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THE HOUSE ARMED SERVICES COMMITTEE
TACTICAL AIR AND LAND FORCES
SUBCOMMITTEE

STATEMENT OF

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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

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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 III 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.