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HOUSE ARMED SERVICES COMMITTEE  
TACTICAL AIR AND LAND FORCES  
SUBCOMMITTEE

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BEFORE THE

TACTICAL AIR AND LAND FORCES  
SUBCOMMITTEE

OF THE

HOUSE ARMED SERVICES COMMITTEE

ON

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

FEBRUARY 28, 2013

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

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

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

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

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

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

## **PERSONNEL/ACQUISITION/INDUSTRIAL BASE IMPACTS**

### National Economy/Employment Impacts:

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

## DoN Personnel Impacts:

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

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

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

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

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

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

#### Major Acquisition Programs

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

### Industrial Base

Sequestration's shadow engenders large uncertainties for the DoN as a whole and in particular our defense industrial base. We have observed prior disruptions to industry resulting in a loss of talent, a loss of learning, and a reduction to quality.

As Secretary Panetta has stated, sequestration also puts at risk a defense strategy established, in part, to ensure the United States maintains its industrial base and is not driven to contract with overseas companies to keep its technological edge.

For the DoN, sequestration will impact all 50 states – from prime contractors, to the supplier base, and to the scientific, engineering, and technical services sectors.

Assuming a nine-percent sequestration reduction for the March 1 and March 27 potential orders combined, we project industry contract awards will be reduced by approximately \$6.7B in Fiscal Year 2013.

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

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

## **SUMMARY**

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

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

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