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IMPACTS OF A CONTINUING RESOLUTION AND SEQUESTRATION ON ACQUISITION AND MODERNIZATION

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
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IMPACTS OF A CONTINUING RESOLUTION AND SEQUESTRATION ON ACQUISITION AND MODERNIZATION

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
SUBCOMMITTEE ON TACTICAL AIR AND LAND FORCES,
Washington, DC, Wednesday, October 23, 2013.

The subcommittee met, pursuant to call, at 3:30 p.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. The hearing of the Subcommittee on Tactical Air and Land Forces will come to order. Good afternoon. The Tactical Air and Land Forces Subcommittee meets today in open session to receive testimony from each of the four military services on the impacts of sequestration and the continuing resolution, known as CR, on acquisition programs and the associated industrial base. For over 2 years now, this committee has held numerous hearings on the impact of sequestration to our national security in attempts to try to capture some of the decisionmaking and the effects on our national security. We have warned of the catastrophic impact sequestration would have on the military's capabilities if it was allowed to continue.

I voted against sequestration because I believed that it would happen and its effects might be devastating.

Since sequestration began on March 1, we have seen dramatic effects on military force readiness, such as the grounding of 17 Air Force combat squadrons, reductions in force squadrons, training exercises reduced, modernization programs curtailed, and the furloughs of Department of Defense [DOD] civilians. In my district alone, we saw the furlough of roughly 12,000 hard-working men and women from Wright-Patterson Air Force Base. If left unchecked, I fear that many of these employees could lose their jobs permanently.

I raise this particular point at this hearing because many of these individuals work in the acquisition community and are directly linked to the Air Force modernization. The hearing today will focus on the effects sequestration is having on DOD's investment accounts; that is, those accounts for procurement and research and development acquisition programs.

Thus far, the effect on the investment accounts has been much less apparent, but we believe this to be a false sense of security. If sequestration continues, DOD investment and modernization will

be impacted, and those impacts are expected to grow exponentially in fiscal years 2014 and 2015. This hearing will focus on those impacts. Through the end of fiscal year 2013, the Government Accountability Office has reported to the subcommittee that approximately 30 percent of sequestered funding for investment accounts has been taken from prior-year unobligated funds. Additionally, some funding requirements for fiscal year 2013 have been pushed into fiscal year 2014, creating must-pay bills during this fiscal year.

These actions have allowed the Department to only delay the effects of sequestration on investment for fiscal year 2013. Beginning in fiscal year 2014, the situation will be different. Although sequestration is an approximate 9 percent decrease to the Department's budget, because military pay and Wounded Warrior programs will not be subject to sequestration decreases, other accounts, primarily the investment accounts, will have to make up the difference. Unlike last year, funds from unobligated balances have now been used up, and the must-pay delayed bills from fiscal year 2013 are also now due. This means that investment accounts are likely to see an approximate 14 percent decrease in fiscal year 2014. If this continues into fiscal year 2015, the combined impacts will continue to increase, affecting every acquisition program and thus severely impacting future readiness, the defense industrial base, as well as leading to possible program terminations.

Last month, the committee received testimony from the four service chiefs about the near- and long-term effects that sequestration will have on the total force, and their remarks were sobering. Today, I expect to hear in very clear terms how investment and modernization will be impacted in fiscal year 2014 and beyond should sequestration continue. We need to provide better clarity as to the consequences of these budget cuts and help make the case to Congress and the Nation as to why sequestration needs to be fixed.

I would like to welcome our distinguished panel of witnesses. We have at the beginning of our panel Ms. Heidi Shyu, Assistant Secretary of the Army for Acquisition, Logistics and Technology. Then we have Lieutenant General James O. 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, 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, N8. We have Lieutenant General Glenn M. Walters, Deputy Commandant for Programs and Resources. And representing the Air Force, we have Dr. Bill LaPlante, Principal Deputy Assistant Secretary of the Air Force for Acquisition. We also have Lieutenant General Michael Moeller, Deputy Chief of Staff for Strategic Plans and Programs.

I want to thank you all for being here. And I have had the opportunity to speak with each of you. I am certainly hopeful today that we will hear in very clear terms of the effects of sequestration. This is not something that should be sugar-coated. And these impacts are real, and they need to be avoided. So often we hear that sequestration has not had dire consequences. But I think in part it is because the story in the Department of Defense has not yet been

told because you all have been very busy trying to implement sequestration and minimize its overall effects.

Today, you have the opportunity to paint a clear picture to us not only of the work that you have done in trying to protect our national security under very difficult circumstances of sequestration; you have the ability to tell the picture of the future. And that is what is going to be really important, because right now, in the halls of Congress, there are people who are working on the issue of how do we lift sequestration? How do we complete the budget for fiscal year 2014? And that requires that your story be clear and unequivocal of the dangerous and damaging effects of sequestration to our national security and to the Department of Defense. And I appreciate your dedication and the message that you have for us today.

With that, I want to turn to my ranking member, Ms. Sanchez.

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

Ms. SANCHEZ. Thank you, Mr. Chairman.

Thank you, Madam and Gentlemen, for being before us today. We appreciate it. Today's hearing comes at a very strange time of the year, so I am happy that the Department of Defense could be here with us and that you are willing to testify before us today. In a normal year, of course, we would have probably been in conference or out of conference with the NDAA [National Defense Authorization Act], and the appropriations for defense probably would have already been passed, and we would have been moving forward.

But as you know, this is not a normal year. This year, not only with the shutdown, but with the second set of sequestration, with the Senate not even bringing its bill yet to the floor of the Senate, we are definitely in a very strange time. So I appreciate you being here. You know, we have passed our authorizing bill, and we are hoping that we will get a Senate version to conference in.

But I think it must be very difficult for you all to try to figure out what programs move forward and what doesn't and what gets placed on hold. And in particular for me, it is a little striking that we would have a GAO [Government Accountability Office] report that would say that the first point that we have on the line, a data point that we have on the line, is telling us that for the Department of Defense not a lot happened for fiscal year 2013. In other words, for the first year of sequestration, not a lot—you know, we didn't face all the drastic or all the fears that we heard for a year that something terrible was going to happen to, you know, acquiring the equipment we need, et cetera, for the DOD, that terrible things were going to happen. The GAO report tells us that is not the case.

Now, I would have to say that that probably is because there was a lot of unprogrammed or leftover moneys, or programs that didn't come to be, or weren't there. In other words, there was a lot of slack in the system. And maybe that is one of the major reasons why we didn't see what we had thought that we would see.

And that raises a question, why was there so much slack in the whole programming?

But I am worried about, and I know Mr. Chairman, this is about forward thinking, and what is going to happen in the second year of sequestration, and what is going to happen if we have a third year and a fourth year. Because as you know, this is a 10-year sequestration effort. So I really want to, I hope we concentrate on what this really means for DOD and what we are going to see.

Because I have a fear, I mean I saw when I went out and visited the 82nd and other arenas, what it meant for training to our people. I was in Nevada; what it meant, you know, to our air shows. You know, the Thunderbirds are used to flying 200-plus shows, and they flew one so far in this past season. So I have seen what has happened to the operating and the training of our soldiers and airmen and seamen, et cetera, marines. But the GAO says really nothing has happened in the acquisition arena. So I think it is important for us to know, well, what will happen if this continues forward? And I hope you will be pretty straightforward with us, and talk to us about your concerns with respect to that.

And I guess, Mr. Chairman, I will put my official statement in the record.

But I am very interested to hear from you all what you think as we move forward, how this will really affect the programs, the major programs in particular that are required for our troops to be as effective as they need to be.

Thank you, Mr. Chairman. And I will submit my full statement for the record and move forward.

Thank you.

[The prepared statement of Ms. Sanchez can be found in the Appendix on page 41.]

Mr. TURNER. Thank you.

We will begin opening statements with Secretary Shyu.

STATEMENT OF HON. HEIDI SHYU, ASSISTANT SECRETARY OF THE ARMY FOR ACQUISITION, LOGISTICS AND TECHNOLOGY

Secretary SHYU. Chairman Turner, Ranking Member Sanchez, and other distinguished members of the subcommittee, thank you for this opportunity to testify before you, and providing comments for the record regarding impacts associated with the continuing resolution and sequestration on the Army and the industrial base in fiscal year 2014 and beyond.

Joining me today is Lieutenant General James Barclay, Army's Deputy Chief of Staff, G–8. Our assessment of the combined CR and long-term sequestration impact to the Army acquisition programs and modernization investment is sobering. The current funding instability fundamentally hampers our ability to plan and execute acquisition programs in support of the warfighter. Key development, testing, and production activities that is planned months in advance are subject to limited funds available under a CR and were disrupted by the shutdown. Under a continuing resolution, we lack the authority to start new programs or authorize planned increases in production quantities for fielding.

Sequestration reductions in fiscal year 2013 already reduced or eliminated our margin for error on many of our programs with our

efforts to mitigate the impacts using prior-year funds. Reductions in fiscal year 2014 and beyond will directly result in reduced production quantities, deferred investment in new capabilities, and delays in many programs. The hiring freeze, civilian furloughs, and government shutdown decimates our current and future ability to recruit and retain critical skills and expertise in the government workforce. This creates devastating impacts to the execution of our S&T [science and technology] projects, our acquisition programs, our testing, our contracting, our logistics, and depot maintenance.

The long-term effects of this instability are yet to be fully discerned, but we know that the combined effects of sequestration and a yearly CR will significantly increase the costs of our vital soldier weapons systems. Constrained budgets will lead to reduced investment in new soldier capabilities at a time when we must work to prevent erosion of our technological edge. Investments in Army's research, development, and acquisition [RDA] programs face the alarming prospect of a nearly 40 percent reduction over a 3-year span, reaching a historical low. Because we are unable to reduce manpower costs significantly, RDA takes the brunt of the hit, especially in the short term.

We are facing an unprecedented challenge in staying on track to develop the next generation of capabilities to our soldiers to counter emerging threats. Over 192 Army programs are potentially affected by CR limitations. These include 59 planned new program starts. In addition, assuming the most inflexible and significant reductions under the BCA [Budget Control Act] sequestration across Army funding lines, we can anticipate to see effects, such as procurement of 12 fewer Apache helicopters and 11 fewer Chinook helicopters; delays in scheduled engineering change proposal upgrades to the Abrams tank and Bradley infantry fighting vehicles; 45 to 50 fewer Stryker vehicles that are modified to a double-V hull configuration, which delays the fielding of a 3rd Brigade set of Stryker double-V hull by 6 months; up to 120 new grants for new basic research in universities across the United States may be cut; and up to 40 or more existing second- and third-year grants may be cut.

All of these impacts also affects the Army's defense on organic industrial base. When I meet with CEOs and industrial leaders, most frequently I hear about the shared desire for stability and predictability in our resources and planning for future soldier capabilities. The untold effects of lost expertise, innovation, investment within the industrial base among large corporations and small suppliers alike remains one of the most significant risks associated with the current fiscal environment. There are also significant human capital costs. Our capacity to maintain expertise in science and technology, engineering, contracting, cost estimation, logistics are all at risk, because one of the most attractive benefits to the government employee, the stability, has been undermined. These skills are critical to equipping and sustaining weapons systems directly affecting our programs.

These examples provide just a snapshot of the cumulative effects of the fiscal instability. The current environment fundamentally challenges our ability to manage public resources in a prudent manner, while upholding the vital responsibility to provide the best equipment to our warfighters.

Mr. Chairman, Ms. Sanchez, and other members, thank you again for the opportunity to testify, and I look forward to your questions.

[The joint prepared statement of Secretary Shyu and General Barclay can be found in the Appendix on page 44.]

Mr. TURNER. Thank you.

Mr. Stackley.

STATEMENT OF HON. SEAN J. STACKLEY, ASSISTANT SECRETARY OF THE NAVY FOR RESEARCH, DEVELOPMENT AND ACQUISITION

Secretary STACKLEY. Chairman Turner, Ranking Member Sanchez, distinguished members of the subcommittee, thank you for the opportunity to appear before you today to address the impacts of a fiscal year 2014 continuing resolution and sequestration on the Department of the Navy acquisition and modernization. Joining me today are the Deputy Chief of Naval Operations for Capabilities and Resources, Vice Admiral Myers, and the Deputy Commandant for Programs and Resources, Lieutenant General Walters.

Today, about half of our fleet is underway, and near 100 of these ships, including the *Nimitz, George Washington,* and *Truman* carrier strike groups, and the *Kearsarge, Boxer,* and *Bonhomme Richard* amphibious groups, and 21,500 marines are deployed around the world. From ground operations in Afghanistan to maritime security along the world's vital sea lanes, to missile defense in the Mediterranean and Sea of Japan, to intelligence, surveillance, and reconnaissance where needed, as needed, from strategic deterrence to building partnerships, deterring enemies and responding to crises and contingencies, naval forces provide persistent presence and the ability to project power in regions of interest to America. In doing so, they place in the hands of our Nation's leaders tools and options to respond to today's world events and shape future events. The Department of the Navy's 2014 budget request provides the resources needed to meet this full range of missions. And two, it provides the investment called for by the Defense Strategic Guidance to execute tomorrow's missions against the future threat.

Today, however, we are here to discuss the unfinished work of the Congress as it relates to final passage of a defense authorization bill and defense appropriations bill, and then the consequences that sequestration poses to our operations, our capabilities, our readiness, current and future, as provided for by those defense bills. Account by account, program by program, a $156 billion Navy and Marine Corps budget authorized by the Armed Services Committee is severely undercut by the limitations of the continuing resolution and the across-the-board cuts imposed by sequestration. Operations and maintenance, and investment accounts are particularly hard hit, such that, as you described in your opening remarks, an approximate 10 percent cut to the 2014 budget would equate to a 14 percent reduction to those accounts, due to military personnel exemptions.

These reductions in 2014 would be additive to the $11 billion sequestered in 2013, which, after depleting unobligated prior-year balances, removing management reserve, and deferring significant

bills to future year budgets, ultimately resulted in cancelled deployments, reduced training, deferred maintenance, delays to development schedules, and reductions to procurement quantities.

For 2014, in the near term, the Navy and Marine Corps will prioritize the global presence requirements set for the force, however with reduced ability to surge additional forces in response to crises. Depot maintenance, affecting greater than half of our planned surface ship depot periods, all in private shipyards, and nearly 200 aircraft depot maintenance actions are at risk. This missed maintenance will ultimately impact these ships' readiness for future deployments, as well as their expected surface life.

Training will be curtailed and readiness will follow because of cuts to steaming hours and flight hours and maintenance and the procurement of spare parts; and the net of these impacting next year's operations, forward presence, and our ability to surge our forces. Maintaining current readiness and forward presence to the extent possible under sequestration comes at expense to our investment in future readiness. In fiscal year 2014 alone, absent congressional action or mitigating circumstances, the continuing resolution and sequestration would cause cancelled procurements of up to three major warships and 25 aircraft, including four Growler electronic attack aircraft, two Joint Strike Fighters, two maritime patrol aircraft, an advanced Hawkeye, three MH–60 maritime helicopters, three MV–22 Ospreys, and various utility, training, and unmanned aircraft. To this total, about 400 missiles and weapons at risk, cutting our inventory at a time when we are striving to restore our weapons to levels called for by the combatant commanders.

Further, the combined impacts of a continuing resolution and sequestration deny us the ability to execute the multiyear procurements this committee authorized for E–2D advanced Hawkeye, the MV–22, the MH–60, DDG–51 destroyers, *Virginia* class submarines, and the evolved Sea Sparrow missile, placing at risk greater than $5 billion savings these multiyears provide. And two, our carrier force, which today falls below the statutory requirement for 11 carriers, will be greatly impacted, with a risk of halting construction of our newest carrier CVN–78, delaying construction of the CVN–79, and delaying the refueling complex overhaul of CVN–73. This outcome we must avoid.

Beyond these procurement impacts, virtually every Navy and Marine Corps major development comprising those advanced capabilities that are critical to ensuring our future military superiority—Joint Strike Fighter, *Ohio* replacement, air and missile defense radar, Navy Integrated Fire Control, next-gen jammer, AIM–9X Sidewinder, the Joint Light Tactical Vehicle, the Amphibious Combat Vehicle, the Ground/Air Task Oriented Radar—every major development suffers delay, or reduction, or cancellation in this budget environment where uncertainty seemingly guides every decision.

Further, we need to consider the impacts on our industrial base and acquisition workforce, which we wholly rely upon to develop and deliver these warfare systems that underpin our military superiority. We need to be mindful that as many as 100,000 professional jobs are at risk as a result of the potential cuts to Navy-

Marine Corps operations and programs, particularly skilled workers and engineering talent across government and industry at critical design and manufacturing facilities across the country. The same professionals who have been bearing great stress while performing their critical jobs in the face of furloughs and layoffs triggered by distortion of this budget process, which Congress has otherwise faithfully executed in prior years. 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 the roles and missions which they are able to perform. Again, I thank this committee for its work on the 2014 authorizations bill. Our appeal is that Congress complete its work on the 2014 budget request with the passage of the authorizations and appropriations bills, and that this mechanism for addressing the Nation's budget impasse, which was devised to be so unacceptable that it would be averted, somehow be reversed before we are driven to irreversible actions which impair our collective responsibility to provide for the Nation's defense.

Thank you, Mr. Chairman.

[The joint prepared statement of Secretary Stackley, Admiral Myers, and General Walters can be found in the Appendix on page 55.]

Mr. TURNER. Thank you.

Before I go to Dr. LaPlante, I just want to point out, because we are in a House hearing, that the House has passed both the National Defense Authorization Act and defense appropriations, which are sitting in the Senate. Although Congress, in order for us to congregate together as the House and the Senate, must complete it together, the House has done all of its work and sent it to the Senate, where we continue to be in this period where the House does its work and we wait for the Senate. That period of uncertainty really makes it very difficult for us. So I understand your frustration, but I do want to point out there are bills that are sitting there for action.

Dr. LaPlante.

STATEMENT OF DR. WILLIAM A. LAPLANTE, PRINCIPAL DEPUTY ASSISTANT SECRETARY OF THE AIR FORCE (ACQUISITION)

Dr. LAPLANTE. Thank you, Chairman Turner, Ranking Member Sanchez, and the rest of the distinguished members of the subcommittee.

Thank you for holding this hearing to discuss the state of affairs with sequestration. And I will address the Air Force, and particularly the investment in the Air Force.

I am joined by Lieutenant General Mike Moeller, who is the A–8 for the Air Force.

And again, thank you for holding this hearing.

We are committed, of course, as the Air Force, as remaining the best in the world, the best in the world in 2020, 2023, 2028. That means being able to fight and win against peer adversaries in highly contested environments. In the middle of trying to make sure we

meet that future and keep readiness high, we of course have had to deal with the sequester. When the sequester hit back in February, it was well known that there were really only two places in the budget to find the dollars to match what was needed to be cut. One was in operations and sustainment and maintenance, essentially hitting our readiness. And eventually, that also hit our workforce with the furloughs. The second place, the second place to go is our investment, which is RDT&E [research, development, test, and evaluation] and procurement.

We started with our investment accounts looking at somewhere between a 10 and 11 percent cut, and we ended up, by using prior-year dollars and other flexibilities, being able to soften that to about 8 percent. But I should make no mistake, there is damage being done.

So what I am going to talk about is the investment situation and what is going on there. So to begin with, what was done was each program was scrubbed. A lot of risk money, commitments that were going to be done in next years was taken, was swept up, with the case, hope, and promise that some of it would be returned. What also was done was, in some cases, major programs were simply stopped. I can speak to one specifically that we have been public about, it is called the Space Fence, which is an Air Force program, an important program for space situation awareness.

We were ready to award the contract after a lot of excellent work by contractors and laboratories. We had a great acquisition strategy. And we stopped. We stopped the program. And it may or may not get started. If it does get started again, it is going to at least be one year away from IOC [initial operational capability], but more importantly, it is going to cost $70 million for the same program one year later. There are going to be other programs, new programs coming along that are going to be in exactly the same situation. In addition, in 2013, we, of course, had the furloughs. And the furloughs, I will talk about the effect on morale, which is harder to assess. But there was absolutely an effect on our acquisition programs. The F–35 lost 1 to 2 months of schedule overall in the program due to the furloughs. The reason was the testing, both at Eglin and Pax, was prohibited to test on overtime with civilians. And if you have been around testing, you know nothing gets done in a regular even 40-hour week, let alone a 32-hour week. So it directly impacted already our acquisition programs.

Of course, the effect on the morale is something that is harder to measure. We unfortunately won't know until probably it is too late. The lagging indicator is usually turnover.

I can tell you what my instinct is, and it is purely anecdotal. And that is, based upon individual resignations that have already occurred, I believe we have broken with the particularly the younger acquisition and science workforce. In other words, these are folks who are at a point in their career they are trying to make a decision, is this something that I can do for my full career? Am I ready, starting a family, is this something that is reliable? Particularly the highly talented and marketable ones, they are very vulnerable. We already have cases, including specific letters, of resignations.

And oh, by the way, that was before October 1. The first week of October, half of the PEOs in the Air Force, PEOs, program exec-

utive officers, they are senior acquisition executives that run our programs, were home. We were within about 2 days, 2 weeks, 3 weeks ago, of shutting down the F–35 line. Okay. I know that these are differences between sequester versus government shutdown, but the effect in the field is not terribly distinctive to the individuals in the programs that is going on.

Now, talking about 2014, where we are right now, all the numbers that have been already mentioned apply to the Air Force. The 14 percent number, the number that could be higher, depending on what flexibility is there. I will also say, as I already mentioned, there will be other programs like Space Fence that are going to be cancelled or delayed. And in addition to that, entire fleet of aircraft are on the table for consideration of divestment by the leadership. I can't say which ones will end up being divested or not, I can't say which programs are going to be stopped or not, but the math, particularly in 2015 and 2016, is that bad. And so the final comment I will make is, as we mentioned, in 2013, there was some flexibility allowed for using prior-year dollars to soften the blow. In particular, we were able to also transfer some of that money to the operations accounts to try to soften readiness cuts. That is gone. That is gone.

So, in 2013, F–35 was at risk of losing three airplanes. In the realm of no good deed goes unpunished, the F–35 program with the contractor was able to negotiate a very good price on lots 6 and 7, and essentially buy back those three airplanes. We don't have an opportunity to do that in 2014. We will lose somewhere between four and five airplanes in 2014. And I could go through some other programs. Anyway, that is a summary of kind of the severity of the situation within the Air Force. I look forward to working with the subcommittee in answering your questions. Thank you very much.

[The joint prepared statement of Dr. LaPlante and General Moeller can be found in the Appendix on page 72.]

Mrs. WALORSKI [presiding]. Thank you.

Secretary Shyu, I just want to say that personally I have enjoyed the privilege and opportunity to work with you. I share your concern on sequestration. I appreciate what you do and your work.

Could you speak specifically, if sequestration is allowed to continue to roll out, what kind of impact that is going to have on the JLTV [Joint Light Tactical Vehicle] program, which is super important to my district. And then also, just as far as modernization and acquisition, just speak briefly on the JLTV forecast if we can't curtail what is happening here.

Secretary SHYU. JLTV currently is a great model program. Okay. Each of the 3 contractors have delivered 22 vehicles, and they are currently in test. The government shutdown has already impacted our testing plan because our civilians, who do the vast majority of our testing, can't travel to the test site. They don't have TDY [temporary duty] money. Okay.

So the rippling effect of these government shutdowns, just the short period during the government shutdown, is stretching out—starting to stretch out the program. Because now we have got to get back into the queue to do the testing. Okay. And exactly with what Dr. LaPlante had talked about, part of the testing is usually

our testers do more than 8 hours per day of testing. If you limit their number of hours, it is going to impact them. Okay.

So, right now, the program is very well executed. We are trying to get back on schedule. But with sequestration cutting the RDA account heavier than the rest of the accounts, cutting the research, the development and acquisition accounts disproportionately higher than the other accounts, it will have impacts to us in terms of schedule. So that means we potentially may delay the program by a year due to the schedule cuts.

Mrs. WALORSKI. I appreciate that.

General Walters or Mr. Stackley, would you like to address that as well with JLTV?

Secretary STACKLEY. I would simply add, as Ms. Shyu described, the developmental scale is going to slide to the right. That is going to hold up when we can get into production. So it will delay the start of production. I think a year is a conservative estimate in terms of that impact. And then it is going to impact each year of production. So the front end, when you are trying to climb up a ramp and get to efficient quantities, the front end will be suppressed in terms of the number of vehicles we can procure. And that is going to ultimately stretch the program out further on the back end. It is going to drive the cost up. These are all spiraling impacts that take a strong performing program at the front end and reverse its course, which, obviously, we are trying to avoid.

Mrs. WALORSKI. General Walters.

General WALTERS. Yes, ma'am. I echo the sentiments already displayed here. But I will also tell you that the longer-term effect year by year as sequestration marches on, if it continues to march, it will put us in a, from a program perspective, a more difficult position to make harder and harder choices as we try and buy out a vehicle portfolio that will become unaffordable in the out-years.

Mrs. WALORSKI. Thank you.

Representative Cooper.

Mr. COOPER. Thank you, Madam Chair.

Chairman Turner had said earlier that the House had basically done its work and was implying that it was the Senate's fault. Of course, we need to operate as a Congress and fulfill our Article I responsibilities as a Congress so that you gentlemen and ladies can do your work. I thought your testimony was excellent. And I wish you had the ability to question us. Because the fault is on our side of the dais. So I don't want to put you in a tough spot, so I will go ahead and make some points on my own about the House's and Congress' inability to perform adequately in these trying times. Because as one of the witnesses noticed, defense contractors, defense workers, others don't really distinguish between sequester and shutdown and also threatened default of U.S. credit. This is a nightmare that they should not have to go through and a nightmare the country should not have to go through.

But let me cite a couple of articles here. One is Politico, October 14, an article by David Rogers. Headline, "GOP Hawks Suddenly Silent on Sequestration."

An article that cites the excellent study by the Bipartisan Policy Center entitled, "The Sequester: From the Merely Stupid to Dangerous."

Another article, this week's Wall Street Journal, an article by Fred Barnes. Fred Barnes, "The Upside of the GOP Shutdown Defeat." He points out, quote, "'Saving the sequester has been the top priority for me and my Republican colleagues throughout the debate about the shutdown,' Senate Majority Leader Mitch McConnell said."

They go on to say, "The survival of the sequester wasn't an unalloyed win for Republicans. The automatic cuts take a huge bite out of Pentagon spending, which is bound to weaken military readiness. This has distressed many Republicans, and rightly so."

But then the article goes on to say, "Yet most Republicans have been willing to swallow the defense cuts so far. They regard the sequester as a rare victory in their fight to reduce the size of government."

Another article, this one in the American Spectator, jointly authored by Steven Moore and Art Laffer. It says, "Treasury Secretary Jack Lew made a catastrophic miscalculation. He believed that defense hawk Republicans would never agree to the sequester cuts to the Pentagon. The White House bet that Republicans would raise taxes before cutting military spending. They were wrong. House Republicans rightly decided that as the wars in Afghanistan and Iraq were winding down, defense would be cut under any scenario, so it made the most strategic sense to uphold the sequester to ensure that the peace dividend did not get spent elsewhere."

As I mentioned, it is our fault. Congress should be blamed. In my opinion, the House in particular because it is not enough for us to pass our legislation; we have to conference it with the Senate. Both Houses finally passed budgets this year. But only this week did we go to conference on the budget. Because after 5 years of begging our Senate brethren to pass a budget, then we refused to conference it with them.

The Wall Street Journal on its editorial pages correctly pointed out, you can't govern America with one half of one branch of government. It takes more than that. And it takes cooperation. It takes that dread word "compromise" to get along and get things done.

So I am proud of the work that you gentlemen and ladies are doing at the Pentagon. I am sorry that you are under this distress. And I hope and pray that Congress will get its act together fast. We only have a few days before the budget conference is supposed to come up with a conclusion, a few legislative days. And by the way, we are only meeting next week like 1 or 2 days. We take the following week after that off.

So I think the entire conference, the hope of compromise by December 13 only has a few possible days to come up with an agreement. That is appalling. The folks back home are expecting us to work 24/7/365 to get this done. They should be outraged that we haven't done it already because the fiscal year started October 1. So this is the time for this body to get its act together. As you know, the Armed Services Committee is the largest committee in the House of Representatives. But we don't act like it. We don't exercise the commensurate influence within the body. And in this crucial hearing on the damaging effects of sequester, how many people are here? Six? And this is just a subcommittee; it is not the

full committee. But this is an embarrassing response to a national crisis that you gentlemen and ladies are correctly informing us of.

So maybe one day you will have the right to question this side of the dais. I look forward to that. In the meantime, we should be punished for congressional misbehavior, both Houses, both parties, until we get the job done.

Thank you, Madam Chair.

Mrs. WALORSKI. Mr. Runyan.

Mr. RUNYAN. Thank you, Madam Chair.

And my question is actually going to be for General Moeller. Since I have been here, I have been a big supporter of the new tanker. There has been, obviously, some questions arose as of lately specifically dealing with things in my district. If you don't know, I represent Joint Base McGuire-Dix-Lakehurst, which is home to most of our KC–10s on the East Coast. That being the workhorse of most of the refueling here on the East Coast and a lot of things overseas, in Iraq and Afghanistan, and dealing with homeland security. With the new tanker coming online slower than expected, obviously, because of many things we are discussing here today, the fact that there is probably really not much of a decrease in how we use those aircraft here, and if there is a delay in the 46 coming online, for the record, what does the Air Force plan for this critical platform? And is there program funding in fiscal year 2015 to support this vital refueling asset?

General MOELLER. Congressman Runyan, thank you for the opportunity to talk with you. Before I talk specifically about platforms, let me just say that the blunt mechanism of sequestration drove us to look at all options, from across the Air Force. As Dr. LaPlante said, looking at our readiness accounts, our personnel accounts, force structure, and our modernization programs. We had to look everywhere in order to get to the billions of dollars in savings—not millions, billions of dollars in savings, especially in the near years in fiscal year 2015 and 2016. Because that is where sequestration drives the biggest cuts for us, for all of us, for all of the services, including the Air Force. With that in mind then, as we looked at where we were going to go to get—to gather the savings required to balance the program, we had to look at cutting entire fleets of aircraft. And the reason why we had to look at that is that in order to get the billions of dollars needed, we had to essentially go after overhead as much as we did force structure. Now, the cuts that we are talking about across the FYDP [Future Years Defense Program] are, for the Air Force specifically right now under sequestration, will be over 25,000 people and over 550 aircraft. That is the magnitude of the challenge that we face across the FYDP. Specifically, because all of our fiscal year 2015 through 2019 program submission is pre-decisional, we can't talk about specific platforms. But I will tell you that we looked in priority order at avoiding further readiness degradation, that was our top priority, especially in the near years, cutting the more capable aircraft, and/or doing irreversible damage to high priority investment programs, like the KC–46A.

Mr. RUNYAN. That is just puzzling to me, because I get what you are saying about needing to find the places to cut that stuff. The readiness hole that I think it would create, I have yet to find any-

one in the Air Force to give me an answer to say how you backfill that. This, potentially, with the 46 being delayed, could potentially be a huge problem. And if you are going to take out a whole air wing that supplies critical refueling, how do you fill that gap?

General MOELLER. Well, Congressman, we will have gaps across the entire Air Force. Because it is not just, it is not just one platform. It is not just one capability. Sequestration, the levels of cuts require us to look across the Air Force. And so mitigating risk in one area is going to require offsets in others. The bottom line is that the Air Force, after sequestration, is going to be smaller. It is going to be less capable. It is going to be less ready, and it is less flexible. That, at the end of the day, is the bottom line of the effects of sequestration on your Air Force.

Mr. RUNYAN. I would love to at some point personally sit down with you and have the numbers put out on the table and talk about it. I look forward to that.

General MOELLER. Be glad to come over.

Mr. RUNYAN. I yield back.

Mr. TURNER [presiding]. Thank you. I want to thank Jackie Walorski for sitting in while I had the opportunity to attend a classified briefing for a few moments on the East Coast missile defense site. So I appreciate her taking the gavel for me.

So now we will return to regular order. And regular order is such that we go through each of the members who were present at the gavel and then turn to those post-gavel.

I want to start with, I always hate it when people make an issue partisan. Because nothing is describable or resolvable in its real effects on a partisan basis. This is a committee that very rarely will you ever hear anybody at any microphone say "the Democrats" or "the Republicans," because we are really all just working together on the same issue.

I think when you look here at the number of Members who are present, we certainly have on this side of the aisle a great deal of attention on this, as we have had at the number of hearings that we have had. I can tell that on a bipartisan basis, my ranking member and I have both worked equally diligent on this, one being a Republican and one being a Democrat.

I voted against sequestration. I voted against the President's recommended legislation of sequestration. I voted against it because I felt that the administration did not have a commitment to resolving sequestration. When we talk about resolving sequestration, what we are talking about is finding offsets elsewhere in the budget. With sequestration, we have taken over half of the budget of the allocated cuts for sequestration and applied it to less than 18 percent of the overall budget, which is the Department of Defense. The task that the President had charged Congress with was finding cuts in this issue—cuts elsewhere in the budget to offset those to lift sequestration. So when people talk about that they want sequestration to be applied, and there are Members who openly say that, they are not saying that they want this to be applied to the Department of Defense. They say they want the conclusion of it to occur, that is the identification of those cuts, elsewhere. No one, no one in Congress believes that the Department of Defense should continue to be subject to sequestration. It is irresponsible for any

Member to say, especially on a partisan basis, that any Member believes the Department of Defense should be subject to sequestration.

There are Members who believe that we cannot continue to spend out of control, and sequestration needs to be addressed by the process concluding, which is finding the source of those offsets.

Now, people who voted for the Budget Control Act and for sequestration, who then speak about it disparagingly, as if it is everyone else's responsibility, is one also I think is of question. That is why I am proud of the fact that I opposed it, and I oppose it now. And I want to turn to your answers as to its effects so that we can get the motivation for Congress to conclude the process of offsetting them. Now, I know there are many people who would like to characterize it otherwise. But today you get to help us characterize it as a real problem and one that needs to be resolved.

Secretary Shyu, you said that the issue of uncertainty is wrecking the ability for both the Department of Defense to plan, for contractors to plan, for acquisition, and for the industrial base. You said that they need predictability. As we go forward with sequestration, we also have, beyond the what level these cuts will be or how they will be applied, the issue of the aggregate numbers and what their effects will be upon the choices that you have to make. Can you speak for a moment of the fact that these numbers themselves are so egregious that many of the tasks that you have been assigned in acquisition are not going to be able to be achievable and therefore could harm our long-term sustainability in our national security?

Secretary SHYU. Yes. The fiscal year 2014 sequestration will have significant impacts. Because as we talked a little bit earlier, we don't have any more buffer room left. Okay. We are going to defer maintenance on 172 of our aircraft, more than 900 of our vehicles, over 2,000 of our weapons systems, over 10,000 pieces of communication equipment. We will field less equipment to our brigade combat teams. It will impact our production in terms of quantities. We will buy fewer aircraft, eight less Apache helicopters in fiscal year 2014 sequestration. That is on top of eight reduction that was due to fiscal year 2013. So this means this will have a rippling effect in terms of fielding to our units. Okay. All of the ECP [engineering change proposal] upgrades that we had talked about, upgrades to our Abrams, to our Bradleys, to our Stryker vehicles are going to be impacted. Okay. So what does that mean in terms of rippling effect? It means, our contractor that is looking for stability of their workforce and of the contracts that they have can no longer plan for it. They continuously ask me what type of—what do I anticipate the budget is going to be so they can plan for their workforce? It is very difficult to give them any numbers, because we are planning for our POM [program objectives memorandum] at the PB [President's budget] level, we are planning for our POM at the BCA level. And those have very, various different impacts. So the other rippling effect it has created for us is an enormous amount of additional work for our internal government folks to plan the what-if contingencies. We go through multiple iterations of planning. That is very, very disruptive. So I think, in my mind, if there is anything that this Congress can do to help us in terms

of stop sequestration, to bring back stability in our budget, that is the one key critical thing that we need, not just for the Army, but for our industrial base as well.

General Barclay, you want to add?

General BARCLAY. Sir, as Ms. Shyu said, across all the different categories. Because as the Secretary and chief have testified earlier, because if we cannot bring our force structure down fast enough we are going to have dramatic impacts on both readiness, the training, and on the modernization programs. So, as we look at both of those categories, there is a large impact on cancelling training, the rotations out at the national training centers on units. As Ms. Shyu said, with the Apache helicopters, not only are we not—reducing the numbers that we are purchasing, we have also gone away from the new buys, and we are now remanufacturing those platforms. We are taking old platforms and not purchasing new platforms. So, in an effort to meet the dollar cuts we have got, we are doing that across the fleet in several different categories, both in our ground combat vehicle category and also in our aviation category. So, as Ms. Shyu said, this will have a large impact on us as we move forward.

Mr. TURNER. Mr. Stackley.

Secretary STACKLEY. Yes, sir. I don't want to repeat the theme, but the theme is the same. What I would simply add is, first, stability is absolutely critical to performance in our programs across the board. And what we have been experiencing over the last one and a half to 2 years, frankly, has been extraordinarily destabilizing. So this uncertain environment, budget environment that we are marching through is unraveling all the efforts that the Department has put into driving affordability in our programs. All those programs underpin current and future readiness. So, at the higher level, as the Commandant and as the CNO [Chief of Naval Operations] testified, what sequestration poses is a steady decline across the board in terms of operations, readiness, force structure, which ultimately equates to presence, response, and national security. And so we are on the front end of that today. In 2013, we saw deployments being cancelled. We saw the front end of procurements being cancelled. You are seeing delays to programs. When you compound that year over year, as posed through sequestration, it is not a straight line, it will quickly devolve in terms of, as the CNO testified, the 300-ship Navy that we require to meet our Strategic Defense Guidance, we are staring today at potentially a Navy of 250 ships in number. Eleven aircraft carriers and associated groups and amphibious groups are jeopardized to drop down to numbers of 10 and 9. And all that poses in terms of the ability of the Navy and Marine Corps to meet its role and responsibility toward the Nation's defense.

Mr. TURNER. Mr. LaPlante.

Dr. LAPLANTE. So I agree with the theme.

So, specifics, would say start with something that Dr. Paul Kaminski talked about in the 1990s, which was program stability, or more importantly, program instability was actually one of the principal causes of some of the acquisition woes. And the implication being one of the things us in leadership and acquisition must

try to do is offer that stability to the extent we can. I don't think any of that anticipated the situation we are in today.

Clearly, from a taxpayer's perspective, taking a longer view term view beyond 6 months, beyond 3 months of buying complex weapons systems done correctly is smarter. A simple example is multiyear contracts done correctly are usually much better for the taxpayer than single-year contracts. Done correctly, fixed-price contracts are better for the taxpayer than cost-plus on programs where we can do it. Long-term efforts, like what we are doing right now with the F–35, under the leadership of Secretary Stackley, of looking at how, with the contractors we can bring down the operations and sustainment costs, which is really looking 5 to 10 years from now, all of that is better off in an environment where we have some idea. We understand things change. We understand what things go in and out of the budget. But just some basic idea on what the situation is. All that is put at risk by the situation we are in right now. Contracts that we put in place 2 years ago for the highest priority programs that remain so today, where we had no idea we would have the situation we are in today, where those contracts, because of the situation, are put at risk. Just 2 weeks ago, we had one of our fixed-price contracts come within about 24 hours of having a major problem until the President signed the continuing resolution. Had he signed it 24 hours later, we would have broken one of our fixed-price contracts, because that is how it works. So instability, or program stability is so important to us. We recognize the fact that things change. But we have to do better than where we are right now. Thank you.

Mr. TURNER. It is my understanding—again, I am saying the issue that I hate it when people make issues partisan that are not partisan because it impedes our ability to get things done—it is my understanding that while I was out, Mr. Cooper made the statement that the Republicans, there are Republicans who want sequestration to continue in effect and its effects on the Department of Defense. So I have to ask you all, you have been up here talking to Congress, Members of Congress, trying to tell them the effects of sequestration and its immediacy of the needs for relief. Have you ever had, Democrat or Republican, a Member of Congress say to you that sequestration for the Department of Defense should remain intact and that you should remain under sequestration? Any of you had a Member of Congress tell you that? No. Not one Democrat, not one Republican. So I just want to make that point, as we try to avoid people turning this into partisan.

I am going to go to Mrs. Roby.

But one other thing before I do. By the way, Mr. Cooper did vote for sequestration.

Mrs. Roby.

Mrs. ROBY. Thank you, Mr. Chairman, and I should take this opportunity as always to tell each of you thank you for your service to our country and to your families' service and sacrifice, that means a lot to all of us here.

Mr. Turner just touched on what I was going to ask to General Barclay and Mrs. Shyu as it relates to overall priorities when it comes to, you know, acquisition and procurement but also from a development standpoint. So I will just defer to the two of you to

determine who is best to answer my next questions, but General Odierno previously testified that the ITEP [Improved Turbine Engine Program] program was a key priority for the Army, and I know you mentioned in your written testimony that the ITEP program would be placed at risk. Can you elaborate on that as to whether it remains a priority and to what extent that the sequester may impact the Army acquisition strategy of maintaining competition to milestone B to reduce the risk and the cost?

Secretary SHYU. The ITEP program is a very important program to the Army because it offers significant capabilities that we currently don't have; namely, 25 percent fuel efficiency, as an example. We very much would like to have competition on all of our programs, but if the sequestration continues in its compounding effect, we may be forced to down select earlier than we would like, and that is the risk of sequestration, okay?

I would like to give an example. That is exactly what had happened on JAGMs program, Joint Air-to-Ground Missile program that we had. We had a $33 million mark, then a $3 million sequestration on top of that, so it was a $36 million cut. We were forced to drop one of the contractors. It is not that we wanted to, but we were forced because of budget shortfall.

General Barclay, would you like to add?

General BARCLAY. Yes, ma'am, and as you know the ITEP engine is critical not only because of, you know, as Ms. Shyu said, we have fuel savings, 25 percent there, it also has a maintenance savings, and it is key to our developmental programs out in the future. We are working to get that into the current platforms, the Black Hawk and Apache, but it is also tied to our joint multirole aircraft, which is out in the future, so sequestration places this program at risk of having to do an early down select, which will, if we continue, and it appears that we will, for several years in this environment, that program not only will we do an early down select, it could put that entire program at risk because it is tied to other programs. So, I mean, all this links together as you move forward, ma'am.

Mrs. ROBY. Can we talk for just a minute also about the impact on modernization of Army aviation and specifically how that is going to impact the Army Aviation Center of Excellence in Fort Rucker as it relates to the sequester?

General BARCLAY. Yes, ma'am. As you know, Fort Rucker is in your district, and it is not only just sequestration. I mean, it is the continuing—as you move all those linked together, it already has had an impact at Fort Rucker. Fort Rucker was working around a 1,400 student throughput for the aviation force. This past year they have dropped that down below 1,200. We are probably looking to go below a thousand students simply because of the cost rate. We are already at about a—you know, we worked very hard for about a 3-year period to get the student back load down to a manageable level. We are now back over 500 students in the back load, which that is about a 2-year problem to get that back, and it will only continue to grow as we move forward. So, from that training aspect, that also has an impact.

The other part of that is as we start looking at our aviation portfolio modernization program, the training helicopter at Fort Rucker was one of those aircraft that we were looking at having to replace

because of the age of that. That again will be part of our look at the future to just determine what we can afford and if we will still be able to incorporate that into our future buys and programs.

Mrs. ROBY. And just real quickly, I mean, I think this is the point that we want to emphasize. I mean, I, too, was opposed to the sequester for these very reasons, but let's talk about how those numbers and the decrease in training of these aviation, these pilots, both in the Air Force and the Army, affects our readiness and our ability to do what we need to do, and I just—if you could just quickly comment on that because, you know, it has just—it is what keeps me up at night.

General BARCLAY. Yes, ma'am, it is not only the Army. I mean, it is in the Navy, it is in the Air Force.

Mrs. ROBY. Right, I know it affects everybody.

General BARCLAY. All of our pilots are, we are restricting all of their flight hours. For example, we are only focusing on those combat aviation brigades that are getting ready to deploy back into Afghanistan. Those that are coming home, we have reduced their flight hours now to where they are not even at the proficiency level. We are only barely maintaining currency levels, and in some areas, as night vision goggles and some of the others, we are not able to maintain that level of currency because of the flight hour restrictions we are placing on those units that are not part of the war fight, are not categorized as next into the war fight into Afghanistan.

Mrs. ROBY. Right.

General BARCLAY. So that has a huge impact on the training readiness of those units.

Mrs. ROBY. Well, again, my time has expired, but I just, I know it affects every person here in your position, and it is something that we absolutely have to address, not just in this committee but as the Congress because this hearing today, Mr. Chairman, demonstrates exactly where we are going to be when we enter year two. So thank you all for being here today, and again thank you for your service.

Mr. TURNER. Great. Before I go to my ranking member for her comments and questions, I just want to note that our military officers will be given a chance to give a closing. We have had opening from all of our Secretaries, and then after their closing comments, if any of the Secretaries have additional thoughts that they would like to add to the record, you will also be given that opportunity. Hopefully our questions will be directed and elicit the types of information you want to give us, but in case not, you know that you will have that opportunity at the end.

Turning to Ms. Sanchez.

Ms. SANCHEZ. Thank you, Mr. Chairman.

This subcommittee had the GAO take a look at the implementation of sequestration for fiscal year 2013, and I know that you have seen that. In their primary finding, they said no weapons systems programs were cancelled and no programs reported cancelling or severely changing program contracts. And they said OSD [Office of the Secretary of Defense] officials agreed with this assessment.

So that kind of contradicts what DOD and the industry people were telling us would happen under sequestration. We were told

that the impacts would be significant, dramatic, immediate. Instead, it appears that, again, through a combination of unused funds and reprogramming and delaying development and reducing procurement quantities or getting better prices, as we did with the F–35, that we basically avoided disaster in fiscal year 2013.

So my first question, and you can just say yes or no to this, is do you agree with the assessment by GAO that no weapons systems programs were cancelled and no programs reported cancelling or severely changing program contracts?

And we will start with Ms. Shyu.

Secretary SHYU. Yes.

General BARCLAY. Ma'am, I have not fully read that program, so I will not comment on that.

Secretary STACKLEY. I would say that every program was impacted. In the budget year 2013 in which sequestration hit, we were able to use prior year to absorb some of the impact, but, frankly, the Department of the Navy had to push a significant amount of that impact into the out-years, so the impact is still staring at us across the board in those same programs. Did we cancel any? No. Our priority was not to cancel and create more harm over and above what sequestration caused.

Admiral MYERS. I concur with Secretary Stackley. What you didn't see was the ability of the services to use unobligated investment funds, but those funds were earmarked or identified for each investment that we still have to reconcile either throughout the FYDP or past the FYDP. So we still have to pay those bills. We were able to make good decisions in the near term with only 6 months in the fiscal year to avoid cancelling programs. The services are always looking for an opportunity for reversibility with the hope that the inflexibility of the sequester could be remedied by Congress.

General WALTERS. Ma'am, I agree with my mates here, but I will tell you that every program we had in the Marine Corps was affected either by quantity or schedule, and I also think the sequester in 2013 has set the conditions to cancel programs in 2014 depending on how the budget plays out.

Ms. SANCHEZ. Okay. But I am asking about the report itself because, you know, it says nothing was cancelled, no programs reported cancelling, and not severely changing program contracts. Is that correct or not? Because the OSC [Office of the Special Counsel] agreed with the GAO, so I am just——

General WALTERS. I am at a loss because I haven't read the report, and I don't know what the definition of "severe" is.

Ms. SANCHEZ. Okay.

General BARCLAY. Ma'am, I would like to state that I would be willing to talk to them immediately. GAO did not come in—I don't know if they talked to any of the service components at all.

Ms. SANCHEZ. Thank you, General.

Dr. LAPLANTE. Cancelled, that perfectly—that could well be correct, absolutely correct what the GAO report says, but I will say the way it works is the step to cancellation is delay, and that is already started, and I am not saying the program is going to be cancelled because that decision has not been made, but Space Fence, the major Air Force program for space situational aware-

ness has been put on hold, okay? Contractors were told to stop work on that program about September 15th. Is that cancelled? No, but——

Ms. SANCHEZ. Okay, that is why we are having this hearing, Doctor, because we want to get—you know, we get one report, but we want to get the truth here.

Mr. TURNER. If I could for just a moment, and I think you have been, in your comments, you have been indicating you have not had an opportunity to fully review the report and digest or even some of you have not even seen it, correct?

General MOELLER. I have not.

Mr. TURNER. Have you seen it at all? Has anyone on the panel seen the report?

Ms. SANCHEZ. Okay.

Mr. TURNER. Well, let's do this.

Ms. SANCHEZ. Well, then I won't ask that question. We will do that for the record.

Mr. TURNER. Let's provide you the report and leave this record open for you——

Ms. SANCHEZ. Perfect.

Mr. TURNER. To give an opportunity in writing to answer what the statements are in the report——

Ms. SANCHEZ. Perfect.

Mr. TURNER [continuing]. To include in our record.

Ms. SANCHEZ. Perfect.

Mr. TURNER. And we have your answers.

Ms. SANCHEZ. Okay, for the Air Force, you stated previously that it would do whatever it takes to protect your top three acquisition programs, the F–35, the KC–46, and the long-range bomber. So assuming you would get reprogramming authority in a timely manner, which this committee somewhat controls, do you think you could protect those programs fully in fiscal year 2014?

Dr. LAPLANTE. So I will give an answer for that. To begin with, of those three programs, the two in general that I think are at the biggest risk regardless, depending on the scenario, are F–35 as well as the KC–46, and the reason is quite simple in that the LRSB [Long Range Strike Bomber], the dollars in that tend to pick up in the production much later, so it just is fortunate in the case of that program.

Let's address each one at a time. For F–35, as I said earlier, without doing any relief, we are at risk of about four to five airplanes this next year, and we are not going to have the opportunity, unfortunately, to take advantage of another great negotiation to buy them back. Unfortunately, we just won't have that in 2014, that is just the way it works. So, with some flexibility, certainly that can be mitigated to some extent, to some extent, I can't claim that all the airplanes will be bought back.

The other part of the F–35 that we have to really pay attention to, which is beyond 2014, but it is really important, is finishing the development program, that is getting to Block 3F software, okay? And Block 2B before that. The Marines IOC with Block 2P in 2017, the Air Force roughly 2017, and then we get 3F in 2018. That is critical. Okay. So anything we do that will prevent us from pro-

tecting that development program is bad. Can we protect it? I am hopeful we could, depending on how much flexibility.

In the case of the tanker, if we were not given flexibility, and it comes out to be like a 13.5 percent cut like we said, that is a problem. The tanker is one of those fixed-price contracts that the government has a very, very good arrangement with. That was a lot of excellent work after a lot of difficult lessons learned.

Ms. SANCHEZ. But if you could reprogram to save your top three, do you think you could do it?

Dr. LAPLANTE. I think we could likely save those two that I am worried about with the following caveat. What that means for every other program is it means if we could——

Ms. SANCHEZ. That was my next question, what does it mean for the other things.

Dr. LAPLANTE. If we could wall off, the numbers shoot up to cutting the other programs somewhere, I would say, close to 30 percent.

Ms. SANCHEZ. What are the other big programs that you think would fall by the wayside or——

Dr. LAPLANTE. So this is where we get to the discussion of everything being on the table. So the types of dollars that one would have to find are only in the large platform programs, and that is where you get into the discussions of looking at divestiture, and you are looking at discussions of not starting new programs. So if you look at the Air Force plan and you say, you see new programs that would be starting, assume that that is at risk, and so that is all on the table.

Ms. SANCHEZ. All right. A quick question on that, and then I am sorry, Mr. Chairman, but I am very interested in this issue, obviously. You talked about development two and a third development of the software with F–35. Is that because of concurrence?

Dr. LAPLANTE. No, that is separate from concurrence.

Ms. SANCHEZ. So software doesn't have anything to do with the fact that we are building and doing, and we are coming back and——

Dr. LAPLANTE. No, no.

Ms. SANCHEZ [continuing]. And doing things better?

Dr. LAPLANTE. No.

Ms. SANCHEZ. This is not—just yes or no so I know. Yes or no, with respect to concurrence because we bid this, and we are building it in a different manner, so for the future, I need to know, are we running into problems? Are you worried about development with respect to the software because we are doing things at the same time?

Dr. LAPLANTE. I would say the answer is concurrence is not driving that issue at all.

Ms. SANCHEZ. Okay, okay, I just wondered. The last question I have has to do with the Army. So the testimony lays out a range of programs which would be cut because of sequestration in 2014, including helicopters, armored vehicles, and communications equipment. Obviously, I think that is probably unacceptable, but I am thinking about the fact that I keep reading articles all over defense monthlies and dailies and weeklies where press reports keep telling us that the active duty Army will be down to 420,000 by 2019. So

that is a pretty—that is a smaller Army than we have today, and it is done fairly quickly. If, in fact, these guys who go out and report are getting this information from our generals and others who are in the know, maybe from some of us, given this rapid decline in force structure, how has the Army adjusted its procurement requirements, and do your comments today take into account the reductions that people are projecting for the Army?

General BARCLAY. Well, first of all, on force structure, we started this at an Army of 570,000. We were going to an Army of 490,000 by fiscal year 2017. The Secretary and chief have both testified that that was the level we were going to. Under sequestration we know that we cannot support an Army, not only can we not afford to pay for it, we can't afford to train it, and we can't afford to equip it with the sequestration. So the 490 is the force that we are at. We are looking at the impacts of sequestration and where we will have to take the Army down to. There are numbers that range anywhere from 380 in the AC [Active Component], back to about a 450 number, and our chief and Secretary have talked about those different scenarios based on how we look at the plans, how we balance between readiness, we balance between modernization, and then where we will end up being, and so there is still a lot of space here to make some of those decisions.

Ms. SANCHEZ. So refresh my memory. Before we got into the two land wars of Afghanistan and Iraq, what was the active number in the Army, do you recall?

General BARCLAY. 482,400, ma'am.

Ms. SANCHEZ. 482. So you were thinking you were going to come down to 490, so even more than what you had before we got into two major wars.

General BARCLAY. Yes, ma'am.

Ms. SANCHEZ. And what you are telling me these numbers I am hearing of 420 or you were saying 380 or 450 or whatever have to do with the fact that the Army is actually taking a look at sequestration and other budget issues to bring it down even further.

General BARCLAY. I would say OSD is taking a look at sequestration.

Ms. SANCHEZ. OSD, okay.

General BARCLAY. And the impacts, and then as they spread that across the services, then we are all then coming back to lay out how we are going to address those sequestration cuts that are then given to the services. For us, we are manpower intensive. That is what the Army is. We are about people. We are a land force.

Ms. SANCHEZ. Thank you. I know that; my husband spent 23 years in the Army.

General BARCLAY. So when about 48 percent of your budget goes against paying the bill for the manpower, then that is part of our equation to get to where we need to go, so we are going to have to take the force structure down. Do we know exactly how low we are going? No. And also I want to add that it is not only just Active Component. It is all components. It is Active Component, National Guard, and Reserve. They all take proportional cuts. We have no choice but to do that to all components to get down. And, yes, we have taken that into account as we are looking at all of these different programs, changing the quantities and buys and moderniza-

tion impacts at different levels of where we will be and then how that will result in changing some of those numbers. So, yes, ma'am, we are.

Ms. SANCHEZ. Perfect. Thank you for your answer, I appreciate it.

Mr. TURNER. Mr. Cook.

Mr. COOK. Thank you, Mr. Chairman.

The cuts, because of the sequester and everything else, I have heard a few of the comments about significant impacts and some of the other things, and we have had other hearings, and I think all of us heard some very startling information, at least the hearings I was at, which basically said, we were not combat-ready to meet our current military contingencies and our treaty obligations. Now, I might be paraphrasing that incorrectly, but I know that specific question was addressed to all the different armed services, and I think the chair was there, so he can correct me if my memory fails me. But my point or the question that I am leading up to, what you have said here, it almost leads to a permanent C4 or a permanent declaration that each one of our armed services will not be combat-ready in perhaps the near future, 10 years. This is very, very scary. And I would like you to comment on what I was saying because a lot of the things with the sequester, I don't think the average person understands it. They understand something where our Armed Forces are not prepared or combat-ready to go to war or a military situation where young men and young women can die, and that resonates, at least in my opinion, at least to me, at least to my district. So if you could kind of comment on where I am going with this because obviously, I am not a big fan of the sequester, particularly in regards to DOD and national security.

General BARCLAY. Well, sir, from an Army perspective, I will tell you that I can break it down into a couple categories. First on the equipment side, if you look at it, and I will tell you that you run them from the CR impact to the sequestration impacts in 2014, brought forward by 2013, and then the future budget impacts. For example, we are putting soldiers at risk just because of the CR with a new start program for the counterhazard program for the protection against IEDs [improvised explosive devices]. Because of that we can't start that. There are no new starts. So the CR has an impact on providing something that we currently want to start for soldiers that are in the fight now. Some of the delays that result from this, the Third Stryker double-V hull. As you know, the double-V hull protects against the IED and trying to get that third Stryker organization so we can get it into theater for the last part of the fight to protect soldiers.

Ms. Shyu has already mentioned the delaying of the JLTV fielding and LIRP [low-rate initial production], so that has an impact. And then, again, on the COCOM [combatant command] side, the Patriot missiles, we will have four sets, four units that we will not field the new PAC–3 missile set to because of this, and as we have already talked about, the ITEP engine doing that. It is also going to desync some programs that we are trying to attach to the future programs, which deal with our network modernization, and as we remove some of our capability sets moving into theater, we are going to have to slow that down. When we started, we were going

to field to 10 brigade combat teams a year. We are now fielding only to those combat teams going into theater. And then so that has a training impact.

On the readiness side, sir, you hit that; we have testified, I know the Secretary and the Secretary of the Army and the chief of staff of the Army have testified of the fact that those units that are going into the war are the only ones that we are training to the fullest level. Those are the only ones that are getting into our national training centers. All other brigade combat teams are not getting that opportunity because we don't have the money to send in to those. So, as you continue to move forward, the readiness levels continue to come down from C3 to C2. Some of those that came home out of the war were the C2. They are going to continue to degrade down to a C3, C4 because we don't have the funds to train them to the highest readiness levels.

Admiral MYERS. First, thank you for the question, and this is part and parcel similar to Chairman Turner's question, and I would like—the way I would like to answer it is in two parts, and the two take-aways are the terms uncertainty and inflexibility. Uncertainty is the budget environment that we are in right now. The uncertainty of not knowing when we are going to have a budget or what that budget is going to be. As a Navy, we are asked to provide forward presence with capable ships to do our Nation's business. To do that, we have to plan, we have to plan strategy, a budget, we have to plan for aviation and ship depot maintenance. We have to train our people, and we have to have a plan for that. We also have to have our maintenance schedules. With the uncertainty, it is disruptive when it comes to the planning. With the inflexibility that we see with the budget environment that we are in right now, we have already seen what happened in 2013, and when we look at 2014, the combination of a continuing resolution and a sequester is going to impact our training. It is going to reduce the number of carrier air wings that can effectively train. In 2013, we had two carrier air wings that had to go to reduced training. In 2014, it is going to be more than twice; half of our carrier air wings are going to be at reduced training. Those that are overseas or getting ready to go overseas will have the training that they need, but this is starting to impact our ability to surge.

The sequester in 2014 is going to impact depot maintenance, it is going to impact procurement, it is going to impact every facet of the Navy because it is inflexible, and so when you take that inflexibility and you stretch it out for 10 years, what you have is a Navy that is less and less capable of providing the surge that we used to. It is a Navy that is increasingly challenged to have the readiness standards that we need for the nondeployed units. It is a Navy that is challenged when it comes to filling the missions of the Defense Strategic Guidance, specifically to project power, to deter and defeat, to provide the kind of support that we need for counterterrorism and regular warfare.

Mr. TURNER. Thank you.

Turning to Mr. Wenstrup, but I just want to make one note in that the issue of the language that we used with respect to sequestration, when we talk of lifting sequestration, people who are discussing it want generally offsets to occur so that sequestration can

be removed from the Department of Defense, so they are not just saying increased spending. But the other issue is, Admiral, as you were saying, the issue of flexibility or inflexibility. There are two aspects to sequestration, and I would just ask you in your closing comments to address this after Mr. Wenstrup and the others get to question.

The bottom-line number under sequestration is also not right. If we say flexibility is what is needed, you are stuck with a lower number that is going to cause you to be incapable of achieving a lot of your goals. As the President structured sequestration, it was supposed to be an irrational program and that was indiscriminate in its effects and was to not have the Department of Defense have flexibility because, as he structured it, it was intended to be a penalty for, you know, a budget deal to be found that would solve the issue of sequestration, which is what we are hoping that certainly is solved now. But I don't want, in your very clear statements of its effects being damaging because of inflexibility, I don't want people to conclude that the answer is we will just provide flexibility, and we don't have to provide additional dollars, and the Department of Defense is good and made whole. I know it is not what you intended, but I just wanted to make that footnote.

Dr. Wenstrup.

Dr. WENSTRUP. Thank you, Mr. Chairman.

I appreciate you being here and all that you do. I am an Army reservist, been in 15 years, a year in Iraq, and I—you know, before I came here, I know like anyone else that there are places we can make cuts. There are things that we can cut out, we can reprioritize, but I have a grave concern about our readiness at this point, and I have seen the numbers, at least on the Army side, what the projections will look like, and clearly, it is not a force that is ready to take on the problems in the world, and what we have seen recently, we cut the military and then deploy them. We ask them to go into Libya, and we talk about going into Syria. I mean this is a combination that obviously can't go on, and I still serve as a surgeon at Walter Reed, and I can tell you, I know firsthand by what the people I see coming through that we are still at war now. We are asking way too much with way too little, and I am a firm believer, and I have always told veterans, and you can appreciate this, you meet a veteran who says, Well, I served but not during a war. And I tell them, if you weren't there, we would never have peace.

And we need to maintain a strong deterrent force in this country whether we are at war or not, and there should be a baseline that we maintain always and have the ability to ramp it up when we need to and do it quickly because we can't expect the industry to be able to turn on and off. And we can't expect our personnel to be able to turn it on and off, and when I look at what we are doing today with cutting personnel in this economy, you are going to have people going on unemployment. And I know that comes out of your budgets ultimately. We are paying them anyway. So it is really a shame the trend that we are on, and I sit on these committees, and I see everyone is concerned. And I know you have to testify in front of other people. And I know you meet with the Senate and hopefully the administration.

And I really just want to ask, is there anyone who doesn't get it? Do you find opposition to what you are saying when you say we aren't ready? Is anyone saying back to you, Oh, yes, you are, you are okay, we are going to be fine with what you have got? I need to know that because I am wondering why we aren't getting this taken care of, and if anyone would care to comment on that I would appreciate it.

General MOELLER. Congressman, I have never heard anyone say that sequestration has had a positive effect on service readiness across the board. You know the negative impacts on the Air Force in fiscal year 2013, and I will go back to Ranking Member Sanchez's question about the GAO report. One of the key places that we went in 2013 was to our readiness accounts in order to cover down on our investment accounts. In fiscal year 2013, 31 combat-coded squadrons in the Air Force stood down for a significant amount of time. Seven of those, seven additional squadrons were reduced to takeoff and landing currency only. They were flying at the minimum rates. Just as with the other services, we deferred critical, critical maintenance on our aging platforms in order to make sure that we could pay the bills and continue with our investment accounts with minimal impact—that is not true—with less impact on our investment accounts that we would have had if we didn't go to the readiness accounts. So, from an Air Force perspective, we were not ready in 2013. It drives readiness degradation into 2014, and under sequestration, we will not recover our readiness so that we are ready to fight tonight.

General BARCLAY. Well, sir, as I stated earlier, again, we are only preparing those brigade combat teams that are going into the fight. The rest of them, where in the past we would try to maintain at the battalion and brigade level of proficiency, we are now going down to the platoon level, sometimes to the squad level, and the National Guard and Reserves, based on sequestration, they may go down to the individual crew and squad level, which is the lowest level of training that we have ever been, and that is due to only having the money to train those forces to the level that are the next deployers that are getting ready to go into the fight.

Dr. WENSTRUP. So when I talk about—in followup to that, if I may, General, when I talk about a deterrent force, basically what you are saying is we really don't have one right now because the ones that are trained and ready to go are the ones that are going. Would that be correct?

General BARCLAY. Yes, sir. We are not training to full-spectrum operations for the rest of the force.

Dr. WENSTRUP. This is on us, and I yield back.

Mr. TURNER. Mr. McIntyre.

Mr. MCINTYRE. Thank you very much.

Thank you, gentlemen, for being here. Two questions in two different areas, and I know I had to come in a little bit late because of some other situations. Everything is happening today now that we are back on a regular schedule. But I just want to clarify, one is on the F–35. I know that the recent flight hours now exceed 10,000 hours, recent estimates based on actual flight hour testing reveal life-cycle costs about 20 percent lower than originally estimated, with the Marine Corps analysis the cost per flying hour of

the F–35V model about 16.6 percent lower than earlier Pentagon estimates, which achieves a savings of $12.3 billion over the next five decades. I guess my question to the three services that have the F–35 is, do you feel like the initial operation capabilities as well as the life cycle for your respective version of the F–35, in what way will that be impacted by sequestration?

Secretary STACKLEY. Let me start, sir, and I will ask Admiral Myers and General Walters to join in. First, the data that you just described in terms of costs reflect the positive trend that the program is on in terms of driving down costs, not just procurement, but also as we enter the in-service period of the program, greater visibility, fidelity to the operating support costs that we are able to attack, and in fact, we are seeing projections come down in that regard, and that is all good. The IOC dates that were set by the service chiefs earlier in this year that they reported to Congress, those dates were set with a clear understanding of what the requirement, the capabilities would need to be to support those IOCs and as well realistic schedules that go with those. So both the Marine Corps and the Navy IOC dates and the 2015 with Block 2B and then 2018 with Block 3F capabilities with the aircraft. We have a good track on those, we understand performance to those goals. We understand what the capability will deliver, and equally and more important is maintaining the path that goes beyond those initial capabilities through the continued development of the program. So, right now, after much great effort on the part of the program, industry to turn things around in terms of cost and technical performance, we are seeing the positive returns that we have been yearning for through a long program.

Admiral MYERS. I would like to add that the sequester pressurizes the Navy's ability to get to IOC in 2018 with Block 3F. We remain committed. We know that unchecked or unaverted, that the sequester will remove a F–35C from the U.S. Navy and F–35B tail from the U.S. Marine Corps, but the continued sequester is—when I use the term "inflexible," I mean that the sequester applies a percentage to a program project or activity, so as you take those percentages in the case of fiscal year 2014, which is the 10 percent sequester when we exempt military personnel, for the Navy is a 14 percent impact to the program. That puts pressure, and it puts delays into the development and ultimately it puts at risk our ability to get to IOC in 2018.

General WALTERS. Sir, to your point on the F–35B, I know a lot of the data that we have is from the F–35B that the Marines are flying right now. We are still on track. We note that a sequester in 2014 will take a tail out. We still think we can get to our 2017 IOC and then deployment of that aircraft to where it needs to be.

But more to your point on sequester and related to the cost to operate the aircraft, like all aircraft that I have seen in my career, the flying hour costs if we do due diligence and we get the money in the program and we get the engineers to look at it, cost to operate will come down. Sequester, you know, I fear if we continue on that path, will reduce those efforts, and I would hate to see us bottom out on the cost to operate those aircraft. I would like to continue. We need those efforts to continue so we can operate the air-

craft at the most cost-effective cost way in the future. I think that is what you were looking for.

Dr. LAPLANTE. Yeah, just a quick comment that the Air Force is seeing the same potential positive developments. We have some momentum going on controlling the O&S costs, but a lot more work has to be done.

Mr. MCINTYRE. Thank you.

Thank you, Mr. Chairman.

Mr. TURNER. Mr. Bridenstine.

Mr. BRIDENSTINE. Thank you, Mr. Chairman.

I appreciate the comments on IOC. Beyond IOC, when you talk about multiyear procurement—I am a Navy pilot by trade. I flew E–2 Hawkeyes and F–18s, and we worked hard to get multiyear procurement of the E–2D, something I thought was critically important for our carriers, and my concern is I have heard testimony from Admiral Greenert that because of the sequester, we are in a situation where we are going to have to give up an E–2 Hawkeye in the procurement process, and of course, the reason is the cost per unit is going to be higher if we can't do multiyear procurement. And I guess my question would be, there are a number of concerns. Number one, the cost per unit of course is going to be higher than it otherwise would be, so that is a problem for the taxpayers, and beyond that we have an industrial base that is going to in the future want to enter into long-term contracts for multiyear procurement, and now there is a political risk in doing so beyond just the technical risk, and I guess, Mr. Stackley, if you could comment on how does the sequester affect multiyear procurement?

Secretary STACKLEY. Yes, sir, and there is two parts to this, and I think since you brought up E–2D, I will talk to that one specifically. E–2D's multiyear procurement authorization is awaiting passage of the Defense Authorization Act, so it has been supported by both House and Senate, but we cannot move forward without that authorization. So step one is we need it authorized, and as well it has to be included in the appropriations bill. So we need an authorizations bill and an appropriations bill that provide for the E–2D multiyear.

The second impact when we put together the multiyear construct for E–2D 5 years procurement, 32 aircraft, that brought the requirement for substantial savings that goes with the certification. When you look at the impact of sequestration, in the first year of the multiyear, where you are at risk of losing one of the first five aircraft, and then the potential over the 5 years of continued sequestration, now you have got this destabilizing impact on a program plan that is trying to bring stability and bring the affordability that comes with that. So what we are trying to hold on to here is the stability that the multiyear provides, not just for the affordability it gives us but also for the industrial base, and we are trying to do that in the face of this storm called sequestration, and we are working with industry, the contractor, as we negotiate this multiyear, and we are waiting on Congress to pass it in both the authorization and appropriations bills, so we can execute it. And what we have to do is we have to do this in such a fashion that if downstream, there is another shift in terms of the budget, we will plan for the multiyear that we provided, but if the budget, if

there is a tectonic shift in the budget, then that may well impact the E–2D program. We have to construct this so we don't lose the savings for the aircraft that we ultimately buy.

Mr. BRIDENSTINE. As far as contracts, would there be cancellation of contracts as a result of the sequester, the longer-term contracts?

Secretary STACKLEY. If you look across the board in terms of Navy multiyears, I think we have seven multiyears on the books right now, and one of them, for example, is the MV–22. So that is an ongoing multiyear. Sequestration in 2014 threatens three of the aircraft in that budget year. That would break the terms of that multiyear contract.

I will tell you that the savings that we get across the multiyear are just, they are core to our total program plan. So, regardless of what comes out of the Congress in terms of appropriations in 2014, we are going to continue to work with industry to hold together the goodness of the multiyear going forward, and for each of the multiyears that we are staring at, we are going to go down that same path.

Mr. BRIDENSTINE. When you think about the future of multiyear contracts, would it seem, you know, I guess, reasonable that industry would build into the price of their products the risk that multiyear contracts might not be worth what they otherwise, you know, indicate on paper, and as such, they would—we wouldn't benefit as much from future multiyear contracts. Is that a fair assessment?

Secretary STACKLEY. Almost. Frankly, the risk is on the government's part because when we sign up to that multiyear, we are making a commitment to a certain quantity over a number of years. Now, what industry provides back to us is a cancellation ceiling. If they cancel at any point in the program, we understand what our liability is associated with some of the nonrecurring costs that they have incurred in order to achieve the savings that the multiyear promised. If we break—if we, the government, break our part of the contract, then we are in a negotiation situation with industry to make it right for whatever we ultimately procure on the balance of the multiyear, and that negotiation is a bilateral negotiation. And we are going to ultimately arrive at what is fair and reasonable for both parties.

Mr. BRIDENSTINE. Got it. I yield back. I yield back. Thank you.

Mr. TURNER. Thank you.

Well, I appreciate your comments today including your written statements. We greatly appreciate your dedication. With each of you, you have very complex issues to manage, funding, technology, contract vehicles, congressional lack of action or action, and with each of you not only are you anchored currently in the present, you are seeing the future. You see what we need to do and what is possible and what our options are as we go to new threats. So that is why I think your statements on sequestration are so important because it is not just about what is happening today or tomorrow, it is also what is happening in the future as a result of these effects.

As I indicated, I want to give each of the military officers an opportunity to add to their comments anything that they believe they

would like to conclude with on the record, and then I will offer that also to the Secretaries.

We will begin with General Barclay.

STATEMENT OF LTG JAMES O. BARCLAY III, USA, DEPUTY CHIEF OF STAFF, G–8, U.S. ARMY

General BARCLAY. Chairman Turner, Ranking Member Sanchez, and other distinguished members of the subcommittee, again, I would like to thank you for the opportunity to present this statement today and answer your questions.

The Army's leadership understands the gravity of our Nation's current fiscal situation, and as the Army's G–8, I must allocate resources that balance manpower, readiness, and equipping for our Army to meet the Defense Strategic Guidance and the defense budget priorities. However, the combined effects of the continuing resolutions and the magnitude and inflexible nature of sequestration put at risk our ability to fully meet the requirements of that Defense Strategic Guidance. Annual continuing resolutions cumulatively weaken equipping efforts over time. Delaying new starts and reducing procurement quantities in short order drive up our costs and ultimately postpone the fielding of much needed equipment to our soldiers. For the purpose of illustration, if the Army operates under a full CR in fiscal year 2014, we would be forced to defer new counterhazard programs for our soldiers' protection against IEDs. We would also delay the filling of the Stryker double-V hulls to the Third Stryker brigade combat team, and we would reduce combatant commanders' Patriot missile loads for four units.

As the Army Chief of Staff has recently testified about sequestration, the Army cannot reduce its end strength fast enough, so readiness and modernization will take the brunt of cuts through fiscal year 2017. The cuts result in significantly degraded readiness and extensive modernization shortfalls in the near term. Over the fiscal year 2018 to fiscal year 2023, the Army may begin to rebalance some readiness and modernization and try to meet those requirements that are laid upon us by our Nation, but we will do that by paying in force structure and end strength, and we will add significant risk to the Army's ability to conduct even one sustained major combat operation in the future. If sequestration levels continue in fiscal year 2014, they would compound the cumulative effects of the CR. The detriments imposed would cause the Army to assume significant risk in our combat vehicle development, it would reduce our Apache helicopter procurement by 50 percent, which is the equivalent of one attack battalion, it would halt the procurement of the warfighter information network, and that would have an impact on 58 brigade combat teams. And without relief from sequestration in the future, we would be required to take increasingly significant actions by ending, restructuring, or delaying about 100 acquisition programs. The sequestration levels would result in decreased capabilities for the soldiers in every area, from our combat vehicles to aviation to air missile defense.

In the end we strive to be good stewards of the taxpayer dollars while balancing the existing resources we have to meet the Defense Strategic Guidance. However, the combined effect of CRs and sequestration undermines these endeavors. The end state is a less

modernized force at an increased cost today that results in an inefficient and wasteful use of taxpayer dollars and an undersized, less capable force in the future. We urge Congress to provide fiscal stability and predictability, pass timely annual appropriations and eliminate sequestration. If we must operate under a continuing resolution, we ask you to provide new start authority. Doing so would help us mitigate some of these effects.

Chairman Turner, Ranking Member Sanchez, members of the subcommittee, again thank you for your unwavering support of the men and women of the United States Army, our Army civilians and their families, and I appreciate the opportunity to testify today.

[The joint prepared statement of General Barclay and Secretary Shyu can be found in the Appendix on page 44.]

Mr. TURNER. Thank you.

Admiral Myers.

STATEMENT OF VADM ALLEN G. MYERS, USN, DEPUTY CHIEF OF NAVAL OPERATIONS FOR INTEGRATION OF CAPABILITIES AND RESOURCES (N8), U.S. NAVY

Admiral MYERS. Chairman Turner, Ranking Member Sanchez, and members of the committee, it has been an honor to appear before you today to discuss the impacts of the continuing resolution and the budget sequester on the Navy's fiscal year 2014 acquisition programming and industrial base. Our fiscal year 2014 budget request supports the Defense Strategic Guidance, and it will enable us to continue to rebalance our effort towards the Asia-Pacific rebalance, supports our partners in the Middle East, and focuses our presence at key strategic maritime crossroads. It also enables us to meet the highest priority capability demands of the geographic combatant commanders.

To be frank, sequestration combined with a continuing resolution in fiscal year 2014 will be very hard on our Navy. We will have to absorb a larger reduction than we did in fiscal year 2013 from a smaller amount, a smaller submission. In fiscal year 2014, we don't have the prior-year assets that we can use to mitigate the impacts as we did before, and we don't have the ability to just defer carryover bills into the future years like we did in the past. These are going to start to compound.

As the CNO has testified, sequestration and continuing resolution will reduce our readiness in the near term, and it exacerbates program reductions that are required under the current law and long term. We have been compelled to cancel or defer maintenance and investments in critical aviation programs, unmanned systems, and weapons systems.

As the Nation continues to find a fiscal balance, the Navy is endeavoring to ensure that the near-term readiness and the future warfighting capabilities are properly balanced. To do this, it is important that we establish and pursue a plan for the future to develop a deliberate nature on how we go about finding fiscal certainty.

Now, we are committed to an efficient use of the American taxpayer dollars, but the reductions of this magnitude take time to implement, and it takes time to reap the savings from. They also need to be done very carefully and strategically.

As I previously testified to Congress, I feel like the most serious impact of sequestration and the continuing resolution is uncertainty. It is imperative that we have a predictable budget and associated authorities. Stability, that is what we need. It will enable us to plan and develop and execute a strategy that guides our efforts to sustain the appropriate readiness for today's Navy while building a fleet for the future that is able to deliver the most important presence and capabilities that our warfighters need.

As I testified just a few minutes ago, the role of the Navy is to operate forward and to be ready with a trained and capable force, but to do that we have to plan, we have to plan a strategy, a budget, aviation and shipbuilding plans, operations plans, training plans, maintenance schedules. We need sailors that are trained and ready to man and operate our ships and aircraft when they are needed and where they are needed. Sequestration and the budget uncertainty and the immensely disruptive nature of the combination impacts our ability to plan and act strategically and execute efficiently. It disrupts our ability to operate. We saw that in fiscal year 2013. It disrupts our ability to train and maintain the way that we need to, which then impacts the way that we are going to operate in the next fiscal year, and most significantly, it disrupts our dedicated sailors, civilians, and their families because of all the uncertainty that is now a challenging part of their everyday life.

We understand what our responsibilities are. We also understand that this is something that we need to work through together, and anything that we can do together to put certainty and stability back into the budget process, to end the automatic and inflexible sequester and the BCA caps, would not only be appreciated, but it would be embraced by the 634,000 Navy sailors and civilians that are operating around the globe protecting this Nation. Thank you for the opportunity to testify on behalf of the United States Navy.

[The joint prepared statement of Admiral Myers, Secretary Stackley, and General Walters can be found in the Appendix on page 55.]

Mr. TURNER. It is my understanding that votes have been called, so we have about 10 more minutes.

So, General Walters and General Moeller, I am going to ask if you could keep your comments relatively brief and giving some opportunity to the Secretaries. Saved by the bell.

STATEMENT OF LTGEN GLENN M. WALTERS, USMC, DEPUTY COMMANDANT FOR PROGRAMS AND RESOURCES, U.S. MARINE CORPS

General WALTERS. Got it, sir. I will throw this piece of paper away here.

Chairman Turner, Ranking Member Sanchez, distinguished members of the subcommittee, thank you for the opportunity to testify today. As the Commandant of the Marine Corps testified before this subcommittee a little over a month ago, the Marine Corps is the Nation's expeditionary force in readiness, our Nation's hedge against uncertainty with forces poised to swiftly respond to crisis and disaster, offering immediate options for strategic decision-makers while simultaneously buying time for a follow-on joint

force. We mitigate this, we mitigate the risk inherent in an uncertain world while being ready to respond to today's crisis with today's force today.

However, our ability to mitigate these risks is compromised by our inability to get a budget approved and the facilities and sound management of personnel and equipment and limited resources from one year to the next. Since our readiness is directly linked to resources, sequestration-level cuts in fiscal year 2014 will force us to forfeit long-term priorities to fund near-term readiness.

The impacts we face on readiness today will have primary and secondary effects. While the primary effects on short-term readiness will begin to be observable in fiscal year 2014, longer-term effects will be even more devastating. We are consuming tomorrow's seed corn today to feed our requirements for readiness today.

Sequestration has and will continue to have a significant negative impact on our civilian workforce. Our civilians play a critical role in the acquisition process, financial management, ground equipment maintenance, training range operations and installation support services, and all of our family support programs.

In fiscal year 2013, our civilian workforce took a 6-day furlough and started this fiscal year on furlough. Money was not the reason they chose to work for the Marine Corps. They chose to work for public service and to serve their fellow civilians. They chose public service to do their part in making the United States the best country in the world.

If we don't value their contributions, many will choose to find a line of work elsewhere. The specter of further furloughs or reductions in force present significant challenges to our ability to retain and attract the talent we need.

I thank you for this opportunity to share my thoughts.

[The joint prepared statement of General Walters, Secretary Stackley, and Admiral Myers can be found in the Appendix on page 55.]

Mr. TURNER. General Moeller.

STATEMENT OF LT GEN MICHAEL R. MOELLER, USAF, DEPUTY CHIEF OF STAFF FOR STRATEGIC PLANS AND PROGRAMS, U.S. AIR FORCE

General MOELLER. Chairman Turner, members of the subcommittee, the continuation of sequestration will make the Air Force significantly smaller, less capable, less flexible, and less ready to meet our Nation's current military obligations. Most importantly, it will make it very difficult for us to prepare to meet the challenges we will face in the future. The erosion of readiness will carry far greater consequences. It means we may not get there in time. It means less—it may take longer for the joint team to win. And when we do respond, we will put our invaluable men and women who go into harm's way at greater risk. Simply put, if sequestration is fully implemented over the course of the next 10 years, the Air Force will not be ready to fight tonight; it will struggle to be prepared to meet tomorrow's challenges.

To maintain the minimum levels of readiness and sustain our highest investment programs, the Air Force will be forced to cut thousands of total force airmen and hundreds of platforms. As we

divest force structure, our priorities are to retain the global long-range capabilities and multirole platforms that are required to operate in highly contested environments. We will focus on divestiture of entire fleets of aging and costly platforms and those less capable and less survivable in heavily defended airspace. We don't want to do this. But the bottom line is sequestration will mean a smaller Air Force, period.

[The joint prepared statement of General Moeller and Dr. LaPlante can be found in the Appendix on page 72.]

Mr. TURNER. Do any of the Secretaries have any closing comments?

Secretary SHYU. Quickly, the combined effects of CR and sequestration are devastating. We are reaching a historical low in research, development, and acquisition in the Army, which will continue to degrade our capabilities and our modernization, and put our soldiers' lives at risk in future contingencies. We need budget stability without sequestration. We need to have the ability to plan without CR, sequestration, furloughs, and government shutdowns.

Thank you for the opportunity to testify, and thank you for your unwavering support of our soldiers.

Secretary STACKLEY. Sir, briefly, the Congress and the Department of Defense share the common responsibilities to protect the Nation and take care of our men and women in uniform. We have presented the Defense Strategic Guidance as the document, that tool to describe how we intend to meet those responsibilities, and we have submitted the President's budget request as a determination of the funding we believe is necessary to meet the Defense Strategic Guidance. And in 2013, and again before separate committees in 2014, that budget request was fully supported by the Congress. And yet the invisible hand of sequestration for the Department of the Navy took $11 billion out in 2013 and threatens to take another $16 billion out in 2014. That results in a smaller Navy, smaller Marine Corps, less presence, less ability to meet the Defense Strategic Guidance. And this at a time when peer competitors are increasing their investment in their capabilities and their force around the world.

Mr. TURNER. Mr. LaPlante.

Dr. LAPLANTE. Thank you, Chairman Turner, and thank you to your committee, your subcommittee's work. I would finally just add that we need help in getting our readiness back, and we need to get stability so we can do acquisition for the warfighter and for the taxpayer. Thank you.

Mr. TURNER. The title of this hearing was "Impacts of a Continuing Resolution and Sequestration on Acquisition and Modernization." I think for impacts, with all of your testimony, we can say that the conclusion is "Sequestration: Bad and Getting Worse." With your help, hopefully we will be able to offset it. I am very proud to have voted against this. I know all members of the Armed Services Committee are very proud to continue to work to get it lifted, and by "lifted" we mean, of course, that there are offsets elsewhere in the budget so that sequestration will not have these devastating impacts on the Department of Defense. Thank you all for what you do. We will be adjourned.

[Whereupon, at 5:31 p.m., the subcommittee was adjourned.]

A P P E N D I X

OCTOBER 23, 2013

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

OCTOBER 23, 2013

Opening Statement for Congresswoman Sanchez

Tactical Air and Land Forces Subcommittee Hearing on the impacts of a continuing resolution and sequestration on acquisition programs

- Today's hearing comes at unusual time of year for the Department of Defense, so I'd like to thank our witnesses – all of whom are very senior leaders in military acquisition – for being willing to come and testify today.

- In a "normal" year, Congress would have completed its review of the Fiscal Year 2014 budget and we would be close to finishing the defense authorization and appropriations bills.

- Also in a "normal" year, DOD would have one budget proposal in the works for fiscal year 2015, and the Secretary of Defense would be making major decisions on making changes to current acquisition programs.

- We are, sadly, very far from a "normal" year in any way.

- The House, for its part, passed authorization and appropriations bills that ignore sequestration – and thus avoiding having to make the very difficult decisions between many priorities that DOD is facing in FY 2014.

- The Senate hasn't even gotten that far, with both the DOD authorization and appropriations bills still stuck at the committee level.

- And finally, DOD has under consideration at least two, if not three, different budgets for FY 2015 because Congress has not provided them with predictable levels of funding.

- So, in the midst of all this budget chaos, today's hearing will try to examine how this situation is affecting DOD acquisition programs for all the military services.

- While today's hearing is intended to cover the impact of both a continuing resolution and sequestration, I think we should focus on sequestration.

- The impacts of a continuing resolution are well known: new programs can't start, production lines often can't ramp up, and research programs may be stuck at their current level and not allowed to proceed as planned.

- All of those are bad things that hurt the DOD's ability to do its job.

- However, the impacts of sequestration are less clear, and I hope to get a lot of detail today from our military service acquisition leaders on how it is affecting DOD programs.

- We need that because we do have one very important data point from sequestration in FY 2013.

- Namely, there was little, if any, serious effect on most DOD acquisition programs due to sequestration in in FY 2013.

- This has been the case despite the years of very dire warnings we received from DOD leaders that acquisition programs would face immediate and severe negative impacts.

- So, why was FY 2013 not as bad as feared?

- There are many reasons, including the taking up of "slack" in the form of older, unobligated funding from prior years, although the fact that DOD could absorb so many cuts from unobligated funds raises the issue of why there was so much "slack" in the system in the first place.

- Also, in many cases it appears programs also simply delayed certain decisions or aspects to avoid costly contract awards. Doing so simply delays when a bill is due, not the size of the bill.

- And, in other cases, we got better prices from defense industry than we expected.

- Specifically, despite being warned over and over that F-35 aircraft production would be significantly scaled back by sequestration, it turned out that we were able to put the planned number of aircraft on contract this year because the prices came down substantially.

- So, while other parts of DOD – especially training and readiness – were hit very hard in FY 2013 from sequestration, it appears that so far acquisition programs have weathered the storm fairly well.

- However, the purpose of today's hearing is to understand what will happen in the future.

- During past periods of defense spending cuts, the military services had a lot of leeway to eliminate programs and reorient funding where they thought it was needed.

- Given the across-the-board nature of sequestration, it is not clear that is possible this time.

- For example, because of the across-the-board nature of sequestration cuts, will we see more programs delayed as opposed to terminated?

- If so, what are the opportunity costs of numerous programs going into "zombie" mode where they aren't canceled, but can't move forward?

- Overall, I hope today's hearing gives us some real examples we can use to explain to other members of Congress, and the American people, what will happen to our military if sequestration continues in its current form.

- Because, unless we have real examples to point to, many members of Congress and the public will continue to think that sequestration cuts are an "accomplishment" and something to be proud of, not something to be fixed.

RECORD VERSION

WRITTEN 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 FOR 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 INDUSTRAL BASE

OCTOBER 23, 2013

NOT FOR PUBLICATION UNTIL RELEASED BY
THE HOUSE ARMED SERVICES COMMITTEE

Chairman Turner, Ranking Member Sanchez, and other distinguished members of the subcommittee, thank you for the opportunity to discuss the impacts associated with a Continuing Resolution (CR) and sequestration on the Army and our industrial base in Fiscal Year 2014 and beyond.

Our assessment of the impacts to Army acquisition programs and modernization investments resulting from sequestration and a CR is sobering. For the second consecutive fiscal year, the Army must prepare for near-term disruptive effects to carefully planned acquisition programs as procurement quantities are curtailed, developmental efforts are delayed, new Soldier capabilities are deferred, and critical skills in the government and private sector are placed at far greater risk.

Budget reductions affecting next generation Soldier platforms and equipment translate to reduced investment in science, technology, engineering and manufacturing expertise that drive innovation within our industrial base and support our technological edge in worldwide operations. Hiring freezes, furloughs, and reduced investment in new capabilities will decimate our ability to recruit and retain talented professionals within our civilian workforce. The recent 16-day government shutdown only compounded these difficulties, as scheduled equipment testing and fielding activities were delayed – ultimately at greater expense to the taxpayer.

Perhaps more troubling is the fact that the long-term effects of this instability remain difficult to fully discern. We do know that over the long term, the effects of the reduced discretionary caps will significantly increase the costs

of vital Soldier weapon systems and reduce investment in future Army capabilities, just as the threats and disruptive technologies evolve at an unbroken pace. Against this backdrop, the prospect of sequestration-level reductions through FY 2021 threatens to lower Army investment in Soldier equipment to historic lows as a result of steep and sudden reductions required under the current law caps. In short, the Army faces an unprecedented challenge in delivering capability to Soldiers now and well into the future.

Impacts of a Continuing Resolution in FY 2014

Past experience confirms that success in acquisition stems from basic ingredients essential for sound management -- stable funding, realistic planning, and an environment conducive to industry and the government's collective success in developing and fielding unprecedented capabilities. The current budgetary environment undermines these prerequisites for success, as evidenced by the impact of a CR on Army programs. The funding uncertainty across so many programs makes it exceedingly difficult for both the Government and industry to execute strategic planning.

The primary effects associated with a CR in FY 2014 stem from inadequate funding for certain programs at prior year levels, limitations on "new start" authority for program initiation without relief within a Congressional appropriation, and the need for "production rate increase" approval authority in the absence of a full FY 2014 appropriation.

Over 192 Army programs are potentially affected by CR limitations. These include 59 planned new start programs – including the Joint Land Attack Cruise

Missile Defense Elevated Netted Sensor System (JLENS) planned homeland defense exercise, which cannot meet scheduled construction plans without CR relief, and the delayed initiation of the UH-60L digital program to upgrade avionics to the Sikorsky-manufactured Black Hawk helicopter. Similarly, CR limitations against significant production rate increases may affect planned procurement of up to 800 Guided Multiple Launcher Rocket System (GMLRS) Unitary rockets and 14 Enhanced Launcher Electronic System (ELES) Patriot PAC-3 launcher upgrades. Funding shortfalls under an FY14 CR may also affect MQ-1 Grey Eagle planned procurement of a platoon set of equipment and may delay a planned FY14 production award on the Patriot Missile Segment Enhancement (MSE).

Impacts of Sequestration in FY 14 and Beyond

Every program and every portfolio of weapon systems in the Army will be directly affected if sequestration continues to occur. The potential for inflexible and indiscriminate reductions applied equally at the program, project, and activity level (PPA) would impose significant reductions on the resources available to design, develop, procure, and sustain Soldier equipment.

Sequestration impacts to the Army's production programs would likely be varied and widespread. Assuming the most inflexible and draconian of reductions to funding lines affecting these programs, procurement of as many as 12 AH-64E Apache helicopters in FY14 would be reduced, relative to the FY14 request, which is added to the reduction of eight Apaches as a result of FY13 reductions under the Budget Control Act. CH-47 Chinook production may result

in the reduction of up to 11 aircraft in FY14 and place the Army's ability to maintain the multi-year production contract in jeopardy, thereby risking the Army's exposure to approximately $77 million in termination liability and a $1.4 billion cost increase over the expected life of the contract.

Faced with the prospect of continued budget pressures due to the reduced caps beyond FY14, the Army will assume significant risk in its aviation modernization efforts. Efficiencies gained through the CH-47 and UH-60 multiyear contracts will be placed at risk as procurement quantities across the Department may be reduced. For the Black Hawk program, this could amount to a loss of $256 million in planned efficiencies gained through diligent negotiation with industry in support of anticipated production volumes across the Department of Defense. Development of the Improved Turbine Engine Program (ITEP), planned modernization of the Armed Aerial Scout helicopter, and upgrades to the MQ-1 Grey Eagle would all be placed at risk.

Planned upgrades and modernization of combat vehicles would also be affected if sequestration occurs in FY14. Potential reductions in FY14 could result in delays to scheduled Engineering Change Proposal (ECP) upgrades to the Abrams tank and Bradley Infantry Fighting Vehicle. This would delay planned upgrades to the Abrams training device upgrades and Bradley track and suspension systems. Network integration upgrades – critical for future Army operations – would similarly be delayed by up to one year. The number of Stryker vehicles modified to a Double-V Hull (DVH) configuration from a Flat Bottom Stryker configuration would be reduced by 45-50 vehicles and fielding of

a 3rd Brigade set of Stryker DVH would be delayed by approximately six months. In the event of long term reductions to Army investment, we will assume significant risk in our planned modernization of combat vehicles, to include the Army's next generation infantry fighting vehicle.

The effects of the potential sequestration reductions in FY 14 extend across the full range of diverse capabilities we field in support of our warfighters, to include the reduction of 1,169 planned procurement quantities of Precision Guidance Kit (PGK) fuses and 285 Excalibur precision munitions. The development and fielding of the Laser Designator Range Finder (LLDR), used in support of precision guided munitions would be affected by a potential reduction in quantities supporting future Brigade Combat Teams (BCTs). In our Air and Missile Defense portfolio, continued sequestration may result in a procurement reduction of up to 20 fewer PATRIOT MSE missiles to support Combatant Commander's requirements and may result in delays to the development of modernized Integrated Air and Missile Defense Command and Control systems. The Army's Joint Light Tactical Vehicle (JLTV) may be delayed in fielding by up to one year, with planned Low Rate Initial Production potentially deferred until FY16. Dismounted Soldier systems, to include Enhanced Night Vision Goggles (ENVG) and the Nett Warrior system, may also witness increased costs resulting from procurement reductions of 2,493 ENVG systems and two BCTs of Nett Warrior equipment.

In addition, the recent 16-day government shutdown resulted in significant impacts and delays to over 400 acquisition programs. Without funding to prepare

and conduct planned test and evaluation activities in October, many program schedules will necessarily be delayed – with attendant increases in overall program cost as these impacts are absorbed. For instance, activities in support of JLTV reliability testing were affected earlier this month as there were insufficient personnel available to conduct testing due to lack of funding to pay for travel to testing sites.

Impacts on the Industrial Base

All of these impacts affect the Army's commercial and defense industrial base, whose engineering and manufacturing skills are essential to current and future modernization efforts. When I meet with CEOs and industry leaders, most frequently I hear about the shared desire for stability and predictability in our resources and planning for future Soldier capabilities. The untold effects of lost expertise, innovation and investment within the industrial base – among large corporations and small suppliers alike – remains one of the most significant risks associated with the current fiscal environment.

Our organic industrial base remains an essential part of current and future Army readiness. The conclusion of two major combat operations has reduced workloads at our industrial base facilities from historic highs. Sequestration in FY13 caused the release of nearly 2,600 civilian and contract personnel at our organic industrial base facilities, and nearly 22,000 workers were furloughed. The Army deferred maintenance on 172 aircraft, more than 900 vehicles, almost 2,000 weapons, and over 10,000 pieces of communications equipment at a cost of $73.5 million in deferred maintenance costs. We run the risk of losing the

critical expertise and skill sets that we developed over the last decade that served us so well in maintaining equipment operational readiness in support of warfighters.

Impacts on Science & Technology

Investment in the Army's seed corn for future capabilities – Science & Technology – will also be significantly affected by sequestration-level reductions in FY14 and beyond. Up to 120 new grants to universities across the United States for new basic research may be curtailed, with potential termination of up to 40 or more existing grants that are currently in their second or third year. The scope of these impacts would likely extend also to research activities at our University Affiliated Research Centers (UARCs), collaborative technical alliances, and Army Centers of Excellence for vertical lift research and automotive research – key areas of research for future Army capabilities. Moreover, the Army Educational Outreach Program supporting Science, Technology, Engineering and Mathematics (STEM) activities would be potentially reduced, leading to approximately 12,000 fewer student engagements and loss of this early exposure and experience with science and engineering careers relevant to the Army's mission. These outreach activities currently reach approximately 60,000 students.

Impacts on Workforce

There are also significant human capital costs associated with these fiscal challenges. Our capacity to maintain expertise in science and technology, engineering, contracting, cost estimation, logistics – all critical to equipping and

sustaining our weapon system is now at significant risk. Our Government civilians are incredibly dedicated to supporting the Army, and many previously served in uniform. We need their talents to keep the Army strong, but their lives are being disrupted tremendously by the continuous stress of operating under a Continuing Resolution, sequestration, furloughs, and the shutdown. These events have made government employment very unattractive, which will severely impact our efforts to hire and retain the best and brightest talent.

Ultimately, our ability to be good stewards of public funds while maintaining our commitment to providing Soldiers with the best equipment available is highly dependent on a stable, predictable, and adequate funding environment. We cannot fall short of this commitment as our Soldiers deserve no less for putting their lives on the line for the safety and security of our nation. I hope that the impacts discussed today summon the will needed to address the challenges presented to our force. Mr. Chairman, Ms. Sanchez, and other members, thank you again and I 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.

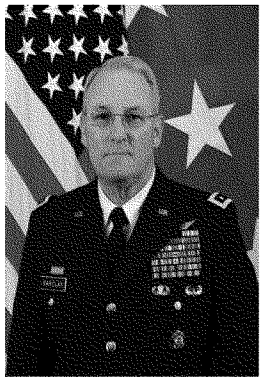
Ms. Shyu leads the execution of the Army's acquisition function and the acquisition management system. Her responsibilities include providing oversight for the life cycle management and sustainment of Army weapons systems and equipment from research and development through test and evaluation, acquisition, 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.

NOT FOR PUBLICATION UNTIL RELEASED BY
THE 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 GLENN M. WALTERS, 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

OCTOBER 23, 2013

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

Chairman Turner, Ranking Member Sanchez, and distinguished members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the continuing resolution (CR) and sequestration impacts to the Department of the Navy's (DON) acquisition programs, programming, and the industrial base.

The Navy-Marine Corps team is this nation's expeditionary force in readiness. We are a balanced air-ground-naval force, forward deployed and forward engaged, performing missions around the globe. Our warfighters continue their mission on the ground in Afghanistan and at the ready offshore in the Mediterranean, providing maritime security along the world's vital sea lanes, missile defense in the Sea of Japan, and intelligence, surveillance and reconnaissance where needed, when needed. They are a persistent presence at sea with an embarked Marine force ready to move ashore. Naval Forces are conducting anti-piracy patrols, global partnership stations, and humanitarian assistance; and they are quietly, reliably on patrol, providing strategic deterrence, all the while training for the next deployment, the next operation, the next crisis, or the next contingency.

The DON's President's Budget submission for Fiscal Year (FY) 2014 provides the resources needed to meet this full range of missions and the overarching 2012 Defense Strategic Guidance (DSG) with acceptable risk. However, the effect of another continuing resolution and sequestration-level reductions in FY 2014 would compound the impacts of the FY 2013 CR/sequestration. Operating under a CR in FY 2014, with corresponding restrictions on program funding and execution, significantly impairs our ability to effectively allocate resources and meet mission requirements. Compounding a CR with reductions to the FY 2014 budget in accordance with the mechanics of sequestration would remove from the Department its ability to provide warfighting capability and capacity with the measures of efficiency essential to balancing the requirements of the Defense Strategic Guidance with the fiscal constraints of the Budget Control Act (BCA) of 2011.

In the near-term, the Navy and Marine Corps will prioritize preserving the global presence requirements set forth in the FY 2014 Global Force Management Allocation Plan (GFMAP). However, under sequestration-level funding, we will have less surge capability and our planned presence for FY 2015 and beyond will be at risk. Sequestration will compel us to forfeit long-term priorities to fund near-term readiness; resourcing training and maintenance of the next to deploy at the expense of those who will follow. Meanwhile, across the board reductions to investment accounts will slow production on factory floors across the defense industrial base adding cost and schedule to today's weapon systems; and equally critical, these reductions will drive delay into the development of those leading edge weapon systems that provide our warfighters with the asymmetric advantage they hold over our adversaries.

The Impact of FY 2013 Sequestration

As previously testified to this subcommittee, FY 2013 sequestration reduced the DON top-line by approximately $11 billion and impacted our readiness, operations and procurement. The effects were addressed by curtailing operations, deferring maintenance, depleting unobligated prior-year balances in our investment accounts, deferring costs to future year budgets, and employing the limited transfer authority provided to the DON. These measures which mitigated the immediate impacts were insufficient to bear the full weight of sequestration, resulting in delays to development schedules and reductions to procurement quantities. The net effects of these deferrals, delays, and program cuts are added bills and increased costs in FY 2014 and beyond.

In support of our warfighters, the DON prioritized readiness for deployed and next to deploy forces. By this action, the Navy and Marine Corps were able to preserve the capability and capacity to meet the highest priority Combatant Commander demands, including crisis response and theater security cooperation, although participation levels were reduced in some cases. However, coupled with the continuing resolution for the first six months of FY 2013, sequestration compelled us to reduce our operations, including cancelling five ship deployments, delaying deployment of the USS HARRY S

TRUMAN strike group by six months, and creating a significant maintenance backlog that has carried over into FY 2014. The Navy was forced to defer required maintenance on 16 airframes and 55 engines/engine modules and reduce non-deployed flying hours, thereby jeopardizing planned aircraft modernization, mission system software capability improvements, fatigue-life management, depot support, and the flight-hour program which maintains pilot proficiency and readiness. While this preserved forward deployed activities and training for next-to-deploy forces, it increased risk in the readiness of our non-deployed units which will take years to recover.

Sequestration also resulted in the furlough of DON civilian employees for six days, which when combined with a hiring freeze, reduced our maintenance and sustainment capacity by taking away logisticians, comptrollers, engineers, contracting officers, and planners. Navy facilities sustainment, restoration and modernization was reduced by approximately 30% and base operations, including port and airfield operations, was reduced by approximately 20%.

The Prospect of Continuing Resolution and Sequestration in FY 2014 (Naval Aviation)

Our FY 2014 Naval Aviation Budget request prioritizes several central themes: 5th generation fighter/attack capability; persistent multi-role intelligence, surveillance, and reconnaissance; supporting capabilities of electronic attack, maritime patrol, and vertical lift; robust strike weapons programs; and targeted modernization of the force for relevance and sustainability. It enables Naval Aviation to continue recapitalization of our aging fleets of airborne early warning, maritime patrol, electronic attack, and vertical lift platforms.

FY 2014 sequestration is estimated to impose approximately a 10% cut to the DONs top-line budget. With military personnel exempted by the President, the reduction increases approximately to 14% in all other appropriations. With this loss of obligational authority, no use of prior year investment funds to mitigate shortfalls, and a need to address deferred FY 2013 carry over bills, all aspects of Naval Aviation will be

negatively impacted, including both current readiness and development of future capabilities, eroding our margin of military superiority.

A FY 2014 CR further creates several impacts, becoming more serious the longer the CR continues into the fiscal year. Under a CR, we are unable to use funds for new procurements or increase production rates above those sustained in FY 2013. Major programs that will be affected include: F-35 Joint Strike Fighter (JSF), MQ-8 FireScout, EA-18G Growler, Joint Precision Approach and Landing System (JPALS), and Advanced Precision Kill Weapon System (APKWS II) integration with MH-60R Seahawk. The CR also prohibits new multi-year procurement contracts planned for the C-130J and E-2D aircraft and associated mission equipment, delaying awards to industry and impacting production lines, delivery schedules, and most importantly, additional cost levied on pressurized budgets.

Operation & Support (O&S) Impacts:

Maintenance is critical to ensure our aircraft meet their expected service lives, keep strike fighter inventories at required readiness, and to preclude a strike fighter inventory shortfall above manageable levels. Our FY 2014 President's Budget submission included the resources necessary to continue Service Life Extension Program (SLEP) efforts and modifications on legacy F/A-18A-D Hornets to extend their service lives from 6,000 flight hours to 10,000 flight hours. Sequestration, however, will require us to cancel or defer approximately 200 of 700 aircraft and 580 engine planned depot maintenance events; eroding the service life of the aircraft and making it more difficult to sustain even the smaller fleet we will have if the reduced discretionary funding caps remain in place. If the current law levels remain long term, the maintenance backlog will continue to compound, eventually leaving Navy with insufficient aircraft available in inventory to meet deployment and training readiness objectives.

Marine Corps aviation readiness will degrade with reductions to the flying hour program and depot maintenance in 2014. In 2013, approximately 70% of Marine

squadrons met minimum deployable combat readiness. By 2015, we project this number will be reduced to approximately 60% as a result of sequestration.

Marine F/A-18A-D Hornet squadrons face the biggest challenge with regards to funding reductions and depot maintenance backlogs. In September 2013, approximately half of the available F/A-18 inventory was in an "out of reporting" status. This results in non-deployed squadrons having only seven aircraft available for tasking when the squadron requirement is 12 aircraft. It is estimated that by January 2015 that number will be reduced to four aircraft available per non-deployed F/A-18A-D squadron.

Personnel Impacts:

The DON relies on a 'total force' of military (active and reserve) and civilian personnel to execute its mission. Even with the exemption of military personnel accounts from sequestration in FY 2014, the DON will continue to drawdown military end strength as noted in the FY 2014 President's Budget Request. However, if the reduced discretionary caps continue in force past 2014, we will not be able to afford our planned force structure, putting the nation's ability to respond to crisis around the globe at risk.

The impacts to our civilian workforce will affect every state and be detrimental to the employees, their families, the DON mission, and local economies. While we will make every effort to protect civilians from another furlough in FY 2014, sequestration-level funding forces us to consider all civilian force shaping tools, to include Voluntary Separation Incentive Pay, Voluntary Early Retirement Authority, Reductions in Force (RIF), continued hiring restrictions, and reductions or eliminations of bonuses. With the direct loss of labor-hours, the workforce impacts 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 translate to reduced readiness.

Investment Account Impacts:

Due to the mechanics of its implementation and the limits on Department-wide transfer authority, sequestration will again impact every program and system, forcing reductions in procurement quantities, delays in schedules (delivery and initial operational capability), deferral of costs to future years, and unnecessary cost growth.

The DON remains firmly committed to the JSF program as an essential platform in our immediate and long-range Navy and Marine Corps aviation strategy and the nation's security. However, these funding constraints would compel us to reduce aircraft procurement by one F-35B Short Take-Off and Vertical Landing variant and one F-35C Carrier Variant and delay JSF Block IIIF development, test, and evaluation flights resulting in increased risk of meeting planned initial operating capability dates. As we carefully monitor strike fighter inventory requirements and projected availability, these reductions and delays also add increased risk to our ability to meet operational demands for expeditionary strike and maintain a complementary mix of strike fighter aircraft.

Sequestration will compel us to reduce E/A-18G Growler procurement by up to four aircraft in FY 2014, relative to the budget request, which will decrease attrition reserve aircraft set aside for the Navy's expeditionary force. Although this reduction will not delay the transition from EA-6B Prowlers to EA-18G Growlers, it will increase the risk associated with inventory requirements to offset loss of aircraft over the life of the EA-18G. For more than half a century, the DON has been the leader in Airborne Electronic Attack (AEA) and this asymmetric naval capability remains in high demand by the joint force. This reduction would limit our only tactical AEA capability and reduce our ability to rapidly respond to emergent operations on short notice. With FY 2014 as the last year of production, there will be no opportunity to adjust in the future.

E-2D Advanced Hawkeye procurement will be reduced by one aircraft relative to the request in FY 2014. If the current law caps remain long-term, Navy would continue to field the Navy Integrated Fire Control – Counter Air (NIFC-CA) network with E-2D in

2015, but may have to reduce the number of CVWs that have this capability in 2020 from six in our FY 2014 President's Budget submission to four. The completion of transition to the E-2D would delay by three years from 2023 to 2026.

P-8A Poseidon procurement may be reduced by up to two aircraft in FY 2014. If the current law caps remain long-term, one potential scenario would not allow our development of capabilities to project power to stay ahead of potential adversaries' Anti-Access/Area Denial (A2/AD) capabilities, as our undersea capabilities will be slowed. For example, attainment of the required P-8A inventory (117) will be delayed from 2019 to 2020, and the completion of the transition from the P-3C to the P-8A will be delayed from 2019 to 2020. This would also increase the sustainment cost of supporting legacy P-3C aircraft.

MV-22B Osprey procurement will be reduced by up to three aircraft if sequestered in FY 2014. This action would threaten the V-22 Multi-Year Procurement (MYP) contract and require price renegotiation for all remaining aircraft. This significantly reduces the estimated $1 billion in cost savings over the span of the current MYP contract. The increase in unit costs will further reduce the quantity of aircraft that the Marine Corps can afford to purchase, delaying full stand-up of future MV-22 squadrons, and Full Operational Capability.

Sequestration-level funding will also force reductions and delays in Unmanned Aerial Systems (UAS) programs. The Marine Corps will be required to reduce RQ-21 Small Tactical Unmanned Air Systems (STUAS) procurement by one system, resulting in a production rate below its minimum sustainment rate and increased system cost. This will put the program at risk, eliminating a critical capability for persistent ship and land-based ISR support for tactical-level maneuver decisions and unit level force defense and force protection missions. The MQ-4C Triton UAS (formerly known as BAMS for Broad Area Maritime Surveillance) initial operational test and evaluation will be delayed up to 12 months, delaying the persistent maritime intelligence, surveillance, and

reconnaissance coverage it will provide to increase our maritime domain awareness and presence.

Overall, relative to the Budget request, sequestration in FY 2014 would result in the loss of an estimated 25 aircraft (2 F-35, 4 EA-18G, 3 MV-22, 4 H-1, 1 E-2D, 2 P-8A, 1 KC-130J, 3 MH-60, 1 UC-12, and 4 JPATS) across the Navy and Marine Corps and the loss of multi-year procurement contract savings. Critical development and delivery of capabilities will be delayed, putting our warfighters in increased risk against technologically advanced adversaries, especially over the long-term.

Sequestration delays fielding critical capabilities, breaks multi-year procurements, and reduces the quantity of strike and ship self-defense weapons. A broad spectrum of key strike weapons would be reduced, to include as many as seventy-three Joint Standoff Weapons; forty-six Tomahawk cruise missiles; fifty-one Hellfire weapons; forty-two Advanced Anti-Radiation Guided Missiles; and thirty-four AIM-9X Sidewinder missiles; thereby reducing our overall strike capability and capacity. We would also be required to make cuts in ammunition and training munitions that would be below minimum inventory requirements thereby placing Fleet training and readiness at further risk. These cuts would affect General Purpose Bombs, Practice Bombs, Air Expendable Countermeasures, Airborne Rockets, and Cartridge Actuated Devices/Propellant Actuated Devices.

If current law level caps continue, we would also see key components of the planned improved air-to-air infrared kill (IR) chain that circumvents adversary radar jamming, delayed by two years and the new, longer range AIM-9X/Block III missile delayed by up to two years. Improvements to the air-to-air radio frequency (RF) kill chain also would be slowed down as F/A-18E/F Block II Super Hornet anti-jamming upgrades would be delayed to 2020 and the equipping of all Pacific carrier air wings with the medium-range AIM-120D missile delayed by two years to 2022.

The Prospect of Continuing Resolution and Sequestration in FY 2014 (Ground Forces)

The seamless maneuver of Marines from sea to conduct operations ashore, whether for training, humanitarian assistance, or combat, remain a key priority as the Marine Corps shapes its future force. To this end, the Marine Corps has developed a modernization strategy with ground combat vehicles as a priority. The Corps' ground combat tactical vehicle strategy includes developing a modern Amphibious Combat Vehicle, or ACV; developing and procuring the Joint Light Tactical Vehicle, or JLTV; initiating an upgrade program for the legacy assault amphibious vehicle as a bridge to the ACV; and sustaining a portion of the Humvee fleet through 2030. However, the overall pressure on the Marine Corps budget and subsequent impact on their investment accounts resulting from the reduced discretionary caps places this strategy at long term risk.

The ACV is, as the Commandant stated in testimony earlier this year, the top modernization priority for Marine Corps ground capability. Execution of amphibious operations requires a self-deploying amphibious vehicle to seamlessly project ready-to-fight Marine units from sea to land in permissive, uncertain, and hostile environments and the current work-horse of the Corps' amphibious assault capability, the AAV, is rapidly approaching the end of its service life. In order to ensure we get the ACV program right, the Marine Corps is conducting a combined requirements definition and feasibility study assembling the best of Government and industry experts in requirements, systems engineering design, and cost. That way ahead will be significantly impacted by further budget reductions on Marine Corps investment accounts; potentially delaying the delivery of this much needed capability by up to three years. Beyond the longer term impacts of these funding constraints, however, the near term turmoil and lack of a FY 2014 appropriation will exacerbate that timeline.

The Marine Corps has developed a bridging strategy until the ACV is able to be fielded, and that is to selectively sustain a number of AAVs, which are in the fleet right now. They will become more survivable by increasing the protection on the floor, by putting in new blast seats that make it more survivable for Marines, and improvements on

the power trains to lift and move the extra weight. These upgrades are critical to maintaining the core capability of moving Marines in a self-deployer from ship to objective while providing the Marines inside with an acceptable level of protection. A planned second quarter FY 2014 award of the development contract for these critical upgrades is at risk. The projected schedule is at significant risk should the RDTE funding level be reduced as a result of sequestration. Additionally, our objective of fielding and sustaining a minimum of 1,063 upgraded vehicles through 2030 is further at risk due to reduced discretionary caps.

The President's FY 2014 Budget request keeps the JLTV on track in its current phase of EMD testing to support a procurement decision in 2015. A FY 2014 reduction to the JLTV RDT&E funds, however, will impact our testing schedule and may place that FY 2015 decision at risk. The Army and Marine Corps are taking steps to mitigate this schedule risk. More immediately, the recent budget turmoil had resulted in a day-to-day slip of testing which compounds the schedule risk. We are continuing to review with the Army the impacts of funding reductions on the program, but expect that the overall budget pressures resulting from the current law caps may result in both a schedule slippage and a delay of some procurement quantities beyond this FYDP.

In addition to the impacts on the Marine Corps ground vehicle programs, the combined effects of the CR and sequestration will delay the Initial Operating Capability of the Ground/Air Task Oriented RADAR (G/ATOR) by no less than three months and delay delivery of Common Aviation Command and Control System (CAC2S) to the Operating Forces while also incurring additional cost for sustaining legacy air C2 systems that are currently experiencing increasing failure rates and parts obsolescence. Continued reductions to the Marine Corps top-line will further delay these programs.

Industrial Base

Sequestration level-funding poses direct and indirect impacts to our defense industrial base. To date, we have experienced disruptions to industry resulting in cost

and schedule growth, a loss of talent, a loss of learning, and a reduction to quality. Extrapolating these impacts across the longer term ultimately puts at risk a defense strategy underpinned by a healthy U.S. defense industrial base.

For the DON, sequestration reductions will impact all 50 states – from prime contractors, to the supplier base, to small business, and to the scientific, engineering, and technical services sectors. 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 planned work in FY 2014 due to sequestration 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 critical military-unique components, may be driven to shut down or find work elsewhere 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 CR and sequestration 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 CRs, sequestration, and the prospect of multiple years of continuing budget uncertainty. When suppliers determine that they can no longer rely on future work, or conclude that the contractual environment is unavailing to a reasonably predictable business base, they will adapt and may turn to other economic sectors.

Summary

The effects of an FY2014 CR and sequestration take away from the Department its ability to provide warfighting capability and capacity with the measures of efficiency essential to balancing the requirements of the Defense Strategic Guidance with the fiscal constraints under current law. Without Congress acting to change the current path, our warfighters will have less surge capability and our long-term priorities will be traded off to fund near-term readiness. Further, weapon system development timelines will be extended and costs will be higher, production unit costs will increase, and the risk to the long-term viability of the defense industrial base will increase.

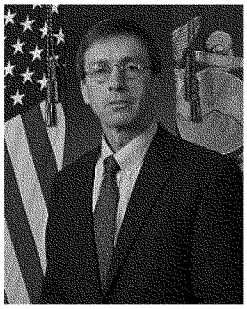
Our appeal is that Congress complete its work on the FY 2014 defense authorization and appropriations bills and eliminate sequestration before we are driven to irreversible actions which impair our collective responsibility to provide for the nation's defense.

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.

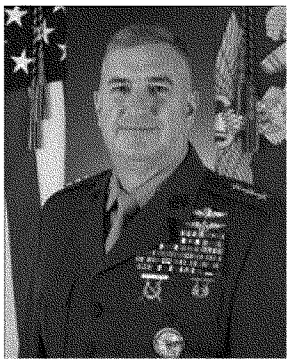
Prior squadron and sea tours include: VF-143, VF-14, VF-101 and VF-103. Tours ashore have also included: executive assistant to commander U.S. Fleet Forces; Organizational Policy Branch chief in the Strategic Plans and Policy Directorate, J-5, Joint Staff; deputy executive assistant to the chief of naval 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 Glenn M. Walters
Deputy Commandant for Programs and Resources



Lieutenant General Walters was commissioned a Second Lieutenant on 12 May 1979, after graduating from The Citadel with a degree in Electrical Engineering. Upon completion of the Officers Basic Course in November 1979, he was assigned to 3rd Battalion, 2nd Marines as a Platoon Commander in Weapons Company. He subsequently attended flight training in Pensacola, Florida and was designated a Naval Aviator in March 1981.

After receiving his wings, Lieutenant General Walters was assigned to MAG-39 for training in the AH-1T, subsequently transferring to HMA-169 as the Flight Line Officer, Flight Scheduler and Adjutant. He completed two WESTPAC cruises in 1983 and 1984 with HMM-265.

In June 1986, Lieutenant General Walters was assigned to 1st Reconnaissance Battalion, 1st Marine Division for duty as Air Officer and Operations Officer. In July 1987 he transitioned to the AH-1W and deployed on MAGTF 1-88 in support of Operation Ernest Will.

In 1990, Lieutenant General Walters attended the United States Naval Test Pilot School and upon graduation was assigned to the Attack/Assault Department of the Rotary Wing Aircraft Test Directorate at Naval Air Station Patuxent River.

In April 1994, Lieutenant General Walters was assigned duties in the Fleet Introduction Team for the AH-1W Night Targeting System at MAG-39. Lieutenant General Walters then assumed the duties as Operations Officer and XO of HMLA-369.

Lieutenant General Walters took command of HMT-303 on 4 June 1997. Upon completion of squadron command he was assigned as the XO of MAG-39. In April 1999, Lieutenant General Walters was transferred to HQMC as the Head of APP-2 in the Aviation Plans and Programs Division. In March 2001, he was transferred to the Office of the USD (AT&L), Defense System, Land Warfare, where he was an Aviation Staff Specialist.

Lieutenant General Walters assumed command of VMX-22 on 28 August 2003, becoming the first Commanding Officer of the Squadron. From Aug 2006 to Mar 2008 Lieutenant General Walters was assigned to the Department of Aviation at HQMC, first

as the head of the Aviation Requirements Branch then as the head of the Plans, Policy and Budget Branch. He was promoted to Brigadier General in Aug 2008 and was assigned to the Joint Staff as Deputy Director J-8, DDRA. Lieutenant General Walters assumed command of 2d Marine Aircraft Wing (Forward) in Nov 2010 and was promoted to Major General in Aug 2012. Shortly upon return from deployment he assumed command of 2d Marine Aircraft Wing. Lieutenant General Walters was promoted to his current rank on 7 June 2013 and is currently assigned as the Deputy Commandant for Programs and Resources.

Lieutenant General Walters personal awards include the Defense Superior Service Medal, Legion of Merit, Meritorious Service Medal (second award), Air Medal, Navy Commendation, and Navy Achievement Medal.

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 and Modernization

STATEMENT OF: Dr. William A. LaPlante
Principal Deputy Assistant Secretary
of the Air Force (Acquisition)

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

23 October 2013

Chairman Turner, Ranking Member Sanchez, and distinguished members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the continuing resolution and sequestration impacts to the Department of the Air Force's acquisition programs, planning and programming activities, and to the industrial base.

Sequestration, combined with another continuing resolution, continues to inflict painful, palpable, and ultimately expensive disruptions throughout our Air Force. Although, we are making every effort to minimize the impact of it to our readiness and modernization. All of this comes at a time when our Air Force is long-overdue for vital reconstitution. Our fleets are aging, and our force is at its smallest since its inception. Therefore, we find ourselves in the untenable position of arbitrarily forcing additional risk into our Nation's ability to achieve its policy objectives through the use of airpower.

We are fully aware that the Air Force has a role in helping our Nation get its fiscal house in order. At this time, we are doing our best to balance near-term readiness with modernization while ensuring our ability to project Global Vigilance, Global Reach, and Global Power in the heavily defended environments of 2023. Fiscal Year 2014 (FY14) sequestration reductions force sharp declines in our readiness and modernization accounts. The blunt, indiscriminate mechanism of sequestration undermines the combat capability of your Air Force and the entire joint force, and it is unworthy of the servicemen and women who risk their lives in service to our great Nation. Recently civilians who were furloughed represent 72 percent of the acquisition workforce. Our Air Force acquisition workforce lost over 1.9 million man hours of productivity due the furloughs from this past summer and the initial days of the recent government shutdown. This resulted in a significant reduction in take home pay for our stalwart civilians, but it also disrupted severely planned work with our industry partners. These actions weaken the positive

strides we have made to revitalize our workforce and recapture acquisition excellence. Furthermore, actions that discount the value of our workforce also damage our ability to attract and retain the best and brightest talent.

All of this uncertainty will have long-term impacts to the ability to leverage the technical advantage airpower offers our joint force. Our Airmen must be ready to meet the requirements outlined in the President's Defense Strategic Guidance. Providing some flexibility in spending allows us to mitigate the severe consequences of a continuing resolution and sequestration while properly providing our men and women with capable weapon systems to do their jobs.

Impacts on Acquisition

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

Sequestration cuts deeply into Air Force investment accounts, which under the law must be applied equally at the program, project, and activity level; consequently, it impacts every one of the Air Force's acquisition programs. For example, a potential FY14 sequestration impact for the F-35A low rate initial production, relative to the request, could be the loss of four to five aircraft from the requested amount of 19. It could also require a reduction up to $110M from the F-35A development program, forcing delays to dedicated development test and evaluation flights through 2014 which will cripple the planned initiation of important follow-on development activities. These potential reductions drive up unit costs resulting in production funding shortfalls, and they also delay follow-on software and flight testing. Moreover, the across the board cuts will likely remove funding for our program managers to address emerging technical

issues discovered during the development effort. This directly impacts our ability to achieve the original program baseline, and will undoubtedly escalate program costs. The Air Force would like to be granted the ability to move funds appropriations to mitigate, to the maximum extent possible, devastation to the highest priority programs may alleviate some issues. However, even with flexibility, the Air Force may not eliminate all risks associated with meeting Combatant Commander requirements.

Each of these long-term investment account disruptions negate thousands of man-hours spent on planning, implementing, and managing complex programs intended to balance the value of every taxpayer dollar with the weapon system effectiveness required to fulfill the President's Defense Strategic Guidance. Sequestration and another continuing resolution greatly harm that precious balance, and it undeniably hurts the planned execution of these programs. Taxpayer dollars will be wasted to address the inherent 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. Another unspoken effect of this current budget environment is that it renders pre-Milestone B programs unaffordable. And finally, it could result in the divestiture of entire programs. These are tough times, and these are the tough choices that have to be made.

Impacts on Modernization

If the reduced caps under current law continue, our modernization forecasts are bleak. This funding level will impact all of our investment programs. Program disruptions will cost more taxpayer dollars to rectify contract breaches, raise unit costs, and delay delivery of critical equipment. In terms of investment and modernization, the Nation may not recognize the effects

of these reductions initially. If America expects its Air Force to dominate the skies in future conflicts, modernization and recapitalization are not optional.

Our top three acquisition priorities remain the KC-46, the F-35, and the Long Range Strike Bomber. Tankers are the lifeblood of our joint force's ability to respond to crisis and contingencies around the world, and bombers are essential to our Nation's ability to project power. The KC-46 will begin to replace our aging tanker fleet in 2017, but even when the program is complete in 2028, we will have replaced less than half of the current tanker fleet. The F-35 is essential to any future conflict with a high-end foe. A fourth generation fighter cannot successfully compete with a fifth generation fighter in combat, nor can it survive and operate inside the advanced, integrated air defenses that some countries have today, and many more will have in the future. To defeat those air defenses, we need the F-35's capabilities. For the past two years, the program has gained traction, meeting cost, schedule, and technical performance goals, and now it needs stability. Sequestration cuts will severely threaten each of our top priority programs, but we must also conduct crucial modifications to sustain legacy fleets. Space is also an important domain where we have to keep steady progress. The Space Fence contract was ready for award in early June; however, a DoD-level review driven by sequestration, delayed the decision to proceed into later in 2013. With an affirmative decision in November, initial capability will slip about one year and costs will increase by over $70M. Modernization is not optional; it is required to execute core missions against future high-end threats. In short, we cannot afford to mortgage the future of our Air Force and the defense of our Nation.

Impacts on Programming

The current fiscal environment compels the Air Force to consider difficult budgetary choices. The current law caps and the abrupt and arbitrary nature of sequestration drives the Air Force into a "ready force today" versus a "modern force tomorrow" dilemma. The indiscriminate application of these additional reductions drives us to eliminate significant capability and capacity and it does not provide the flexibility needed to maintain near-term readiness at levels to accomplish our assigned national security missions.

The deep cuts brought on by sequestration-level funding will force the Air Force to make profound cuts to readiness and investment in order to achieve the targeted reduction amounts in the first few years of the fiscal year defense plan. Combatant Commanders expect the Air Force to be ready to fight today and provide the full range of air, space, and cyberspace capabilities required for mission success. This requirement means the Air Force must be prepared to respond in "hours not days" with Global Vigilance—Global Reach—Global Power at a time and place of our choosing. As a result, we prioritized resources for readiness and full-spectrum training to including flying hours, training ranges, and exercises. However, under sequestration, we will still see significant erosion of our readiness in the near term. Degraded readiness means we may not get there in time, it may take the joint team longer to win, and, when we do respond, we will put Airmen at greater risk when they go into harm's way. We will continue to stress that modernization is not optional, and we must invest in future capabilities to operate effectively against well-equipped adversaries and in the heavily defended environments of tomorrow. When forced to make tough decisions, we will favor new capabilities over upgrades to our legacy forces and our top three acquisition priorities remain the KC-46, the F-35, and the Long Range Strike Bomber (LRS-B).

To maintain minimum levels of readiness and sustain our highest investment programs, the Air Force will have to cut up to 25,000 Total Force Airmen and up to 550 aircraft. As we divest force structure, our priorities are to retain the global, long-range capabilities and multi-role platforms that are required to operate in highly contested environments. We will focus on divestiture of entire fleets of aging and costly platforms as well as those less capable and less survivable in heavily defended airspace. We will look to cut aircraft fleets because divesting an entire weapons system results in greater savings than cutting a portion of an aircraft fleet; because, every fleet has relatively fixed sustainment (overhead) costs.

Full implementation of the reduced caps through sequestration will mean a smaller Air Force that is less ready and less capable. This situation is avoidable. Through prudent cuts and an expectation that real savings will occur in the latter years of the FYDP, we can be both ready today and modern in the future. However, we need the Congress' support to better align our future force to the needs of the current defense strategy.

The Air Force needs stability and certainty restored to the budget process – but sequestration-level funding continues to put undue pressure on how we plan to meet our current obligations and future challenges. The full implementation of sequestration-level funding through FY 2021 will keep the Air Force from sustaining the trained, equipped, and ready force needed to operate at a time and place of our choosing; with the operational freedom, persistence and precision the nation and the joint and allied forces have come to expect from us.

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 with another CR drives

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, will 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 is compared against the global market for commercial aircraft, engines and avionics, it becomes clear that the Air Force is a small customer. The prime contractors and the top tiers of subcontractors who provide complete systems to the Air Force, such as engines and avionics, have the financial capability and/or commercial demand for products to accommodate 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. 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, sequestration induces both immediate and long-term implications on the organic industrial base sustaining the current fleet. Sequestration will, in the near term, slow the flow of aircraft into our depots. Reduction in flying hours, cancellation of training exercises, delays in sending aircraft to

depot maintenance, and deferring installation maintenance and repair all have an immediate impact...the Air Force buys less today from the industrial base.

The lack of work will have longer term impacts: compounding 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 increasing 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.

Due to FY13 sequestration cuts, the Air Force experienced a $1.3B, or 19%, decline in small business obligations compared to FY12. These cuts masked the progress made in small business utilization and prevented the Air Force from meeting its Small Business goals. In our "Accessible Small Business Markets" the Air Force awarded 37% of its contracts to small businesses (33% of those Small Business (SB) awards were based on small businesses winning full and open competitions). During FY13, the Air Force awarded 172 Multiple Award Contract Indefinite Delivery Indefinite Quantity (IDIQ) Small Business Set Aside contracts with aggregate contract ceilings of $5.7B and approved acquisition strategies on full or partial Small Business Set Aside contracts valued at $10.3B. This created a total value of $16B current and future SB opportunities. Bottom line: Our commitment to our SB Program remains strong.

The Air Force Science and Technology (S&T) program is another casualty. In FY13, the Air Force cut $190M from this area due to sequestration. Recently, the Air Force sent notices to 150+ universities/contractors regarding grants/contracts that were terminated, delayed or re-scoped. The Air Force depends on this program to discover, develop, and demonstrate high-

payoff technologies needed to sustain air, space, and cyberspace superiority. We must stay on top of technology development to help maintain a strong defense industrial base and ensure we are not surprised by our adversaries. The success of the Air Force will depend on our continued innovation and technical excellence.

Conclusion

The dire effect of sequestration coupled with another continuing resolution injects considerable instability into critical readiness and modernization programs for the world's greatest airpower team. In turn, this chaos and confusion cultivates inefficiency into our program execution that eventually escalates total acquisition costs. Additionally, this unpredictable situation has devalued our most precious resource – our military, civilian and contractor workforce. The United States Air Force is the best in the world, and it is a vital component of the best military in the world. It is imperative that we strive to return to a predictable and stable budgetary environment in order to ensure air, space, and cyberspace dominance for our nation and our allies.

BIOGRAPHY

UNITED STATES AIR FORCE

DR. WILLIAM A. LAPLANTE



Dr. William A. LaPlante is the Principal Deputy, Assistant Secretary of the Air Force (Acquisition), Washington, D.C. He is the senior civilian assistant to the Assistant Secretary of the Air Force (Acquisition). His duties include providing expert advice and guidance on Air Force acquisition programs and procurements. Dr. LaPlante is also responsible for development and execution of policies and procedures in support of the operation and improvement of the Air Force's acquisition system. He oversees an Air Force research and development, test, production and modernization program portfolio of over $40 billion annually.

Dr. LaPlante has more than 28 years of experience in defense technology including positions at the MITRE Corporation and the Johns Hopkins University Applied Physics Laboratory. He has also served on the Defense Science Board (DSB), U.S. Strategic Command Senior Advisory Group and Naval Research Advisory Committee. He has also taught as an adjunct lecturer in the Department of Mechanical Engineering at the Catholic University of America.

Prior to entering public service, Dr. LaPlante was the Missile Defense Portfolio Director for the MITRE Corporation. In this role, Dr. LaPlante led a technical team providing analytic and system engineering expertise across the Missile Defense Agency portfolio of ballistic missile defense systems. Previously, he was the Department Head for Global Engagement at the Johns Hopkins University Applied Physics Laboratory (JHU/APL) where he was responsible for all of APL's work supporting offensive military capabilities. Dr. LaPlante was a member of APL's Executive Council and served on many other Laboratory leadership initiatives. His earlier APL work included Associate Department Head of the National Security Technology Department and Program Area Manager for the Strategic Submarine Security Program.

Dr. LaPlante has also served on numerous prestigious scientific boards. He was appointed to the Defense Science Board (DSB) in 2010 where he co-chaired a study on Enhancing the Adaptability of U.S. Military Forces and participated in studies on technology and innovation enablers, missile defense, cyber resiliency and contractor logistics. Dr. LaPlante chaired a Commander, USSTRATCOM Strategic Advisory Group study on nuclear planning factors and participated in various studies sponsored by the National Academy of Sciences, the Naval Research Advisory Committee, USSTRATCOM and the Office of the Secretary of Defense (Acquisition, Technology and Logistics).

EDUCATION
1985 Bachelor of Science degree in engineering physics, University of Illinois
1988 Master of Science degree in applied physics, Johns Hopkins University
1998 Doctorate in mechanical engineering, Catholic University of America

CAREER CHRONOLOGY
1. 1985 - 1993, Johns Hopkins University Applied Physics Laboratory, Laurel, Md.
2. 1993 - 1998, Chief Scientist and Technical Director for several large at-sea submarine security experiments, Johns Hopkins University Applied Physics Laboratory, Laurel, Md.
3. 1998 - 2001, Program Area Manager for the Strategic Submarine (SSBN) Security Program, Johns Hopkins University Applied Physics Laboratory, Laurel, Md.
4. 2001 - 2003, Business Area Executive for Undersea Warfare and Associate Department Head, National Security Technology Department (Undersea Warfare, Homeland Security and Biomedicine), Johns Hopkins University Applied Physics Laboratory, Laurel, Md.
5. 2003 - 2011, Department Head, Global Engagement Department, Johns Hopkins University Applied Physics Laboratory, Laurel, Md.
6. 2011 - 2013, Missile Defense Portfolio Director, MITRE Corporation, McLean, Va.
7. 2013 - present, Principal Deputy Assistant Secretary of the Air Force (Acquisition), Washington, D.C.

OTHER ACHIEVEMENTS
Defense Science Board Member
USSTRATCOM Strategic Advisory Group Member
Lecturer, Department of Mechanical Engineering, Catholic University of America

(Current as of May 2013)

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

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)

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

OCTOBER 23, 2013

QUESTIONS SUBMITTED BY MR. TURNER

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. An extended Continuing Resolution (CR) and the FY14 proposed sequestration reductions would adversely impact the following aviation programs: Apache, Chinook, and Gray Eagle. The CR limitations and the sequester cuts would reduce procurement quantities, delay fielding of critical aviation systems, impede contract negotiations and put some existing contracts at increased risk.

An extended CR would also delay the start of some network programs in FY14 and challenge program execution efforts due to funds released later in the fiscal year. Sequestration reductions have reduced procurement quantities across all existing network programs such as WIN–T, Tactical Radios, and Waveform Development, and will delay development and testing of some critical networking capabilities beyond the Future Years Defense Program.

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. In general, the earlier a program is in the acquisition lifecycle, the less disruptive a funding reduction. Unless the program is responding to an Urgent Operational Need Statement, most early contractual efforts are based on cost type contract vehicle where the government and the contractor share risk. In the later phase of a program, in production, contract vehicles for operational testing or for fielding efforts become fixed price oriented in general, where the contractor assumes more risk than the government.

For example, a program that is pre-Milestone B (in Technology Development) is able to absorb shifts in funding easier than a program that is post-Milestone B. Once the Acquisition Program Baseline is established, a program must meet the established baseline or it must report to Congress on why it did not meet them, either through a significant change or a critical change.

The most grievous concern would be a statutory violation as a result of a funding reduction, a Nunn-McCurdy Statutory violation or the equivalent for a Major Automated Information System program (failure of a program to achieve Initial Operational Capability prior to five years from Milestone A or funds first obligated). These violations must be avoided. Other statutory requirements levied on the Department of Defense must also be taken into consideration as well, for example, the Army's statutory requirement to be financially auditable by the end of Fiscal Year 2017.

Reducing procurement funding usually reduces the quantity purchased with a resulting increase to the per unit cost. Quality reductions may result in a production line break, industrial base impacts —particularly to second and third tier vendors— and delayed delivery 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; multi-year procurement v. annual procurement)?

Secretary SHYU. Sequestration reduces the level of available appropriated funding which will affect all programs, regardless of contract type. On many fixed-price contracts the quantities would be reduced to meet the available dollars and we would expect the unit costs to rise. The effects on multi-year procurements are more pronounced: if sequestration reduces the quantity buys to below the minimum level, a new negotiation may be required on the terms and conditions of the new contract. This will delay procurement of the system and delay the fielding to Warfighters. In addition, multi-year contracts typically generates significant amount of savings for the Army compared to annual procurement—the savings will be lost if the multi-year contract is broken. Furthermore, the Army will have to pay a termination liability.

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

Secretary SHYU. The impacts of reductions depend on how the Budget Control Act is applied to the specific sources of appropriated funds. All contracts impacted by funding changes may need to be modified to adjust the requirements and dollars. Other courses of action include reduced order quantities against indefinite delivery indefinite quantity contracts, not exercising contract option periods, and contract terminations.

The Army, unlike other services, has only a small number of multi-year (MY) procurement contracts. Significant funding reductions could lead to breaking minimum production quantities and loss of efficiencies and cost savings in MY contracts. Funding reductions under sequestration could lead to renegotiations or possibly cancellations of these contracts.

The combined effects of a continued CR and sequestration reductions in FY14 extend across the full range of diverse capabilities we field in support of our Warfighters. Assuming the most inflexible reductions to funding to programs, as many as 12 Apache helicopters in FY14 could be reduced. Development of the Improved Turbine Engine Program, the Armed Ariel Scout Helicopter, and upgrades to the MQ–1 Gray Eagle would be placed at risk.

Mr. TURNER. Could the potential effects of sequestration on major defense acquisition programs be mitigated by delaying new starts, canceling lower priority programs, or curtailing existing programs?

Secretary SHYU. No, we have reached a point where further delaying new starts, cancelling additional programs, and continuing to reduce existing programs will result in unacceptable risks for the Army. As a result of repeated Continuing Resolutions, the Budget Control Act, and sequestration, many Army programs have been cancelled, deferred, delayed, or restructured in an effort to maintain efficiencies and effectiveness in our major defense acquisition programs. Many of the programs impacted, some multiple times, are small programs that provide critical capabilities to the Army and the Joint force. These include Liquid Logistics, heavy machine guns, sniper rifles, construction equipment, and tactical bridging.

Mr. TURNER. Have any major defense acquisition programs started to take actions now to plan for sequestration? For example, have any programs delayed contract awards planned for fiscal year 2013 or slowed spending plans so that they can carry over additional funds to fiscal year 2014, 2015?

Secretary SHYU. The Army has not delayed contract awards or reduced spending rates in an effort to prepare for sequestration in fiscal year 2014 (FY14). The Army's ability to execute acquisition program timelines and contract awards is actually impacted by the absence of an appropriation in FY14 and the enactment of a continuing resolution that limits funding to prior-year levels. However, the continued instability of our fiscal environment limits the Army's ability to accurately develop and execute planned timelines for the design, engineering, manufacturing and fielding of weapon systems.

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 CR?

Secretary SHYU. The current funding instability fundamentally hampers our ability to plan and execute acquisition programs in support of the Warfighter. Key development, testing and production activities are subject to the limited funds available under a continuing resolution (CR). Under a CR, we lack the authority to start new programs or authorize planned increases in production quantities for fielding. Sequestration reductions in Fiscal Year (FY) 2013 already reduced or eliminated our margin for error on many of our programs, even with our efforts to mitigate using prior-year funds. Reductions in FY14 and beyond will directly result in reduced production quantities, deferred investment in new capabilities, and delays in many programs. The hiring freeze, civilian furloughs and government shutdown decimates our current and future ability to recruit and retain critical skills and expertise in the government workforce. This creates significant impacts to the execution of our Science and Technology projects, acquisition programs, testing, contracting, logistics and depot maintenance. Delays in testing, contracting, and depot maintenance will have a rippling effect on our program execution by increasing cost due to inefficiencies garnered. The long-term effects of this instability are yet to be fully discerned but we know that the combined effects of sequestration and a yearly CR will significantly increase the costs of vital Soldier weapon systems.

The combined effects of a continued CR and sequestration reductions in FY14 extend across the full range of diverse capabilities we field in support of our Warfighters. Assuming the most inflexible funding reductions, as many as 12 Apache helicopters in FY14 would be reduced. Continued cuts in FY14 may result in the reduction of up to 11 Chinook aircraft in FY14 and place the Army's ability to maintain the multi-year production contract at risk. The Army will assume risk

in its aviation modernization efforts for Chinook and Blackhawk contracts. Development of the Improved Turbine Engine Program, planned modernization of the Armed Aerial Scout Helicopter, and upgrades to the MQ–1 Gray Eagle will all be at risk. Modernization of combat vehicles will be affected and result in delays to scheduled Engineering Change Proposal upgrades to Abrams tank and Bradley Infantry Fighting Vehicles.

Mr. TURNER. DOD took 30 percent of sequestered funding from RDT&E and procurement accounts from prior year unobligated balances instead of from FY13 funds. What effects, if any, does the use of prior year unobligated balances to satisfy the FY13 sequestration have on the department's flexibility in managing programs moving forward including dealing with further sequestration?

Secretary SHYU. The lack of prior year funding significantly reduces the Army's flexibility and increases risk when addressing sequestration impacts. In FY13, the Army was able to mitigate many of the impacts that would otherwise have come to fruition against a number of programs by offsetting sequestration reductions with prior year unobligated funds. As prior year funds became scarce, the margin for error as programs decreases, pushing the programs towards critical breaches in delayed fielding to Soldiers.

Mr. TURNER. A number of programs reported delaying aspects of development and deferring or reducing testing in response to the FY13 sequestration? What risks were assumed in these delays or reductions and what impacts will programs feel in FY14 and beyond as a result?

Secretary SHYU. Delays in systems development correlate to delayed production which ripples into delayed fielding of capabilities to the Warfighter. Inefficiencies created from the delays will lead to increased program cost. Deferring testing leads to stretch-out of program schedule since development and operational testing must be done to demonstrate that the system met performance requirements. Reducing testing during sequestration will lead to increased program risk which may result in deficiencies not discovered until later. Generally speaking, the later a deficiency is discovered in a program, the more expensive it is to fix the problem. Reducing testing in FY13 may also result in postponing the necessary residual testing until FY14 which leads to stretch-out of program schedule and increased cost.

Mr. TURNER. In addition to delaying or reducing development activities, including testing, the Department accommodated sequestration by reducing the procurement of quantities and capabilities in a number of weapon programs. Does the Department have an estimate of the added costs, if any, associated with delayed development activities and procurement associated with the FY13 sequestration?

Secretary SHYU. Programs incur increased costs when schedules are extended, including development, personnel, test, and production. When capabilities are reduced and brought back at a later date, there are costs associated with schedule increases resulting in the loss of efficiencies and impacting the overall acquisition program. In an effort to avoid additional costs associated with delayed development activities and procurement in FY13, the Army used unobligated prior year funds to mitigate the effects of sequestration. In doing so, the Army accepted risk for programs with approved development and procurement contract actions scheduled in FY14. In the event that a Continuing Resolution or Appropriation is not passed, the Army has limited prior year funds available to support spending limitations in FY14, which could significantly impact new start programs, production rate increases or programs that are limited in funding due to sequestratoin. The Army thus far has been successful in mitigating added costs from sequestration. However, failure to enact a timely and sufficient Appropriation in FY14 could counteract these efforts to protect taxpayer dollars.

Mr. TURNER. A fair number of programs appear to have been able to absorb the FY13 sequestration with minimal or little immediate impact. How was this possible and does the Department anticipate that this would again be the case if sequestration occurs again in FY14?

Secretary SHYU. Funding reductions under the Budget Control Act were absorbed in fiscal year 2013 (FY13), but not without hostile effect to the Army's acquisition programs. The very nature of these indiscriminate cuts resulted in disproportionate impacts within many of our programs that may not be discerned right away. These reductions translated to varying delays in program schedules, reduced quantities of equipment procured and challenges imposed on the program's ability to meet development timelines planned well in advance. In many cases, the lasting effects of these disruptions are revealed as development programs reach milestone events planned months or years in advance. The Army's ability to endure these effects in FY13 ultimately depends, in large part, on the availability of stable resourcing at requested levels in ensuing fiscal years.

Moreover, in FY13, the Army was able to mitigate many of the impacts by offsetting sequestration reductions with prior year unobligated funds. The increasingly scarce sources of prior year unobligated funding, combined with the cumulative disruptive effects of reductions in FY13 and prolonged Continuing Resolutions in FY13 and FY14, will continue to significantly impact the Army's weapon system programs in FY14.

Mr. TURNER. Will the potential effects of sequestration—which could include longer development phases and lower production rates—be significant enough to cause some major defense acquisition programs to experience significant unit cost increases reportable as "Nunn-McCurdy breaches"?

Secretary SHYU. Sequestration reductions in FY14 could put the Apache and Black Hawk programs at risk of a Nunn-McCurdy breach. The significant funding reductions resulting from sequestration would undermine the assumptions used in the programs' cost estimating models, prevent favorable contract negotiations, and potentially result in breach of the Black Hawk multiyear contract. Sequestration reductions have reduced procurement quantities across all existing network programs such as WIN–T, Tactical Radios, and Waveform Development, to specifically include the Small Airborne Networking Radio. These funding reductions will delay development and testing of some critical networking capabilities beyond the Future Years Defense Program.

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. Current Nunn-McCurdy breaches generally reflect poor programmatic management and cost growth. Based upon the continued sequestration challenges to execution years, as well as out-year sequestration planning controls, programs will hit Nunn-McCurdy breaches due to funding constraints and pushing programs beyond scheduled end dates. As a result, Nunn-McCurdy breaches will generally be outside of the Program Manager's span of control if funding controls are significantly altered from the approved Acquisition Program Baselines. We recommend that Congress consider allowing programs that hit Nunn-McCurdy breaches due to sequestration to rebaseline under the rules of a Critical Breach. This would allow programs to "re-set" and would prevent significant cost and schedule delays caused by Nunn-McCurdy breaches.

Mr. TURNER. Please elaborate on the second and third order effects that could result from significant reductions in the Army's procurement and research and development budget accounts, e.g. industrial base impacts at the supplier and vendor levels.

Secretary SHYU. Given the drawdown of operations in Iraq and Afghanistan and current budgetary pressures, the Army is working closely with industry to better understand the impacts to the defense industrial base and mitigate significant adverse effects. Since Army's Research, Development, Test & Evaluation and Procurement budget is declining faster than the Army's top-line reduction, second and third order impacts could potentially create significant problems as companies, both large and small, must rapidly adjust to reduced revenue. Large companies have been shedding workforce, restructuring and consolidating businesses to adjust to the shrinking top-line. Smaller companies have to diversify their portfolio or risk becoming unprofitable.

The Army is concerned with the ability to retain critical engineering design, development and manufacturing capabilities in the defense industrial base across the entire supply chain. The Army has taken specific steps to mitigate critical impacts to the supply chain. Mitigation of adverse impacts is being addressed through measures that include: advocacy for FMS, extending production at lower levels to mitigate impacts of layoffs, increased quantity buys to meet minimum sustainable rates at second tier companies, investments in R&D to develop the next generation products for critical supply chain, monthly reporting by each PEO on industrial base impacts of their supply chain for the products within their portfolio, and ensuring the organic industrial base can step in to produce the critical component as a second source.

The Army continues to conduct an assessment of the industrial base, both independently and in conjunction with broad DOD initiatives. The Army's Industrial Base assessment, the AT Kearney Combat Vehicle Industrial Base assessment, the DOD's Sector-by-Sector, Tier-by-Tier analysis are focused on identifying potential weak points in the Industrial Base and guiding efforts that support critical elements found to be at risk.

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

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. However, the 4th Infantry Division Combat Aviation Brigade (the additive CAB) remains programmed in the force with the activation of the CAB at Fort Carson earlier this year.

Mr. TURNER. In February you had stated that 1,100 companies (over a third of the critical vendor industrial base) were in moderate to high risk of bankruptcy? Do you still stand by that statement?

Secretary SHYU. Because of the rapidly changing landscape and a myriad of factors that contribute to the overall business climate, it is difficult to accurately assess overall bankruptcy risk in the Industrial Base. The Army is actively engaged in efforts to assess risk in the Industrial Base. The Department of Defense the Sector-by-Sector, Tier-by-Tier (S2T2) effort seeks: (1) to establish early warning indicators of risk, particularly at lower-tiers; (2) to strengthen the supply chain and mitigate potential points of failure; and (3) to perform joint agency assessments providing the Army the ability to capture impacts on market sectors, manufacturers, and the Warfighter requirements across the Services. The Army Industrial Base Baseline Assessment seeks to analyze three factors: (1) to conduct a sector and sub-sector assessment of programs identified as critical by Program Executive Offices and Life Cycle Management Commands; (2) to determine the impact of reductions in funding to program requirements; and (3) to develop recommendations which enable the industrial base to sustain current and future Warfighter requirements. The AT Kearney Combat Vehicle Industrial Base assessment is focused on identifying potential weak points and guiding efforts to support critical elements found to be at risk in the Combat Vehicles portfolio.

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 JPO is making every effort to keep the test program on schedule in order to meet the scheduled Milestone C and Low Rate Initial Production (LRIP) contract award dates in Fiscal Year 2015 (FY15). Unfortunately, the collective impacts of sequestration, congressional decrements in FY13, furloughs, and the government shutdown resulted in the program behind its planned testing schedule. While this does not yet require a slip in the program's overall schedule, a FY14 continuing resolution that reduces program funding by an additional $30.7M ($17.8M for the U.S. Army and $12.9 million (M) for the Marine Corps) beyond reductions already levied would impose a tremendous challenge. Such cumulative program budget reductions would require the test schedule to be extended, since the majority of FY14 funding supports EMD phase testing. This could potentially cause up to a 12-month delay in the Milestone C decision and LRIP contract award.

Mr. TURNER. How would sequestration and a year-long 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, etc.

Secretary SHYU. The impact of a year-long Continuing Resolution, which effectively translates into a 30 percent funding cut, would be delays in the introduction of this improved, lighter protective capability. Limited User Evaluations of the SPS Vital Torso, Integrated Head Protection and Transition Combat Eye Protection subsystems, and the Phase II contract awards for the Torso Protection subsystem would be delayed from the fourth Quarter of Fiscal Year (FY) 2014 into FY15 and the Milestone C decisions on these subsystems, depending upon receipt of funding, would slip 6–9 months from the planned third Quarter FY15 date.

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 did not support minimum sustainment rates as reported by the two vendors for night vision image intensification tubes. However, both vendors have restructured and are still producing 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. If sequestration remains in FY14 and FY15, what impact will this have on the execution of the Joint Light Tactical Vehicle program? Please provide the subcommittee with an update on this critical program.

Secretary SHYU. The JLTV Joint Program Office (JPO) has made substantial progress in streamlining the program timeline, and both the Army and Marine Corps remain fully committed to this program. The Engineering and Manufacturing Development (EMD) Phase of the program is proceeding well; all 66 of the EMD phase prototype vehicles were delivered on time and are currently undergoing ballistic, Reliability Availability and Maintainability (RAM), and performance testing. Although testing is in its early stages, the JPO remains confident in each vendor's ability to meet requirements.

The JPO is making every effort to keep the test program on schedule in order to meet the scheduled Milestone C and Low Rate Initial Production (LRIP) contract award dates in Fiscal Year 2015 (FY15). Unfortunately, the collective impacts of sequestration, congressional decrements in FY13, furloughs, and the government shutdown resulted in the program behind its planned testing schedule. While this does not yet require a slip in the program's overall schedule, a FY14 continuing resolution that reduces program funding by an additional $30.7M ($17.8M for the U.S. Army and $12.9M for the Marine Corps) beyond reductions already levied would impose a tremendous challenge. Such cumulative program budget reductions would require the test schedule to be extended, since the majority of FY14 funding supports EMD phase testing, this could potentially cause up to a 12-month delay in the Milestone C decision and LRIP contract award.

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. An FY2014 continuing resolution (CR) and sequestration take away from the Department's ability to provide warfighting capability and capacity with the measures of efficiency essential to balancing the requirements of the Defense Strategic Guidance. Our warfighters will have less surge capability and our long-term priorities will be traded off to fund near-term readiness. Weapon system development timelines will be extended and costs will be higher, production unit costs will increase, and the risk to the long-term viability of the defense industrial base will increase. Reductions to investment accounts will slow production on factory floors across the defense industrial base adding cost and schedule to weapon systems. Equally critical, these reductions will drive delays into the development of those leading edge weapon systems that contribute to our warfighters' asymmetric advantage over our adversaries.

If fiscally constrained to sequestration level funding over the long term, the Navy of 2020 would not be able to execute the missions described in the Defense Strategic Guidance. The 2014 Quadrennial Defense Review will analyze the Department of Defense force structure as a whole and set the long term course for DOD strategy and priorities.

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. 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; multi-year procurement v. annual procurement)?

Secretary STACKLEY. Yes, if sequestration remains in place, the effects may differ for different contract types, but the limited funds will cause the Department of the Navy to reduce the products and/or services being purchased on many existing contracts. Limited funds forces the Department to prioritize all our requirements, including mission critical programs, then determine how much money we have available for those programs.

From a 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 lim-

its. Typically, cost reimbursement contracts provide greater flexibility than firm fixed price contracts.

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 deemed necessary, to renegotiate established pricing based on our 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 or services.

Multi-year contracts require added management focus in this sequestration environment. Unlike annual contracts, obligations under a multi-year contract have established contract terms and conditions including cancellation payment; therefore particular attention must be paid to meet these terms and conditions or otherwise re-negotiate the contract.

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

Secretary STACKLEY. The Department of the Navy does not currently anticipate the need to renegotiate a large number of fixed price or multiyear procurement (MYP) shipbuilding contracts due to sequestration in FY 2014. No major previously awarded fixed price shipbuilding or aviation contracts will require deobligation of funds, and no Marine Corps contracts will need to be renegotiated.

However, the Department's ability to continue to absorb sequestration reductions without impacting multiyear contracts is increasingly tenuous. The impacts of the FY 2013 sequester were mitigated by the use of prior-year investment balances and authorization to reprogram funds. Additionally, many planned costs were deferred to preserve multiyear contracts. As these limited stop-gap measures are exhausted, there will soon be few options for resources and multiyear contracts may have to be renegotiated at reduced quantities, putting substantial savings at risk.

Mr. TURNER. Could the potential effects of sequestration on major defense acquisition programs be mitigated by delaying new starts, canceling lower priority programs, or curtailing existing programs?

Secretary STACKLEY. The Department of the Navy (DoN) implemented these mitigation measures in developing the FY13 President's Budget submission in accordance with the Budget Control Act of 2011, and in managing the FY13 continuing resolution and sequestration. FY13 sequestration resulted in curtailed operations, deferred maintenance, depleted unobligated prior-year balances in our investment accounts, and deferred costs to future year budgets. While this mitigated the immediate impacts, it was insufficient to bear the full weight of sequestration, resulting in delays to development schedules and reductions to procurement quantities. The net effects of these deferrals, delays, and program cuts are added bills and increased costs in FY14 and beyond. While we continue to employ these measures to the extent possible, the margin for mitigating the impacts of sequestration with these measures has been depleted and they are no longer sufficient to prevent significant reductions in major defense acquisition programs if sequestration continues in FY14.

Mr. TURNER. Have any major defense acquisition programs started to take actions now to plan for sequestration? For example, have any programs delayed contract awards planned for fiscal year 2013 or slowed spending plans so that they can carry over additional funds to fiscal year 2014, 2015?

Secretary STACKLEY. All major defense acquisition programs have had to take actions to deal with the impact of the FY 2013 sequester.

To minimize impacts in FY 2013, the Department of the Navy was able to use reprogramming authorization, prior-year investment balances, and deferral of costs to future years. For example, in the FY 2013 SCN account, we were able to use $640M of prior year SCN assets to finance some of the $1.75B sequestration bill. The Department requested, and the Congress approved, reprogramming for $240M to finance an additional portion of the SCN sequestration reduction. Proposed FY 2014 Congressional action adds $358M, which may further finance the sequestration reduction. However, the Department is still faced with future cost to complete bills of $515M, which hinder future ship procurements. If sequestration continues, these future bills in the shipbuilding and other accounts will be larger without the benefit of prior year funds and will accumulate to the point where we will be compelled to reduce the number of ships or systems procured.

Under the FY 2014 continuing resolution (CR), budget controls have been set at estimated FY 2014 sequestration levels and program spending rates have been slowed to match. In addition, OSD is closely managing DOD obligations and expenditures. This approach has allowed all programs to continue executing in accordance with the CR and has not yet caused delays in awarding contracts. However, the CR has impacted the ability of programs to execute planned production increases or new

starts. In addition, all programs are working to identify the impacts of potential FY 2014 sequestration cuts, when those impacts will begin to occur, and mitigating actions or deferrals that could reduce those impacts.

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 CR?

Secretary STACKLEY. Sequestration and the continued budget uncertainty will have varying impacts on each of the Department of the Navy's programs. Overall, an FY2014 CR and sequestration take away the Department's ability to provide warfighting capability and capacity with the measures of efficiency essential to balancing the requirements of the Defense Strategic Guidance with the fiscal constraints under current law. Without Congress acting to change the current path, our warfighters will have less surge capability and our long-term priorities will be traded off to fund near-term readiness. Further, weapon system development timelines will be extended and costs will be higher, production unit costs will increase, and the risk to the long-term viability of the defense industrial base will increase.

Mr. TURNER. DOD took 30 percent of sequestered funding from RDT&E and procurement accounts from prior year unobligated balances instead of from FY13 funds. What effects, if any, does the use of prior year unobligated balances to satisfy the FY13 sequestration have on the Department's flexibility in managing programs moving forward including dealing with further sequestration?

Secretary STACKLEY. If sequestration continues, automatic percentage cuts are required to be applied without regard to strategy, importance, or priorities, resulting in adverse impact to almost every program and project within the Navy. Sequestration would adversely impact many of our R&D programs through contract cancellations, contract terminations, and undetermined cost increases caused by inefficient contracting and schedule delays. These impacts will reduce and delay our R&D efforts and negatively impact key procurement strategies in future years.

Mr. TURNER. A number of programs reported delaying aspects of development and deferring or reducing testing in response to the FY13 sequestration? What risks were assumed in these delays or reductions and what impacts will programs feel in FY14 and beyond as a result?

Secretary STACKLEY. The FY 2013 sequestration impacts to acquisition programs were mitigated by depleting unobligated prior-year balances in our investment accounts, reprogramming funds from other accounts, and deferring costs to future year budgets. However, this resulted in increased costs in FY 2014 and beyond and longer acquisition timelines. If sequestration continues in FY 2014, program impacts will include schedule delays, reduced acquisition objectives, postponed modernization and upgrades, and the subsequent cost increases due to delayed programs and decreased procurement quantities. In addition, sequestration will slow production on factory floors across the defense industrial base, adding cost and schedule risks to today's weapon systems. Equally critical, these reductions will add risk by delaying the development of leading edge weapon systems that provide our warfighters with the asymmetric advantage they hold over our adversaries.

Mr. TURNER. In addition to delaying or reducing development activities, including testing, the Department accommodated sequestration by reducing the procurement of quantities and capabilities in a number of weapon programs. Does the Department have an estimate of the added costs, if any, associated with delayed development activities and procurement associated with the FY13 sequestration?

Secretary STACKLEY. The effects of FY13 sequestration were addressed by curtailing operations, deferring maintenance, depleting unobligated prior-year balances in our investment accounts, deferring costs to future year budgets, and employing the limited transfer authority provided to the DON. These measures, which mitigated the immediate impacts, were insufficient to bear the full weight of sequestration, resulting in delays to development schedules and reductions to procurement quantities. The net effects of these deferrals, delays, and program cuts are added bills and increased costs in FY14 and beyond. We estimate the total deferred "carry over" due to FY13 sequestration to be approximately $2 billion over the FY14–FY18 future years defense program (FYDP) in operation and maintenance accounts, and an additional approximately $2B over the FY14–FY18 FYDP in investment accounts.

Mr. TURNER. A fair number of programs appear to have been able to absorb the FY13 sequestration with minimal or little immediate impact. How was this possible and does the Department anticipate that this would again be the case if sequestration occurs again in FY14?

Secretary STACKLEY. The effects of FY13 sequestration were addressed by curtailing operations, deferring maintenance, depleting unobligated prior-year balances in our investment accounts, deferring costs to future year budgets, and employing

the limited transfer authority provided to the DON. These measures, which mitigated the immediate impacts, were insufficient to bear the full weight of sequestration, resulting in delays to development schedules and reductions to procurement quantities. The net effects of these deferrals, delays, and program cuts are added bills and increased costs in FY14 and beyond. While these mitigation measures will be repeated to the extent possible in FY14, we do not have the prior-year assets to protect investment accounts if FY14 sequestration occurs. In addition, deferred "carry over" bills from FY13 will need to be addressed in FY14. FY14 sequestration will compound the impacts of the FY13 continuing resolution and sequestration.

Mr. TURNER. Will the potential effects of sequestration—which could include longer development phases and lower production rates—be significant enough to cause some major defense acquisition programs to experience significant unit cost increases reportable as "Nunn-McCurdy breaches"?

Secretary STACKLEY. There is a high probability that if sequestration continues in FY14 and subsequent years, some major defense acquisition programs will have significant unit cost increases reportable as "Nunn-McCurdy breaches." Increasing the duration of programs (in development and/or production) causes programs to incur additional costs with no offsetting benefit to the government. Program's annual "fixed" costs are incurred for a greater number of years, reduced rates of production result in lower economies of scale, and programs face greater exposure to obsolescence or changes in the supply base with the added expense that generates.

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. 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 CR scenario impact the V–22 program? Would there be impacts to the V–22 industrial base?

Secretary STACKLEY. The V–22 program office is actively pursuing alternatives to minimize the overall impact of sequestration in FY14. But at the highest projected sequestration level, the program would be required to cut one aircraft in FY14, breaking the V–22 Multi-Year Procurement (MYP) contract and requiring renegotiation of the price for all remaining aircraft. This would directly impact the $1 billion in cost savings over the span of the MYP. The delay associated with negotiations could also increase costs due to a production break for Lot 18 (FY14) aircraft. As advance procurement funds for the Lot 18 aircraft are already on contract, a partial termination for convenience would need to be negotiated. As a joint program, the Air Force and SOCOM will also be affected by the reductions through increased unit cost for procurement of their CV–22 aircraft.

Reduction in FY14 aircraft quantity would delay full standup of the V–22 squadron in Kaneohe Bay, delay all units from reaching Primary Authorized Allowance of aircraft, and subsequently delay MV–22 Full Operational Capability. Furthermore, if V–22 quantities are reduced, the impact of a smaller business base at Bell Helicopter would cause labor rate increases which would negatively impact the cost for USMC H–1 aircraft (which shares production facilities with V–22).

At lower levels of sequestration, the primary impact would be to defer additional Peculiar Ground Support Equipment (PGSE) and Peculiar Training Equipment planned for procurement in FY14. A funding shortfall already exists due to the impact of FY13 sequestration. Additional reductions in FY14 would worsen the shortfalls for an expanding fleet of aircraft that's taking on additional deployments to support crisis response. Additionally, a significant portion of capability and readiness modifications would be cancelled or delayed, resulting in decreased readiness and ultimately resulting in higher operational cost.

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

Secretary STACKLEY. 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, sequestration in FY14 would compel us to reduce aircraft procurement by one F–35B and one F–

35C and delay the Block 3 development test and evaluation flights resulting in increased risk of meeting planned initial operating capability (IOC) dates. The reduced procurement will further pressurize unit recurring flyaway costs at a time when the program was achieving positive cost trends. A continuing resolution hampers the ability to properly fund required F–35 modifications because they are considered new starts within FY14. The concurrency and block upgrades are critical to the IOC schedule since they are required for the operational testing and evaluation and for fleet operations.

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 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. Yes. Sequestration and the CR are having an adverse effect in the short term and are expected to exacerbate the long term strike fighter shortfall. Sequestration and the CR are currently causing cancellations and delays in depot inductions and High Flight Hour inspections which are negatively impacting the ability to source Navy and Marine Corps squadrons.

Additionally, sequestration and the CR would impact the Marine Corps Readiness Management Program for the AV–8B. Some initiatives within this program would be delayed or cancelled, decreasing readiness and increasing flight hour costs due to decreasing component reliability.

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

Secretary STACKLEY. The objective of the U.S Marine Corps' Ground Combat and Tactical Vehicle (GCTV) Strategy is to field a ground combat vehicle portfolio structured to support Marine Expeditionary Forces, two Marine Expeditionary Brigades (MEB) capable of conducting sea-based Joint Forcible Entry Operation, two maritime prepositioned MEBs (sea-basing enabled), and one geographically prepositioned MEB. These scalable Marine Air-Ground Task Forces will be capable of supporting theater engagement plans, irregular warfare, sea-based operations, and sustained operations ashore across the range of military operations. Ultimately, the discreet components of the portfolio are designed to come together as a unitary whole that provides Combatant Commanders (COCOM) and the Nation the capabilities necessary to support the operations listed above that gives COCOMs the greatest range of options possible from the sea, in a balanced manner.

Our GCTV Strategy is comprised of components that include the acquisition of Amphibious Combat Vehicles (ACV), Marine Personnel Carriers (MPC), and Joint Light Tactical Vehicles (JLTV); as well as the sustainment and modernization of our Assault Amphibious Vehicle (AAV), Light Armored Vehicle (LAV), M1A1 tank, and HMMWV fleets in sufficient quantities necessary to maintain capability during the transition to our objective GCTV force for the 21st century.

The enduring challenge to the strategy is managing the increase in procurement and sustainment costs of vehicles needed for the 21st century operating environment. Historical expenditures for vehicles will not support ground maneuver and mobility needs as stated for our future force.

The impacts of sequestration that include not only scarcity of resources, but also a large measure of uncertainty, have compromised our ability to approach the planning and execution of our GCTV Strategy with the coherence necessary for sound capital investment planning.

While it remains a primary requirement in our GCTV Strategy, we have been forced to defund MPC in the near term due to insufficient funding. We have also been forced to adjust the timelines for ACV and JLTV due to reduced funding which, if unabated, may move the timelines for IOC to the right by up to three years and one year, respectively. The uncertainty created by the significant restructuring of our plan has created a need to redefine our requirements for aligning resources with the sustainment and modernization of our AAV, LAV, and M1A1 fleets.

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

Secretary STACKLEY. If sequestration were fully implemented, the Marine Corps would have to assess every program. Sequestration will cause interruptions during program acquisition that would increase the total program cost. Schedules would slip and contracts would be delayed. Efficiencies would be lost. This would negatively impact development and production schedules requiring program restructures

and potentially cause Nunn-McCurdy breaches. For procurement programs, existing contracts will have to be renegotiated, preventing the Marine Corps from receiving Economic Order Quantity pricing.

The Marine Corps will also have to sustain legacy systems longer than planned, which will 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. 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. What are impacts we are seeing on the execution of the Marine Personnel Carrier and Joint Light Tactical Vehicle program?

Secretary STACKLEY. While it remains a primary requirement in our Ground Combat and Tactical Vehicle Strategy, we have been forced to defund Marine Personnel Carriers (MPC) in the near term due to insufficient funding. We have also been forced to adjust the timelines for the Amphibious Combat Vehicle (ACV) and Joint Light Tactical Vehicle (JLTV) due to reduced funding which may move the timelines for Initial Operational Capability to the right by three years and one year respectively. The uncertainty created by the restructuring of our plan has created a need to redefine our requirements for aligning resources with the sustainment and modernization of our Assault Amphibious Vehicle, Light Armored Vehicle, and HMMWV fleets.

For FY14 and FY15, impacts to the JLTV program depend entirely on how sequestration or other reductions are implemented. The program is currently executing a test-intensive Engineering and Manufacturing Development phase already challenged by the cumulative effect of FY13 Congressional decrements, sequestration, and furloughs, but this well-structured program faces no inherent cost, schedule, or performance challenges. Consequently, if budget flexibility permits funding of JLTV to its Acquisition Program Baseline, the program should continue on-budget and on-schedule. Conversely, across-the-board cuts in FY14 and FY15 would likely delay the program's Milestone C decision and Low Rate Initial Production (LRIP) contract award by up to 12 months, into FY16. The Services will continue to explore mitigation strategies to reduce the potential impact of sequestration on JLTV and to preserve the FY15 Milestone C decision and LRIP contract award as currently planned. The JLTV program remains a critical opportunity to close capability gaps in today's light tactical wheeled vehicle fleets and to re-balance payload, performance, and protection for a wide range of demanding mission profiles.

Mr. TURNER. If sequestration remains in FY14 and FY15, what impact will this have on the execution of the Joint Light Tactical Vehicle program? Please provide the subcommittee with an update on this critical program.

Secretary STACKLEY. While it remains a primary requirement in our Ground Combat and Tactical Vehicle (GCTV) Strategy, we have been forced to adjust the timeline for the Joint Light Tactical Vehicle (JLTV) due to reduced funding which may move the timelines for Initial operational capability to the right by one year. The uncertainty created by the restructuring of our plan has created a need to redefine our requirements for aligning resources with the sustainment and modernization of our HMMWV fleet.

If sequestration remains in FY14 and FY15, impacts to the JLTV program depend entirely on how sequestration cuts are implemented. The program is currently executing a test-intensive Engineering and Manufacturing Development phase already challenged by the cumulative effect of FY13 Congressional decrements, sequestration, and furloughs. This well-structured program faces no inherent cost, schedule, or performance challenges. If budget flexibility permits funding of JLTV to its Acquisition Program Baseline despite sequestration, the program should continue on-budget and on-schedule. Conversely, across-the-board cuts in FY14 and FY15 would likely delay the program's Milestone C decision and Low Rate Initial Production (LRIP) contract award by up to 12 months, into FY16. The Services will continue to explore mitigation strategies to reduce the potential impact of sequestration on JLTV and to preserve the FY15 Milestone C decision and LRIP contract award as currently planned. The JLTV program remains a critical opportunity to close capability gaps in today's light tactical wheeled vehicle fleets, and to re-balance payload, performance, and protection for a wide range of demanding mission profiles.

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?

Dr. LAPLANTE. Sequestration, combined with another continuing resolution (CR), continues to inflict painful, palpable, and ultimately expensive disruptions through-

out our Air Force. We are making every effort to minimize the impact of the CR and Sequestration to our readiness and modernization. All of this comes at a time when our Air Force is long-overdue for vital reconstitution. Our fleets are aging, and our force is at its smallest since its inception.

At this time, we are doing our best to balance near-term readiness with modernization while ensuring our ability to project Global Vigilance, Global Reach, and Global Power in the heavily defended environments of 2023. FY14 sequestration reductions force sharp declines in our readiness and modernization accounts. The blunt, indiscriminate mechanism of sequestration undermines the combat capability of your Air Force and the entire joint force, and it is unworthy of the servicemen and women who risk their lives in service to our great Nation.

We know the Air Force has a role in helping our Nation get its fiscal house in order. However, the abrupt and arbitrary nature of sequestration drives the Air Force into a "ready force today" versus a "modern force tomorrow" dilemma. This dilemma is dangerous and avoidable. If we are given the flexibility to make prudent cuts over time, we can achieve the savings required under current law. However, sequestration robs us of that flexibility. We're left with options that simply don't make business sense. We need your help. We need funding bills that give us stability so we can achieve real savings in a strategically and managerially sound way.

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?

Dr. LAPLANTE. The effects of sequestration disrupt major defense acquisition programs throughout the development and fielding phases. The single largest impact of sequestration and current budgetary unknowns is the very serious impact they have on the meticulous cost and schedule planning mandated in numerous public laws and DOD acquisition policy directives. The increasing budgetary inefficiency makes it very difficult, if not impossible, for our program managers to do their jobs.

Sequestration cuts deeply into Air Force investment accounts, which under the law must be applied equally at the program, project, and activity level; consequently, it impacts every one of the Air Force's acquisition programs. For example, a potential FY14 sequestration impact for the F–35A low rate initial production, relative to the request, could be the loss of four to five aircraft from the requested amount of 19. This potential reduction will increase unit costs resulting in production funding shortfalls.

Moreover, the across the board cuts will likely remove funding for our program managers to address emerging technical issues discovered during the development effort. This directly impacts our ability to achieve the original program baseline, and will undoubtedly escalate program costs. The Air Force would like to be granted the ability to move appropriations to mitigate, to the maximum extent possible, devastation to the highest priority programs. However, even with flexibility, the Air Force may not eliminate all risks associated with meeting the Combatant Commander requirements.

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; multi-year procurement v. annual procurement)?

Dr. LAPLANTE. Regardless of contract type, the effects of sequestration could drive a program to de-scope requirements, delay performance of required work, or terminate the contract. Any of these developments will likely result in a contract modification regardless of whether the contract is fixed-price or cost-reimbursement. The only difference is in the flexibility and responsiveness to react to those changes; a cost-reimbursement arrangement usually provides more flexibility and quickness to react to changes than does a fixed-price arrangement. Making changes to a fixed price contract could have unintended consequences by opening a door for a contractor to claim additional costs.The effects of sequestration would differ on a multi-year (MY) versus annual procurement. For an annual procurement, you could negotiate a reduction in the required number of items or level of service and only affect that current year acquisition without affecting subsequent years. MY procurements generally assume some constant level of production or service. For example, if budgets change and this causes a reduction of product or service requirements, it will likely result in the following: increased unit prices; a requirement to pay for subcontracted items delivered early to need per the MY agreement; and possibly an action for breach of contract if the requirements fall below a minimum commitment in the MY agreement.

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

Dr. LAPLANTE. In FY13, we carefully managed our multi-year and large fixed price contracts for development, production and sustainment to avoid breaks in production or service as much as possible. However, some of our smaller fixed price agreements at the installation-level were affected. Another sequestration cut in FY14 is projected to have a larger effect on a higher number of our fixed-priced contracts for procurement, sustainment and installation.

Mr. TURNER. Could the potential effects of sequestration on major defense acquisition programs be mitigated by delaying new starts, canceling lower priority programs, or curtailing existing programs?

Dr. LAPLANTE. The deep cuts brought on by sequestration-level funding will force the Air Force to make profound cuts to readiness and investment major defense acquisition programs to achieve the targeted reduction amounts in the first few years of the fiscal year defense plan. When forced to make tough decisions, we will favor new capabilities over upgrades to our legacy forces and our top three acquisition priorities remain the KC–46, the F–35, and the Long Range Strike Bomber (LRS–B).

To maintain minimum levels of readiness and sustain our highest investment programs, the Air Force will have to cut up to 25,000 Total Force Airmen and up to 550 aircraft. As we divest force structure, our priorities are to retain the global, long-range capabilities and multi-role platforms that are required to operate in highly contested environments. We will focus on divestiture of entire fleets of aging and costly platforms as well as those less capable and less survivable in heavily defended airspace. We will look to cut aircraft fleets because divesting an entire weapons system results in greater savings than cutting a portion of an aircraft fleet; because, every fleet has relatively fixed sustainment (overhead) costs. Beyond our top three acquisition priorities, all options are on the table.

Mr. TURNER. Have any major defense acquisition programs started to take actions now to plan for sequestration? For example, have any programs delayed contract awards planned for fiscal year 2013 or slowed spending plans so that they can carry over additional funds to fiscal year 2014, 2015?

Dr. LAPLANTE. All major defense acquisition programs have started to plan for sequestration. Air Force Program Executive Officers have been evaluating sequestration impacts to programs in their portfolios. For example, the Space Fence contract was ready for award in early June 2013; however, a DOD-level review driven by sequestration, delayed the decision to proceed to later in 2013. With an affirmative decision in November, initial capability will slip about one year and costs will increase by over $70M. We cannot afford to mortgage the future of our Air Force and the defense of our Nation.

In FY13, the Air Force used $1.5B in unobligated prior year funds that will not be available in FY14. With respect to the O&M account, we started FY14 under a Continuing Resolution that provided funding that is $500M less than we originally programmed for the year. The remaining FY14 funding does not allow us to even cover the readiness shortfall from last year.

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 CR?

Dr. LAPLANTE. When forced to make tough decisions, we will favor new capabilities over upgrades to our legacy forces and our top three acquisition priorities remain the KC–46, the F–35, and the Long Range Strike Bomber. The current fiscal environment compels the Air Force to consider difficult budgetary choices. The current law caps and the abrupt and arbitrary nature of sequestration drive the Air Force into a "ready force today" versus a "modern force tomorrow" dilemma. The indiscriminate application of these additional reductions drives us to eliminate significant capability and capacity and it does not provide the flexibility needed to maintain near-term readiness at levels to accomplish our assigned national security missions.

Sequestration cuts deeply into Air Force investment accounts, which under the law must be applied equally at the program, project, and activity level; consequently, it impacts every one of the Air Force's acquisition programs. For example, a potential FY14 sequestration impact for the F–35A low rate initial production, relative to the request, could be the loss of four to five aircraft from the requested amount of 19.

A year-long Continuing Resolution will also delay fielding needed capabilities to our warfighters. For example, without Congressional approval to enter into new multi-year procurements, an inability to execute the planned C–130J program multi-year buy will impact the production line, delivery schedule, and potentially increased cost.

The Air Force would like to be granted the ability to move appropriations to mitigate, to the maximum extent possible, devastation to the highest priority programs.

However, even with flexibility, the Air Force may not eliminate all risks associated with meeting the Combatant Commander requirements. We need the Congress' support to better align our future force to the needs of the current defense strategy.

Mr. TURNER. DOD took 30 percent of sequestered funding from RDT&E and procurement accounts from prior year unobligated balances instead of from FY13 funds. What effects, if any, does the use of prior year unobligated balances to satisfy the FY13 sequestration have on the Department's flexibility in managing programs moving forward including dealing with further sequestration?

Dr. LAPLANTE. In FY13, the AF used $1.5B in unobligated prior year funds that will not be available in FY14. In addition, the current Continuing Resolution contains $500M less than was programmed for the AF FY14 budget. The remaining FY14 funding does not allow the AF to even cover the readiness shortfall from last year.

As with force structure and readiness, if the reduced caps under current law continue, our modernization forecasts are bleak. This funding level will impact every one of the AF modernization programs. These disruptions will, over time, cost more taxpayer dollars to rectify contract breaches, raise unit costs, and delay delivery of critical equipment. When it comes to future investment and modernization, the public may not recognize the effects of these reductions initially. The damage will compound with time.

Mr. TURNER. A number of programs reported delaying aspects of development and deferring or reducing testing in response to the FY13 sequestration? What risks were assumed in these delays or reductions and what impacts will programs feel in FY14 and beyond as a result?

Dr. LAPLANTE. With FY13 sequestration, programs assumed risks in schedule and cost by deferring near-term risk reduction activities, delaying contract awards and decreased investments in development. Additionally, the Air Force used $1.5B in unobligated prior year funds to reduce risks but that option will not be available in FY14. For FY14 and beyond, deferrals are likely to extend program schedules and increase costs due to the restructuring of activities and contracts, which will likely delay the planned operational capabilities to warfighters. A potential FY14 sequestration impact for the F–35A low rate initial production, relative to the request, could be the loss of four to five aircraft from the requested amount of 19. This potential reduction will increase unit costs resulting in production funding shortfalls.

Moreover, the across the board cuts will likely remove funding for our program managers to address emerging technical issues discovered during the development effort. This directly impacts our ability to achieve the original program baseline, and will undoubtedly escalate program costs. The Air Force would like to be granted the ability to move appropriations to mitigate, to the maximum extent possible, devastation to the highest priority programs. However, even with flexibility, the Air Force may not eliminate all risks associated with meeting the Combatant Commander requirements.

The Strategic Choices and Management Review found the President's FY14 budget proposal is the most prudent option of those currently being considered. FY14 sequestration reductions force sharp declines in our readiness and modernization accounts.

Mr. TURNER. In addition to delaying or reducing development activities, including testing, the Department accommodated sequestration by reducing the procurement of quantities and capabilities in a number of weapon programs. Does the Department have an estimate of the added costs, if any, associated with delayed development activities and procurement associated with the FY13 sequestration?

Dr. LAPLANTE. The Air Force has not conducted this analysis at the at the program, project, and activity level. With the continued budget uncertainties, the department has focused on protecting top modernization programs while maintaining readiness.

Mr. TURNER. A fair number of programs appear to have been able to absorb the FY13 sequestration with minimal or little immediate impact. How was this possible and does the Department anticipate that this would again be the case if sequestration occurs again in FY14?

Dr. LAPLANTE. In FY13, the Air Force used $1.5B in unobligated prior year funds that will not be available in FY14. With respect to the O&M account, we started FY14 under a Continuing Resolution that provided funding that is $500M less than we originally programmed for the year. The remaining FY14 funding does not allow us to even cover the readiness shortfall from last year.

Mr. TURNER. Will the potential effects of sequestration—which could include longer development phases and lower production rates—be significant enough to cause some major defense acquisition programs to experience significant unit cost increases reportable as "Nunn-McCurdy breaches"?

Dr. LAPLANTE. We did not experience any Nunn-McCurdy breaches with the FY13 sequestration, but there is potential for a breach with the FY14 sequestration. This will not be determined with certainty until the FY15 President's Budget is complete.

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?

Dr. LAPLANTE. The Air Force builds its budget based on the needs of the service consistent with resources available. The Air Force will make prioritized investments to ensure an ability to project Global Vigilance, Global Response, and Global Power. When forced to make tough decisions, we will favor new capabilities over upgrades to our legacy forces and our top three acquisition priorities remain the KC–46, the F–35, and the Long Range Strike Bomber.

The fact that a program may or may not have a Nunn-McCurdy breach does not drive the overall programming process. Those decisions may result in terminations and truncations of investment programs. We would work to re-baseline and restructure the remaining major defense acquisition programs to be executable in FY14 and beyond, as well as minimize Nunn-McCurdy impacts.

It is the Department's position not to seek any legislative relief for sequestration-driven Nunn-McCurdy breaches. The current Nunn-McCurdy legislation has a mechanism to mitigate quantity-related critical breaches. The Department has not experienced any significant impact in terms of breaches to date. There were no Nunn-McCurdy breaches reported for FY13; however, the potential for a breach with sequestration for FY14 exists. The cumulative reductions over time in quantity from the baseline may eventually result in an increase in Nunn-McCurdy unit cost breaches.

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

Dr. LAPLANTE. Sequestration in FY14 could result in a loss of 4–5 F–35A aircraft. A full year continuing resolution (CR) could result in a loss of 3–4 F–35A aircraft. A combination of sequestration plus a full year CR could result in a loss of 5–7 aircraft. The FY14 President's Budget request is for 19 F–35A aircraft.

The exact impact of sequestration on the future strike fighter force is still being assessed. We do know that more reductions will drive additional risks to our readiness, force structure, and ability to modernize our aging aircraft inventory. As we navigate the uncertain way ahead, we will continue to work with Congress.

Mr. TURNER. Would sequestration and a 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?

Dr. LAPLANTE. F–15 Program—The F–15 has no Service Life Extension Program (SLEP), therefore no known impact at this time.

F–16 Program—FY14 sequestration and continuation resolution (CR) could affect the ongoing developmental efforts associated with the F–16 Legacy SLEP program by slowing the program. Production is scheduled to begin in FY18 and may be impacted if there is a delay in development. There is no immediate shortfall in aircraft, but future years may be impacted.

A–10 Program—The A–10 Wing Replacement Program would buy fewer wings this year. No fighter shortfall this year but may occur as early as FY19 without future buys based on FY13 NDAA mandated fleet size (283).

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

Dr. LAPLANTE. We are now approaching a second year of operations under the Budget Control Act (BCA) and operating under Continuing Resolutions. Risk and uncertainty are the key words that I would use to characterize the results. The nation's security is at greater risk, your Air Force is at greater risk and most importantly our Airmen, military and civilians, are at greater risk as they attempt to cope with the uncertainties of this fiscal crisis.

Clearly, there have been broad impacts to the national technology and industrial base. The immediate and drastic reductions imposed by the BCA caused the Air Force to cut flying hours; reduce training, exercises, and travel; defer maintenance and modernization; and painfully, furlough our civilian Airmen. The instantaneous drop in demand flowed across and through the tiered network of companies, large and small, that supply the goods and services needed to sustain Air Force capabilities and our infrastructure. The resulting personnel reductions and reorganizations of the larger firms, such as Lockheed Martin and Raytheon, have been reported in the press. Adjustments made by the lower tiers of the supply chain are less publicized yet, on the individual level, are just as devastating.

Without relief, the impacts will not get better in the near future. As the Air Force shrinks in size, divesting capacity while preserving core capabilities and key investments, our demand on both the organic and commercial industrial bases will continue to drop. Some companies may be able to offset the drop in Air Force business by shifting to commercial or private sector customers. The segment of concern is that group which has both the intellectual capacity and physical plant capability to design, develop, produce, and sustain military-unique aircraft and systems. Without investment, that sector will wither. The nation may pay dearly in the future to reinvigorate that sector. My hope is the cost will be measured only in terms of dollars and time and not those whose mission it is to fly, fight and win when called upon.

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 BARCLAY. An extended Continuing Resolution (CR) and the FY14 proposed sequestration reductions would adversely impact the following aviation programs: Apache, Chinook, and Gray Eagle. The CR limitations and the sequester cuts would reduce procurement quantities, delay fielding of critical aviation systems, impede contract negotiations and put some existing contracts at increased risk.

An extended CR would also delay the start of some network programs in FY14 and challenge program execution efforts due to funds released later in the fiscal year. Sequestration reductions have reduced procurement quantities across all existing network programs such as WIN–T, Tactical Radios, and Waveform Development, and will delay development and testing of some critical networking capabilities beyond the Future Years Defense Program.

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 BARCLAY. In general, the earlier a program is in the acquisition lifecycle, the less disruptive a funding reduction. Unless the program is responding to an Urgent Operational Need Statement, most early contractual efforts are based on cost type contract vehicle where the government and the contractor share risk. In the later phase of a program, in production, contract vehicles for operational testing or for fielding efforts become fixed price oriented in general, where the contractor assumes more risk than the government.

For example, a program that is pre-Milestone B (in Technology Development) is able to absorb shifts in funding easier than a program that is post-Milestone B. Once the Acquisition Program Baseline is established, a program must meet the established baseline or it must report to Congress on why it did not meet them, either through a significant change or a critical change.

The most grievous concern would be a statutory violation as a result of a funding reduction, a Nunn-McCurdy Statutory violation or the equivalent for a Major Automated Information System program (failure of a program to achieve Initial Operational Capability prior to five years from Milestone A or funds first obligated). These violations must be avoided. Other statutory requirements levied on the Department of Defense must also be taken into consideration as well, for example, the Army's statutory requirement to be financially auditable by the end of Fiscal Year 2017.

Reducing procurement funding usually reduces the quantity purchased with a resulting increase to the per unit cost. Quality reductions may result in a production line break, industrial base impacts —particularly to second and third tier vendors— and delayed delivery 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; multi-year procurement v. annual procurement)?

General BARCLAY. Sequestration reduces the level of available appropriated funding which will affect all programs, regardless of contract type. On many fixed-price contracts the quantities would be reduced to meet the available dollars and we would expect the unit costs to rise. The effects on multi-year procurements are more pronounced: if sequestration reduces the quantity buys to below the minimum level, a new negotiation may be required on the terms and conditions of the new contract. This will delay procurement of the system and delay the fielding to Warfighters. In addition, multi-year contracts typically generates significant amount of savings for the Army compared to annual procurement—the savings will be lost if the multi-year contract is broken. Furthermore, the Army will have to pay a termination liability.

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

General BARCLAY. The impacts of reductions depend on how the Budget Control Act is applied to the specific sources of appropriated funds. All contracts impacted by funding changes may need to be modified to adjust the requirements and dollars. Other courses of action include reduced order quantities against indefinite delivery indefinite quantity contracts, not exercising contract option periods, and contract terminations.

The Army, unlike other services, has only a small number of multi-year (MY) procurement contracts. Significant funding reductions could lead to breaking minimum production quantities and loss of efficiencies and cost savings in MY contracts. Funding reductions under sequestration could lead to renegotiations or possibly cancellations of these contracts.

The combined effects of a continued CR and sequestration reductions in FY14 extend across the full range of diverse capabilities we field in support of our Warfighters. Assuming the most inflexible reductions to funding to programs, as many as 12 Apache helicopters in FY14 could be reduced. Development of the Improved Turbine Engine Program, the Armed Ariel Scout Helicopter, and upgrades to the MQ–1 Gray Eagle would be placed at risk.

Mr. TURNER. Could the potential effects of sequestration on major defense acquisition programs be mitigated by delaying new starts, canceling lower priority programs, or curtailing existing programs?

General BARCLAY. No, we have reached a point where further delaying new starts, cancelling additional programs, and continuing to reduce existing programs will result in unacceptable risks for the Army. As a result of repeated Continuing Resolutions, the Budget Control Act, and sequestration, many Army programs have been cancelled, deferred, delayed, or restructured in an effort to maintain efficiencies and effectiveness in our major defense acquisition programs. Many of the programs impacted, some multiple times, are small programs that provide critical capabilities to the Army and the Joint force. These include Liquid Logistics, heavy machine guns, sniper rifles, construction equipment, and tactical bridging.

Mr. TURNER. Have any major defense acquisition programs started to take actions now to plan for sequestration? For example, have any programs delayed contract awards planned for fiscal year 2013 or slowed spending plans so that they can carry over additional funds to fiscal year 2014, 2015?

General BARCLAY. The Army has not delayed contract awards or reduced spending rates in an effort to prepare for sequestration in fiscal year 2014 (FY14). The Army's ability to execute acquisition program timelines and contract awards is actually impacted by the absence of an appropriation in FY14 and the enactment of a continuing resolution that limits funding to prior-year levels. However, the continued instability of our fiscal environment limits the Army's ability to accurately develop and execute planned timelines for the design, engineering, manufacturing and fielding of weapon systems.

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 CR?

General BARCLAY. The current funding instability fundamentally hampers our ability to plan and execute acquisition programs in support of the Warfighter. Key development, testing and production activities are subject to the limited funds available under a continuing resolution (CR). Under a CR, we lack the authority to start new programs or authorize planned increases in production quantities for fielding. Sequestration reductions in Fiscal Year (FY) 2013 already reduced or eliminated our margin for error on many of our programs, even with our efforts to mitigate using prior-year funds. Reductions in FY14 and beyond will directly result in reduced production quantities, deferred investment in new capabilities, and delays in many programs. The hiring freeze, civilian furloughs and government shutdown decimates our current and future ability to recruit and retain critical skills and expertise in the government workforce. This creates significant impacts to the execution of our Science and Technology projects, acquisition programs, testing, contracting, logistics and depot maintenance. Delays in testing, contracting, and depot maintenance will have a rippling effect on our program execution by increasing cost due to inefficiencies garnered. The long-term effects of this instability are yet to be fully discerned but we know that the combined effects of sequestration and a yearly CR will significantly increase the costs of vital Soldier weapon systems.

The combined effects of a continued CR and sequestration reductions in FY14 extend across the full range of diverse capabilities we field in support of our Warfighters. Assuming the most inflexible funding reductions, as many as 12 Apache helicopters in FY14 would be reduced. Continued cuts in FY14 may result in the reduction of up to 11 Chinook aircraft in FY14 and place the Army's ability to maintain the multi-year production contract at risk. The Army will assume risk

in its aviation modernization efforts for Chinook and Blackhawk contracts. Development of the Improved Turbine Engine Program, planned modernization of the Armed Aerial Scout Helicopter, and upgrades to the MQ–1 Gray Eagle will all be at risk. Modernization of combat vehicles will be affected and result in delays to scheduled Engineering Change Proposal upgrades to Abrams tank and Bradley Infantry Fighting Vehicles.

Mr. TURNER. DOD took 30 percent of sequestered funding from RDT&E and procurement accounts from prior year unobligated balances instead of from FY13 funds. What effects, if any, does the use of prior year unobligated balances to satisfy the FY13 sequestration have on the Department's flexibility in managing programs moving forward including dealing with further sequestration?

General BARCLAY. The lack of prior year funding significantly reduces the Army's flexibility and increases risk when addressing sequestration impacts. In FY13, the Army was able to mitigate many of the impacts that would otherwise have come to fruition against a number of programs by offsetting sequestration reductions with prior year unobligated funds. As prior year funds became scarce, the margin for error as programs decreases, pushing the programs towards critical breaches in delayed fielding to Soldiers.

Mr. TURNER. A number of programs reported delaying aspects of development and deferring or reducing testing in response to the FY13 sequestration? What risks were assumed in these delays or reductions and what impacts will programs feel in FY14 and beyond as a result?

General BARCLAY. Delays in systems development correlate to delayed production which ripples into delayed fielding of capabilities to the Warfighter. Inefficiencies created from the delays will lead to increased program cost. Deferring testing leads to stretch-out of program schedule since development and operational testing must be done to demonstrate that the system met performance requirements. Reducing testing during sequestration will lead to increased program risk which may result in deficiencies not discovered until later. Generally speaking, the later a deficiency is discovered in a program, the more expensive it is to fix the problem. Reducing testing in FY13 may also result in postponing the necessary residual testing until FY14 which leads to stretch-out of program schedule and increased cost.

Mr. TURNER. In addition to delaying or reducing development activities, including testing, the Department accommodated sequestration by reducing the procurement of quantities and capabilities in a number of weapon programs. Does the Department have an estimate of the added costs, if any, associated with delayed development activities and procurement associated with the FY13 sequestration?

General BARCLAY. Programs incur increased costs when schedules are extended, including development, personnel, test, and production. When capabilities are reduced and brought back at a later date, there are costs associated with schedule increases resulting in the loss of efficiencies and impacting the overall acquisition program. In an effort to avoid additional costs associated with delayed development activities and procurement in FY13, the Army used unobligated prior year funds to mitigate the effects of sequestration. In doing so, the Army accepted risk for programs with approved development and procurement contract actions scheduled in FY14. In the event that a Continuing Resolution or Appropriation is not passed, the Army has limited prior year funds available to support spending limitations in FY14, which could significantly impact new start programs, production rate increases or programs that are limited in funding due to sequestratoin. The Army thus far has been successful in mitigating added costs from sequestration. However, failure to enact a timely and sufficient Appropriation in FY14 could counteract these efforts to protect taxpayer dollars.

Mr. TURNER. A fair number of programs appear to have been able to absorb the FY13 sequestration with minimal or little immediate impact. How was this possible and does the Department anticipate that this would again be the case if sequestration occurs again in FY14?

General BARCLAY. Funding reductions under the Budget Control Act were absorbed in fiscal year 2013 (FY13), but not without hostile effect to the Army's acquisition programs. The very nature of these indiscriminate cuts resulted in disproportionate impacts within many of our programs that may not be discerned right away. These reductions translated to varying delays in program schedules, reduced quantities of equipment procured and challenges imposed on the program's ability to meet development timelines planned well in advance. In many cases, the lasting effects of these disruptions are revealed as development programs reach milestone events planned months or years in advance. The Army's ability to endure these effects in FY13 ultimately depends, in large part, on the availability of stable resourcing at requested levels in ensuing fiscal years.

Moreover, in FY13, the Army was able to mitigate many of the impacts by offsetting sequestration reductions with prior year unobligated funds. The increasingly scarce sources of prior year unobligated funding, combined with the cumulative disruptive effects of reductions in FY13 and prolonged Continuing Resolutions in FY13 and FY14, will continue to significantly impact the Army's weapon system programs in FY14.

Mr. TURNER. Will the potential effects of sequestration—which could include longer development phases and lower production rates—be significant enough to cause some major defense acquisition programs to experience significant unit cost increases reportable as "Nunn-McCurdy breaches"?

General BARCLAY. Sequestration reductions in FY14 could put the Apache and Black Hawk programs at risk of a Nunn-McCurdy breach. The significant funding reductions resulting from sequestration would undermine the assumptions used in the programs' cost estimating models, prevent favorable contract negotiations, and potentially result in breach of the Black Hawk multiyear contract. Sequestration reductions have reduced procurement quantities across all existing network programs such as WIN–T, Tactical Radios, and Waveform Development, to specifically include the Small Airborne Networking Radio. These funding reductions will delay development and testing of some critical networking capabilities beyond the Future Years Defense Program.

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 BARCLAY. Current Nunn-McCurdy breaches generally reflect poor programmatic management and cost growth. Based upon the continued sequestration challenges to execution years, as well as out-year sequestration planning controls, programs will hit Nunn-McCurdy breaches due to funding constraints and pushing programs beyond scheduled end dates. As a result, Nunn-McCurdy breaches will generally be outside of the Program Manager's span of control if funding controls are significantly altered from the approved Acquisition Program Baselines. We recommend that Congress consider allowing programs that hit Nunn-McCurdy breaches due to sequestration to rebaseline under the rules of a Critical Breach. This would allow programs to "re-set" and would prevent significant cost and schedule delays caused by Nunn-McCurdy breaches.

Mr. TURNER. How would sequestration and a year-long 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, etc.

General BARCLAY. The impact of a year-long Continuing Resolution, which effectively translates into a 30 percent funding cut, would be delays in the introduction of this improved, lighter protective capability. Limited User Evaluations of the SPS Vital Torso, Integrated Head Protection and Transition Combat Eye Protection subsystems, and the Phase II contract awards for the Torso Protection subsystem would be delayed from the fourth Quarter of Fiscal Year (FY) 2014 into FY15 and the Milestone C decisions on these subsystems, depending upon receipt of funding, would slip 6–9 months from the planned third Quarter FY15 date.

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 did not support minimum sustainment rates as reported by the two vendors for night vision image intensification tubes. However, both vendors have restructured and are still producing 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 will the CR and sequestration impact your major defense acquisition programs and will these reductions require a change in national military strategy?

Admiral MYERS. An FY2014 continuing resolution (CR) and sequestration take away from the Department's ability to provide warfighting capability and capacity with the measures of efficiency essential to balancing the requirements of the Defense Strategic Guidance. Our warfighters will have less surge capability and our

long-term priorities will be traded off to fund near-term readiness. Weapon system development timelines will be extended and costs will be higher, production unit costs will increase, and the risk to the long-term viability of the defense industrial base will increase. Reductions to investment accounts will slow production on factory floors across the defense industrial base adding cost and schedule to weapon systems. Equally critical, these reductions will drive delays into the development of those leading edge weapon systems that contribute to our warfighters' asymmetric advantage over our adversaries.

If fiscally constrained to sequestration level funding over the long term, the Navy of 2020 would not be able to execute the missions described in the Defense Strategic Guidance. The 2014 Quadrennial Defense Review will analyze the Department of Defense force structure as a whole and set the long term course for DOD strategy and priorities.

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?

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; multi-year procurement v. annual procurement)?

Admiral MYERS. Yes, if sequestration remains in place, the effects may differ for different contract types, but the limited funds will cause the Department of the Navy to reduce the products and/or services being purchased on many existing contracts. Limited funds forces the Department to prioritize all our requirements, including mission critical programs, then determine how much money we have available for those programs.

From a 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.

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 deemed necessary, to renegotiate established pricing based on our 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 or services.

Multi-year contracts require added management focus in this sequestration environment. Unlike annual contracts, obligations under a multi-year contract have established contract terms and conditions including cancellation payment; therefore particular attention must be paid to meet these terms and conditions or otherwise re-negotiate the contract.

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

Admiral MYERS. The Department of the Navy does not currently anticipate the need to renegotiate a large number of fixed price or multiyear procurement (MYP) shipbuilding contracts due to sequestration in FY 2014. No major previously awarded fixed price shipbuilding or aviation contracts will require deobligation of funds, and no Marine Corps contracts will need to be renegotiated.

However, the Department's ability to continue to absorb sequestration reductions without impacting multiyear contracts is increasingly tenuous. The impacts of the FY 2013 sequester were mitigated by the use of prior-year investment balances and authorization to reprogram funds. Additionally, many planned costs were deferred to preserve multiyear contracts. As these limited stop-gap measures are exhausted, there will soon be few options for resources and multiyear contracts may have to be renegotiated at reduced quantities, putting substantial savings at risk

Mr. TURNER. Could the potential effects of sequestration on major defense acquisition programs be mitigated by delaying new starts, canceling lower priority programs, or curtailing existing programs?

Admiral MYERS. The Department of the Navy (DoN) implemented these mitigation measures in developing the FY13 President's Budget submission in accordance with the Budget Control Act of 2011, and in managing the FY13 continuing resolution and sequestration. FY13 sequestration resulted in curtailed operations, deferred maintenance, depleted unobligated prior-year balances in our investment accounts, and deferred costs to future year budgets. While this mitigated the immediate impacts, it was insufficient to bear the full weight of sequestration, resulting in delays to development schedules and reductions to procurement quantities. The net effects of these deferrals, delays, and program cuts are added bills and increased costs in FY14 and beyond. While we continue to employ these measures to the extent possible, the margin for mitigating the impacts of sequestration with these measures has been depleted and they are no longer sufficient to prevent significant reductions in major defense acquisition programs if sequestration continues in FY14.

Mr. TURNER. Have any major defense acquisition programs started to take actions now to plan for sequestration? For example, have any programs delayed contract awards planned for fiscal year 2013 or slowed spending plans so that they can carry over additional funds to fiscal year 2014, 2015?

Admiral MYERS. All major defense acquisition programs have had to take actions to deal with the impact of the FY 2013 sequester.

To minimize impacts in FY 2013, the Department of the Navy was able to use reprogramming authorization, prior-year investment balances, and deferral of costs to future years. For example, in the FY 2013 SCN account, we were able to use $640M of prior year SCN assets to finance some of the $1.75B sequestration bill. The Department requested, and the Congress approved, reprogramming for $240M to finance an additional portion of the SCN sequestration reduction. Proposed FY 2014 Congressional action adds $358M, which may further finance the sequestration reduction. However, the Department is still faced with future cost to complete bills of $515M, which hinder future ship procurements. If sequestration continues, these future bills in the shipbuilding and other accounts will be larger without the benefit of prior year funds and will accumulate to the point where we will be compelled to reduce the number of ships or systems procured.

Under the FY 2014 continuing resolution (CR), budget controls have been set at estimated FY 2014 sequestration levels and program spending rates have been slowed to match. In addition, OSD is closely managing DOD obligations and expenditures. This approach has allowed all programs to continue executing in accordance with the CR and has not yet caused delays in awarding contracts. However, the CR has impacted the ability of programs to execute planned production increases or new starts. In addition, all programs are working to identify the impacts of potential FY 2014 sequestration cuts, when those impacts will begin to occur, and mitigating actions or deferrals that could reduce those impacts.

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 CR?

Admiral MYERS. Sequestration and the continued budget uncertainty will have varying impacts on each of the Department of the Navy's programs. Overall, an FY2014 CR and sequestration take away the Department's ability to provide warfighting capability and capacity with the measures of efficiency essential to balancing the requirements of the Defense Strategic Guidance with the fiscal constraints under current law. Without Congress acting to change the current path, our warfighters will have less surge capability and our long-term priorities will be traded off to fund near-term readiness. Further, weapon system development timelines will be extended and costs will be higher, production unit costs will increase, and the risk to the long-term viability of the defense industrial base will increase.

Mr. TURNER. DOD took 30 percent of sequestered funding from RDT&E and procurement accounts from prior year unobligated balances instead of from FY13 funds. What effects, if any, does the use of prior year unobligated balances to satisfy the FY13 sequestration have on the Department's flexibility in managing programs moving forward including dealing with further sequestration?

Admiral MYERS. If sequestration continues, automatic percentage cuts are required to be applied without regard to strategy, importance, or priorities, resulting in adverse impact to almost every program and project within the Navy. Sequestration would adversely impact many of our R&D programs through contract cancellations, contract terminations, and undetermined cost increases caused by inefficient contracting and schedule delays. These impacts will reduce and delay our R&D efforts and negatively impact key procurement strategies in future years.

Mr. TURNER. A number of programs reported delaying aspects of development and deferring or reducing testing in response to the FY13 sequestration? What risks

were assumed in these delays or reductions and what impacts will programs feel in FY14 and beyond as a result?

Admiral MYERS. The FY 2013 sequestration impacts to acquisition programs were mitigated by depleting unobligated prior-year balances in our investment accounts, reprogramming funds from other accounts, and deferring costs to future year budgets. However, this resulted in increased costs in FY 2014 and beyond and longer acquisition timelines. If sequestration continues in FY 2014, program impacts will include schedule delays, reduced acquisition objectives, postponed modernization and upgrades, and the subsequent cost increases due to delayed programs and decreased procurement quantities. In addition, sequestration will slow production on factory floors across the defense industrial base, adding cost and schedule risks to today's weapon systems. Equally critical, these reductions will add risk by delaying the development of leading edge weapon systems that provide our warfighters with the asymmetric advantage they hold over our adversaries.

Mr. TURNER. In addition to delaying or reducing development activities, including testing, the Department accommodated sequestration by reducing the procurement of quantities and capabilities in a number of weapon programs. Does the Department have an estimate of the added costs, if any, associated with delayed development activities and procurement associated with the FY13 sequestration?

Admiral MYERS. The effects of FY13 sequestration were addressed by curtailing operations, deferring maintenance, depleting unobligated prior-year balances in our investment accounts, deferring costs to future year budgets, and employing the limited transfer authority provided to the DON. These measures, which mitigated the immediate impacts, were insufficient to bear the full weight of sequestration, resulting in delays to development schedules and reductions to procurement quantities. The net effects of these deferrals, delays, and program cuts are added bills and increased costs in FY14 and beyond. We estimate the total deferred "carry over" due to FY13 sequestration to be approximately $2 billion over the FY14–FY18 future years defense program (FYDP) in operation and maintenance accounts, and an additional approximately $2B over the FY14–FY18 FYDP in investment accounts.

Mr. TURNER. A fair number of programs appear to have been able to absorb the FY13 sequestration with minimal or little immediate impact. How was this possible and does the Department anticipate that this would again be the case if sequestration occurs again in FY14?

Admiral MYERS. The effects of FY13 sequestration were addressed by curtailing operations, deferring maintenance, depleting unobligated prior-year balances in our investment accounts, deferring costs to future year budgets, and employing the limited transfer authority provided to the DON. These measures, which mitigated the immediate impacts, were insufficient to bear the full weight of sequestration, resulting in delays to development schedules and reductions to procurement quantities. The net effects of these deferrals, delays, and program cuts are added bills and increased costs in FY14 and beyond. While these mitigation measures will be repeated to the extent possible in FY14, we do not have the prior-year assets to protect investment accounts if FY14 sequestration occurs. In addition, deferred "carry over" bills from FY13 will need to be addressed in FY14. FY14 sequestration will compound the impacts of the FY13 continuing resolution and sequestration.

Mr. TURNER. Will the potential effects of sequestration—which could include longer development phases and lower production rates—be significant enough to cause some major defense acquisition programs to experience significant unit cost increases reportable as "Nunn-McCurdy breaches"?

Admiral MYERS. There is a high probability that if sequestration continues in FY14 and subsequent years, some major defense acquisition programs will have significant unit cost increases reportable as "Nunn-McCurdy breaches." Increasing the duration of programs (in development and/or production) causes programs to incur additional costs with no offsetting benefit to the government. Program's annual "fixed" costs are incurred for a greater number of years, reduced rates of production result in lower economies of scale, and programs face greater exposure to obsolescence or changes in the supply base with the added expense that generates.

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?

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 CR scenario impact the procurement of F–35Cs and F–35Bs? Would lower procurement numbers affect the strike fighter shortfall?

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, sequestration in FY14 would compel us to reduce aircraft procurement by one F–35B and one F–35C and delay the Block 3 development test and evaluation flights resulting in increased risk of meeting planned initial operating capability (IOC) dates. The reduced procurement will further pressurize unit recurring flyaway costs at a time when the program was achieving positive cost trends. A continuing resolution hampers the ability to properly fund required F–35 modifications because they are considered new starts within FY14. The concurrency and block upgrades are critical to the IOC schedule since they are required for the operational testing and evaluation and for fleet operations.

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 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?

Admiral MYERS. Yes. Sequestration and the CR are having an adverse effect in the short term and are expected to exacerbate the long term strike fighter shortfall. Sequestration and the CR are currently causing cancellations and delays in depot inductions and High Flight Hour inspections which are negatively impacting the ability to source Navy and Marine Corps squadrons.

Additionally, sequestration and the CR would impact the Marine Corps Readiness Management Program for the AV–8B. Some initiatives within this program would be delayed or cancelled, decreasing readiness and increasing flight hour costs due to decreasing component reliability.

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 WALTERS. An FY2014 continuing resolution (CR) and sequestration take away from the Marine Corps our ability to provide warfighting capability and capacity with the measures of efficiency essential to balancing the requirements of the Defense Strategic Guidance. Our warfighters will have less surge capability and our long-term priorities will be traded off to fund near-term readiness. Weapon system development timelines will be extended and costs will be higher, production unit costs will increase, and the risk to the long-term viability of the defense industrial base will increase. Reductions to investment accounts will slow production on factory floors across the defense industrial base adding cost and schedule to weapon systems. Equally critical, these reductions will drive delay into the development of those leading edge weapon systems that provide our warfighters with the asymmetric advantage they hold over our adversaries.

While the specific impact on each program will not be known until the Marine Corps receives their final FY 2014 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. Marine Corps Ground Major Defense Acquisition Programs will not be dramatically affected in the near term.

The 2014 Quadrennial Defense Review will analyze the DOD force structure as a whole and set the long term course for DOD strategy and priorities.

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 WALTERS. 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 Marine Corps programs in the development stage will result in loss of capability, while other Marine Corps programs will experience a delay in

delivery. Most of the Marine Corps' 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; multi-year procurement v. annual procurement)?

General WALTERS. Yes, if sequestration remains in place, the effects may differ for different contract types, but the limited funds will cause the Marine Corps to reduce the products and/or services being purchased on many existing contracts. Limited funds forces the Marine Corps to prioritize all our requirements, including mission critical programs, then determine how much money we have available for those programs.

From a 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.

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 Marine Corps has less flexibility with existing fixed price contracts, but can choose, if deemed necessary, to renegotiate established pricing based on our decision to de-scope quantity, capability and breadth of contract performance. The Marine Corps may also choose to not exercise and/or re-negotiate any contract options for future supplies or services.

The multi-year contract provides the least amount of flexibility for the Marine Corps in this sequestration environment. Unlike annual contracts, obligations under a multi-year contract must follow the established contract terms and conditions to avoid any cancellation payment arrangements established in the contract.

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

General WALTERS. No Marine Corps contracts will need to be renegotiated. However, the Marine Corps' ability to continue to absorb sequestration reductions without impacting multiyear contracts is increasingly tenuous. The Marine Corps made extensive use of unobligated prior year funds to avoid impacts to multiyear contracts in FY 2013. Additionally, many planned ancillary purchases for such things as support equipment and training devices were deferred to free up budget and preserve the multiyear contracts. As these limited stop-gap measures are exhausted, there will soon be little where else to go for resources and multiyear contracts may have to be renegotiated at reduced quantities, putting substantial savings at risk.

While the Marine Corps has not renegotiated any major defense acquisition contracts to date as a result of FY 2014 budget decisions, the uncertainty associated with FY 2015 and outyear budgets will require the Marine Corps 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 Marine Corps will strive to minimize the number of these renegotiations to maintain the best value for the limited resources.

Mr. TURNER. Could the potential effects of sequestration on major defense acquisition programs be mitigated by delaying new starts, canceling lower priority programs, or curtailing existing programs?

General WALTERS. The Marine Corps implemented a variety of mitigation measures to manage FY13 while operating under a continuing resolution for the first six months of the fiscal year and sequestration. FY13 sequestration resulted in curtailed operations, deferred maintenance, depleted unobligated prior-year balances in our investment accounts, and deferred costs to future year budgets. While this mitigated the immediate impacts, it was insufficient to bear the full weight of sequestration, resulting in delays to development schedules and reductions to procurement quantities. The net effects of these deferrals, delays, and program cuts are added bills and increased costs in FY14 and beyond. While we continue to employ these measures to the extent possible, the margin for mitigating the impacts of sequestration with these measures has been exhausted and will be unable to prevent significant reductions in major defense acquisition programs if sequestration continues in FY14.

Mr. TURNER. Have any major defense acquisition programs started to take actions now to plan for sequestration? For example, have any programs delayed contract awards planned for fiscal year 2013 or slowed spending plans so that they can carry over additional funds to fiscal year 2014, 2015?

General WALTERS. Now that the FY 2013 sequester has been realized, all major defense acquisition programs have had to take actions to deal with the impact.

To minimize impacts in FY 2013, the Marine Corps was able to use prior year funding, FY 2013 Above Threshold Reprogramming actions, potential FY 2014 Congressional adjustments, and the deferral of certain costs

Attempting to further plan for sequestration is difficult since more than half way through the first quarter of FY 2014, program funding levels for the year remain unknown. All programs are working to identify the impacts of potential cuts, when those impacts will begin to occur, and mitigating actions or buy backs that could diminish or alleviate those impacts.

With the passing of the continuing resolution (CR) for FY 2014, budget controls have been set at estimated FY 2014 sequestration levels and program spending rates have been slowed to match. In addition, OSD is closely managing DOD obligations and expenditures and has recently revised a policy whereby all obligations in excess of $250M require prior approval from the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)). This approach has allowed all programs to continue executing in accordance with the CR and has so far not caused delays in awarding contracts. The CR has impacted the ability of programs to execute planned production increases or new starts. However, with the uncertainty surrounding the FY 2014 budget and the potential for a yearlong CR, the Marine Corps will continue to use the funding available to execute the programs to provide the needed capabilities to our warfighters.

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 CR?

General WALTERS. Sequestration and the continued budget uncertainty will have varying impacts on each of the Department of the Navy's programs. In FY 2013, no Marine Corps Major Defense Acquisition Programs were delayed in fielding due to the CR or sequestration cuts.

We anticipate other schedule delays, reduced acquisition objectives, and postponed or cancelled modernization and upgrades will also be required. However, the specific impacts will not be known until a final budget level for FY 2014 is established and priorities and tradeoffs can be made.

Overall, a FY2014 CR and sequestration act to take away the Marine Corps' ability to provide warfighting capability and capacity with the measures of efficiency essential to balancing the requirements of the Defense Strategic Guidance with the fiscal constraints under current law. Without Congress acting to change the current path, our warfighters will have less surge capability and our long-term priorities will be traded off to fund near-term readiness. Further, weapon system development timelines will be extended and costs will be higher, production unit costs will increase, and the risk to the long-term viability of the defense industrial base will increase.

Mr. TURNER. DOD took 30 percent of sequestered funding from RDT&E and procurement accounts from prior year unobligated balances instead of from FY13 funds. What effects, if any, does the use of prior year unobligated balances to satisfy the FY13 sequestration have on the Department's flexibility in managing programs moving forward including dealing with further sequestration?

General WALTERS. If sequestration continues, automatic percentage cuts are required to be applied without regard to strategy, importance, or priorities, resulting in adverse impact to almost every program and project within the Marine Corps. Sequestration would adversely impact many of our R&D programs through contract cancellations, contract terminations, and undetermined cost increases caused by inefficient contracting and schedule delays. These impacts will reduce and delay our R&D efforts and negatively impact key procurement strategies in future years.

Mr. TURNER. A number of programs reported delaying aspects of development and deferring or reducing testing in response to the FY13 sequestration? What risks were assumed in these delays or reductions and what impacts will programs feel in FY14 and beyond as a result?

General WALTERS. The FY 2013 sequestration reduced the Marine Corps' top-line by approximately $1.2 billion and impacted our readiness, operations and procurement. The effects were addressed by curtailing operations, deferring maintenance, depleting unobligated prior-year balances in our investment accounts, and deferring costs to future year budgets. The net effects of these deferrals, delays, and program cuts are added bills; increased costs in FY 2014 and beyond; and longer acquisition timelines. These impacts are compounded with reductions to the FY 2014 budget in accordance with the mechanics of sequestration. The compounded effects eliminate the Marine Corps' ability to provide warfighting capability and capacity with the measures of efficiency essential to balancing the requirements of the Defense

Strategic Guidance with the fiscal constraints of the Budget Control Act of 2011. Across the board reductions to investment accounts will slow production on factory floors across the defense industrial base adding cost and schedule to today's weapon systems; and equally critical, these reductions will drive delay into the development of those leading edge weapon systems that provide our warfighters with the asymmetric advantage they hold over our adversaries.

Certain Marine Corps program tasks originally scheduled for FY 2013 were moved to future years as a result of sequestration funding reductions. No testing was deferred or reduced. All Marine Corps programs remain within current schedule baselines at this time. Additional reductions in funding will begin to increase delays and risk to the programs.

Mr. TURNER. In addition to delaying or reducing development activities, including testing, the Department accommodated sequestration by reducing the procurement of quantities and capabilities in a number of weapon programs. Does the Department have an estimate of the added costs, if any, associated with delayed development activities and procurement associated with the FY13 sequestration?

General WALTERS. The effects of FY13 sequestration were addressed by curtailing operations, deferring maintenance, depleting unobligated prior-year balances in our investment accounts, deferring costs to future year budgets, and employing the limited transfer authority provided to the DON. These measures, which mitigated the immediate impacts, were insufficient to bear the full weight of sequestration, resulting in delays to development schedules and reductions to procurement quantities. The net effects of these deferrals, delays, and program cuts are added bills and increased costs in FY14 and beyond. Overall, sequestration required a reduction of $212 million in investment accounts.

Mr. TURNER. A fair number of programs appear to have been able to absorb the FY13 sequestration with minimal or little immediate impact. How was this possible and does the Department anticipate that this would again be the case if sequestration occurs again in FY14?

General WALTERS. The effects of FY13 sequestration on the Marine Corps were addressed by depleting unobligated prior-year balances in our investment accounts, deferring costs to future year budgets, and employing the limited transfer authority provided to the DON. These measures, which mitigated the immediate impacts, were insufficient to bear the full weight of sequestration, resulting in delays to development schedules and reductions to procurement quantities. The net effects of these deferrals, delays, and program cuts are added bills and increased costs in FY14 and beyond. While these mitigation measures will be repeated to the extent possible in FY14, we do not have the prior-year assets to protect investment accounts if FY14 sequestration continues.

Mr. TURNER. Will the potential effects of sequestration—which could include longer development phases and lower production rates—be significant enough to cause some major defense acquisition programs to experience significant unit cost increases reportable as "Nunn-McCurdy breaches"?

General WALTERS. There is a probability that if sequestration continues in FY 2014 and subsequent years, some major defense acquisition programs (MDAPs) will have significant unit cost increases reportable as Nunn-McCurdy breaches. However, that risk will not be a significant factor in selecting programs for reduction.

Increasing the duration of programs (in development and/or production) causes programs to incur additional costs with no offsetting benefit to the government. Program's annual fixed costs are incurred for a greater number of years, reduced rates of production result in lower economies of scale, and programs face greater exposure to obsolescence or changes in the supply base with the added expense that generates. Although Nunn-McCurdy unit cost thresholds are evaluated against base year dollars, the aerospace manufacturing sector has seen costs rising at a rate exceeding that of overall inflation. Therefore, even after general inflation is backed out of program costs, costs pushed further into the future still result in higher base year costs.

Currently, the Navy does not anticipate that any shipbuilding or ship weapon system MDAPs will incur the risk of a Nunn-McCurdy unit cost breach as a result of potential sequestration effects, and no Marine Corps MDAPs have experienced Nunn-McCurdy level unit cost issues.

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 WALTERS. Within the line item level restrictions of sequestration, 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 after reviewing and assessing cost implications and collateral costs (e.g. cancellation costs or breakage to other Programs).

Unless forced to incur across the board sequestration funding reductions similar to Fiscal Year 2013, Marine Corps Major Defense Acquisition Programs (MDAPs) will most likely obtain adequate funding via re-programming actions from non-MDAP programs.

Exempting the Department from Nunn-McCurdy reporting responsibilities caused by a continuing resolution or Sequestration would be beneficial in reducing Program workloads.

Mr. TURNER. Would sequestration and a 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 WALTERS. Yes. Sequestration and the CR are having an adverse effect in the short term and are expected to exacerbate the long term strike fighter shortfall. Sequestration and the CR are currently causing cancellations and delays in depot inductions and High Flight Hour inspections which are negatively impacting the ability to source Navy and Marine Corps squadrons.

Additionally, sequestration and the CR would impact the Marine Corps Readiness Management Program for the AV–8B. Individual initiative timelines and specific initiatives within this program may be cancelled, decreasing readiness and increasing flight hour costs due to component reliability.

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

General WALTERS. The objective of the U.S Marine Corps' Ground Combat and Tactical Vehicle (GCTV) Strategy is to field a ground combat vehicle portfolio structured to support Marine Expeditionary Forces, two Marine Expeditionary Brigades (MEB) capable of conducting sea-based Joint Forcible Entry Operation (JFEO), two maritime prepositioned MEBs (sea-basing enabled), and one geographically prepositioned MEB. These scalable MAGTF's will be capable of supporting theater engagement plans, irregular warfare, sea-based operations, and sustained operations ashore across the range of military operations. Ultimately, the discreet components of the portfolio are designed to come together as a unitary whole that provides Combatant Commanders (COCOM) and the Nation the capabilities necessary to support the operations listed above that gives COCOMs the greatest range of options possible from the sea, in a balanced manner.

Our GCTV Strategy is comprised of components that include the acquisition of Amphibious Combat Vehicles, Marine Personnel Carriers, and Joint Light Tactical Vehicles; as well as the sustainment and modernization of our AAV, LAV, M1A1 tank, and HMMWV fleets in sufficient quantities necessary to maintain capability during the transition to our objective GCTV force for the 21st century.

The enduring challenge to the strategy is managing the increase in procurement and sustainment costs of vehicles needed for the 21st century operating environment. Historical expenditures for vehicles will not support ground maneuver and mobility needs as stated for our future force.

The impacts of sequestration that include not only scarcity of resources, but also a large measure of uncertainty, have compromised our ability to approach the planning and execution of our GCTV Strategy with the coherence necessary for sound capital investment planning.

While it remains a primary requirement in our GCTV Strategy, we have been forced to defund MPC in the near term due to insufficient funding. We have also been forced to adjust the timelines for ACV and JLTV due to reduced funding which may move the timelines for IOC to the right by three years and one year respectively. The uncertainty created by the significant restructuring of our plan has created a need to redefine our requirements for aligning resources with the sustainment and modernization of our AAV, LAV, and M1A1 fleets.

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

General WALTERS. If sequestration were fully implemented, the Marine Corps would have to assess every program. Sequestration will cause interruptions during program acquisition that would increase the total program cost. Schedules would slip and contracts would be delayed. Efficiencies would be lost. This would negatively impact development and production schedules requiring program restructures and potentially cause Nunn-McCurdy breaches. For procurement programs, existing contracts will have to be renegotiated, preventing the Marine Corps from receiving Economic Order Quantity pricing.

The Marine Corps will also have to sustain legacy systems longer than planned, which will 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. 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. What are impacts we are seeing on the execution of the Marine Personnel Carrier and Joint Light Tactical Vehicle program?

General WALTERS. While it remains a primary requirement in our GCTV Strategy, we have been forced to defund MPC in the near term due to insufficient funding. We have also been forced to adjust the timelines for ACV and JLTV due to reduced funding which may move the timelines for IOC to the right by three years and one year respectively. The uncertainty created by the restructuring of our plan has created a need to redefine our requirements for aligning resources with the sustainment and modernization of our AAV, LAV, and HMMWV fleets.

For FY14 and FY15, impacts to the Joint Light Tactical Vehicle (JLTV) program depend entirely on how sequestration or other reductions are implemented. The program is currently executing a test-intensive Engineering and Manufacturing Development phase already challenged by the cumulative effect of FY13 Congressional decrements, sequestration, and furloughs, but this well-structured program faces no inherent cost, schedule, or performance challenges. Consequently, if budget flexibility permits funding of JLTV to its Acquisition Program Baseline, the program should continue on-budget and on-schedule. Conversely, across-the-board cuts in FY14 and FY15 would likely delay the program's Milestone C decision and Low Rate Initial Production (LRIP) contract award by up to 12 months, into FY16. The Services will continue to explore mitigation strategies to reduce the potential impact of sequestration on JLTV and to preserve the FY15 Milestone C decision and LRIP contract award as currently planned. The JLTV program remains a critical opportunity to close capability gaps in today's light tactical wheeled vehicle fleets and to re-balance payload, performance, and protection for a wide range of demanding mission profiles.

Mr. TURNER. If sequestration remains in FY14 and FY15, what impact will this have on the execution of the Joint Light Tactical Vehicle program? Please provide the subcommittee with an update on this critical program.

General WALTERS. While it remains a primary requirement in our GCTV Strategy, we have been forced to adjust the timeline for JLTV due to reduced funding which may move the timelines for IOC to the right by one year. The uncertainty created by the restructuring of our plan has created a need to redefine our requirements for aligning resources with the sustainment and modernization of our HMMWV fleet.

If sequestration remains in FY14 and FY15, impacts to the Joint Light Tactical Vehicle (JLTV) program depend entirely on how sequestration cuts are implemented. The program is currently executing a test-intensive Engineering and Manufacturing Development phase already challenged by the cumulative effect of FY13 Congressional decrements, sequestration, and furloughs. This well-structured program faces no inherent cost, schedule, or performance challenges. If budget flexibility permits funding of JLTV to its Acquisition Program Baseline despite sequestration, the program should continue on-budget and on-schedule. Conversely, across-the-board cuts in FY14 and FY15 would likely delay the program's Milestone C decision and Low Rate Initial Production (LRIP) contract award by up to 12 months, into FY16. The Services will continue to explore mitigation strategies to reduce the potential impact of sequestration on JLTV and to preserve the FY15 Milestone C decision and LRIP contract award as currently planned. The JLTV program remains a critical opportunity to close capability gaps in today's light tactical wheeled vehicle fleets, and to re-balance payload, performance, and protection for a wide range of demanding mission profiles.

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 MOELLER. Sequestration, combined with another continuing resolution (CR), continues to inflict painful, palpable, and ultimately expensive disruptions throughout our Air Force. We are making every effort to minimize the impact of the CR and Sequestration to our readiness and modernization. All of this comes at a time when our Air Force is long-overdue for vital reconstitution. Our fleets are aging, and our force is at its smallest since its inception.

At this time, we are doing our best to balance near-term readiness with modernization while ensuring our ability to project Global Vigilance, Global Reach, and Global Power in the heavily defended environments of 2023. FY14 sequestration re-

ductions force sharp declines in our readiness and modernization accounts. The blunt, indiscriminate mechanism of sequestration undermines the combat capability of your Air Force and the entire joint force, and it is unworthy of the servicemen and women who risk their lives in service to our great Nation.

We know the Air Force has a role in helping our Nation get its fiscal house in order. However, the abrupt and arbitrary nature of sequestration drives the Air Force into a "ready force today" versus a "modern force tomorrow" dilemma. This dilemma is dangerous and avoidable. If we are given the flexibility to make prudent cuts over time, we can achieve the savings required under current law. However, sequestration robs us of that flexibility. We're left with options that simply don't make business sense. We need your help. We need funding bills that give us stability so we can achieve real savings in a strategically and managerially sound way.

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 MOELLER. The effects of sequestration disrupt major defense acquisition programs throughout the development and fielding phases. The single largest impact of sequestration and current budgetary unknowns is the very serious impact they have on the meticulous cost and schedule planning mandated in numerous public laws and DOD acquisition policy directives. The increasing budgetary inefficiency makes it very difficult, if not impossible, for our program managers to do their jobs.

Sequestration cuts deeply into Air Force investment accounts, which under the law must be applied equally at the program, project, and activity level; consequently, it impacts every one of the Air Force's acquisition programs. For example, a potential FY14 sequestration impact for the F–35A low rate initial production, relative to the request, could be the loss of four to five aircraft from the requested amount of 19. This potential reduction will increase unit costs resulting in production funding shortfalls.

Moreover, the across the board cuts will likely remove funding for our program managers to address emerging technical issues discovered during the development effort. This directly impacts our ability to achieve the original program baseline, and will undoubtedly escalate program costs. The Air Force would like to be granted the ability to move appropriations to mitigate, to the maximum extent possible, devastation to the highest priority programs. However, even with flexibility, the Air Force may not eliminate all risks associated with meeting the Combatant Commander requirements.

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; multi-year procurement v. annual procurement)?

General MOELLER. Regardless of contract type, the effects of sequestration could drive a program to de-scope requirements, delay performance of required work, or terminate the contract. Any of these developments will likely result in a contract modification regardless of whether the contract is fixed-price or cost-reimbursement. The only difference is in the flexibility and responsiveness to react to those changes; a cost-reimbursement arrangement usually provides more flexibility and quickness to react to changes than does a fixed-price arrangement. Making changes to a fixed price contract could have unintended consequences by opening a door for a contractor to claim additional costs. The effects of sequestration would differ on a multi-year (MY) versus annual procurement. For an annual procurement, you could negotiate a reduction in the required number of items or level of service and only affect that current year acquisition without affecting subsequent years. MY procurements generally assume some constant level of production or service. For example, if budgets change and this causes a reduction of product or service requirements, it will likely result in the following: increased unit prices; a requirement to pay for subcontracted items delivered early to need per the MY agreement; and possibly an action for breach of contract if the requirements fall below a minimum commitment in the MY agreement.

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

General MOELLER. In FY13, we carefully managed our multi-year and large fixed price contracts for development, production and sustainment to avoid breaks in production or service as much as possible. However, some of our smallest fixed price agreements at the installation-level were affected. Another sequestration cut in FY14 is projected to have a larger effect on a higher number of our fixed-priced contracts for procurement, sustainment and installation.

Mr. TURNER. Could the potential effects of sequestration on major defense acquisition programs be mitigated by delaying new starts, canceling lower priority programs, or curtailing existing programs?

General MOELLER. The deep cuts brought on by sequestration-level funding will force the Air Force to make profound cuts to readiness and investment major defense acquisition programs to achieve the targeted reduction amounts in the first few years of the fiscal year defense plan. When forced to make tough decisions, we will favor new capabilities over upgrades to our legacy forces and our top three acquisition priorities remain the KC–46, the F–35, and the Long Range Strike Bomber (LRS–B).

To maintain minimum levels of readiness and sustain our highest investment programs, the Air Force will have to cut up to 25,000 Total Force Airmen and up to 550 aircraft. As we divest force structure, our priorities are to retain the global, long-range capabilities and multi-role platforms that are required to operate in highly contested environments. We will focus on divestiture of entire fleets of aging and costly platforms as well as those less capable and less survivable in heavily defended airspace. We will look to cut aircraft fleets because divesting an entire weapons system results in greater savings than cutting a portion of an aircraft fleet; because, every fleet has relatively fixed sustainment (overhead) costs. Beyond our top three acquisition priorities, all options are on the table.

Mr. TURNER. Have any major defense acquisition programs started to take actions now to plan for sequestration? For example, have any programs delayed contract awards planned for fiscal year 2013 or slowed spending plans so that they can carry over additional funds to fiscal year 2014, 2015?

General MOELLER. All major defense acquisition programs have started to plan for sequestration. Air Force Program Executive Officers have been evaluating sequestration impacts to programs in their portfolios. For example, the Space Fence contract was ready for award in early June 2013; however, a DOD-level review driven by sequestration, delayed the decision to proceed to later in 2013. With an affirmative decision in November, initial capability will slip about one year and costs will increase by over $70M. We cannot afford to mortgage the future of our Air Force and the defense of our Nation.

In FY13, the Air Force used $1.5B in unobligated prior year funds that will not be available in FY14. With respect to the O&M account, we started FY14 under a Continuing Resolution that provided funding that is $500M less than we originally programmed for the year. The remaining FY14 funding does not allow us to even cover the readiness shortfall from last year.

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 CR?

General MOELLER. When forced to make tough decisions, we will favor new capabilities over upgrades to our legacy forces and our top three acquisition priorities remain the KC–46, the F–35, and the Long Range Strike Bomber. The current fiscal environment compels the Air Force to consider difficult budgetary choices. The current law caps and the abrupt and arbitrary nature of sequestration drive the Air Force into a "ready force today" versus a "modern force tomorrow" dilemma. The indiscriminate application of these additional reductions drives us to eliminate significant capability and capacity and it does not provide the flexibility needed to maintain near-term readiness at levels to accomplish our assigned national security missions.

Sequestration cuts deeply into Air Force investment accounts, which under the law must be applied equally at the program, project, and activity level; consequently, it impacts every one of the Air Force's acquisition programs. For example, a potential FY14 sequestration impact for the F–35A low rate initial production, relative to the request, could be the loss of four to five aircraft from the requested amount of 19.

A year-long Continuing Resolution will also delay fielding needed capabilities to our warfighters. For example, without Congressional approval to enter into new multi-year procurements, an inability to execute the planned C–130J program multi-year buy will impact the production line, delivery schedule, and potentially increased cost.

The Air Force would like to be granted the ability to move appropriations to mitigate, to the maximum extent possible, devastation to the highest priority programs. However, even with flexibility, the Air Force may not eliminate all risks associated with meeting the Combatant Commander requirements. We need the Congress' support to better align our future force to the needs of the current defense strategy.

Mr. TURNER. DOD took 30 percent of sequestered funding from RDT&E and procurement accounts from prior year unobligated balances instead of from FY13 funds.

What effects, if any, does the use of prior year unobligated balances to satisfy the FY13 sequestration have on the Department's flexibility in managing programs moving forward including dealing with further sequestration?

General MOELLER. In FY13, the AF used $1.5B in unobligated prior year funds that will not be available in FY14. In addition, the current Continuing Resolution contains $500M less than was programmed for the AF FY14 budget. The remaining FY14 funding does not allow the AF to even cover the readiness shortfall from last year.

As with force structure and readiness, if the reduced caps under current law continue, our modernization forecasts are bleak. This funding level will impact every one of the AF modernization programs. These disruptions will, over time, cost more taxpayer dollars to rectify contract breaches, raise unit costs, and delay delivery of critical equipment. When it comes to future investment and modernization, the public may not recognize the effects of these reductions initially. The damage will compound with time.

Mr. TURNER. A number of programs reported delaying aspects of development and deferring or reducing testing in response to the FY13 sequestration? What risks were assumed in these delays or reductions and what impacts will programs feel in FY14 and beyond as a result?

General MOELLER. With FY13 sequestration, programs assumed risks in schedule and cost by deferring near-term risk reduction activities, delaying contract awards and decreased investments in development. Additionally, the Air Force used $1.5B in unobligated prior year funds to reduce risks but that option will not be available in FY14. For FY14 and beyond, deferrals are likely to extend program schedules and increase costs due to the restructuring of activities and contracts, which will likely delay the planned operational capabilities to warfighters. A potential FY14 sequestration impact for the F–35A low rate initial production, relative to the request, could be the loss of four to five aircraft from the requested amount of 19. This potential reduction will increase unit costs resulting in production funding shortfalls.

Moreover, the across the board cuts will likely remove funding for our program managers to address emerging technical issues discovered during the development effort. This directly impacts our ability to achieve the original program baseline, and will undoubtedly escalate program costs. The Air Force would like to be granted the ability to move appropriations to mitigate, to the maximum extent possible, devastation to the highest priority programs. However, even with flexibility, the Air Force may not eliminate all risks associated with meeting the Combatant Commander requirements.

The Strategic Choices and Management Review found the President's FY14 budget proposal is the most prudent option of those currently being considered. FY14 sequestration reductions force sharp declines in our readiness and modernization accounts.

Mr. TURNER. In addition to delaying or reducing development activities, including testing, the Department accommodated sequestration by reducing the procurement of quantities and capabilities in a number of weapon programs. Does the Department have an estimate of the added costs, if any, associated with delayed development activities and procurement associated with the FY13 sequestration?

General MOELLER. The Air Force has not conducted this analysis at the at the program, project, and activity level. With the continued budget uncertainties, the department has focused on protecting top modernization programs while maintaining readiness.

Mr. TURNER. A fair number of programs appear to have been able to absorb the FY13 sequestration with minimal or little immediate impact. How was this possible and does the Department anticipate that this would again be the case if sequestration occurs again in FY14?

General MOELLER. In FY13, the Air Force used $1.5B in unobligated funds that will not be available in FY14. We start on a Continuing Resolution for the beginning of FY14 that is roughly, just on our O&M account, $500M less than we had programmed for in FY14. The remaining funding does not allow us to even cover the readiness shortfall from last year.

Mr. TURNER. Will the potential effects of sequestration—which could include longer development phases and lower production rates—be significant enough to cause some major defense acquisition programs to experience significant unit cost increases reportable as "Nunn-McCurdy breaches"?

General MOELLER. We did not experience any Nunn-McCurdy breaches with the FY13 sequestration, but there is potential for a breach with the FY14 sequestration. This will not be determined with certainty until the FY15 President's Budget is complete.

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 MOELLER. The Air Force builds its budget based on the needs of the service consistent with resources available. The Air Force will make prioritized investments to ensure an ability to project Global Vigilance, Global Response, and Global Power. When forced to make tough decisions, we will favor new capabilities over upgrades to our legacy forces and our top three acquisition priorities remain the KC–46, the F–35, and the Long Range Strike Bomber.

The fact that a program may or may not have a Nunn-McCurdy breach does not drive the overall programming process. Those decisions may result in terminations and truncations of investment programs. We would work to re-baseline and restructure the remaining major defense acquisition programs to be executable in FY14 and beyond, as well as minimize Nunn-McCurdy impacts.

It is the Department's position not to seek any legislative relief for sequestration-driven Nunn-McCurdy breaches. The current Nunn-McCurdy legislation has a mechanism to mitigate quantity-related critical breaches. The Department has not experienced any significant impact in terms of breaches to date. There were no Nunn-McCurdy breaches reported for FY13; however, the potential for a breach with sequestration for FY14 exists. The cumulative reductions over time in quantity from the baseline may eventually result in an increase in Nunn-McCurdy unit cost breaches.

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

General MOELLER. Sequestration in FY14 could result in a loss of 4–5 F–35A aircraft. A full year continuing resolution (CR) could result in a loss of 3–4 F–35A aircraft. A combination of sequestration plus a full year CR could result in a loss of 5–7 aircraft. The FY14 President's Budget request is for 19 F–35A aircraft.

The exact impact of sequestration on the future strike fighter force is still being assessed. We do know that more reductions will drive additional risks to our readiness, force structure, and ability to modernize our aging aircraft inventory. As we navigate the uncertain way ahead, we will continue to work with Congress.

Mr. TURNER. Would sequestration and a 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 MOELLER. F–15 Program—The F–15 has no Service Life Extension Program (SLEP), therefore no known impact at this time.

F–16 Program—FY14 sequestration and continuation resolution (CR) could affect the ongoing developmental efforts associated with the F–16 Legacy SLEP program by slowing the program. Production is scheduled to begin in FY18 and may be impacted if there is a delay in development. There is no immediate shortfall in aircraft, but future years may be impacted.

A–10 Program—The A–10 Wing Replacement Program would buy fewer wings this year. No fighter shortfall this year but may occur as early as FY19 without future buys based on FY13 NDAA mandated fleet size (283).

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

General MOELLER. We are now approaching a second year of operations under the Budget Control Act (BCA) and operating under Continuing Resolutions. Risk and uncertainty are the key words that I would use to characterize the results. The nation's security is at greater risk, your Air Force is at greater risk and most importantly our Airmen, military and civilians, are at greater risk as they attempt to cope with the uncertainties of this fiscal crisis.

Clearly, there have been broad impacts to the national technology and industrial base. The immediate and drastic reductions imposed by the BCA caused the Air Force to cut flying hours; reduce training, exercises, and travel; defer maintenance and modernization; and painfully, furlough our civilian Airmen. The instantaneous drop in demand flowed across and through the tiered network of companies, large and small, that supply the goods and services needed to sustain Air Force capabilities and our infrastructure. The resulting personnel reductions and reorganizations of the larger firms, such as Lockheed Martin and Raytheon, have been reported in the press. Adjustments made by the lower tiers of the supply chain are less publicized yet, on the individual level, are just as devastating.

Without relief, the impacts will not get better in the near future. As the Air Force shrinks in size, divesting capacity while preserving core capabilities and key investments, our demand on both the organic and commercial industrial bases will continue to drop. Some companies may be able to offset the drop in Air Force business

by shifting to commercial or private sector customers. The segment of concern is that group which has both the intellectual capacity and physical plant capability to design, develop, produce, and sustain military-unique aircraft and systems. Without investment, that sector will wither. The nation may pay dearly in the future to reinvigorate that sector. My hope is the cost will be measured only in terms of dollars and time and not those whose mission it is to fly, fight and win when called upon.

QUESTIONS SUBMITTED BY MR. VEASEY

Mr. VEASEY. As the Army addresses reductions in end-strength, you must also be looking to make commensurate cuts to equipment and weapons systems. Is Army basing these decisions not only on acquisition cost savings, but also on related life cycle cost expenditures? It's my concern that any saving initially reaped by divesting of one weapons system will be more than offset by the operating and maintenance costs associated with retaining or expanding the use of another system if operating expenses are ignored. Are you taking a holistic approach and assessing all the costs involved when you make these decisions?

General BARCLAY. The Army requirements and programming process specifically addresses life cycle costs and cost-benefits associated with retaining existing equipment and modernization. All programs undergo a life cycle cost assessment to determine the investments necessary to develop, acquire, sustain, and divest the system. Modernization planning includes sustainment costs to keep older equipment longer if new or modification programs are delayed.

The Army faces critical resource issues regarding sustainment costs and modernization costs. Continued delays in modernization will increase the sustainment costs of existing equipment.

Throughout the year, the Army and Secretariat staff team to address near- and long-term life cycle costs. This is conducted at the program level and portfolio levels during the Program Objective Memorandum development, and in our recently instituted Long-Range Integrated Requirements Analysis reviews that bring together acquisition, sustainment, training, and installations to ensure the long-range plans are synchronized.

The current sequestration pressures reduce the Army's ability to find the right balance to reduce overall life cycle costs. Resource stability and flexibility are fundamental building blocks to improving effective life cycle cost management

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