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**ON FY13 CONTINUING RESOLUTION IMPACTS AND THE EFFECTS OF
SEQUESTRATION ON MILITARY PERSONNEL**

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Introduction

Chairman Wilson, Ranking Member Davis, Distinguished Members of this Committee -- Thank you for the opportunity to appear before you on behalf of America's Army.

Throughout our history, the United States Army has never failed to respond to a threat to our nation. Today that greatest threat to our military readiness is the dire fiscal uncertainty we are presently faced with. The uncertain Fiscal Year 2013 funding caused by the combined effects of a possible yearlong Continuing Resolution and sequestration, along with the need to protect wartime operations, may result in particularly severe reductions in funding to programs directly linked to the readiness of our force and the well-being of our Soldiers and Families.

Strategic Overview

The Army has been in a state of continuous war for nearly twelve years – the longest in our Nation's history. More than 4,800 Soldiers have given their lives on behalf of this Nation. Today we have more than 81,000 Soldiers committed to operations around the world with approximately 58,000 in Afghanistan. Nearly 1.5 million Soldiers have deployed and more than half a million have deployed multiple times -- some as many as four, five, and six times. Our Soldiers, Civilians and Families remain the strength of our Nation. Our All-Volunteer force has shown amazing skill as demonstrated by unprecedented readiness and performance. For us to continue to increase capability and performance, we must continue to build resilience in our Total Force.

The magnitude of today's fiscal uncertainty will have grave consequences for our Soldiers, our Civilians, and our Families. If nothing is done to mitigate the effects of operations under a Continuing Resolution, shortfalls in our funding of overseas contingency operations, and the enactment of sequestration, the Army will be forced to make dramatic cuts to its personnel, its readiness, and its modernization programs. If not addressed, the current fiscal uncertainty will significantly and rapidly degrade Army

readiness for the next five to ten years. Cuts of this severity will put our national security at risk.

The Army has been operating within the confines of the discretionary spending caps established by the Budget Control Act of 2011. These caps required \$487 billion in cuts over ten years across the Department of Defense as reflected in the FY 2013 President's Budget, of which the Army's share is estimated to be \$170 billion. The Army is reducing the active duty end strength from a wartime high of about 570,000 to 490,000; the Army National Guard from 358,200 to 350,000; and the civilian workforce from 272,000 to 255,000 by the end of fiscal year 2017 (FY17). This is a net loss of 106,000 Soldier and Civilian positions. By FY17, we will downsize our active component force structure from 45 Brigade Combat Teams to potentially as low as 32.

In addition to these programmed reductions, if sequestration occurs in FY 2013 and the discretionary caps are reduced from FY 2014 to 2021, the Army may be forced to reduce an additional 100,000 personnel across the Active Army, Army National Guard and, U.S. Army Reserve in order to maintain a balance between end strength, readiness and modernization. These combined reductions will generate a total reduction of approximately 189,000 Soldiers across all components in the coming years.

The fiscal crisis we now face is due in part to the fundamental lack of predictability in the budget cycle. The Department of Defense has operated under a Continuing Resolution for 14 of the last 28 months. Each Continuing Resolution prevents new starts for needed programs, limits reprogramming actions, creates inefficiency, and often results in wasteful funding for accounts that we no longer want or need. This uncertainty creates challenges in projecting future funding requirements that inform our annual budgets over time.

Military Personnel, Army

As the Deputy Chief of Staff for Personnel, the Military Personnel, Army (MPA) appropriation is within my purview. The MPA will not be adversely affected by either the

Continuing Resolution or sequestration in FY13 because the continuing resolution provides funding in excess of requirements and the President has exempted it from sequestration. As a result, military pay, pay raises, housing allowances, subsistence, and other pays are adequately funded.

However, the Army would reprogram any assets available with the MPA in order to offset funding shortfalls in the Army overseas contingency operations O&M appropriation due to increased costs in theater., But these assets would not be sufficient to substantially mitigate reductions required by sequestration.

Even after reprogramming the FY 13 MPA asset, it may be necessary to offset critical shortfalls in the O&M accounts as a result of the yearlong CR and higher than anticipated costs for overseas contingency operations. Should the Army be forced to take reductions in MPA, programs like permanent change of station moves, recurring and retention incentives and incentive pays will suffer and thus make it difficult to manage an all volunteer force.

If sequestration occurs and associated budget reductions continue through FY 2021, then the Army will have to reassess the current drawdown plan and size of the Army. The results will put deploying unit readiness at greatest risk and severely limiting the Army's ability to respond to unforeseen crisis. Any reasonable action we could take to reduce the size of the Army more rapidly in FY14 would require us to take actions in 2013 and likely result in a bill in 2014 to cover increases in separation pays.

Operation and Maintenance, Army Account

Even with the MPA appropriation protected, the Army faces significant budgetary uncertainty in the coming months. The uncertain FY13 funding caused by the combined effects of a possible yearlong Continuing Resolution and sequestration, along with the need to protect wartime operations, will result in particularly severe reductions relative to the FY2013 President's Budget in Army Operation and Maintenance accounts.

The Operation and Maintenance, Army (OMA); Operation and Maintenance, Army National Guard (OMNG); and Operation and Maintenance, Army Reserve (OMAR) accounts are critical. They fund the war in Afghanistan and other operational contingencies; training, exercises and mission support to create and maintain unit and Soldier readiness; base operations support and facilities sustainment of our posts, camps and installations, and Soldier and Family programs supporting the All-Volunteer Force.

Army support for combat operations, preparedness for those scheduled to deploy, and critical Soldier and Family programs consume 43% of the Army's annual O&M appropriations. The remaining 57% of the Army's O&M funds current and future readiness for unit preparations for future contingencies. The Army will not compromise our support for combat operations or critical Soldier and Family programs to the extent possible. However as such, significant current shortfalls must be taken from the 57% of remaining O&M activities. Additional reductions will only further exacerbate impacts to readiness, potentially leaving the Army with fully trained units only for Operation Enduring Freedom (OEF), rotations to Korea and the Global Response Force Brigade Combat Team (BCT).

Readiness and Training

It is imperative that we preserve the readiness of our force, and it depends on the ability to deploy trained and ready Soldiers. If we do not have the resources to properly train and equip our Soldiers, we will be putting their lives in danger. The fiscal reductions required by sequestration will significantly impact the Army's ability to fund the training and support resources required to maintain readiness.

Cancellations in initial military training, or a reduction in the support network required to feed, clothe, and maintain the health of initial entry Soldiers would create a backlog within the personnel inventory well into FY14 and beyond. This backlog would impact the Army's ability to maintain grade structure and future readiness. Loss of training is

not recoverable and leads to untrained Soldiers assigned to units - a negative impact to near term readiness. Loss of confidence in the stability the Army provides would damage recruiting and retention for many years, requiring a return to lower standards and an increase in recruiters and bonuses to maintain minimum end-strength.

Diminished available resources due to sequestration and the misalignment of funds under the Continuing Resolution will have a significant impact. Inadequate funding through FY13 would leave units in a degraded readiness posture and inhibit the progressive build of unit capability to meet early FY14 missions, emergent requirements, and timelines associated with Combatant Command Operational and Contingency Plans.

For instance looming reductions due to sequestration and the misalignment of funds under the Continuing Resolution will likely have a significant impact on the United States Military Entrance Processing Command (USMEPCOM), as the Army funds USMEPCOM, as well as Armed Service recruiting operations. Reductions in funding to USMEPCOM pose the greatest threat to the Army's ability to conduct recruiting operations and sustain the All-Volunteer Force.

These same reductions described above would cause a level of curtailment of USMEPCOM operations and IT support to Army and sister Service recruiting programs that could result in all Services reducing or halting planned recruiting programs for the remainder of the year. Even short-term funding impacts would have irreversible consequences in the short-term and would likely have long lasting impacts on Service readiness. Further reductions in retention incentives would also impact the force and likely result in as many as 13,000 lost reenlistment contracts in the hardest to retain specialties where attrition is high due to civilian sector job opportunities including linguists, special operations, and military intelligence.

Within stated priorities, and subject to actual reductions in Army operating budgets, the challenge for the Army will be to achieve balance between end strength, readiness and

modernization. The Army has already begun its planned reduction of 80,000 active-duty Soldiers over the next five years, bringing active end strength down to 490,000 Soldiers. These reductions are deliberate and timed over this period to maintain readiness and provide for appropriate transition for our Soldiers to civilian life. The gradual slope also allows the Army to determine who leaves in order to retain our very best. We will have a challenge to meet the directed minimum end strength within the 2013 NDAA. This challenge is due to faster than expected attrition resulting from the improvements and streamlining of the disability evaluation process and the continued higher rate of adverse losses. The annual end strength targets for FY13 and FY14 will be lower than what was projected in the Army drawdown plan.

Force structure decisions are also being made to balance the force within end strength - these decisions drive requirements which impact promotions, retention, and accessions. With sequestration in FY13 and the related reduction in discretionary caps in future years, the possibility of additional reductions in end strength will create a greater challenge to achieve such balance, as they would not only impact end strength but the Army's ability to be trained and ready. If rapid reductions are required the only option will be to drastically lower or halt accessions, resulting in significant gaps in inventory over several year groups that could easily lead to a hollow Army, and will persist across an entire career cycle (20+ years). With a diminished ability to execute modernization programs, the potential to hollow out the force becomes very real.

To avoid mortgaging the Army's future force, the Army's most critical precept is to sustain accessions of new enlisted Soldiers and officers to avoid creating gaps in grades and skills that are not easily correctable.

The Army's plan to achieve the drawdown targets is to rely on normal attrition and to use involuntary separation. We will not use voluntary separation incentives, allowing us to retain the very best individuals. For FY13 and FY14, we will continue the Qualitative Service Program - a qualitative board review targeting overstrength and stagnated military operational specialties -- which will separate approximately 600 NCOs through

FY14. For officers, a Selective Early Retirement Board in late FY13 will select approximately 350 LTCs/COLs, with a mandatory retirement date in early FY15. We will also notify approximately 80 CPTs/MAJs, currently serving a selective continuation, to separate from the Army by early FY15 – all but a few are eligible for retirement. FY14 will also mark the start of Officer Separation Boards to shape year groups over-accessed during Grow the Army – the first board is expected to select approximately 500 CPTs to separate in FY15.

Army Reserve and National Guard

Guard and Reserve Military Technicians, who are civilian employees, could be affected by funding reductions under sequestration, as funding for civilian employees is not exempt. This could have a significant impact on the readiness of units if these full-time logistics, personnel, training, operations, and administrative personnel are furloughed or, if cap reductions continue in future years, reduced.

Additionally, our Army National Guard and U.S. Army Reserve will experience significant cuts of in their medical readiness accounts. For example, we have cancelled pre-mobilization medical support for nearly 200,000 Army National Guard and U.S. Army Reserve Soldiers, which will degrade reserve unit readiness, increase post-mobilization training costs, and increase the time needed to ensure units are properly prepared following mobilization.

Under a full-year Continuing Resolution the Army National Guard (ARNG) would face substantial National Guard Personnel, Army account challenges. Reduced Inactive Duty Training funds could jeopardize training and personnel readiness. Reduced funding for recruiting would make achieving the ARNG enlisted accession mission of 49,000 challenging. The ARNG is currently approximately 2,000 Soldiers below the congressionally mandated end strength of 358,200. Further impacts include deferment/reduction of approximately 1,000 Permanent Change of Station (PCS) moves.

Proposed FY14 Military Basic Pay Raise

The President has proposed an FY14 military basic pay raise of one percent, following the recommendation of senior military leaders. The adjusted pay raise was a difficult decision reached after carefully weighing other options for operating under current budgetary constraints. This pay increase balances our responsibility to care for our members and provide them with a reasonable standard of living. This also means that the DoD will not have to reduce military end strength by thousands of additional troops on top of the drawdown already planned, or further cut funds for training and equipping our forces to achieve these savings. As a result, the Department believes the current military compensation level remains appropriate at this time.

A 1% basic pay raise, as compared to the 1.8% increase authorized in law, would equate to the following:

- For a corporal with four years of service, about \$23.05 per month (\$277 annually) before taxes. (versus \$41.50 per month (\$498 annually))
- For an officer with six years of service, about \$53.60 per month (\$643 annually) before taxes. (versus \$101.35 per month (\$1,216 annually))

Congressional Assistance

Sequestration is not in the best interest of our country, our Soldiers, or our national security. Our current fiscal uncertainty has already resulted in the cancellation of training, the reduction of services to Army Families, and reductions to the civilian workforce. The cumulative effect of the Army's budget shortfalls and the enactment of sequestration puts the Army's ability to execute DoD strategic guidance at risk.

It is our shared responsibility – the responsibility of our nation's military leaders and Congressional leaders – to ensure the readiness of our military and the well being of our Soldiers. No amount of flexibility could substantially mitigate the effects of

sequestration. But, at a minimum, we would ask Congress to modify the continuing resolution to help us get the funding aligned to the correct accounts. We would also need Congress to support the Department's efforts to reprogram funds to meet our highest priorities. There is no doubt that deep cuts in spending related to an ongoing Continuing Resolution and a possible sequestration will negatively impact our ability to train, equip, and sustain the All-Volunteer Army.

I ask for your support to find a viable solution to the economic hurdles that face our Army and preserve what we have built over the past 12 years of war.

Conclusion

With the on-going Continuing Resolution and a looming sequestration, we cannot escape the real negative impact to our readiness. While we will protect the war-fighter, those serving in Afghanistan and our critical deployments, we cannot do this without paying a cost – a cost that is our readiness. The Military personnel account may be exempt from sequestration, but the second and third order effects are detrimental and will have direct impacts on our future readiness.

We have invested a tremendous amount of resources and deliberate planning to preserve the All-Volunteer force. Simply put, People are the Army. Our dedicated and talented force is the reason the United States Army is second to none. We have a responsibility to the courageous men and women who defend our country to take care for them and their families. While we must transform to a smaller Army, it is imperative that we do so in a planned, strategic manner without sacrificing the programs that impact readiness and support our people. We must not break faith with those who dedicate their lives to serving our nation.

Chairman Wilson, Ranking Member Davis, and members of the subcommittee, I wish to thank all of you for your continued support, which has been vital in sustaining our All-

Volunteer Army through an unprecedented period of continuous combat operations and will continue to be vital to ensure the future of our Army.