

RECORD VERSION

STATEMENT BY

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

AND

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

BEFORE THE

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

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

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THE HOUSE ARMED SERVICES COMMITTEE**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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