

RECORD VERSION

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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**

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.