medal, Defense Superior Service Medal, the Legion of Merit (with oak leaf cluster), the Bronze Star Medal (with oak leaf cluster), the Defense Meritorious Service Medal (two oak leaf clusters), the Meritorious Service Medal (with 5 Oak Leaf Clusters), Army Commendation Medal (with oak Leaf Cluster), and the Army Achievement Medal. MG Barclay is a Master Army Aviator and has earned the Master Aviator Badge, the Senior Army Aviator Badge, and the Army Staff Identification Badge.

LTG Barclay is a native of Scottsboro, Alabama. He and his wife, Deborah, have three children, Mary Margaret; James O. Barclay IV; and William, a Warrant Officer in the United States Army.

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HOUSE ARMED SERVICES COMMITTEE
TACTICAL AIR AND LAND FORCES
SUBCOMMITTEE

STATEMENT OF

HON. SEAN J. STACKLEY
ASSISTANT SECRETARY OF THE NAVY
(RESEARCH, DEVELOPMENT AND ACQUISITION)

AND

VICE ADMIRAL ALLEN G. MYERS, USN
DEPUTY CHIEF OF NAVAL OPERATIONS
INTEGRATION OF CAPABILITIES AND RESOURCES

AND

LIEUTENANT GENERAL JOHN E. WISSLER, USMC
DEPUTY COMMANDANT FOR PROGRAMS AND RESOURCES

BEFORE THE

TACTICAL AIR AND LAND FORCES
SUBCOMMITTEE

OF THE

HOUSE ARMED SERVICES COMMITTEE

ON

IMPACTS OF A CONTINUING RESOLUTION AND SEQUESTRATION ON
DEPARTMENT OF THE NAVY ACQUISITION, PROGRAMMING & INDUSTRIAL BASE

FEBRUARY 28, 2013

NOT FOR PUBLICATION UNTIL RELEASED BY
HOUSE ARMED SERVICES COMMITTEE
TACTICAL AIR AND LAND FORCES SUBCOMMITTEE

IMPACTS OF A YEAR-LONG CONTINUING RESOLUTION AND SEQUESTRATION TO THE DEPARTMENT OF THE NAVY

Chairman Turner, Ranking Member Sanchez, and distinguished members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the year-long Continuing Resolution (CR) and sequestration impacts to the Department of the Navy's (DoN) Acquisition Programs, Programming, and the Industrial Base.

The United States is a maritime nation with global responsibilities. Our Navy and Marine Corps' persistent presence and multi-mission capability represent U.S. power projection across the global commons. As you are aware, a sequestration order will be issued on March 1; in addition, a second sequestration due to a breach in the FY 2013 discretionary caps is scheduled to be ordered on March 27. Sequestration will add to a budget shortfall in operating accounts already created by the Continuing Resolution. The potential for sequestration and a year-long CR have already altered virtually every aspect of DoN planning and our ability to carry out our responsibilities. Without action by Congress, a year-long CR and sequestration will have immediate as well as long-term negative impacts. In the near-term, we will be driven to cancel maintenance and training that supports current readiness and our operational commitments at home and abroad. Long-term, the fiscal challenges will constrain our ability to invest in future capability and capacity. In short, if a strict year-long CR and sequestration occur, we will not be able to afford in the future the Navy and Marine Corps we have today.

In March 2012, Navy and Marine Corps leadership testified to this committee about the Fiscal Year 2013 budget which was restructured to reflect an updated defense posture as the wars in Iraq and Afghanistan wind down with a commensurate reduction of about $500 billion over ten-years. The planned 2013 DoN budget request aligned with the new strategic guidance for the Department of Defense (DoD) and provided the DoN with the best balance of naval capabilities.

Currently, the budgetary uncertainty including the CR is driving changes to our force posture and operational capability absent any major review of strategic priorities and national security objectives. As the Chief of Naval Operations and the Commandant of the Marine Corps testified to the House Armed Services Committee earlier this month, there is no question we must get our nation's fiscal house in order. But we should do so in a coherent and thoughtful manner to ensure we have the weapon systems needed to project power and maintain appropriate readiness levels. Unless we change course, we may, without proper deliberation, dramatically impact our global presence and our material readiness (afloat and ashore). Further, we risk damaging the military industrial base we depend upon to build and maintain our weapon systems and rely upon to surge to meet urgent operational needs.

A restrictive year-long CR and nine years of reduced budgets triggered by sequestration will leave ships in ports, aircraft grounded for want of necessary maintenance, reduced flying hours, units only partially trained, and a force reset via new acquisition and modernization programs delayed, restructured, or canceled. Our concern is we will not have the ready forces when it matters and where it matters most to respond to crisis, assure allies, build partnerships, deter aggression, and contain conflict.

PERSONNEL/ACQUISITION/INDUSTRIAL BASE IMPACTS

National Economy/Employment Impacts:

The DoN $7.8 billion dollar sequestration investment reduction would potentially impact over 100,000 private sector jobs across the nation considering direct and indirect impacts to the economy.

DoN Personnel Impacts:

The DoN relies on a 'total force' of military (active and reserve) and civilian personnel to execute its mission. While military personnel accounts are exempt from sequestration in Fiscal Year 2013, the uncertainty of this year's fiscal action has already had a tangible effect on our civilian workforce as well as intangible effects on military personnel. Due to the possibility of the current CR being extended to a full year, the Navy has implemented an across the board hiring freeze for civilian positions and released many temporary employees. The Navy also started planning for civilian furloughs in case sequestration and full year CR were to occur.

Hiring Freeze: We estimate that the hiring freeze has already impacted over 1,000 Navy-wide vacancies. With an average Navy-wide civilian personnel attrition rate of approximately 350 per week, or approximately 18,000 vacancies per year, the impacts to the workforce are severe. The Marine Corps, which is not immediately implementing an across-the-board hiring freeze because it instituted hiring freezes in 2011 and 2012, is limiting expenditures on civilian labor resulting in approximately 400 full-time equivalents below 2010 levels.

Temporary Civilian Employees: In total, the Navy is planning to release more than 650 temporary civilian employees representing approximately 25 percent of this workforce.

Furloughs: In accordance with the Office of Personnel Management (OPM) guidance, the DoN is continuing to review the implications of sequestration-driven furloughs of up to 195,000 civilian employees. Furloughs will affect all fifty states and our internationally based workforce. We assess the impact of a 22 work day furlough in the latter half of this fiscal year will result in an approximate 20 percent pay reduction for affected employees during this period. With Congressional Notification provided on February 20, 2013, we anticipate furloughs could commence in the April 2013 timeframe. Consequently, the impacts to the civilian workforce are detrimental not to

only the affected employees – but to their families, the DoN mission, and local economies.

In addition to the direct loss of labor hours, the workforce impacts of a year-long CR and sequestration will also lead to inefficiencies caused by loss of learning; productivity losses; cost increases driven by lengthening schedules; increased burdens on military personnel; and lower morale – all of which translates to reduced readiness. For example, the civilian hiring freeze and overtime restrictions in Naval Shipyards have already caused non-recoverable impacts to the shipyards' ability to execute many assigned workloads and nuclear submarine availabilities while threatening to impact Docking Planned Incremental Availabilities for the USS EISENHOWER (CVN 69) and the USS JOHN C. STENNIS (CVN 74).

Major Acquisition Programs

The combined effects of a full-year CR, including the current prohibition on new starts and increases in rates of production, and a reduction of about $8 billion in DoN Fiscal Year 2013 investment accounts due to sequestration are far reaching – with impacts to naval aviation, ground-warfare systems, strike weapons, research & development, shipbuilding and the associated support, training, and outfitting required for current and future readiness.

The impact of sequestration in Fiscal Year 2013 would result in a loss of more than $1.0 billion in aircraft production. The reductions will affect the F-35 Joint Strike Fighter, H-1 Huey and Cobra Rotary-Wing Aircraft, P-8 Poseidon Maritime Patrol Aircraft, E-2D Hawkeye Surveillance Aircraft, Vertical Take-Off Unmanned Aerial Aircraft (VTUAV), and the Small Tactical Unmanned Aerial Vehicle production lines. Further, the Department would delay the Initial Operating Capability (IOC) of VTUAV Intelligence, Surveillance and Reconnaissance in support of Special Operations Forces. We also expect to see unit price increases in current and future single-year procurements for

tactical, surveillance, rotary-wing, and unmanned systems. An additional $1.0 billion dollar impact will affect aviation supporting elements impacting trainers and simulators, stand-up of the MV-22 Osprey depot-level maintenance capability, ground support equipment, and spare parts for all for all aircraft types/models/series. These supporting elements are key contributors to maintaining the readiness of operational aircraft and aircrews.

Examples of the impacts due to a strict year-long CR include the inability to transition to an MV-22 multi-year procurement, resulting in approximately $1.1 billion in additional program cost to deliver the same number of aircraft; the inability to execute new starts for KC-130J, which extends their delivery schedule; delayed development of the multi-intelligence sensor causing a one-year delivery delay to MQ-4C Triton unmanned aircraft; and delays in fielding radar and infra-red search and track upgrades for F/A-18 aircraft.

Current CR restrictions and potential sequestration-driven decreases to naval aviation readiness would impact Fleet Replacement Squadrons (FRS), reduce rotary-wing readiness in support of swarming boat defense, airborne mine counter-measures and anti-submarine warfare, and cancel aircraft and engine depot inductions in the 3rd/4th quarter of Fiscal Year 2013. Depot cancellations jeopardize planned aircraft modernization, mission system software capability improvements, fatigue-life management, depot support, and our flight hour program.

Aviation depot maintenance is critical to the long-term health of the force and our ability to meet mission tasking for both the Navy and Marine Corps. The combined impacts of full-year CR restrictions and sequestration on the operation and maintenance of Navy aircraft will be to degrade mission readiness, both to our Carrier Air Wings and other critical tactical helicopter and maritime patrol aircraft. The cancelling of depot engine and engine module inductions during the 3rd/4th quarter will impact engine and engine module inventories necessary for flight-line aircraft, spare parts, and war-time reserve.

Similarly, Marine Corps readiness will be degraded. Beyond twelve-months, we project impact to all Marine Corps home-station fixed-wing units. Specifically, USMC F/A-18 fixed-wing squadrons will have, on average, approximately only five of twelve assigned aircraft on the ramp due to aviation depot shutdowns. Causing further concern is that an extended CR, combined with sequestration, could impact our 'next-to-deploy' and some deployed forces. Across the DoN, there will be a total of 327 aircraft and over 1,200 engine modules that will miss induction in the 3rd/4th quarter of Fiscal Year 2013 due to CR and sequestration, with several years required to recover the backlog. If the forecast impacts were to occur, we would not be able to recover in a timely manner, even if funding were restored.

Our flight hour program is critical to maintaining our near-term ability to safely and effectively meet tasking. Decreasing flight hours raises the risk to flight safety and aircrew proficiency. For example, in non-deployed Marine Corps F/A-18 squadrons, pilots will average seven flight hours per month, well below the historically proven average of fifteen flight hours per pilot required to maintain safe flight and minimum aircrew proficiency.

The entirety of the Marine Corps Fiscal Year 2013 ground material modernization investment is only $2.5 billion, comprising 12 percent of the baseline budget. Further reductions in ground investment accounts, although proportional to the other services in terms of a percentage reduction, will have disproportional impact on Marine Corps modernization and readiness, particularly after a decade of increased operational tempo. The impending sequestration will cause a cut of over $850 million dollars and delay efforts of multiple ground programs directly impacting delivery of future capabilities. Examples include reduced procurement and installation of safety and force protection modification kits on both the Medium Tactical Vehicle Replacement and Logistics Vehicle System Replacement trucks which will decrease overall fleet capability. Program delays to the Amphibious Combat Vehicle will result in the Marines being

required to operate and maintain the already 40-year old Assault Amphibious Vehicle for at least the next decade.

Due to sequestration our weapons and ammo procurement accounts will be reduced by approximately $450 million dollars. Impacts will occur to sea-strike and sea-shield weapons procurement that include a reduction of over 200 air-launched weapons for air-to-air and air-to-ground combat; more than 50 sea-launched weapons, including our front-line, deep-strike land-attack weapons; and nearly all of our ammo and direct attack munitions accounts. Since many of our weapons programs are already at minimum sustaining rates, further quantity reductions will jeopardize the supplier base and drive higher unit production costs. Additionally, we will reduce procurement of acoustic device countermeasure systems impacting ship torpedo defense and reduce systems engineering and technical assistance oversight of our Mobile User Objective System (MUOS).

Early research, development, test and evaluation is integral to weapon system development. These efforts will be impacted by sequestration, resulting in reductions totaling more than $1.6 billion dollars. Cuts will occur in university research initiatives, applied research, in-house laboratories, and the research and development for major acquisition programs. Acquisition program impacts include:

- Delays in Joint Strike Fighter at-sea testing due to postponement of required ship modifications, air-ship integration activities, and reduced progress on development of a deployable Autonomous Logistics Information System;
- A two-year delay in the MQ-4/Triton Unmanned Air System;
- Delays in CH-53K development; and
- Delays in the Multi-Stage Supersonic Target impacting completion of operational testing for Nuclear Aircraft Carriers, Standard Missile-2, Rolling Airframe Missile, Evolved Sea Sparrow Missile, Ship Self Defense System, Littoral Combat Ship, Amphibious Assault Ships (LHA), and DDG 1000.

All of these delays drive cost increases into the programs and result in less capability delivered for each defense dollar spent.

Sequestration will impact our nuclear aircraft carrier force structure and the one-year CR impacts contract awards for carrier refueling. Specifically, the current CR would delay the contract award for the next Ford Class carrier, JOHN F. KENNEDY (CVN 79) and sequestration would further slow construction, which would result in a delivery delay. Current CR funding limitations would delay the completion of Nuclear Refueling Complex Overhaul (RCOH) for USS THEODORE ROOSEVELT (CVN 71), the start of RCOHs for USS ABRAHAM LINCOLN (CVN 72), and the defueling of USS ENTERPRISE (CVN 65). Given the short time available between sequential dry-docks, the CVN 72 and CVN 65 delays will also likely cause day-for-day impacts to the follow-on CVN 73 RCOH. The CVN 72 and CVN 73 delays will not be recoverable.

Industrial Base

Sequestration's shadow engenders large uncertainties for the DoN as a whole and in particular our defense industrial base. We have observed prior disruptions to industry resulting in a loss of talent, a loss of learning, and a reduction to quality.
As Secretary Panetta has stated, sequestration also puts at risk a defense strategy established, in part, to ensure the United States maintains its industrial base and is not driven to contract with overseas companies to keep its technological edge.

For the DoN, sequestration will impact all 50 states – from prime contractors, to the supplier base, and to the scientific, engineering, and technical services sectors. Assuming a nine-percent sequestration reduction for the March 1 and March 27 potential orders combined, we project industry contract awards will be reduced by approximately $6.7B in Fiscal Year 2013.

Delayed weapon system production and cancelled maintenance and repair will immediately impact aircraft, missile, and land system manufacturers and our military industrial supplier base. The projected loss of work in Fiscal Year 2013 alone will further stress smaller businesses that provide supplies and services to major manufacturers which have already been negatively impacted due to the general downward trend in defense spending. Many small businesses, which are often the sole-source for aircraft, missile, and land-system components, may be driven to shut down if meaningful disruptions to planned workload occur. Once these companies, their engineers and skilled workers move on to other work, they are hard and sometimes impossible to reconstitute, even if our national security requires it. With many weapon systems already at minimum sustaining rates and extended production runs, we are continually faced with the challenges of parts obsolescence that will be further exacerbated by sequestration and year-long CR disruptions.

What cannot be measured is the percentage of the supplier base that has decided, or will decide, that it is no longer in their economic best interests to participate in the defense sector due to business base uncertainties driven by frequent CRs, sequestration, and the prospect of nine years of continuing budget uncertainty. When suppliers determine that they can no longer rely on future work, or conclude that the regulatory and contractual environment is unavailing to a reasonably predictable business base, they will adapt and may turn to other economic sectors.

SUMMARY

We ask that Congress act quickly to eliminate the threats posed by sequestration and a year-long CR by developing a coherent, balanced approach to deficit reduction that addresses our national security interests. The Department requests Congress pass a Fiscal Year 2013 Defense Appropriations bill and eliminate sequestration. If that course of action proves untenable, we request Congress at least act quickly to modify the CR to help us get the funds in the correct accounts, and allow for new starts, rate increases, and

quantity variations that address our Fiscal Year 2013 CR-related readiness shortfalls and acquisition requirements. Such actions related to the CR; however, will do little to mitigate the significant cuts required by sequestration.

We understand the importance of resolving our fiscal challenges to ensure our nation's security and future prosperity and look forward to working with Congress to ensure our Navy and Marine Corps remain the world's preeminent maritime and expeditionary force.

Assistant Secretary of the Navy
(Research, Development and Acquisition)

7/28/2008 - Present

The Honorable Sean J. Stackley

Sean J. Stackley assumed the duties of assistant secretary of the Navy (ASN) (Research, Development & Acquisition (RDA)) following his confirmation by the Senate in July 2008. As the Navy's acquisition executive, Mr. Stackley is responsible for the research, development and acquisition of Navy and Marine Corps platforms and warfare systems which includes oversight of more than 100,000 people and an annual budget in excess of $50 billion.

Prior to his appointment to ASN (RDA), Mr. Stackley served as a professional staff member of the Senate Armed Services Committee. During his tenure with the Committee, he was responsible for overseeing Navy and Marine Corps programs, U.S. Transportation Command matters and related policy for the Seapower Subcommittee. He also advised on Navy and Marine Corps operations & maintenance, science & technology and acquisition policy.

Mr. Stackley began his career as a Navy surface warfare officer, serving in engineering and combat systems assignments aboard USS *John Young* (DD 973). Upon completing his warfare qualifications, he was designated as an engineering duty officer and served in a series of industrial, fleet, program office and headquarters assignments in ship design and construction, maintenance, logistics and acquisition policy.

From 2001 to 2005, Mr. Stackley served as the Navy's LPD 17 program manager, with responsibility for all aspects of procurement for this major ship program. Having served earlier in his career as production officer for the USS *Arleigh Burke* (DDG 51) and project Naval architect overseeing structural design for the Canadian Patrol Frigate, HMCS Halifax (FFH 330), he had the unique experience of having performed a principal role in the design, construction, test and delivery of three first-of-class warships.

Mr. Stackley was commissioned and graduated with distinction from the United States Naval Academy in 1979, with a Bachelor of Science in Mechanical Engineering. He holds the degrees of Ocean Engineer and Master of Science, Mechanical Engineering from the Massachusetts Institute of Technology. Mr. Stackley earned certification as professional engineer, Commonwealth of Virginia, in 1994.

Updated: 14 January 2011

United States Navy
Biography

Vice Admiral Allen G. Myers
Deputy Chief of Naval Operations, Integration of Capabilities and Resources (N8)

A 1978 graduate of the U.S. Air Force Academy and a northern Virginia native, Vice Adm. Myers most recently served as commander, Naval Air Forces from 2010 to 2012, leading naval aviation during its centennial celebration. Prior to that, he completed two tours in Washington, as director, Warfare Integration/Senior National Representative (OPNAV N8F), and director, Air Warfare Division (OPNAV N88). He also served as commander, Carrier Strike Group Eight, commanding Expeditionary Strike Force 5th Fleet, Combined Task Force 50 and 152, and the *Eisenhower* Carrier Strike Group during an extended deployment in support of Operations *Iraqi Freedom* and *Enduring Freedom* 2006/2007. Myers has also previously served in flag tours as the senior military assistant to the secretary of the Navy and deputy director for Requirements, Assessments Division (OPNAV N81D).

He also commanded *USS Kitty Hawk* (CV 63), the Navy's forward deployed naval forces aircraft carrier, in Yokosuka, Japan, and *USS Sacramento* (AOE 1), which deployed to the Western Pacific and Persian Gulf with the *Constellation* Battle Group, and was awarded the Battle "E" and CNO Safety "S" under his command. He also commanded Fighter Squadron (VF) 32, flying F-14 Tomcats aboard USS *Dwight D. Eisenhower* (CVN 69) while deployed to Bosnia and the Persian Gulf. The squadron also was awarded the Battle "E", the Clifton Award and the Fleet Fighter Adversary Readiness Program Trophy under his command.

Prior squadron and sea tours include: VF-143, VF-14, VF-101 and VF-103. Tours ashore have also included: executive assistant to commander U.S. Fleet Forces; Organizational Policy Branch chief in the Strategic Plans and Policy Directorate, J-5, Joint Staff; deputy executive assistant to the chief of naval operations; chief staff officer, Fighter Wings Atlantic; and deputy special assistant to the chief of naval personnel for flag officer matters. He holds master's degrees in National Security Affairs from the Naval War College and Salve Regina University.

Myers is currently assigned as deputy chief of Naval Operations, Integration of Capabilities and Resources in Washington.

During his career he has accumulated more than 3,600 flight hours and over 900 arrested landings. Decorations include: Distinguished Service Medal; Defense Superior Service Medal; Legion of Merit (eight awards); Meritorious Service Medal (two awards); Air Medal; Joint Service Commendation Medal; Navy and Marine Corps Commendation Medal (two awards) and Navy and Marine Corps Achievement Medal (two awards), in addition to various campaign and unit awards.

Updated: 19 December 2012

Lieutenant General John E. Wissler

Deputy Commandant for Programs and Resources

Lieutenant General Wissler is currently serving as Deputy Commandant for Programs and Resources, Headquarters, U.S. Marine Corps, Washington DC.

Lieutenant General Wissler was born at Camp Pendleton, California and raised across the country, settling in Brooklyn Park, Minnesota. He graduated with honors from the United States Naval Academy with a Bachelor of Science in Ocean Engineering and was commissioned a Second Lieutenant on 7 June 1978.

Lieutenant General Wissler's command assignments began with service commanding landing support (shore party) and combat engineer platoons, completing two 31st Marine Amphibious Unit (MAU) deployments to the Western Pacific and Indian Ocean. He deployed with MAU Service Support Group (MSSG) 31 with the MSSG Landing Support Platoon supporting OPERATION EAGLE CLAW in the Persian Gulf, and next commanded the Battalion Landing Team 3/3 Combat Engineer platoon. Lieutenant General Wissler also served as the Executive Officer, Engineer Company, Brigade Service Support Group, 1st Marine Brigade. His next command assignments occurred in 1st Combat Engineer Battalion, 1st Marine Division, where he served as Commanding Officer for Headquarters and Service Company, "B" Company, and Engineer Support Company; deploying to Honduras with "B" Company and 2d Battalion 5th Marines as part of the I MEF Air Contingency Battalion. Field Grade command assignments began with service as the Executive Officer, Marine Wing Support Squadron 172, Marine Wing Support Group (MWSG) -17, 1st MAW, Okinawa, Japan; and continued with his assignment as Commanding Officer, 2d Combat Engineer Battalion, 2d Marine Division. Lieutenant General Wissler commanded twice as a Colonel, commanding 2d Transportation Support Battalion, 2d Force Service Support Group (FSSG), which served as the nucleus of Task Force Pegasus, providing operational and tactical level battlefield distribution capabilities in support of I Marine Expeditionary Force during Operation Iraqi Freedom during the liberation of Iraq; and as Commander, 2d FSSG Forward, II MEF Forward (MNF-W) for Operation Iraqi Freedom (OIF) 04-06. General Officer command assignments have included Commanding General, 2d FSSG (Fwd) and 2d Marine Logistics Group, II MEF; Deputy Commanding General, MNF-W during OIF 09; Deputy Commanding General, II MEF; and Commanding General, 2d Marine Expeditionary Brigade.

Lieutenant General Wissler's staff assignments include Facilities Maintenance Officer for Marine Corps Recruit Depot (MCRD), San Diego; Battalion Operations Officer, 1st Combat Engineer Bn; Commandant of the Marine Corps' Amphibious Plans Study Group in support of Operation Desert Storm; Marine Corps Aide to the President from July 1991 to August 1993 serving Presidents George H.W. Bush and Bill Clinton; Operations Officer and Executive Officer for MWSG-17, 1st MAW; Division Engineer, 2d Marine Division, II MEF; Deputy Director and Director, Strategic Initiatives Group, Plans, Policies & Operations Department, Headquarters, U. S. Marine Corps where he headed the War Room for General James L. Jones, 32d Commandant of the Marine Corps; Assistant Chief of Staff, G-3, 2d FSSG; and Senior Military Assistant to the Deputy Secretary of Defense (The Honorable Gordon England). While serving the Deputy Secretary of Defense, at the request of the Vice Chairman of the Joint Chiefs of Staff, Lieutenant General Wissler deployed to Iraq for two months in support of the Joint Forces Command Enabling Force Study that preceded "The Surge."

Lieutenant General Wissler has completed the Amphibious Warfare School non-resident program while in the Special Education Program; graduated with honors and was identified as a Distinguished Graduate at the Air Force Institute of Technology (AFIT), receiving a Master of Science in Industrial Engineering and being awarded the AFIT Commandant's award for exceptional thesis research; is a distinguished graduate from the Marine Corps Command and Staff College Resident Program; completed the Armed Forces Staff College (now Joint Forces Staff College) at Norfolk, Virginia; and served as a Commandant of the Marine Corps and Federal Executive Fellow at The Brookings Institution in the Foreign Policy Studies Branch.

DEPARTMENT OF DEFENSE

PRESENTATION TO THE
HOUSE ARMED SERVICES COMMITTEE
SUBCOMMITTEE ON TACTICAL AIR AND LAND FORCES
U.S. HOUSE OF REPRESENTATIVES

SUBJECT: Impact of a Continuing Resolution and Sequestration on Acquisition, Programming, and the Industrial Base.

STATEMENT OF: Lt Gen Charles R. Davis
Military Deputy, Office of the
Assistant Secretary of the Air Force (Acquisition)

Lt Gen Michael R. Moeller
Deputy Chief of Staff, Strategic Plans and Programs

28 February 2013

NOT FOR PUBLICATION UNTIL RELEASED BY
HOUSE ARMED SERVICES COMMITTEE
SUBCOMMITTEE ON TACTICAL AIR AND LAND FORCES
U.S. HOUSE OF REPRESENTATIVES

Introduction

The combination of sequestration in fiscal year (FY) 2013 reduced discretionary budget caps in FY 2014-2021, and a possible year-long continuing resolution (CR), will have devastating effects on United States Air Force readiness, modernization efforts and the support for the military and civilian workforce. As directed by the Deputy Secretary of Defense, we have started intensifying our planning for longer-term budgetary uncertainty, including potential sequestration in March. However, the totality of all the unknowns—FY13-18 baselines, CR transfer authorities, new start rules, quantity increases etc.—make all our planning efforts little more than an exercise in futility. The Air Force has already implemented a series of prudent measures to help mitigate our current fiscal year budget risks; however, planning for sequestration and other fiscal constraints have already disrupted our strategic planning efforts and this event will cause short-term and long-term effects that will adversely affect the Air Force today and years into the future. In addition to the difficulties of operating under a year-long continuing resolution, sequestration would produce an estimated $12.4 billion top-line budget reduction for the Air Force. These reductions and restrictions, along with the mitigation efforts we unilaterally implemented to lower our FY13 spending profile, affect all accounts and have a compounding negative effect over time. Coupled with an FY13 $1.8 billion estimated shortfall in overseas contingency operations (OCO) funding because of higher than expected operating costs in theater, these constraints have already disrupted current operations and pose severe long-term consequences.

Impacts on Acquisition

The single largest impact of sequestration and CR unknowns is the very serious impact they have on the meticulous acquisition cost and schedule planning mandated in numerous public laws and DoD policy. The increasing inefficiency makes it difficult, if not impossible for our program managers to do their job.

Sequestration cuts to Air Force modernization investments, which under the law must be applied equally at the program, project, and activity level, will impact every one of the Air Force's acquisition programs. For example, the F-35A low rate initial production would see reductions of up to five aircraft from the requested 19 in FY13. Such potential reductions drive up unit costs—resulting in FY14 production funding shortfalls—they also delay follow-on software and flight testing. Test and evaluation delays could increase total test costs across all programs, and delay delivery of critical capability to U.S. servicemen and women in the field at a time when these capabilities are planned to be the cornerstone of our post-Afghanistan ability to refocus our efforts.

One of the more crippling near-term impacts of sequestration is that the roughly 9% across the board cuts will remove all funding reserved to manage risk from every program. More specifically, our program managers will lose virtually all of their resources to address emerging technical issues and any development or test discoveries. We will lose the resources to fix any issues that were not part of the original program baseline.

Each of these long-term investment account disruptions negate thousands of man-hours spent on planning, implementing, and managing complex programs intended to best balance the efficiency of taxpayer dollar expenditure with the effectiveness of capability creation to fulfill the Defense Strategic Guidance. Inflicting a sledgehammer blow to the planned execution of these programs through sequestration harms both aspects of that precious balance. And over time, taxpayer dollars will have to be spent to address the contract re-structures and time-delay inefficiencies that sequestration will induce, while delivery delays of validated capabilities infused with perishable technologies will only reduce our already-shrinking advantage over potential adversaries.

Many of the adverse impacts of sequestration to Air Force operations are aggravated by the fact that we are still operating under a continuing resolution, now five months into the fiscal year. The absence of a final FY13 appropriations bill thrusts each military Service into a planning purgatory of sorts, clouding near- and long-term fiscal programming with a fog of ambiguity, and placing dozens of acquisition programs at risk, particularly those requiring "new start" and "quantity increase" approvals. The President's Budget requested multiple new start RDT&E projects at a cost of over $200M. These new projects affect programs such as C-5 (Weather/Radar), B-2 (Common VLF Receiver Increment 1), F-15 (Eagle Passive/Active Warning Survivability System), F-35 and Space Based Infrared System (Space Modernization Initiative). All of our new starts are delayed until we receive an appropriations bill or anomaly approving them.

A year-long continuing resolution coupled with sequestration will create significant impacts on our weapon system program strategies, cost and schedules, and we will be unable to mitigate even the most significant of impacts in investment accounts. Significant changes will be required across the FYDP to our current modernization programs, delaying much needed capability to the warfighter.

Impacts on Programming

Despite the challenges we face in this dynamic fiscal environment, the Air Force remains committed to developing and implementing a program that focuses on maintaining readiness levels for our forces to support Combatant Commanders in their assigned operational missions. However, the combined effects of the continuing resolution and sequestration have induced an unprecedented level of uncertainty into the Air Force Strategic Planning and Programming process. This unpredictability will also introduce a high level of risk to our ability to maintain Air Force unique capabilities and capacity levels necessary to implement the Defense Strategic Guidance. Sequestration will severely strain this commitment to readiness and will require a comprehensive review of DoD's Jan 2012 strategy. Moreover, complying with the discretionary cap reductions in FY 2014 – 2021 pursuant to sequestration provisions in the Budget Control Act will require the Air Force to make trade-offs between maintaining readiness and the pace of modernization. These choices will, most likely, require force structure cuts to meet the full range of our national security responsibilities. Bottom line, in this fiscal crisis environment, we believe the choice to preserve readiness will require the Air Force to get smaller.

Secretary Panetta stated in a recent interview that if those out year cap reductions are allowed to stand, he would have to throw the country's current national defense strategy "out the window." From an Air Force perspective, we will have to address a revised defense strategy based on a post-sequester budget environment. This will require tough strategic choices to ensure the Air Force balances competing requirements across our enduring contributions – Air and Space Superiority; Intelligence, Surveillance, and Reconnaissance; Rapid Global Mobility; Global Strike; Command and Control.

If sequestration occurs, we will also face many difficult challenges in planning and programming for future budget years. To build future year requests, the Air Force uses a formal and deliberate process that conducts an analysis of the strategic and fiscal environment, projects impacts, prioritizes requirements for the next five-ten years, and then applies resources to meet these priorities. Even during times of relative stability, this is a complex task requiring months of effort by hundreds of Total Force Airmen, both military and civilian, across the Air Force.

In this period of unprecedented uncertainty, by contrast, we cannot begin to make informed estimates that serve as the baseline for the next budget year's process. The turbulence is already damaging our strategic processes that historically infuse elements of planning stability to meet future resourcing requirements. For example, the Air Force is prepared to take actions in FY13 to reduce flying hours, weapon system sustainment, and engine repairs. We understand these actions will negatively affect the Air Force in FY14 and create a "bow-wave" of bills that requires a response during the future year program development process. But with so many "unknowns," developing a realistic and reliable program is all but impossible.

Our unchanging goal is to provide the most capable Air Force possible against any potential adversary…today and tomorrow. However, in a continuing resolution and sequestration environment, the Air Force will be forced to make drastic choices that will have both immediate and far-reaching impact on our capability and capacity to provide air and space power effectively across the full spectrum of operational requirements.

Impacts on Industrial Base

As the Air Force makes these difficult and drastic changes, we will drive corresponding changes in the nation's aerospace industrial base that produces our warfighting capabilities. Just as the combined impacts of continuing to operate under sequestration and the continuing resolution drive uncertainty into Air Force planning, the impacts of this untimely pairing carry over into the plans of each and every company in the network of industrial base suppliers supporting the Air Force. While the disruptions to the detailed planning and execution of the Air Force's complex investment and modernization programs, such as the F-35 and KC-46, would be significant, the impacts to the industrial base grow in magnitude as the reductions cascade down through the network of companies that support each program.

When Air Force procurement, even at current levels, is compared against the global market for commercial aircraft, engines and avionics, it becomes clear that the Air Force is, by most measures, a small customer. The prime contractors and the top tiers of subcontractors who provide complete systems, such as engines and avionics, have the financial capability and/or

commercial demand for products to accommodate, however disruptive, the lower levels of production and other adjustments, such as changes in workforce, that will result from the imposition of a sequestration-driven budget. However, there is much more uncertainty associated with the capability of the smaller, more specialized companies in the lower tiers of the industrial base to successfully transition to sequestration levels of production. At these lower tiers, our ability to accurately forecast is hampered by our lack of visibility. However, there is general agreement on the potential courses of action, all of which would be problematic. Some may decide to just close their doors while others may decide to exit the Air Force market and no longer maintain the technical expertise and status as qualified sources. In either case, the costs associated with finding and qualifying new sources will further complicate an already complex situation.

In addition to the impact on the industrial base supporting Air Force procurement, there is the impact on the organic industrial base sustaining the current fleet. Sequestration will, in the near term, slow the flow of aircraft into our depots; for the remainder of FY13, this represents an almost 1/3 reduction in workload. The lack of work, coupled with furloughs for the civilian workforce, will have longer term impacts: creation of an increasing backlog of vital maintenance and repair work with a commensurate reduction in the materiel readiness of broad sections of the Air Force fleet; and the high likelihood of severe and negative effects on the productivity of the workforce. The reduction in depot work also has a hugely problematic business impact on the Air Force Capital Working Fund. Even with cost control measures, the reduced depot level of activity may not generate sufficient funds to sustain depot activity with a positive balance.

Conclusion

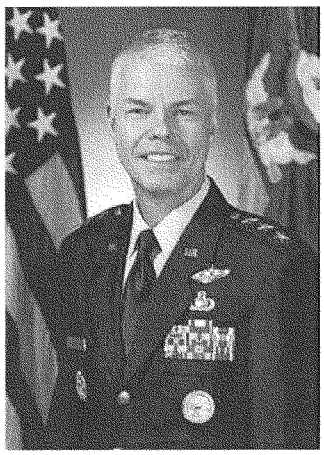
The dire effects of sequestration and potential of a year-long continuing resolution that drive continued budgetary uncertainty, make clear the national imperative for a return predictable and stable environment.

Should sequestration and a year-long continuing resolution occur, the Air Force will be forced to take actions that would be devastating. Although we will make every effort to minimize the impact of sequestration to readiness and force modernization, each of those areas will experience painful, palpable, and ultimately expensive disruptions. At a time when Air Force readiness is long-overdue for vital reconstitution, our fleet is aging, and our force is at its smallest since its inception, we find ourselves in the untenable position of forcing further risk to our Nation's defense by sacrificing elements of three keys to the effective provision of airpower—Airmen, readiness, and modernization.

BIOGRAPHY

UNITED STATES AIR FORCE

LIEUTENANT GENERAL CHARLES R. DAVIS



Lt. Gen. Charles R. Davis is the Military Deputy, Office of the Assistant Secretary of the Air Force for Acquisition, the Pentagon, Washington, D.C. He is responsible for research and development, test, production, and modernization of Air Force programs worth more than $40 billion annually.

General Davis was commissioned in 1979 from the U.S. Air Force Academy as a distinguished graduate with a bachelor's degree in chemistry. His assignments include flying duties in the T-38, F-15, A-7, F-117A and F-16. He has also served on the Air Staff under the Director of Air Force Test and Evaluation. The general led divisions in both the F-16 and F-15 program offices, served as Director of the F-15 and Flight Training System Program Offices, and was the Joint Primary Aircraft Training (T-6A) System Program Director. The general commanded the 410th Flight Test Squadron, F-117A Combined Test Force and 412th Test Wing. He also served as Program Executive Officer for the F-35 Lightning II Program Office.

As the Commander, Air Armament Center, and the Air Force Program Executive Officer for Weapons, Air Force Materiel Command, Eglin AFB, Fla., he oversaw development, acquisition, testing, deployment and sustainment of all air-delivered weapons. He also directed and conducted test and evaluation of U.S. and allied air armament, navigation and guidance systems and command and control systems. Prior to his current position, Gen Davis was the Commander, Electronic Systems Center, Hanscom Air Force Base, Mass. and the Air Force Program Executive Officer for Command, Control, and Communications Infrastructure and Networks. His duties encompassed the acquisition of command and control and combat support information systems for the Air Force comprising more than 12,000 people located at six sites throughout the United States while managing more than $5 billion in programs annually in support of the Air Force and joint and coalition forces.

General Davis is an experimental test pilot with more than 3,400 flying hours in 53 types of aircraft.

EDUCATION

1979 Distinguished graduate, Bachelor of Science degree in chemistry, U.S. Air Force Academy, Colorado Springs, Colo.
1983 Distinguished graduate, Squadron Officer School, Maxwell AFB, Ala.
1984 Marine Corps Command and Staff College, by correspondence
1986 Air Command and Staff College, by correspondence
1988 Distinguished graduate, Experimental Test Pilot Course, U.S. Air Force Test Pilot School, Edwards AFB, Calif.
1991 Master of Science degree in mechanical engineering, California State University, Fresno
1995 Distinguished graduate, Master of Science degree in national resource management, Industrial College of the Armed Forces, Fort Lesley J. McNair, Washington, D.C.
1997 Program Manager Course, Defense Systems Management College, Fort Belvoir, Va.

2004 United States - Russia Security Program, John F. Kennedy School of Government, Harvard University, Cambridge, Mass.

ASSIGNMENTS

1. July 1979 - August 1980, student, undergraduate pilot training, Williams AFB, Ariz.
2. August 1980 - March 1983, T-38 instructor pilot, flight scheduler, and squadron standardization and evaluation officer, 97th Flying Training Squadron, Williams AFB, Ariz.
3. March 1983 - July 1984, assistant executive officer to the Inspector General, 82nd Flying Training Headquarters, Williams AFB, Ariz.
4. July 1984 - June 1987, F-15 pilot, flight commander, Chief of Scheduling, and weapons and tactics officer, 48th Fighter Interceptor Squadron, Langley AFB, Va.
5. June 1987 - June 1988, student, U.S. Air Force Experimental Test Pilot Course, U.S. Air Force Test Pilot School, Edwards AFB, Calif.
6. June 1988 - February 1989, A-7 and T-38 experimental test pilot, 6512th Test Squadron, Edwards AFB, Calif.
7. February 1989 - May 1991, F-16 experimental test pilot and assistant operations officer, 6516th Test Squadron, Edwards AFB, Calif.
8. May 1991 - May 1992, F-16 experimental test pilot and test systems safety officer, Safety Directorate, Air Force Flight Test Center, Edwards AFB, Calif.
9. May 1992 - March 1994, Chief, Tactical Air to Air Systems Policy and Programs Division, Air Force Test and Evaluation Directorate, Headquarters U.S. Air Force, Washington, D.C.
10. March 1994 - August 1994, executive to the Director, Air Force Test and Evaluation Directorate, Headquarters U.S. Air Force, Washington, D.C.
11. August 1994 - June 1995, student, Industrial College of the Armed Forces, Fort Lesley J. McNair, Washington, D.C.
12. June 1995 - July 1997, Commander, 410th Flight Test Squadron, F-117A Combined Test Force, Air Force Plant 42, Palmdale, Calif.
13. July 1997 - November 1998, Chief, F-16 Combat Air Force Programs, F-16 System Program Office, Aeronautical Systems Center, Wright-Patterson AFB, Ohio
14. November 1998 - July 1999, Director, Development and Acquisition, F-15 SPO, ASC, Wright-Patterson AFB, Ohio
15. July 1999 - April 2001, Director, Flight Training SPO, ASC, Wright-Patterson AFB, Ohio
16. May 2001 - April 2003, Director, F-15 SPO, Warner Robins Air Logistics Center, Robins AFB, Ga.
17. April 2003 - June 2004, Commander, 412th Test Wing, Edwards AFB, Calif.
18. June 2004 - July 2006, Deputy Program Executive Officer, Joint Strike Fighter Program, Arlington, Va.
19. July 2006 - May 2009, Program Executive Officer, F-35 Lightning II Program Office, Arlington, Va.
20. May 2009 - August, 2011, Commander, Air Armament Center, and the Air Force Program Executive Officer for Weapons, Air Force Materiel Command, Eglin AFB, Fla.
21. Sept. 2011 - May 2012, Commander, and Program Executive Officer for Command and Control and Combat Support, Electronic Systems Center, Air Force Materiel Command, Hanscom AFB, Mass.
22. May 2012 - present, Military Deputy, Office of the Assistant Secretary of the Air Force for Acquisition, the Pentagon, Washington, D.C.

SUMMARY OF JOINT ASSIGNMENTS

1. June 2004 - July 2006, Deputy Program Executive Officer, Joint Strike Fighter Program, Arlington, Va., as a colonel and brigadier general
2. July 2006 - May 2009, Program Executive Officer, F-35 Lightning II Program Office, Arlington, Va., as a brigadier general and major general

FLIGHT INFORMATION

Rating: Command pilot
Flight hours: 3,431 hours
Aircraft flown: F-15, F-16, F-117A, A-7, T-38, and 48 other aircraft types

MAJOR AWARDS AND DECORATIONS

Distinguished Service Medal
Defense Superior Service Medal with oak leaf cluster
Legion of Merit with oak leaf cluster
Meritorious Service Medal with three oak leaf clusters
Aerial Achievement Medal with three oak leaf clusters

Air Force Commendation Medal
Air Force Achievement Medal
Combat Readiness Medal

OTHER ACHIEVEMENTS
1980 Distinguished graduate, undergraduate pilot training
1985 Top graduate and top academic student, F-15 Fighter Training Unit

EFFECTIVE DATES OF PROMOTION
Second Lieutenant May 30, 1979
First Lieutenant May 30, 1981
Captain May 30, 1983
Major June 1, 1990
Lieutenant Colonel March 1, 1994
Colonel Sept. 1, 1998
Brigadier General Oct. 1, 2005
Major General Dec. 20, 2007
Lieutenant General Sept. 1, 2011

(Current as of May 2012)

BIOGRAPHY

UNITED STATES AIR FORCE

LIEUTENANT GENERAL MICHAEL R. MOELLER

Lt. Gen. Michael R. Moeller is Deputy Chief of Staff for Strategic Plans and Programs, Headquarters U.S. Air Force, Washington, D.C. In support of the Chief of Staff and Secretary of the Air Force, General Moeller leads the development and integration of the Air Force's long-range plans and the five-year, $604 billion U.S. Air Force Future Years Defense Program to ensure the Air Force's ability to build and employ effective air, space and cyber forces to achieve national defense objectives.

General Moeller received his commission from the U.S. Air Force Academy in 1980. He has held multiple flying assignments as an aircraft commander and instructor pilot. He has commanded at the squadron and group levels and served as the commander of the 2nd Bomb Wing and 379th Air Expeditionary Wing. His staff experience includes tours with the Secretary of the Air Force Staff Group and in the Checkmate Division on the Air Staff; in the Plans and Policy Directorate of the Joint Staff; as the Deputy Director for Plans and Programs at Air Combat Command; as the Director of Strategy, Plans and Policy for U.S. Southern Command and as the Director of Strategy, Plans and Policy for U.S. Central Command. He also served as the executive assistant to the Vice Director of the Strategic Plans and Policy Directorate on the Joint Staff and to the Air Force Assistant Vice Chief of Staff.

Prior to his current assignment, the general was the U.S. Security Coordinator, Israel-Palestinian Authority, U.S. Department of State, Tel Aviv, Israel. General Moeller is a command pilot with more than 4,440 flying hours and 670 combat hours for operations Desert Storm, Enduring and Iraqi Freedom.

EDUCATION

1980 Bachelor of Science degree in geography, U.S. Air Force Academy, Colorado Springs, Colo.
1984 Squadron Officer School, Maxwell Air Force Base, Ala.
1984 Master's degree in aeronautical science and technology, Embry-Riddle University, Daytona Beach, Fla.
1993 Air Command and Staff College, Maxwell AFB, Ala.
1994 Master's degree in airpower art and science, School of Advanced Airpower Studies, Maxwell AFB, Ala.
1996 Joint Staff Officer Course, Armed Forces Staff College, Norfolk, Va.
1999 National Defense Fellow, Center for Strategic and International Studies, Washington, D.C.
2005 National Security Leadership Course, Maxwell School of Citizenship and Public Affairs, Syracuse University, N.Y.
2012 Leadership at the Peak, Center for Creative Leadership, Colorado Springs, Colo.

ASSIGNMENTS

1. June 1980 - June 1981, student, undergraduate navigator and electronic warfare training, Mather AFB, Calif.
2. July 1981 - November 1981, student, B-52 combat crew training, Castle AFB, Calif.
3. December 1981 - May 1984, electronic warfare officer, 416th Bomb Wing, Griffiss AFB, N.Y.
4. June 1984 - June 1985, student, undergraduate pilot training, Columbus AFB. Miss.
5. July 1985 - November 1985, student, B-52 combat crew training, Castle AFB, Calif.
6. December 1985 - August 1988, B-52 co-pilot and aircraft commander, 416th Bomb Wing, Griffiss AFB, N.Y.
7. September 1988 - September 1989, Air Staff Training officer, Secretary of the Air Force Staff Group, Headquarters U.S. Air Force, Washington, D.C.
8. September 1989 - August 1990, B-52 aircraft commander and instructor pilot, 42nd Bomb Wing, Loring AFB. Maine
9. August 1990 - March 1991, B-52 mission and flight commander, 4300th Provisional Bomb Wing, Southwest Asia
10. April 1991 - June 1992, Chief, Combat Tactics, 42nd Bomb Wing, Loring AFB, Maine

11. July 1992 - June 1993, student, Air Command and Staff College, Maxwell AFB, Ala.
12. July 1993 - June 1994, student, School of Advanced Airpower Studies, Maxwell AFB, Ala.
13. July 1994 - March 1995, Chief, Strategy Branch, Checkmate Division, Deputy Chief of Staff for Plans and Operations, Headquarters U.S. Air Force, Washington, D.C.
14. April 1995 - June 1997, executive assistant to the Vice Director, and strategic planner and action officer, Strategy Division, Strategic Plans and Policy Directorate, Joint Staff, the Pentagon, Washington, D.C.
15. July 1997 - May 1999, Commander, 5th Operations Support Squadron, Minot AFB, N.D.
16. June 1999 - May 2000, National Defense Fellow, Center for Strategic and International Studies, Washington, D.C.
17. June 2000 - July 2001, executive officer to the Assistant Vice Chief of Staff, Headquarters U.S. Air Force, Washington, D.C.
18. August 2001 - December 2001, Commander, 7th Operations Group, Dyess AFB, Texas
19. December 2001 - May 2002, Commander, 405th Expeditionary Operations Group, Southwest Asia
20. May 2002 - September 2003, Commander, 7th Operations Group, Dyess AFB, Texas
21. September 2003 - February 2004, Vice Commander, 5th Bomb Wing, Minot AFB, N.D.
22. February 2004 - September 2005, Commander, 2nd Bomb Wing, Barksdale AFB, La.
23. September 2005 - September 2006, Deputy Director of Plans and Programs, Headquarters Air Combat Command, Langley AFB, Va.
24. September 2006 - July 2008, Director, Strategy, Policy and Plans (J5), Headquarters USSOUTHCOM, Miami, Fla.
25. July 2008 - July 2009, Commander, 379th Air Expeditionary Wing, Southwest Asia
26. July 2009 - Oct 2010, Director, Strategy, Plans and Policy (J5), Headquarters U.S. Central Command, MacDill AFB, Fla.
27. October 2010 - October 2012, U.S. Security Coordinator, Israel-Palestinian Authority, U.S. Department of State, Tel Aviv, Israel.
28. October 2012 - present, Deputy Chief of Staff, Strategic Plans and Programs, Headquarters U.S. Air Force, Washington, D.C.

SUMMARY OF JOINT ASSIGNMENTS

1. April 1995 - June 1997, executive assistant to the Vice Director, and strategic planner and action officer, Strategy Division, Strategic Plans and Policy Directorate, Joint Staff, the Pentagon, Washington, D.C., as a major and lieutenant colonel
2. September 2006 - July 2008, Director, Strategy, Policy and Plans (J5), Headquarters USSOUTHCOM, Miami, Fla., as a brigadier general
3. July 2008 - July 2009, Commander, 379th Air Expeditionary Wing, and Installation Commander, Southwest Asia, as a brigadier general
4. July 2009 - Oct 2010, Director, Strategy, Plans and Policy (J5), Headquarters U.S. Central Command, MacDill AFB, Fla., as a major general 5. October 2010 - October 2012, U.S. Security Coordinator, Israel-Palestinian Authority, Tel Aviv, Israel, as a lieutenant general

MAJOR AWARDS AND DECORATIONS

Defense Distinguished Service Medal
Defense Superior Service Medal with oak leaf cluster
Legion of Merit with oak leaf cluster
Distinguished Flying Cross
Bronze Star with oak leaf cluster
Defense Meritorious Service Medal with oak leaf cluster
Meritorious Service Medal with two oak leaf clusters
Air Medal with oak leaf cluster
Joint Service Commendation Medal

FLIGHT INFORMATION

Rating: Command pilot
Flight hours: More than 4,400
Aircraft flown: B-1, B-52, KC-135, RC-135, E-8, E-3, C-130, C-21, T-37 and T-38

EFFECTIVE DATES OF PROMOTION

Second Lieutenant May 28, 1980
First Lieutenant May 28, 1982
Captain May 28, 1984

LIEUTENANT GENERAL MICHAEL R. MOELLER

Major Nov. 1, 1991
Lieutenant Colonel Nov. 1, 1996
Colonel March 1, 2001
Brigadier General July 3, 2007
Major General April 2, 2010
Lieutenant General Oct. 7, 2010

(Current as of January 2013)

DOCUMENTS SUBMITTED FOR THE RECORD

FEBRUARY 28, 2013

Follow-up Written Testimony of LTG James O. Barclay III, USA

Mr. Chairman, Ranking Member Sanchez, and distinguished Members of the Subcommittee, thank you for the opportunity to present this written testimony as a continuation of my appearance on 28 February. The Army's leadership understands the gravity of our Nation's current fiscal situation; however, we also understand that Sequestration poses a significant risk to our Forces today and into the future. I would like to address Army efforts in saving taxpayer dollars through modernization efficiency; the impacts of the Continuing Resolution (CR) and Sequestration upon multi-year contracts; the decade-long effects that Sequestration will have on our modernization programs and planning the future Army budget.

Efficiencies/Multi-Year Procurement

During the hearing, the committee expressed the perception that the Department of Defense (DoD), like all large institutions, can do more to prevent fraud, waste, and abuse, and be a good steward of taxpayer dollars. Army leaders concur wholeheartedly and feel strongly that efficient use of taxpayer dollars to equip the Soldier on the battlefield is not just fiscally smart, but needed now more than ever. During the past 12 years, Congress has been extremely generous supporting Soldiers on the ground in Iraq and Afghanistan. Today, our Warfighters are better equipped than ever with the tools they need to fight and win.

As we draw down our presence in Afghanistan, our focus will shift to reinvigorating the training base and finding even more efficient ways to man, train, and equip our Army, maximizing the value of constrained resources.

Preventing and eliminating areas of fraud, waste, and abuse must and will be a part of our continuing efforts to mold America's Army for the future.

To accomplish this, the Army is taking steps to increase the efficiency of its modernization programs. We will set smaller procurement objectives to allow the flexibility to insert new technologies as they become available; align threshold requirements with mature / non-developmental technologies to reduce program risk; evaluate investments based on affordability and cost effectiveness to determine if the projected reduction in risk or capability gap warrants the investment; minimize developmental costs and timelines to increase the probability that programs reach production; reduce sustainment costs by divesting older systems or niche capabilities; employ efficiency reviews to integrate capabilities; and use multi-year procurement programs to achieve the best cost per unit. While these measures were developed with cyclical funding downturns in mind, the current CR and Sequester will make their execution more difficult due to the magnitude and inflexibility of the cuts.

One success story in gaining efficiencies, not only in terms of operational impact, but also in cost savings is the Army's Network Integration Evaluation (NIE). This process tests network and non-network systems through the hands-on participation of Soldiers. These Soldiers conduct combat-related operations in varying landscapes simulating the current threat environment. In terms of efficiencies, NIE saves by informing requirements early-on in the process, aligning previously disparate programs of record, integrating systems prior to deployment, and providing avenues for industry to bring in mature capabilities for evaluation. We estimate the testing cost avoidance of each evaluation to be

between $8 million and $14 million. CR and Sequestration will put an efficient program such as NIE at risk.

Other modernization efforts, such as pursuing a Joint Venture with the Marine Corps in Joint Light Tactical Vehicle (JLTV), and leveraging a multi-platform capability in the Ground Combat Vehicle (GCV), represent the Army's commitment to the judicious use of taxpayer money. The Army will continue to gain efficiencies through its modernization efforts.

When possible, the Army makes modernization programs more efficient, effective, and less costly by applying a multi-year procurement schedule. Providing contractors and vendors the ability to forecast their production schedules makes them more efficient. This in turn allows vendors to pass their savings onto the Army by providing their products and services at a lower overall cost. A multi-year procurement schedule also stabilizes the contractor workforce and reduces the cost and time needed to create contracts on an annual basis. In the case of the CH-47, multi-year production provided for a projected cost savings of $810 million over a five-year period. This represents a cost avoidance of 19.2 percent.

Sequestration and a CR undermine these efficiencies. Drastic, program-wide cuts resulting from Sequestration will ultimately increase the price of every Army procurement and modernization program, compounding the monetary constraints imposed upon both the Army and our industrial base partners. The end state would be a less-modernized force at an increased cost – an inefficient and wasteful use of taxpayer dollars.

The Decade-Long Effect

The effects of Sequestration upon the Army's program and modernization strategy are not just immediate, but will last into the next decade. The Army will look to balance these reductions across our readiness, manpower, and capital investment accounts to provide a capable and ready Force. With a decreased budget, savings must initially come from the readiness and capital investment accounts, devastating the modernization program.

Inflexible and severe budget restrictions may cause procurement objectives to fall below what is required to sustain production lines or impede the ability to surge for contingency operations. The resultant quantity restrictions will result in price increases that may render systems unaffordable. As less cost effective programs are terminated and production lines are closed, capability gaps grow larger, with little to no ability to ramp up production or mitigate the risk posed by these gaps.

Budget restrictions may also force the Army to divest older systems and niche capabilities to reduce maintenance costs, without procuring sufficient replacement quantities. This not only imposes risk in equipping and training the force, but when combined with the aforementioned capability gaps, results in a less capable, less trained, less effective force in the out years.

A significant portion of the Army budget is dedicated to our people; however, it takes time to realize savings from manpower. Programmatic realities demand that in the long term, the Army must balance cuts across end strength as initial savings come mostly from readiness and capital investment accounts. The Army may have to reduce an additional 100,000 personnel

across the Active Component, Army National Guard, and U.S. Army Reserve. This is additive to the 89,000 personnel the Army is already reducing due to the Budget Control Act of 2011. Cuts to personnel of this magnitude send the wrong message to the Soldiers, Civilians, and Families who have sacrificed so much over nearly twelve years of war. Future recruits and their Families will see that after our Army asks them to serve and sacrifice for the Nation during war, they cannot count on their country to reciprocate during peace.

Impacts to training, such as curtailing 80 percent of training for all ground forces and cancelling all but one of our brigade-level training center rotations for non-deploying forces, will begin to manifest immediately; others compound over time. For example, at the U.S. Army Aviation Center of Excellence (USAACE), Sequestration will result in a reduction of approximately 37,000 flight hours. By the end of this fiscal year, there will be a backlog of over 500 students, which will take over two years to reduce. At end of FY14, the backlog will grow to over 1,000 students. To cope with reduced funding, USAACE will be forced to slash contracts, reducing the number of instructor pilots and maintenance technicians – a process that is already underway. Sequestration and CR compound this problem over time. Over the next decade, the problem becomes dramatically more expensive as the number of pilots awaiting training grows exponentially.

Initially, the backlog and reduction in training will result in a shortage of junior aviator leadership in our Combat Aviation Brigades. As the shortfall in training continues, the gap of aviators will grow to the mid-grade ranks. This has a lasting and direct impact upon the readiness of our Aviation formations.

The Army will always strive to be a good steward of the taxpayer dollar. We will continue to find efficiencies in our modernization programs, leveraging efficient processes and Joint/multi-role platforms, while simultaneously seeking multi-year procurements that bring down the cost per unit. Despite our best efforts, the combined effect of the CR and Sequestration undermines these endeavors. The result is lasting, not just on the current fiscal year, but for the next decade and beyond, putting every one of the Army's major investment priorities in jeopardy. While the Army requests the authority to move funding within and across appropriations, even that option is insufficient to avert significant risk to readiness and will force us to reconsider the Army's ability to execute the Defense Strategic Guidance.

Mr. Chairman, Members of the Subcommittee, I thank you again for your unwavering support of the men and women of the United States Army, Army Civilians, and their Families. It is an honor for me to serve this great Nation and to stand alongside those who have sacrificed so much over the past decade of war.

WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING

FEBRUARY 28, 2013

RESPONSES TO QUESTIONS SUBMITTED BY MS. SANCHEZ

Secretary STACKLEY. In examining the small business industrial base that supports the DON, we identify small business opportunities in two categories, inaccessible and accessible small business markets. The inaccessible small business markets are those where the prime contractor small business industry capacity and capability to perform is insufficient or non-existent and provides less than 1 percent of the required effort. Examples of this market, within the Navy, include nuclear and non-nuclear shipbuilding, submarine production, guided missile production, and military aircraft manufacturing among others. Across the Federal marketplace, of the thousands of product service code areas approximately 200 fall into this category. In Fiscal Year 2012, the DON awarded contracts totaling $85.69 billion. Of this, $25.85 billion was in the inaccessible small business marketplace.

The accessible small business marketplace was $59.41 billion. Small business was awarded $13.32 billion or 22.22 percent of these awards which was the reference point I used during my remarks. When including both the inaccessible and accessible small business markets, small business attainment for the DON was 15.59 percent. The Navy is committed to maximizing accessible small business market opportunities and has exceeded 20 percent in this area for the past four (4) years as illustrated in the table below.

In 2012, the Department of Defense (DOD), as reported by the U.S. Small Business Administration (SBA), achieved a small business subcontracting performance of 35.2 percent. This only accounts for first tier small business subcontractors. Small business also plays critical supply chain roles at the second, third and fourth tier of many of our contracts. The current available subcontract reporting system however, does not specifically breakout each service component's share of the aforementioned report because many of our largest prime contractors have multiple contracts with each service. An example of this would be Lockheed Martin and the Joint Strike Fighter (F–35) program which is providing this advanced fighter jet to both the Department of the Navy and the Air Force and under the provisions of the Comprehensive Subcontracting Program (CSP) reports one summary small business subcontracting report to DOD. These large prime contractors dominate the inaccessible small business market I previously described and it is through these and many other subcontracting opportunities where small business continues to provide critical support to our programs. I am very confident that the 20 percent figure I spoke of as Navy's share within subcontracting is a conservative figure especially when we account for second through fourth tier small business subcontractors not reflected in the figures captured in DOD's report to the SBA. [See page 16.]

Department of the Navy Accessible Small Business Market Performance

FY2009–FY2012

Fiscal Year	Total DON Awards	Total Small Business Awards	Total Small Business Percentage*	Small Business Accessible Market Percentage
2012	$85.69B	$13.3B	15.59%	22.22%
2011	$92.3B	$14.2B	15.41%	23.97%
2010	$79.7B	$14.1B	14.61%	28.47%
2009	$87.8B	$13.8B	17.57%	26.60%

*including inaccessible market areas

Secretary STACKLEY. But, it is vital to note that a one word response does a great disservice to the hundreds of thousands of service members, Government civilians, and contractors who work tirelessly to support our Nation's defense. While each of us may be aware of rare occurrences of the type you mention, our responsibility is to take action and we do—just witness the Navy's recent action to pursue prosecution of those who violated the public trust in Rhode Island and Southern California. I, for one, can count one hundred fold the times I've seen both military and civilians standing watch, standing tall, working impossibly long hours to ensure we are spending the budget authorized and appropriated by Congress in the most responsible way possible. For every suggestion of waste or fraud, I can give you many examples of innovative savings and extraordinary efforts of our people to be responsible stewards of the taxpayer's money. Moreover, as you know, we have been working for the last three years to pursue further efficiency efforts instigated by Secretary Gates and Secretary Panetta. The implication that elimination of waste or abuse or further efficiencies can make a serious dent in the impacts of the shortfalls associated with the continuing resolution or sequestration is totally false. [See page 18.]

Admiral MYERS. But I would like to echo Secretary Stackley's response and emphasize that the Navy takes very seriously the responsibility of being good stewards of the taxpayer's money, and our 2013 budget submission makes best use of our resources while still meeting the requirements of the defense strategic guidance. [See page 18.]

General WISSLER. I concur with Secretary Stackley's and VADM Myers' responses. The Marine Corps values every dollar entrusted to us in order to be the Nation's expeditionary force in readiness. Any abuse of this trust is not tolerated in the Marine Corps. We are proud of our reputation as the "frugal force" and don't tolerate actions at any level that run counter to this moniker. Our FY 2013 budget submission is "what we need," not simply what we want, and we are committed to the precise application of those resources to meet the defense strategic guidance. [See page 18.]

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

FEBRUARY 28, 2013

QUESTIONS SUBMITTED BY MR. TURNER

Mr. TURNER. How would the Army's planned growth of an additional combat aviation brigade be impacted by this current budget uncertainty?

Secretary SHYU. To comply with the Budget Control Act of 2011, the Army continues to plan the drawdown to 490,000 Active Component spaces and assess our force structure today to achieve the right force mix for required missions. The 4th Infantry Division Combat Aviation Brigade (the additive CAB) remains programmed in the force and the Army remains committed to activating the CAB at Fort Carson with the Brigade Headquarters, General Support Aviation Battalion, and Aviation Support Battalion in April 2013, and the Assault Helicopter Battalion and two Attack Battalions in the summer of 2014.

Mr. TURNER. How did the Army determine that 1,100 companies (over a third of the critical vendor industrial base) were in moderate to high risk of bankruptcy?

Secretary SHYU. Our initial assessment in February showed that sequestration and the continuing resolution could result in the loss of over $7.1 billion, 17,800 job across over 200 programs impacting 39 States and DC. As we adapt to a rapidly shifting fiscal environment, in the current year and beyond, we will continue to closely monitor projected impacts to the industrial base.

Mr. TURNER. If the continuing resolution is in place for a full year, what impact does this have on execution of the Joint Light Tactical Vehicle program?

Secretary SHYU. The JLTV Joint Program Office has made substantial progress in streamlining the program timeline, and both the Army and Marine Corps remain fully committed to the program. The Engineering and Manufacturing Development (EMD) Phase of the program is proceeding well, and the Department is making every effort to keep it on schedule in order to meet the proposed Milestone C and Low Rate Initial Production contract award in Fiscal Year 2015 (FY15), despite sequestration. A continuing resolution in FY14 would reduce the U.S. Army's FY14 program by an additional $18 million, beyond the program reductions already taken as a result of sequestration and Congressional marks in FY13. Due to the cumulative program budget reduction effects, the program office would no longer observe potential non-EMD vendor tests, including Limited User Tests. Also the test schedule would have to be extended, since a majority of FY14 Funds are for testing. This will likely delay the Milestone C decision and Low Rate Initial Production award until later in FY16.

Mr. TURNER. Are any PPAs exempt from sequestration and on what grounds?

Secretary SHYU and General BARCLAY. No Procurement, Research, Development, Test & Evaluation, or Military Construction PPAs (Programs, Projects or Activities) are exempt from sequestration.

Mr. TURNER. How will the CR and sequestration impact your major defense acquisition programs and will these reductions require a change in national military strategy?

Secretary SHYU and General BARCLAY. With the President's signature on the Fiscal Year 2013 (FY13) Consolidated and Further Continuing Appropriations Act, 2013, on March 26, the continuing resolution is no longer in place. As such statements related to a full year continuing resolution no longer apply and will not be addressed in this response. The primary impacts of the sequestration related to FY13 across our Major Defense Acquisition Programs will be to cause inefficiencies in program execution and resultant higher cost to the taxpayer for those programs. Our programs still in development will experience delays to planned schedules, which will extend the length of programs. Extending programs leads to higher development costs than originally planned. For our procurement programs, the primary impacts in FY13 will be: quantity reductions resulting in increased unit price, delayed equipment fielding; delays to cost savings initiatives that will increase the cost to sustain our systems when fielded; and impacts to future readiness due to deferring obsolescence and reliability upgrades. Additionally, our ability to effectively plan programs into the future is adversely impacted because of the continued uncertainty of future budget top lines and because of an FY14 budget that does not fully consider the impact of the late FY13 appropriation and sequestration reductions.

From our perspective, the sequestration reductions in FY13 will not require a change in the national military strategy.

Mr. TURNER. Please describe how the effects of sequestration differ for major defense acquisition programs in different stages of development and fielding? For example, would it be less disruptive for programs still in development, which are primarily based on a level of effort, than those in production?

Secretary SHYU and General BARCLAY. In general, the earlier a program is in the acquisition lifecycle, the less disruptive funding reduction is likely to be in the near term. However, if system engineering is reduced and the program is not re-planned, then this will pose much greater risk to the program in follow-on phases. Unless the program is responding to an Urgent Operational Need Statement, most early contractual efforts are based on some type of cost type contract vehicle, in which the Government and the contractor share in the risk. Later in development, contract vehicles for operational testing or for fielding efforts become more fixed price oriented in general, where the contractor takes on more risk than the Government side.

For example, a program that is pre-Milestone B is more likely to absorb changes in funding than a post-Milestone B program, once a program baseline has been established. As we continue to assess the impacts of sequestration, a significant concern is whether funding reductions result in a Nunn-McCurdy statutory breach or its equivalent for a Major Automated Information System program. These results would significantly affect the Army's ability to field equipment for Soldiers. Under sequestration, reductions to programs in procurement would likely result in reductions to procurement quantities, which increase unit costs. Such reductions may result in a production line break or other industrial base impacts—particularly to second and third tier vendors—and delayed deliveries of systems to the Warfighter.

Mr. TURNER. Will the potential effects of sequestration differ for major defense acquisition programs using different contract types and acquisition strategies (fixed-price v. cost-reimbursement; multiyear procurement v. annual procurement)?

Secretary SHYU and General BARCLAY. The effects of sequestration on major defense acquisition programs depend on a range of factors, to include the program's acquisition strategy, life cycle phase, and contract type. Contract types are selected to fit the profile of each program and must comply with governing law and policy. Generally, modifications to fixed-price and multiyear contracts may require renegotiation and may result in cost penalties, which results in much less flexibility as the Army implements funding reductions.

Long-term sequestration cuts are generally likely to increase the schedule for delivery under fixed-price contracts. As a result, total development cost or the cost of each individual production article may increase. Delays may ultimately delay the fielding of equipment to the Warfighter.

Fiscal Year 2013 sequester impacts to annually funded programs will result in: 1) extension of planned multiple year schedules and 2) increased estimated life cycle cost, which takes into account reduced contract quantities and disruptions to planned events on each program's schedule. The cost to field will increase as the timelines for delivery are drawn out as a result of funding reductions.

Mr. TURNER. Would large numbers of fixed price or multiyear procurement contracts need to be renegotiated due to sequestration?

Secretary SHYU and General BARCLAY. Where possible, programs have taken precautions to avoid significant renegotiation of procurement contracts due to sequestration in Fiscal Year 2013. For example, the multiyear production contract for the Tube Launched, Optically-Tracked, Wire-Guided Missile was affected by sequestration reductions this year. The Army was able to internally reprogram funds to avert impacts to the multiyear contract and maintain projected cost savings. In other instances, the Army uses quantity-range-option pricing on fixed-price contracts. While this has not avoided the increased unit prices associated with lower quantities, it has maintained flexibility to address sequestration reductions without renegotiations.

With the estimated cuts for FY13 and anticipated reductions in FY14, some multiyear contracts may have to be renegotiated absent relief. For example, Program Executive Office Ground Combat Systems has three Acquisition Category 1D programs that are either fixed-price or cost-plus incentive fee type contracts that were awarded as incrementally funded contracts spanning multiple years. Contract plans for each are being revised to account for reduced work in the next year as a result of a reduction in planned funding. Work is being adjusted for the next several years within a revised schedule. Any change made to incentive fee contracts must include a review of the incentives to ensure that such measures are not inadvertently implicated due to a revision in contract scope.

Mr. TURNER. Please provide details on the major defense acquisition programs that would experience any delays in fielding needed capabilities to the warfighter as a result of the effects of sequestration and yearlong CR?

Secretary SHYU and General BARCLAY. Sequestration reduces the amount of Second Destination Transportation (SDT) funding, which inhibits the ability of the Project Managers (PMs) to ship vehicles. Resolution would require adjusting/realigning the distribution schedules to ship the systems later to minimize PM risks, although potentially delaying delivery of vehicles to the Warfighter. Delays include:

- Assault Breacher Vehicle currently being fielded to Korea could be delayed beyond June or July 2013
- Stops shipment of Abrams Tanks and Bradleys from Fort Hood to the Fielding sites (impacts Initial Fielding of M1A2 SEP to the 155th Mississippi Army National Guard (ARNG) and includes the Korea and Germany Rotational sets)
- Stops shipment of National Guard Equipment from their home station Maneuver Area Training and Equipment Site to Gowan Field/Camp Shelby for New Equipment Training (NET) this Summer—Impacts 155th and 116th ARNG
- Stops shipment of Abrams/Bradley spares to keep the unit's authorized stockage list at 100 percent during NET—Impacts both the 155th Fielding/NET and 116th NET

The following examples of potential delays in fielding needed capabilities to the Warfighter are driven by sequestration:

- Delay six Lightweight Counter Mortar Radar (LCMR) systems to two Brigade Combat Teams (BCTs).
- Delay one Counter Fire Radar system to one BCT.
- Delay fielding one Sensor Command and Control Shelter required for counter-rockets, artillery, and mortars (C–RAM) for one battalion.
- Loss of 32 Modern Man-stations for the Patriot Modifications program.
- Loss of 3 AH–64 Apache Remanufactured aircraft.
- Loss of 1 AH–64 Apache New Build aircraft.
- Loss of 2 AH–64 Apache Radar Electronics Units and subsequent overall unit cost increase for remaining quantity.
- The fielding decision for Release 2 of the Distributed Common Ground System-Army (DCGS–A) will be delayed six months and only Army Force Generation (ARFORGEN) units would be equipped with the latest version of DCGS–A.

Mr. TURNER. What measures will you take to mitigate the impact of sequestration on counter-IED efforts that could potentially diminish the Department's flexibility and increase risks to rapidly respond to unanticipated requirements?

Secretary SHYU and General BARCLAY. The Army is assessing funding for counter-IED efforts in accordance with the priorities established by the Combatant Commands and the Army Service Component Commands. Additionally, the Warfighter Senior Integration Group, chaired by the Deputy Secretary of Defense, provides Office of Secretary of Defense level synchronization, prioritization and oversight not only for counter-IED efforts, but all requirements that need rapid response by Department of Defense. This is the means by which the Army will ensure any impact of sequestration is balanced against operational requirements and fiscal realities. This process allows senior Army leaders visibility, flexibility and access to a variety of means to address and minimize the impacts of budgetary challenges upon any requirement.

Mr. TURNER. How will you make cuts to major defense acquisition programs without forcing them into a Nunn-McCurdy breach? Should Congress modify the requirements that currently apply when a Nunn-McCurdy breach occurs?

Secretary SHYU and General BARCLAY. We do not anticipate any Nunn-McCurdy breaches to our Major Defense Acquisition Programs and Major Automated Information System programs in Fiscal Year 2013 as a result of the reduction attributable to sequestration this year. However, in subsequent years whether or not a Program will incur a Nunn-McCurdy breach will not be a significant factor in selecting Programs for reductions. Cuts will be distributed on a requirements basis with cost implications and collateral costs (e.g. cancellation costs or breakage to other Programs) being factors.

Exempting the Department from Nunn-McCurdy reporting responsibilities caused by CR or sequestration would be beneficial in reducing Program workloads.

Mr. TURNER. How would sequestration and a yearlong CR scenario impact your ability to fund weight reduction initiatives for personnel protection equipment? How would this impact the PPE industrial base, e.g. body armor, night vision devices, and other critical warfighter equipment?

Secretary SHYU and General BARCLAY. Sequestration may affect ongoing development efforts regarding soft armor ballistic fibers and hard armor ballistic plates.

The Soldier Protection System program entry into the Engineering Manufacturing and Development phase could be delayed up to one year.

There is no immediate impact to the Industrial Base for ongoing procurement and fielding of head, eye, pelvic, torso armor, and other personal protective equipment. Funding is currently at the minimum sustaining rate for maintaining two qualified armor vendors in hard and soft armor solutions. Further funding reductions may place the Army's ability to maintain competition (and expertise) at risk.

Projected Fiscal Year 2013 orders from the Army do not support minimum sustainment rates for two vendors for night vision image intensification tubes. Further funding decreases from sequestration may stress image intensification tube manufacturing and ultimately drive up system costs if competitive pressure is lost due to the loss of one vendor. However, the Office of the Secretary of Defense "Report to Congress on the Assessment of Industrial Base for Night Vision Image Intensifier Sensors" completed in September 2012 concluded that Warfighter readiness would not be negatively impacted if the industrial base was further reduced.

Mr. TURNER. How would sequestration and a yearlong CR scenario impact the V–22 program? Would there be impacts to the V–22 industrial base?

Secretary STACKLEY. Sequestration will reduce the program's available funding (FY13 and prior year unobligated funds) by approximately 10 percent although the exact percentage has not yet been determined. As a result, the following efforts will be deferred: 1) life cycle cost reduction and obsolescence initiatives (potentially grounding aircraft due to unavailability of parts), 2) incorporation of reliability and other improvements to production aircraft through FY 2014 (resulting in lost savings in operations and support costs), 3) procurement of peculiar training equipment (adding significant costs due to in-aircraft training), 4) engineering development of reliability and other improvements until FY 2014 (further deferring savings in operations and support costs), and 5) standing up depot repair capability (which would improve readiness and reduce costs). If there was a yearlong CR without anomaly language to permit the planned multiyear contract to be awarded, the nearly $1 billion in savings assumed in the FYDP would not be realized.

The impact to the V–22 industrial base has been minimized in FY 2013 with the plan to definitize the follow-on multiyear procurement contract in May. The amount of future year budget reductions for the program has not yet been determined so those impacts, including impacts to the V–22 industrial base, cannot be addressed at this time.

Mr. TURNER. How would sequestration and a yearlong CR scenario impact your ground combat and tactical vehicle strategy? What programs will be delayed or impacted by this budget uncertainty?

Secretary STACKLEY. Sequestration and the continued budget uncertainty will have varying impacts on each of our Ground Combat and Tactical Vehicle programs. While the specific impact on each program will not be known until the Marine Corps receives the final FY 2013 appropriation and future year appropriations become more predictable, we anticipate schedule delays, reduced acquisition objectives, postponed modernization and upgrades, and subsequent cost increases due to delayed programs and decreased procurement quantities. In the case of the Joint Army/Marine Corps Joint Light Tactical Vehicle (JLTV) program, the initial operational capability (IOC) may be delayed by one year with the full operational capability (FOC) may be delayed by two years. This also slows the procurement plan and leaves a shortfall in the inventory which will need to be addressed at the end of the FYDP. That delay, in turn, risks the procurement of the Marine Corp Amphibious Combat Vehicle (ACV) as the Marine Corps strives to align their procurement strategy and optimize the cost for each major program. Other potential impacts include the delayed procurement of safety and performance modifications for Medium Tactical Vehicle Replacement (MTVR) and Logistics Vehicle Systems Replacement (LVSR), delayed upgrades on the M1A1 tank, and the delay or cancellation of engineering change proposals to Light Armored Vehicle (LAV) further compromising the Marine Corp's amphibious capability while increasing maintenance costs while awaiting the systems' replacement by the ACV.

Mr. TURNER. What programs do the Marine Corps anticipate it will have to cancel or extend due to the budget uncertainty?

Secretary STACKLEY. While the Marine Corps has not cancelled or extended any programs as a result of the FY 2013 budget decisions, the uncertainty associated with FY 2014 and outyear budgets will require the Marine Corps to continually review and adjust their program plans consistent with the changing budget environment. Decreasing budgets within ongoing acquisition programs will necessarily lead to a review of each program's ability to execute approved cost, schedule and performance parameters. Programs such as JLTV, P–19 Firetruck replacement,

G/ATOR and CAC2S could all see schedules extended depending on future year budget decisions.

Mr. TURNER. If the continuing resolution is in place for a full year, what impact does this have on the execution of the Marine Personnel Carrier and Joint Light Tactical Vehicle program?

Secretary STACKLEY. With the enactment of HR933, the risk of a full year continuing resolution has been eliminated. The Marine Corps is committed to executing these programs as planned, but both the Marine Corps Personnel Carrier (MPC) and the Joint Light Tactical Vehicle (JLTV) programs will continue to be under budgetary pressure resulting from future year budget uncertainty.

Mr. TURNER. Are any PPAs exempt from sequestration and on what grounds?

Secretary STACKLEY and Admiral MYERS. Original OMB guidance directed O&M program, project, and activity (PPA) detail to be at the Appropriation level and Investment to be at the Line Item level of detail. MILPERs accounts were excluded from sequestration.

To date, no exclusions have been made for sequestration with the exception that the Navy expects to receive guidance from the Director of National Intelligence (DNI) that classified efforts will not be subject to furlough. The Navy may have classified efforts in its Operation and Maintenance accounts that are predominantly civilian personnel efforts that may not be able to take an assigned sequestration cut without causing a furlough. In these cases, the DON will have to exempt portions of these sequestration cuts to classified programs and take the cuts elsewhere. Once the Navy has processed all of the impacts to H.R 933 and then applied sequestration impacts, we will know more definitively if any classified efforts required relief.

Mr. TURNER. How will the CR and sequestration impact your major defense acquisition programs and will these reductions require a change in national military strategy?

Secretary STACKLEY and Admiral MYERS. Sequestration and the continued budget uncertainty will have varying impacts on each of the Department of the Navy's programs. While the specific impact on each program will not be known until the Department receives their final FY2013 appropriation including sequestration allocations and future year appropriations become more predictable, we anticipate schedule delays, reduced acquisition objectives, postponed modernization and upgrades, and the subsequent cost increases due to delayed programs and decreased procurement quantities. In addition, certain programs will require restoration of funds in future years in order to deliver end items. The strategic impact of any program adjustments and future program affordability will need to be considered as part of the SECDEF initiated review of the Department's Strategic Planning Guidance.

Mr. TURNER. Please describe how the effects of sequestration differ for major defense acquisition programs in different stages of development and fielding? For example, would it be less disruptive for programs still in development, which are primarily based on a level of effort, than those in production?

Secretary STACKLEY and Admiral MYERS. The effects of sequestration vary depending on a program's stage of development and fielding, but also vary from program to program. Sequestration impacts to some naval programs in the development stage will result in loss of capability, while other naval programs will experience a delay in delivery. Most of Navy's development work is tied directly to acquisition programs of record, consequently, reductions in the development stage will potentially have an impact on their production schedules and costs.

Mr. TURNER. Will the potential effects of sequestration differ for major defense acquisition programs using different contract types and acquisition strategies (fixed-price v. cost-reimbursement; multiyear procurement v. annual procurement)?

Secretary STACKLEY and Admiral MYERS. Yes, if sequestration remains in place, limited funds could cause the Department to reduce the products and/or services being purchased on existing contracts. Limited funds forces the Department to prioritize all its requirements, including mission critical programs, then determine how much money it has available for those programs.

From a strict contractual obligation perspective, some types of contract vehicles provide the Department with more flexibility than others. Given current regulatory requirements, the Department has more flexibility with existing Cost Reimbursement, Indefinite Delivery, Indefinite Quantity (IDIQ) and "Requirements" contracts, because they provide the Department with maximum flexibility in avoiding hard budget limits. Typically cost reimbursement contracts provide greater flexibility than firm fixed price contracts. Through a higher level review, the Department, through ASN(RDA), may choose to limit obligations on the cost reimbursement contracts thereby effectively "stretching out" performance and/or contract schedules to match limited funds. The amount of the Department's obligation under a "Require-

ments" contract is the dollar value of each order actually placed under that contract. IDIQ contracts have obligation values at the guaranteed minimum amounts and increase only as individual task orders or delivery orders are placed by the Government. While these types of contracts have flexibility, the end result is still less supplies or services for the Government. The amount of obligations under a "firm fixed price" contract is the face value of the contract that is fully funded at contract award. The Department has less flexibility with existing fixed price contracts, but can choose, if it is deemed necessary, to re-negotiate established pricing based on its decision to de-scope quantity, capability and breadth of contract performance. The Department may also choose to not exercise and or re-negotiate any contract options for future supplies and or services. The multiyear contract provides the least amount of flexibility for the Department in this sequestration environment. Unlike annual contracts, obligations under a multiyear contract must follow the established contract terms and conditions to avoid any cancellation payment arrangements established in the contract.

The actual or potential effects on each program are specific to each program, lifecycle phase, funding profile, and contract type, to name a few issues. Each program would be required to assess the impact individually to provide the potential effects.

Mr. TURNER. Would large numbers of fixed price or multiyear procurement contracts need to be renegotiated due to sequestration?

Secretary STACKLEY and Admiral MYERS. The Navy does not anticipate renegotiating large numbers of fixed price or multiyear procurement (MYP) shipbuilding or aviation contracts due to sequestration in FY 2013. No major previously awarded fixed price shipbuilding or aviation contracts will require deobligation of funds. Additionally, no current shipbuilding or aviation MYP's will need to be renegotiated. The Marine Corps has not cancelled or extended any programs as a result of the FY 2013 budget decisions and does not have any MYP contracts.

The Navy's shipbuilding and aviation MYP's requested in the President's Budget for FY 2013 (the Block IV VIRGINIA Class FY14—FY18 MYP, the DDG 51 ARLEIGH BURKE Class destroyer FY13–FY17 MYP, and V–22 FY13–17 MYP) were authorized in the FY 2013 National Defense Authorization Act (NDAA) and approved in the Appropriations Act.

While the Department of the Navy has not renegotiated any major defense acquisition contracts to date as a result of the FY 2013 budget decisions, the uncertainty associated with FY 2014 and outyear budgets will require the Department to continually review and adjust program plans consistent with the changing budget environment. Adjustments to these program plans may require renegotiation of procurement contracts. However, the Department of the Navy will strive to minimize the number of these renegotiations to maintain the best value for the limited resources.

Mr. TURNER. Please provide details on the major defense acquisition programs that would experience any delays in fielding needed capabilities to the warfighter as a result of the effects of sequestration and yearlong CR?

Secretary STACKLEY and Admiral MYERS. Sequestration and the continued budget uncertainty will have varying impacts on each of the Department of the Navy's programs. We anticipate schedule delays, reduced acquisition objectives, postponed or cancelled modernization and upgrades, together with subsequent cost increases due to delayed programs and decreased procurement quantities. The impact on specific programs will not be known until the Department completes a strategic management review of DOD strategy, posture and investments and as future year appropriations become more predictable.

Mr. TURNER. What measures will you take to mitigate the impact of sequestration on counter-IED efforts that could potentially diminish the Department's flexibility and increase risks to rapidly respond to unanticipated requirements?

Secretary STACKLEY and Admiral MYERS. The Navy, as the Single Manager for Joint Service Explosive Ordnance Disposal (EOD) Technology and Training, and as Single Manager for Joint Service Counter-RCIED Electronic Warfare (CREW) has responsibilities to all four military Services for executing counter-IED efforts. The Navy continues to support two significant programs that support JS C–IED capabilities: JCREW and Advanced EOD Robotic System (AEODRS).

The JCREW program of record is supported in the current budget and future technical insertions will allow us to respond to unanticipated requirements across the FYDP. The modular design of the JCREW counter-IED system will allow rapid technology insertion of upgrades to meet emerging RCIED threats.

The Advanced EOD Robotic System is the future JS EOD robot that will meet EOD requirements for safe standoff from IEDs and other unexploded ordnance. This system is also being designed in a modular, open architecture to easily allow tech-

nology insertion to address emerging counter-IED requirements for the EOD community.

Counter-IED efforts continue to hold high priority, and where budget lines are shared, reductions under sequestration will focus on lower priority areas where possible. As is the case with all urgent needs that arise within the execution year, the Department of the Navy will seek to reprogram funds from lower priority projects or seek assistance from OSD to meet funding requirements for urgent needs.

For those ongoing counter-IED efforts, we are reviewing our critical path activities and schedules in anticipation of furlough of Government employees. Where necessary, we are modifying scheduled events to account for non-availability of key Government personnel due to Government furlough, while still achieving program milestones. Additionally, we have already reduced all travel and non-essential training and slowed all obligations to maximum extent in order to conserve funding in anticipation of the budget reductions due to the sequestration.

Mr. TURNER. How will you make cuts to major defense acquisition programs without forcing them into a Nunn-McCurdy breach? Should Congress modify the requirements that currently apply when a Nunn-McCurdy breach occurs?

Secretary STACKLEY and Admiral MYERS. Whether or not a Program will incur a Nunn-McCurdy breach will not be a significant factor in selecting Programs for reductions. Cuts will be distributed on a requirements basis with cost implications and collateral costs (e.g. cancellation costs or breakage to other Programs) being factors. Exempting the Department from Nunn-McCurdy reporting responsibilities caused by CR or sequestration would be beneficial in reducing Program workloads.

Mr. TURNER. How would sequestration and a yearlong CR scenario impact the procurement of F–35Cs and F–35Bs? Would lower procurement numbers affect the strike fighter shortfall?

Secretary STACKLEY and Admiral MYERS. The Department of the Navy is working closely with the F–35 Program Office and the Under Secretary of Defense for Acquisition, Technology and Logistics to assess the impacts of sequestration on the F–35 program. Currently, the Department is investigating the balance between preserving the development program and maintaining capabilities of Block 2B, Initial Warfighting Capability; support and sustainment for all delivered aircraft; preserving production efficiencies and production capacity; and aircraft procurement. However, it is probable that sequestration reductions will reduce the number of F–35B and F–35C within FY 2013 Low Rate Initial Production (LRIP) 7 quantities, thereby increasing unit recurring flyaway costs for all services and partner procurements. We will see a decrease in investment in tooling, redesign for diminishing manufacturing sources and out of production parts, and cost reduction initiatives. Furthermore, if a furlough of Government workers were to occur and the shutdown of military airfields on weekends were to occur, it would significantly slow the execution of the F–35 flight testing and subsequent fielding of capability.

The Navy actively manages the strike fighter shortfall to minimize impacts in each execution year. The projected strike fighter shortfall is a compilation of a number of factors including legacy usage, meticulous management of fatigue life, and F–35 procurement. Delays in the F–35 procurement will aggravate challenges in meeting inventory requirements.

Mr. TURNER. Would sequestration and a yearlong CR affect life extension programs for F/A–18s and AV–8Bs resulting in a higher strike fighter shortfall this year or in the years ahead?

Secretary STACKLEY and Admiral MYERS. Yes. Sequestration will have an effect in the short term and is expected to exacerbate the long term strike fighter shortfall. Sequestration will cause delays in depot inductions and High Flight Hour inspections which will negatively impact the ability to source Navy and Marine Corps squadrons.

Mr. TURNER. Are any PPAs exempt from sequestration and on what grounds?

General WISSLER. No Programs, Projects Activities contained within any investment appropriation are exempt from sequestration. Only military personnel accounts have been exempted.

Mr. TURNER. How will the CR and sequestration impact your major defense acquisition programs and will these reductions require a change in national military strategy?

General WISSLER. In the near-term, sequestration should not have a negative impact to our ground combat and tactical vehicle strategy. These reductions were mitigated by current and prior year assets.

In the long-term, sequestration will have a negative impact on our warfighting investment portfolio, including several critical vehicle modernization and sustainment programs. We have mitigated some of the impact by prioritizing and sequencing our

investments. For example, we are investing in the Joint Light Tactical Vehicle now because it is the most mature capability, followed by investment in the Amphibious Combat Vehicle program. These measures, however, cannot fully mitigate the negative effects of sequestration. Our High Mobility Multipurpose Wheeled Vehicle (HMMWV), Assault Amphibious Vehicle (AAV), Light Armored Vehicle (LAV), and tank modification programs, which are critical to maintaining the operational availability of these vehicles, will likely be slowed significantly. Critical survivability and mobility upgrades to the AAV and LAV fleets will be delayed. These delays will ultimately impact our ability to provide Marines with ready, relevant and capable combat systems.

Mr. TURNER. Please describe how the effects of sequestration differ for major defense acquisition programs in different stages of development and fielding? For example, would it be less disruptive for programs still in development, which are primarily based on a level of effort, than those in production?

General WISSLER. Sequestration will be disruptive during every phase of the acquisition process. Examples of these disruptions include:

- Slowing the development and procurement of acquisition programs, increasing the total life cycle program cost.
- Slowing the sundown process on legacy systems, which will ultimately drive up current operation and support costs. Sequestration would require investment to replace obsolescent parts for legacy systems which are no longer available in the market place, further driving up sustainment costs.
- Investments in new technologies designed to improve efficiencies, such as fuel efficiency, lightweight armor, and information technology consolidation, would be delayed, negating their corresponding savings and capabilities.
- Initiatives to increase buying power in all phases of the acquisition process will likely be negated by schedule slips.
- Contraction of the small business industrial base is likely to occur as larger firms keep more work in house.

Mr. TURNER. Will the potential effects of sequestration differ for major defense acquisition programs using different contract types and acquisition strategies (fixed-price v. cost-reimbursement; multiyear procurement v. annual procurement)?

General WISSLER. Major Defense Acquisition Programs (MDAPs), like any other program, would be affected by sequestration. Firm-Fixed Price (FFP) contracts would already be fully funded, but options may need to be re-negotiated to buy a lesser quantity. Under Indefinite Delivery Indefinite Quantity (IDIQ) contracts, the Marine Corps would buy fewer items. This may require a program extension in order to buy the total Approved Acquisition Objective (AAO) if additional funding is received. Cost type contracts are incrementally funded. If the funding falls short, the contract would have to be modified to either extend the schedule or de-scope the statement of work.

Mr. TURNER. Would large numbers of fixed price or multiyear procurement contracts need to be renegotiated due to sequestration?

General WISSLER. The Marine Corps is not executing any ground multiyear contracts, and any current Firm-Fixed-Priced (FFP) contracts are already fully funded. However, any FFP options will have to be reviewed on a case-by-case basis.

Mr. TURNER. Please provide details on the major defense acquisition programs that would experience any delays in fielding needed capabilities to the warfighter as a result of the effects of sequestration and yearlong CR?

General WISSLER. There is no impact of a continuing resolution given the President's signing of the FY13 DOD appropriations bill.

Potential long-term sequestration impacts specific to Marine Corps programs include:

- Ground Air Task Oriented Radar (G/ATOR) (ACAT 1C)
- Delays Initial Operational Capability (IOC) of Block 2 software (SW) counter battery development and delays start of Block 4 SW Air Traffic Control development
- Transition to gallium nitride (GaN) at risk which would negatively impact cost, i.e. "should-cost"
- Reduced system procurements increases production cost, scheduled to end in FY20, into FY21
- Industrial Base: Potential impacts to the GaN supplier base when G/ATOR funding is taken in context with other DOD investment reductions in advanced radar technologies
- Common Aviation Command and Control System (CAC2S) (ACAT 1AM)
- Negative impact on Limited Deployment Unit (LDU) production, and testing
- Delays Full Deployment and stretches completion of procurement into FY19

- Joint Light Tactical Vehicle (JLTV) (ACAT 1D)
- Delays USMC IOC, Milestone (MS) C, and Full Operational Capability (FOC)
- Extends USMC procurement past currently scheduled attainment of Approved Acquisition Objective (AAO)
- Army sequestration impacts may contribute to Marine Corps delays

Mr. TURNER. What measures will you take to mitigate the impact of sequestration on counter-IED efforts that could potentially diminish the Department's flexibility and increase risks to rapidly respond to unanticipated requirements?

General WISSLER. Countering IEDs will remain a priority for the Marine Corps. Inherent flexibilities provided under the Budget Control Act will allow the Marine Corps to mitigate impacts to CIED programs in FY13 by using available prior and current year funding. However, we will not have these same flexibilities in FY14. Prioritization and risk reduction decisions on counter-IED efforts in the long term will be made in the context of the discretionary cap reductions in the Budget Control Act and their impact on the Marine Corps' entire procurement portfolio and associated priorities.

Mr. TURNER. How will you make cuts to major defense acquisition programs without forcing them into a Nunn-McCurdy breach? Should Congress modify the requirements that currently apply when a Nunn-McCurdy breach occurs?

General WISSLER. Efforts to major defense acquisition programs without forcing them into a Nunn-McCurdy breach would include:

- Reductions to other programs in order to preserve capability provided by Major Defense Acquisition Programs (MDAPs) would have to be made based on the Service's priorities and flexibility provided to the Department for the application of sequestration.
- For current MDAPs the Service may de-scope capability to maintain costs within the current Acquisition Program Baseline.

The Marine Corps recommends language that would recognize the unusual circumstances of MDAP breaches due to sequestration and authorize the Marine Corps to restructure and re-baseline in order to establish a new Acquisition Program Baseline.

Mr. TURNER. Would sequestration and a yearlong CR affect life extension programs for F/A–18s and AV–8Bs resulting in a higher strike fighter shortfall this year or in the years ahead?

General WISSLER. Sequestration will cause a fiscal and operational environment of "haves and have-nots"—the F–35 is no exception. Reducing the funding of the F–35 program will impact the development of the combat capabilities the Marine Corps needs from the aircraft and/or limit the number of aircraft and related equipment needed to meet operational requirements. For the Marine Corps Air Ground Task Force, the Nation's force in readiness, overall integrated aviation capabilities will be degraded in terms of overall survivability, tactical agility, and strategic flexibility due to a diluting of capabilities from a decrease in procurement, sustainment, and operational funding.

Mr. TURNER. How would sequestration and a yearlong CR scenario impact your ground combat and tactical vehicle strategy? What programs will be delayed or impacted by this budget uncertainty?

General WISSLER. In FY13, sequestration should not have a negative impact to our ground combat and tactical vehicle strategy. These reductions were mitigated by current and prior year assets.

In the long-term, sequestration will have a negative impact on our warfighting investment portfolio, including several critical vehicle modernization and sustainment programs. We have mitigated some of the impact by prioritizing and sequencing our investments. For example, we are investing in the Joint Light Tactical Vehicle now because it is the most mature capability, followed by investment in the Amphibious Combat Vehicle program. These measures, however, cannot fully mitigate the negative effects of sequestration. Our High Mobility Multipurpose Wheeled Vehicle (HMMWV), Assault Amphibious Vehicle (AAV), Light Armored Vehicle (LAV), and tank modification programs, which are critical to maintaining the operational availability of these vehicles, will likely be slowed significantly. Critical survivability and mobility upgrades to the AAV and LAV fleets will be delayed. These delays will ultimately impact our ability to provide Marines with ready, relevant and capable combat systems.

Mr. TURNER. What programs do the Marine Corps anticipate it will have to cancel or extend due to the budget uncertainty?

General WISSLER. If sequestration were fully implemented, the Marine Corps would have to assess every program. Sequestration will cause interruptions during program acquisition that increases the total program cost, as schedules slip and

delays result in longer contracts, loss of efficiencies, negative impacts on development and production schedules, program restructures and potentially cause Nunn-McCurdy breaches. In procurement, existing contracts will have to be renegotiated which will prevent the Marine Corps from receiving Economic Order Quantity pricing.

The Marine Corps will also have to sustain legacy systems longer than planned, which will ultimately drive up current operation and support costs. We will have to shift our attention to developing and replacing obsolescent parts for legacy systems that are no longer available in the market place, which will shift the workforce to a focus of reengineering old and inefficient technology (e.g. sustaining 5 legacy radar systems will cost more than employing one new Ground/Air Task Oriented Radar (G/ATOR)). Finally, technologies designed to improve efficiencies (fuel, lightweight armor, etc.) will have to be postponed, preventing the Marine Corps from reaping planned savings while simultaneously driving up costs due to the use of older, more expensive technologies.

Mr. TURNER. If the continuing resolution is in place for a full year, what impact does this have on the execution of the Marine Personnel Carrier and Joint Light Tactical Vehicle program?

General WISSLER. With the enactment of the FY13 DOD Appropriations Bill, the risk of a full year continuing resolution has been eliminated. Both the Marine Corps Personnel Carrier (MPC) and the Joint Light Tactical Vehicle (JLTV) programs will continue to be under budgetary pressure resulting from future year budgetary uncertainty.

Mr. TURNER. According to the Commandant's planning guidance, the Marine Corps seeks to develop an expeditionary force capable of forcible entry to support the National Military Strategy during emerging conflicts and instabilities. The guidance also indicates that the Marine Corps desires to be a "middle-weight force . . . light enough to get there quickly, but heavy enough to carry the day upon arrival, and capable of operating independent of local infrastructure."

How would sequestration and a yearlong CR scenario affect this planning guidance? What additional risks would the Marine Corps have to assume given this budget uncertainty?

General WISSLER. Despite the effects of sequestration, the Marine Corps will do everything in our power to protect enduring U.S. global interests that underpin our prosperity. We will meet our responsibilities for rapid response to crises wherever they may occur. Still, the Marine Corps' ability to execute our expeditionary crisis response role is based upon one word—READINESS. This requires trained Marines, ships at sea, and aircraft in the air. These assets are the foundation of our forward deployed and rotational forces. Without them, not only will our forces become hollow and unable to respond as we are accustomed to, but we will make enduring national interests hollow as well. Insufficient maintenance and operating resources may limit the presence of Marines forward, and therefore the ability to intervene when our citizens, diplomats, allies or interests are threatened. We will be able to respond to crisis as a nation, but our response options will be limited, and our response times dramatically slowed. The risk of small-scale crises escalating is increased without forces that can rapidly contain them at their lowest levels. Without ready amphibious ships and well-trained Marine units, there will be less engagement with allies and partners, leading to decreased deterrence for small scale conflict. Without ready Marines, our Nation will forfeit a primary political-military tool that helps to protect U.S. interests, prevent conflict, and enable our joint forces in war.

Mr. TURNER. What impacts would be associated with the Procurement, Marine Corps account?

General WISSLER. Potential sequestration reductions distributed across the Procurement, Marine Corps (PMC) appropriation by line item will have long-term impacts including:

- Operational Impacts
  - Delayed Initial Operational Capability/Full Operational Capability (IOCs/FOCs)
  - Unaffordable Approved Acquisition Objectives (AAOs)
  - Reduced procurements (resulting in less equipment)
  - Delayed reconstitution and reset
- Cost
  - Increased total cost due to decreased competition (i.e. anticipate a reduction in industrial base and small businesses)
  - Increase unit costs (due to decrease in number of units procured)
  - Contract termination costs (when applicable)

- Performance/Capabilities
  - Postpone modernization/upgrade (resulting in reduced system performance)
  - Reduced trade space . . . compromised requirements (resulting from the program being no longer affordable)
  - Reduced collective Marine Air Ground Task Force (MAGTF) capabilities
  - Retention of legacy solutions
- Schedule
  - Longer production timelines due to phasing of dollars
  - Delayed reconstitution and reset
  - Delayed fielding
  - Delayed technology refresh

Mr. TURNER. Are any PPAs exempt from sequestration and on what grounds?

General DAVIS and General MOELLER. Apart from the President's exemption of military personnel accounts, there are no PPAs exempt from sequestration.

Mr. TURNER. How will the CR and sequestration impact your major defense acquisition programs and will these reductions require a change in national military strategy?

General DAVIS and General MOELLER. The Air Force has only addressed the impacts for FY13. Sequestration cuts to Air Force modernization investments, if applied at the program, project, and activity level as planned, impact every one of the Air Force's acquisition programs. For example, the F–35A low rate initial production would see reductions of at least two aircraft from the requested 19 in FY13. Such potential reductions not only drive up unit costs—resulting in FY14 production funding shortfalls—they also delay follow-on software and flight testing. While the disruptions to the detailed planning and execution of the Air Force's complex investment and modernization programs, such as the F–35 and KC–46, would be significant, the impacts to the industrial base grow in magnitude as the reductions cascade down through the network of companies that support each program.

The current SECDEF-directed Strategic Choices and Management Review will determine if the impacts of sequestration will require any change to the current Defense Strategic Guidance, and in turn, the National Military Strategy. At a minimum, reductions associated with sequestration will drive the need to prioritize within and among the National Military Objectives (Counter Violent Extremism, Deter and Defeat Aggression, Strengthen International and Regional Security, and Shape the Future Force). As a result, the Air Force has already implemented a series of prudent measures to help mitigate current fiscal year budget risks; however, sequestration and other fiscal constraints have already disrupted strategic planning efforts and this will cause short-term and long-term effects that will adversely affect the Air Force today and for years into the future. These significant fiscal constraints require creative and innovative approaches to ensure the Air Force continues to play an integral role with Joint and interagency partners as we work together to meet national security responsibilities.

Mr. TURNER. Please describe how the effects of sequestration differ for major defense acquisition programs in different stages of development and fielding? For example, would it be less disruptive for programs still in development, which are primarily based on a level of effort, than those in production?

General DAVIS and General MOELLER. In general, regardless of program size, programs in earlier stages of their lifecycle have more flexibility to adjust to changes in funding by adjusting requirements. Programs nearly complete with development or with less-flexible (i.e. fixed-price type) contracts have fewer options to mitigate sequestration, which may lead to impacts such as schedule delays or increased costs. Mature programs in production with better defined unit costs and production rates also have less flexibility to respond to cuts, potentially forcing quantity reductions and unit cost increases.

Mr. TURNER. Will the potential effects of sequestration differ for major defense acquisition programs using different contract types and acquisition strategies (fixed-price v. cost-reimbursement; multiyear procurement v. annual procurement)?

General DAVIS and General MOELLER. Regardless of contract type, the effects of sequestration could drive a descope in program requirements, delays to performance, or termination. While cost-reimbursement type contracts may provide more flexibility and quickness to react to changes than fixed-price type contracts; both require modification. For both annual and multiyear procurements, reductions in the required number of items or level of service could result in increased unit prices. In the case of multiyear procurement, reductions could result in a Government breach of contract if the requirements fall below a minimum commitment in the contract.

Mr. TURNER. Would large numbers of fixed price or multiyear procurement contracts need to be renegotiated due to sequestration?

General DAVIS and General MOELLER. The Air Force is carefully managing our multiyear and large fixed price development, production and sustainment contracts to avoid breaks in production or service. Smaller fixed price agreements at the installation-level are the most vulnerable.

Mr. TURNER. Please provide details on the major defense acquisition programs that would experience any delays in fielding needed capabilities to the warfighter as a result of the effects of sequestration and yearlong CR?

General DAVIS and General MOELLER. Sequestration cuts to Air Force modernization investments, if applied at the program, project, and activity level as planned, impact every one of the Air Force's acquisition programs. For example, the F–35A low rate initial production would see reductions of at least two aircraft from the requested 19 in FY13. Such potential reductions not only drive up unit costs—resulting in FY14 production funding shortfalls—they also delay follow-on software and flight testing.

Mr. TURNER. What measures will you take to mitigate the impact of sequestration on counter-IED efforts that could potentially diminish the Department's flexibility and increase risks to rapidly respond to unanticipated requirements?

General DAVIS and General MOELLER. The Air Force has largely absorbed sequestration of FY13 funding in ways which avoid impacts to operational capabilities supporting Counter-IED efforts in Afghanistan. Key ISR support such as U–2 Dragon Lady, MQ–1 Predator, MQ–9 Reaper, MC–12 Liberty, and Blue Devil Block 1 will not have their support to Counter-IED efforts impacted by sequestration. Likewise, sustainment of crucial EOD equipment will not be impacted by sequestration. However, sequestration funding reductions will impact the Dismount Detection Radar (DDR) development effort; which is being mitigated by delaying delivery of two systems and foregoing some risk reduction testing in lieu of cancelling this important capability solution. Although the Air Force is developing and has fielded considerable flexibility in its capabilities, sequestration reductions leave no unallocated funding available to rapidly respond to unanticipated Counter-IED requirements that cannot be addressed with current systems.

Mr. TURNER. How will you make cuts to major defense acquisition programs without forcing them into a Nunn-McCurdy breach? Should Congress modify the requirements that currently apply when a Nunn-McCurdy breach occurs?

General DAVIS and General MOELLER. In all likelihood, the Department will need to make cuts to defense acquisition programs that may cause Nunn-McCurdy breaches. The Department may be declaring critical breaches on dozens of programs, some from terminations, but many others to the original and current baselines established in the pre-sequestration era. As a result, the required certifications and milestone re-approvals may overwhelm OSD and Service personnel. At this time we do not recommend modifying Nunn-McCurdy requirements.

Mr. TURNER. How would sequestration and a yearlong CR scenario impact the procurement of F–35Cs and F–35Bs? Would lower procurement numbers results in a future strike fighter shortfall?

General DAVIS and General MOELLER. The Air Force is procuring F–35A aircraft and is not procuring F–35B or F–35C aircraft. The Department of the Navy is procuring these versions of the Joint Strike Fighter.

Mr. TURNER. Would sequestration and a yearlong CR affect life extension programs for F–15s, F–16s, and A–10s resulting in a higher fighter shortfall this year or in the years ahead?

General DAVIS and General MOELLER. F–15: The F–15 does not have a formal service life extension program. Scheduled, periodic Programmed Depot Maintenance (PDM), which is performed on each F–15 approximately every 6 years, is used to repair known service life issues.

Sequestration will remove 2 (of 75) aircraft from the PDM schedule in FY13. These 2 aircraft will be rescheduled for FY14. While this reduction will not cause a drastic reduction in aircraft availability or any immediate groundings, it will cause a cascade of PDM deferrals. Without additional funding, there will be a ripple effect causing at least 1 aircraft from FY14 to be pushed to FY15. The Air Force has not yet determined any additional impact of sequestration in the outyears.

F–16: The F–16 is currently in the Research, Development, Test & Evaluation phase of the Legacy Structural Life Extension Program (SLEP). This program will extend the certified service life of 300 F–16 aircraft from 8,000 Equivalent Flight Hours (EFH) to 10,000 EFH. This translates to an extension of the F–16 service life by approximately 8 years in order to provide a viable F–16 fleet until replaced by the F–35.

Sequestration will not have a significant impact on the F–16 SLEP in FY13. The program is currently in full scale durability testing as part of the RDT&E phase, and fielding of SLEP aircraft will not occur until 2018. The Air Force has not yet determined the impact of sequestration in the outyears.

A–10: The A–10 does not have a formal service life extension program. The A–10 Wing Replacement Program (WRP) exists to replace the legacy wings with a structurally enhanced form, fit, and function replacement wing that will not need inspection for 10,000 flying hours, and will keep the A–10 flying through 2035.

Sequestration will not have a significant impact on the A–10 WRP in FY13. Congress provided additional funds to maintain the A–10 force structure, and there is sufficient funding to procure the maximum number of wings specified in the WRP contract. The Air Force has not yet determined the impact of sequestration in the outyears.

Note: As a result of the Consolidated and Further Continuing Appropriations Act for 2013, there is no impact to the F–15, F–16, or A–10 programs resulting from a yearlong CR.

Mr. TURNER. What effects could sequestration and a yearlong CR have on the military aviation industrial base?

General DAVIS and General MOELLER. Sequestration is driving significant reductions in Air Force expenditures within an extremely short period of time. These reductions in Air Force spending will negatively impact the industrial base network of suppliers on which the Air Force depends for the parts, supplies, and services needed to sustain our operational capabilities and infrastructure. The Air Force is concerned not only with the impacts but also by the fact that the reductions that cause these impacts reduce the ability to mitigate them.

As part of Air Force actions to immediately reduce spending, the Air Force will be flying fewer hours, conducting fewer training exercises, reducing the flow of aircraft into depot maintenance, and deferring maintenance on facilities and equipment. These operational reductions translate immediately into less demand for parts, supplies, and services. This rapid and dramatic change in Air Force expenditures challenges our suppliers. For large suppliers with a diverse customer base, the consequences may be barely noticeable, no more than a ripple in their financial flows. For smaller suppliers whose primary customer is the Air Force, the consequences may be extremely significant, even resulting in a calamitous drop in their financial flow that threatens the viability of their company. In a March 13, 2013 article, Bloomberg reported that an index of 18 small- to mid-size defense contractors has fallen 7.3 percent this year while a corresponding index of the top 10 defense contractors has risen 6.6 percent.

QUESTION SUBMITTED BY MR. MAFFEI

Mr. MAFFEI. I represent Hancock Air National Guard Base in Syracuse, NY. Hancock has approximately 400 full-time employees of which 280 are DOD civilians and 120 Active Guard reservists. This means approximately 70 percent of the base's full-time staff will be furloughed in the coming months. Is that percentage on par with other similar Air National Guard units or is Hancock more severely impacted than other units? Can you also address any other impacts on acquisition, programming that sequestration may have on the MQ–9 Reaper training mission at Hancock Air Base?

General DAVIS and General MOELLER. Furloughs if implemented will be in accordance with the SECAF Fiscal Year 2013 Sequestration Guidance Memorandum dated 11 Mar 2013 and NGB guidance for Administrative Furlough dated 1 March 2013, provided by NG–J1–TN. Based on this guidance it is likely that all Air Technicians will be furloughed for some yet-to-be-determined number of days between now and the end of this fiscal year, with very few exceptions. Air National Guard full-time workforce consists of 62% Title 32 civilian employees overall. The 174 ATKW full-time force structure is consistent with the ANG full-time force structure.

There will be no foreseeable acquisition impact at Hancock Air National Guard Base as the acquisition process is complete for the MQ–9 RPA mission performed by the 174th FW.

The Air Force is still working to determine and minimize the impacts of sequestration upon operations.

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