

PREPARED STATEMENT
OF
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ACTING UNDER SECRETARY OF DEFENSE FOR PERSONNEL AND READINESS
AND
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BEFORE THE
HOUSE ARMED SERVICES COMMITTEE
MILITARY PERSONNEL SUBCOMMITTEE

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INTRODUCTION

Chairman Wilson, Ranking Member Davis, distinguished members of the Committee, we thank you for the opportunity to discuss the immediate and long-term impacts of sequestration as mandated by the Budget Control Act of 2011, and the ongoing continuing resolution (CR) for fiscal year (FY) 2013, on Department of Defense military personnel and family programs as well as the Total Force. As we testified before this Military Personnel Subcommittee on February 27 on the negative impacts to our military personnel and total force management, today we are here to provide specifics on a wide range of military and civilian policy issues including recruiting, training, medical and support programs that sustain the All-Volunteer Forces and are relied upon by our Service members and their families every day.

On March 1, the President ordered the Joint Committee sequestration as required by law, effecting an immediate reduction in budget authority of approximately \$41 billion across the Department. And, if the current CR is extended for a full year, it will trigger an additional sequestration of \$6 billion across the Department due to a breach in the discretionary spending caps for FY 2013. Combined, these actions would result in a total of approximately \$46 billion in FY 2013 funding cuts across the Department, 9% of the total budget, all to be implemented in the last seven months of this fiscal year. An extension of the existing CR for FY 2013 would also lead to further funding shortfalls in the operations and maintenance (O&M) accounts that fund our critical personnel, training, and readiness programs.

In order to not break faith with our Service members, the President used his authority to exempt the military personnel accounts from sequestration in FY 2013. Although I wholeheartedly agree with his decision, it results in larger decrements from all other non-exempt Defense accounts, to compensate. While we will protect our war-fighters, we cannot do this

without paying a cost to the readiness of our Service members and their families. The backbone of the world's greatest military is our people. Our Active, Reserve and National Guard Service members, as well as our civilians who serve throughout the country and the world, are the Department's greatest asset. However, they will become "the collateral damage of political gridlock," as Deputy Secretary Carter points out, if we continue down this fiscal path. Due to the cuts in O&M accounts our Military personnel will receive reduced training, leading to diminishing readiness and morale. Service member and family support programs will be impacted by across-the-board funding decrements affecting the quality-of-life service we provide to them, even as we seek to protect family programs wherever feasible. Our career civilian workforce, which has not seen a pay raise in several years, is likely to be subjected to furlough for up to 22 discontinuous work days beginning in late April through September. This equates to a 20% reduction in their pay during this period with a significant impact to their families, as well as to the economies of their local communities in which they live and serve. These effects are real, and they are avoidable.

If sequestration continues and the Department is forced to operate with an extended continuing resolution, the collateral damage will be seen for many areas. However, as the President and former Secretary Panetta have made clear on multiple occasions, in addition to protecting military members' pay, the Department will protect, to the greatest extent possible, what we hold sacred – the caring of wounded warriors and providing medical care for our Service members and families. And although we cannot protect everything from the cuts required by sequestration, the Department will be committed to the full implementation of priority personnel policy efforts such as sexual assault prevention and response, suicide prevention, and transition support. We will focus our resources on these priority issues for the

future and work to reduce impact as much as possible, but we know that in the long term sequestration and year-long continuing resolution for the remainder of FY 2013 would degrade family readiness and place greater stress on the Total Force.

Civilian Furlough and Hiring Freeze

One of the highest profile effects of sequestration is the scheduled furlough of almost 800,000 Department civilians for up to 22 discontinuous work days beginning at the end of April and extending to the end of the fiscal year. Notification of the Department's intent was sent to Congress and to the civilian workforce on February 20. Furloughs will be all-encompassing spanning the entire defense civilian workforce, accounting for approximately \$5 billion of the \$46 billion in cuts mandated by sequestration. The Department will apply furlough actions in a consistent and equitable manner, with few exceptions based on unique mission requirements. Individual employee furloughs will not exceed 22 discontinuous work days (176 total hours) as this is the maximum number of furlough days without invoking reduction-in-force procedures. The direct impacts of furlough on civilian employees will be a loss of approximately 20% of pay, a loss of leave accrual, possible Thrift Savings Plan contribution reductions, and retirement pay calculation implications for certain employees.

Furloughs will be disruptive and damaging to our ability to carry out the defense mission, however, due to sequestration, the Department has no viable alternatives. We anticipate severe morale and financial effects on our valued civilian employees, a significant decline in productivity, and loss of critical civilian talent in high demand fields (e.g., cyber, intelligence, and information technology).

Furthermore, 68,185 Military (Excepted Service) Technicians that support the Reserve Component and National Guard, who are civilian employees, are not exempt from furlough. This will markedly impact maintenance. The reduction in Military Technician output would reduce the operational rate of equipment; ground and air; and training, currency, and readiness will significantly suffer. The most immediate risk will be to our ability to provide a timely response to domestic emergencies.

In order to address the severe across the board cuts, the Department has also implemented a civilian hiring freeze and has begun releasing temporary and term employees. These actions put the Department further at risk of competency gaps and critical skill shortages in mission critical activities. In FY 2012, the Department hired almost 60,000 new employees to meet mission requirements. Of these employee hires, approximately 47% were veterans, a community with unique skills sets valuable to the Department. These hiring does not occur just in the Washington, D.C. area, therefore the ramification of these actions ripple beyond the walls of the Pentagon and will be felt well outside the Beltway. In fact, the vast majority of the Department's civilian workforce, almost 86%, works outside the Washington, D.C. area. The loss of critical skill sets will have devastating effects on communities throughout the country. These hiring freezes and furlough will also place added stress on the remaining civilian workforce to "do more with less," the same civilian workforce that will be furloughed and taking a 20% pay reduction.

Wounded Warrior Care

We will protect the care of our wounded warriors and the support they and their families receive as they recover and transition back to military or civilian life. Despite any fiscal

difficulties the Department faces due to sequestration and a potential continuing resolution, our obligations to those who have sacrificed the most, our wounded warriors, will be fulfilled. Our continued focus on their world class medical treatment, mental health, rehabilitation, and when feasible re-indoctrination to military service, will continue unabated regardless of the fiscal environment. Collaboration with multiple partners including the Department of Veterans Affairs will continue, and important programs such as Recovery Coordination Program and prompt delivery of benefits will maintain funding whatever political outcomes occur. Our wounded warriors and their families who care for them deserve the very best, no matter what, for their sacrifice.

Quality Medical Care

The Defense Health Program (DHP) is committed to fiscal responsibility while providing the highest quality healthcare possible to our beneficiaries. DoD healthcare costs have been growing at unsustainable rates, from \$19 billion in FY 2001 to \$51.4 billion in FY 2012, with a projected rise to \$54.4 billion in FY 2017. To curtail these escalating costs, the Department has worked diligently to find areas of efficiency. Some of these efforts include decreasing payments to civilian providers through Prospective Payment System, increasing rebates from pharmaceutical manufacturers, and modest change to pharmacy co-payments. As a result, we are realizing tangible savings. Increasing rebates for pharmaceutical manufacturers saved the Department \$2.4 billion since FY 2009. Changes to pharmacy co-payments and increased use of the mail-order pharmacy saved \$77 million in 2012, and TRICARE Anti-Fraud efforts resulted in savings of \$119 million in 2012.

Despite our efforts to control escalating costs in the DHP, sequestration will have a notable impact on our ability to carry out our mission. Current calculations indicate that sequestration will result in the loss of roughly \$3 billion in resources from the DHP in the last half of the year. In spite of this formidable challenge, we remain steadfastly committed to the quality of care that we provide and will work to the best of our ability to deliver uninterrupted health care to beneficiaries in both the Direct Care and the Purchased Care systems. The reality is, however, that we cannot absorb a reduction of this magnitude without experiencing negative consequences in the Military Health System (MHS). We are actively looking at plans to mitigate these problems, but we do not yet have a plan to avoid all problems unless Congress acts to de-trigger sequestration.

Before providing specifics on how sequestration will impact the DHP, we would like to reinforce our commitment to areas that we will protect at all cost. First, as we previously stated, quality of care will remain unchanged. Also, we have a special obligation to our wounded warriors and under sequestration their care will continue uninterrupted. It is our goal to ensure that wounded warriors should see no difference in the care they receive before, during or after sequestration. Finally, we must also place a high priority on keeping our active duty members fit and ready to fight, for they must continue to execute our national security strategy. Under sequestration, we will shift resources to continue our support of wounded warriors and active duty service members. By shifting resources, in addition to having less resources overall, we may see adverse second and third order effects in such areas as accessibility to care for other categories of beneficiaries in our military treatment facilities; substantially less funding for facility sustainment, restoration and modernization projects; decreased ability to purchase

equipment; and the slowing or stopping of certain research and development projects.

Sequestration will also substantially impact our Private Sector Care (PSC) funding.

Sequestration could drive a decrement in funding for PSC. While we do not yet have six months of medical claims data from which to make future projections, our current analysis does not suggest that we can absorb a cut of this size without finding additional funds to pay PSC claims. Keep in mind that TRICARE is a benefit provided by law, and we have no authority to curtail that benefit. If patients cannot be seen where and when they want in a military treatment facility, they have the right to seek care in the private sector at a cost to themselves and the Government. The service providers will bill us through the claims process, and the possibility exists that sequestration would force us to delay payments on these claims. We have spent years building a provider network that has come to recognize us as a reliable payer. Our goal is to maintain these good relationships and sustain the provider network intact despite the challenges posed by sequestration. Final resolution on our funding for the rest of the year will determine the true impact on PSC and the rest of the DHP.

Sequestration will affect other areas of the Department's medical program. By focusing resources on the provision of patient care under sequestration, the Department has less funding to address medical facility maintenance and needed restoration and modernization projects. This will may negatively affect the care environment and potentially drive substantial bills in the future. The Department will continue to fund projects that affect patient safety or that are emergent in nature, but many of our facilities are older and require substantial upkeep. To delay these projects only exacerbates challenges we face at many of our aging facilities and ultimately the staff and, more concerning, the patients suffer the consequences as aesthetic quality and functionality diminish.

In order to continue our day-to-day health care operations, we will dramatically reduce our investment in equipment. Existing equipment will be used longer with greater risk for breakdowns and increased maintenance costs. At some point, equipment becomes obsolete and cannot be repaired any longer. Sequestration forces us to “make do” with older equipment that becomes obsolete and prone to breakdowns.

Research and Development projects will suffer. To minimize the impact on care provided in military treatment facilities and by the private sector network, we may be forced to reduce or curtail some research projects and re-purpose these funds to provide patient care. This means that important, promising research projects could be slowed or stopped altogether. In patient care areas, nearly 40% of our medical staff in military hospitals and clinics is civilian. With some exceptions, these civilians will be furloughed. We can expect the furlough of medical staff will impact access to care -- causing inconvenience and dissatisfaction among those patients accustomed to getting their care in military treatment facilities. Furthermore, patients who formerly received care in a military treatment facility may seek to obtain care in the private sector at an increased cost to the Department and the American taxpayer. Providing high quality healthcare to all our beneficiaries is a priority of the Department, and will remain as such despite sequestration and the possibility of an extended continuing resolution. We will mitigate the impacts of the fiscal environment to every extent feasible, but the best mitigation technique is to take legislative action against sequestration and pass a Defense budget.

Sexual Assault Prevention/ Response

Sexual assault is a crime and has no place in the United States military. It is a violation of everything that we stand for and it is an affront to the values we defend. Secretary of Defense

Chuck Hagel is committed to eradicating this crime from our armed forces. Our DoD-wide mission is to prevent and respond to this crime in order to enable military readiness and to reduce—with a goal to eliminate—sexual assault from the military.

Sexual assault is a complex problem—in our society, on our college campuses, as well as in the military environment. And there is no single, “silver bullet” solution. Reducing and eliminating sexual assault requires a multi-pronged approach—one that leverages a wide range of initiatives and engages every Service member to prevent the crime from occurring in the first place. But when one does occur, ensures that effective processes and expert people are in place to support victims and ensure delivery of justice.

Our strategy is to apply simultaneous effort in five areas that we call lines of effort: Prevention, Investigation, Accountability, Advocacy, and Assessment. The underpinning in all these efforts is the focus on leaders at all levels and their responsibility to foster a command climate from top to bottom where sexist behaviors, sexual harassment, and sexual assault are not tolerated, condoned, or ignored. A climate where dignity and respect are core values we must all live by and define how we treat one another; where a victim’s report is taken seriously and privacy is protected; where bystanders are trained and motivated to intervene and prevent unsafe behaviors. And finally, a climate where offenders know they will be found and held appropriately accountable for their actions.

Sequestration and a continuing resolution will have significant programmatic impacts on Sexual Assault Prevention and Response (SAPR) program mission-critical requirements. First, operating under sequestration and FY 2012 CR funding level will cause 20% reduction in furloughed civilian work force support. More importantly, sequestration and the potential of operating under a full-year continuing resolution will cause program degradation for special

victims' capability (SVC), a Congressionally-mandated program to improve sexual assault investigative and prosecution capabilities, by preventing the reprogramming of SAPR supplemental funding for Service SVC training. This reduced SVC funding will have cross-cutting negative effects across all the Services and National Guard. In summary, sequestration and a full-year continuing resolution prevents SAPR program from continuing to provide a fully resourced multi-disciplinary approach to combating sexual assault.

Suicide Prevention

The suicide rate among the Military Services rose from 2001 to 2009, from 10.3 to 18.3 suicides per 100,000 Service members. We are very troubled by this trend and are working to address prevention and resilience. In response to an Executive Order issued in August 2012, Defense Suicide Prevention Office (DSPO), the Military Services, and the Department of Veterans Affairs are leading a 12-month, help-seeking campaign to encourage Service members, Veterans, and their families to use the 24/7 Military Crisis Line. To ensure Service members in theatre can access the same level of care, DSPO established a similar peer support hotline in Afghanistan and is working to set up hotlines in Japan and Korea. Other initiatives include working with the Military Services to provide resilience support and prevention services.

The sequestration and a year-long CR on the Defense Suicide Prevention Program will impact program evaluation, risk identification, communications, and outreach efforts under way due to budget cuts and the civilian furlough. Even one suicide is too many, and therefore we will make every effort, to the greatest extent possible, to continue our progress.

Training and Maintenance

The Operational Unit Training and Maintenance of our Total Force will be directly impacted by sequestration and continuing resolution decrements to O&M accounts. This includes overall state of operational training and maintenance in the force, but also specific programs that provide training, including Professional Military Education and the Reserve Component Base Support.

A year-long CR, combined with sequestration, will result in a force less ready to perform the mission that we expect it to conduct. If the budget reductions continue through FY 2021, as they would under current law, our defense strategy would have to change. Otherwise, units will not have the personnel, equipment, and/or training necessary to make them capable of responding effectively to the most likely contingencies. Additionally, part of avoiding a hollow force is understanding the size of the force we can afford to keep ready and adhering to that plan.

The magnitude of sequestration cuts make it impossible for the Services to avoid decrements to vital training capabilities, training infrastructure, and training deliverables. The Army has stated that decrements to training and maintenance will put two-thirds of their active brigade combat teams outside of Afghanistan at reduced readiness levels. The USS Harry S. Truman recently announced cancelation of a planned deployment to the CENTCOM AOR, and Navy operations in the western Pacific, including training, will be reduced by as much as one-third. With fewer training and steaming days, the Navy will inevitably reduce unit readiness levels. The Air Force has stated that sequestration cuts to their flying hour program will put flying units below acceptable readiness standards by the end of the fiscal year. The potential furlough of DoD civilians will include civilians at training centers across the country, immediately reducing the quality and quantity of training, with long-lasting impacts on readiness

The impacts of sequestration and an extended continuing resolution will not be limited to the active duty component of our military. The Reserve component will also feel these effects. Sequestration and a continuing resolution would reduce the number of Guard and Reserve personnel on training and unit training days, inhibiting unit readiness and assessment of their abilities to successfully execute Defense Support to Civil Authority missions.

Sequestration and the extension of the current CR will have impacts on important programs not directly related to operational training, but still important to fielding the most highly qualified military possible. Professional military education (PME) programs are largely funded by O&M accounts. PME provides our Service members the skills the ever changing battlefield requires and prepares them to take the next steps in their military careers. The Services will be limited in sending junior enlisted members to Non-Commissioned Officer Academies where they learn to lead their junior comrades. Senior enlisted members' career training is also affected, for example the Marine Corps will decrease their senior enlisted throughput at Marine Corps University by 50%. The Department's inability to fully invest in the training of its future leaders has not only short-term impacts, but impacts far into the future as Service members progress through the ranks.

High quality institutions that educate our leaders of the future such as the National Defense University, the Naval War College, and Service Academies will all feel the impacts of the fiscal environment through decreased funding from O&M accounts and furloughed staff and faculty. Foreign language readiness programs supported by the Defense Language and National Security Education Office and funded by O&M accounts will also be impacted, reducing the quantity and quality of mission-critical language education and cultural awareness training provided to our Service members prior to their deployment or service in foreign countries.

Finally, the tuition assistance programs throughout the Department, which allow Service members to attend civilian institutions of higher learning, while independently implemented by the Services will likely experience funding limitations after April of this year.

We owe it to our Service members to ensure they are properly trained and equipped for the missions we ask them to complete. This professionalism and readiness has been a hallmark of our military, and it is possible that our forces will not be ready in the future due to sequestration and a continuing resolution.

Key Personnel and Family Programs

We are currently reviewing our family programs and how to minimize the impact and stress of sequestration and CR on Service members and their families. Although sequestration must be applied evenly across all programs, we will seek to preserve these services to the extent feasible. We will have to make hard trade off decisions on how to lessen the impact and stress to our Service members and families by determining how to absorb the across-the-board cuts. Regardless, sequestration will likely slow progress in accomplishments related to the initiatives listed below. In order to build and sustain resilient military families, the Department has focused on providing programs and services that enhance their physical, social, financial, educational, and psychological well-being. Current initiatives include evaluation of common service functions to increase efficiency of operations. Sequestration and CR will inevitably degrade services and impede progress in most of these programs.

DoD Education Activity

The Department will make it our priority to give the children of our Service members complete academic school years and maintain school accreditation.

The impact of sequestration and CR will affect two school years – the end of school year 2012-2013 and the beginning to school year 2013-2014. While we are still finalizing the plans to implement the across-the-board cuts, we do expect both the instructional and non-instructional staff to be affected by the civilian furlough. We are making great efforts to minimize the impact to our children's education, and are also committed to ensuring that Summer School 2013 will be open and available. However, in order to achieve this, we will have to make significant cuts in other areas. For example, educators' professional development and technology-enhanced instructions will be reduced to meet the budget cuts. Likewise, there will be an impact to furthering progress in the Common Core State Standards. Although the next steps include math and English Language Arts curriculum development, current fiscal realities will delay the deployment of these standards for up to two years due to the hiring freeze and travel and training cancellation and deferral. These reductions adversely affect student achievement.

In addition, given that nearly 60% of the DoD-dependent schools are below the DoD facility standards, we have currently programmed \$3.7 billion to recapitalize 134 schools to bring them up to acceptable facility condition rating by the end of FY 2018. Sequestration and CR will reduce the sustainment, restoration and modernization projects, prolonging the repair of below-standard schools. Funds will be available only to address life, safety, and health requirements.

Similarly, sequestration and CR will reduce the education partnership grant program from \$35 million annually to \$1 million. The Department has awarded nearly \$200 million in grants

to over 150 military-connected public school districts since 2008 through our expanded authority to share experiences and resources. These projects impact almost 280,000 military-connected students and more than 670,000 students overall in 900 public schools. Without these grants, we will not be able to increase the number of public schools offering Advanced Placement courses in math, science and English. These cuts will reduce the programs that have significantly improved student achievement and minimized the impact of transition and deployment on military connected students in public schools.

Child and Youth Programs

My office is responsible for the policy, advocacy, and oversight of programs impacting children and youth from birth to age 18 years. Each Military Service is responsible for the implementation of the DoD policy and for developing additional Service-specific guidance and execution of these programs. Child care is provided to approximately 200,000 children (birth – 12 years) every day in Child Development Programs, including those in Family Child Care homes and School Age Care programs. We serve approximately 500,000 in Youth Programs.

The Department is currently continuing our evaluation process of child care program oversight and compliance inspections. We have developed training materials for child development and youth programs, in cooperation with the land grant university system. We are also strengthening our relationships with federal partners and state child care stakeholders, promoting child care policies and best practices while supporting legislative actions and leveraging Federal and State resources. Our next steps include completion of child care oversight inspections and policy updates.

Sequestration and CR will likely require us to furlough our staff in these programs. The loss of any number of care providers on a given day may limit the number of children that a facility could provide child care for or reduce the program's hours of operation, impacting Service members' ability to report for duty. Youth programs supporting youth from age 6-18 years may also see a reduction in the program's operating hours and a reduction in programs such as recreational, educational, and youth development programs. In addition, a hiring freeze will worsen the impact. The child care workforce experiences a turnover throughout the year and the inability to replace direct care staff would result in reducing available child care spaces available to service members. This is a force readiness issue that directly impacts Service members' availability for duty.

Family Advocacy Program (FAP)

Social services program are delivered by each Service to address family violence in active duty families. Goals are to keep DoD family violence rates low and to keep families intact if victims can be safely protected. In addition, the availability of Family Advocacy Program (FAP) personnel to provide potentially life-saving intervention services to vulnerable families including at risk expecting and new parents is crucial to the well-being of our military families. In anticipation of force restructuring, budget uncertainty, and redeployment stress on military families, the Family Advocacy Program partnered with the Military Services and federal agencies (CDC, HHS/ACF, DOJ) to establish a five year strategic plan to promote evidence based prevention of domestic abuse and child abuse in the military community.

While DoD centrally funds Service Family Advocacy Programs, current plans for furlough, hiring freezes, and budget cuts will have significant impacts to these programs at the

Service-level. Current budget cuts threaten our 24/7 response capability and victim advocate services to address the medical and safety needs of abuse victims. Likewise, sequestration will impact the ability to meet the FY 2013 NDAA requirement for Special Victims Capability (SVC) for child abuse and serious domestic violence. The SVC, which requires specialized training and response capability for the service providers, will face furlough and similar budget cuts as other support programs.

Support to the Guard and Reserve

The Yellow Ribbon Reintegration Program (YRRP) was established by the FY 2008 NDAA to create a national combat veteran reintegration program to provide National Guard and Reserve members and their families with sufficient information, services, referral, and proactive outreach opportunities throughout the entire deployment cycle. In FY 2012, YRRP supported approximately 248,000 Service members and families through 2,028 events. A significant achievement is the enhancement of the Employment Initiative Program through the Hero2Hired program, addressing the critical problems of unemployment and underemployment among our National Guard and Reserve Service members

While the Services' YRRP funding is protected under Overseas Contingency Operations (OCO), the OSD YRRP office will likely be impacted by sequestration and CR will reduce our ability to support events for deploying/reintegrating Service members and their families. Our ability to expand awareness of and access to the Hero2Hired (H2H) program to assist unemployed Service members will also be diminished. There will also be decreased use of the H2H Mobile Job Store and kiosks, loss of a new mobile application, and a reduced number of events for Employment Initiative Program. In addition, Service members will lose peer-to-peer

counseling services offered through the Vets4Warriors program because of reduced funding to support the contract.

Employer Support of the Guard and Reserve (ESGR)

Employer Support of the Guard and Reserve (ESGR) is a DoD operational committee created to foster a culture in which all employers support and value the employment and military service of members of the National Guard and Reserve in the United States. ESGR's mission is particularly relevant in an era of increased reliance on the Reserve Component to conduct worldwide combat operations and provide humanitarian response. For the past 40 years, ESGR has been the Department's lead organization for Service members and their civilian employers with respect to the Uniformed Services Employment and Reemployment Rights Act (USERRA).

The ESGR Customer Service Center (CSC), comprised of 70% civilians, provides Uniformed Services Employment and Reemployment Rights Act (USERRA) information and mediation support to Service members and their civilian employers. In FY 2012, ESGR answered more than 21,000 USERRA inquiries and mediated almost 2800 USERRA cases resolving over 77% of the cases in less than nine calendar days.

Under sequestration and CR, ESGR's ability to respond to USERRA cases and inquiries will be diminished due to reduced man-hours available to the Customer Service Center (CSC) personnel to manage issues, claims and inquiries. There will be a reduction in awareness of ESGR programs and USERRA rights and responsibilities among Reserve Component (RC) Service members and their employers because of cuts in the direct mail campaign and reduced

travel funding to reimburse ESGR Volunteers for their outreach efforts with military units and employers.

Morale, Welfare and Recreation (MWR) Programs

Morale, Welfare and Recreation (MWR) programs throughout the Services provide a comprehensive network of quality support and recreation services to enhance the readiness and resilience of our Service members and their families. Across the board cuts under sequestration and the on-going CR will impact all Category A, B and C MWR programs. Category A programs, such as physical fitness and aquatic center, libraries, single Service member programs, and on-installation parks and picnic availability, are funded completely by appropriated funds and have virtually no capacity to generate non-appropriated funds revenues. A cut in O&M funding would impact all programs through reduced operating hours and customer service programs. Category B programs, such as MWR Community Support services, are substantially supported by appropriated funds with some minimal ability to generate non-appropriated funds revenue. The impact would be similar to Category A programs with reduced access to services and a 20% reduction in manpower. Category C programs, such as hospitality services, have the capability to generate enough income to cover most of their operating expenses. However, they lack the resources to sustain their programs solely on their business activities and will be impacted by the overall cuts in appropriated funds and by the reductions in Category A and B programs.

Defense Commissary Agency (DeCA)

The Defense commissary system enhances the quality of life of members of the uniformed services, retired members, and their dependents while supporting military readiness, recruitment, and retention. Currently, there are 247 commissaries (179 U.S.; 68 Overseas) in the U.S. and 12 other countries, with 10 central distribution centers and one centralized meat processing plants overseas. The Commissary sales worldwide in FY 2012 were \$6.1 billion, the highest sales in DeCA's history, effectively generating \$2.7 billion in savings to military Service members.

To accomplish sequestration reductions, DeCA will be forced to implement furloughs of more than 16,000 full-time and part-time employees (up to 22 days for the remainder of FY 2013). This will likely require closing each commissary one additional day a week – most likely Wednesdays, our lowest volume sales day. This would reduce the availability of benefits and access to the 30% savings that Service members, families and retirees receive. We expect longer checkout lines and reduced stock availability due to staff reductions related to the civilian hiring freeze. We also anticipate reduction in contract requirements because of fewer days of operation. This will impact contractor jobs for many disabled people who work as stocking and custodial staff.

Military Exchanges (AAFES, NEXCOM, MCX)

The three exchange services (AAFES, NEXCOM, MCX) sell goods at a discount, but since they draw relatively little appropriated fund support, the exchanges are authorized to generate profits, some of which are passed to the military services as dividends to support other MWR activities. These military exchange systems sell goods at an average discount of 22%.

The direct impact would initially be minimal, since exchanges are primarily operated with non-appropriated funds. However, they do receive limited appropriated funding for common base support services, transportation of goods from the U.S. to overseas locations, and similar expenses. As base operating support budgets are reduced, the inability to fund those authorized support costs with appropriated funds will result in the exchanges having to pay more expenses from exchange revenue. In effect, this shifts the funding burden to the troops and their families in the form of cutbacks to exchange hours or services, deferred improvements to the stores, and reduced funds provided to MWR programs.

Transition Assistance Program (TAP)

The Department is committed to preparing our Service members who are leaving service to be as successful in their civilian careers as they were in their military careers. The recently established Transition to Veteran Program Office (TVPO) continues to make strides in assisting our Service members. TVPO has developed curriculum within a broad-based consortium and piloted and evaluated this curriculum to ensure Service members transition from active duty "Career Ready," while collaborating with Military Service leaders in changing the Transition Assistance Program (TAP) paradigm. In the future TVPO will fully implement all provisions of the re-designed Transition Goals, Plans, Success (GPS) program, continue to support the cultural shift from an end of Service to a military lifecycle model, develop a virtual asynchronous curriculum to ensure isolated and remote Service members can receive transition assistance, and publish new Department-wide TAP Policy to fully cement all transition requirements, processes, and support.

These important veteran transition programs will be affected by sequestration. Sequestration would likely result in the furloughing of civilian employees that provide curriculum, counseling, and training in the Department's TAP. Due to sequestration, civilian employees and associated contracted support will not be available at the same levels to support the large number of separating and inactivating Reserve and National Guard Service members scheduled for discharge or release from Active Duty for the remainder of FY 2013 and FY 2014.

DoD Outreach

Three Civil Military Programs that continue the long-standing tradition of our Armed Forces acting as good neighbors between our military and their communities may suffer the consequences of reduced O&M funding. These programs and services are conducted, implemented and performed at the local level to assist civic and community needs. Two of those programs help develop young members of our communities and give them exposure to Service members as examples of productive citizens in our society. The STARBASE program, a program that exposes 75,000 youth to the technological environments and positive role models found on military bases and installations, has been forced to delay opening of two new programs due to the current hiring freeze, while 10 other installations are stalled in developing their programs due to budget uncertainty. In addition, the National Guard Youth Challenge Program that provided mentoring and training through the National Guard to 10,000 at-risk youth last year has been forced to delay opening of programs in the District of Columbia and Idaho because of funding uncertainty. Finally, training of personnel and the services provided in several underserved communities conducted through the Innovative Readiness Training Program, which includes nine medical and 13 engineering training events, will be impacted and reduced.

Future of the All-Volunteer Force

Today's AVF is the best military in the world. As previously stated, many of the training and educational opportunities funded by O&M accounts would be reduced or eliminated for FY 2013 and possibly beyond. Also, the continued success of the AVF is dependent upon the Services' ability to attract the best and brightest of America's youth. The high quality and diversity of our new recruits is the result of well-orchestrated recruiting campaigns and individual recruiter efforts.

Sequestration will jeopardize the success of the FY 2013 military recruiting effort across the Department. Similarly, Service recruiters are already working enlistments and shipping dates for FY 2014 recruiting which will be degraded by sequestration. Over the last several years the Services have recruited the highest quality recruits in the history of the AVF. This remarkable feat has been accomplished while each Service has simultaneously reduced the resources dedicated to recruiting. It is also imperative that our force be representative of the society it defends. Fiscal pressure will directly impact our ability to bring in a force that is reflective of our society in terms of race, ethnicity, gender, geographic residency, and socioeconomic status. Reductions to recruitment advertising and recruiting support/operations accounts under sequestration will be significant and problematic. These reductions include reduced O&M funding to the Joint Advertising, Market Research, and Studies (JAMRS) program which enables DoD Leadership and the Services to make informed, research-based recruiting decisions, eliminating unnecessary redundancies across the recruiting communities, and conducting focused outreach efforts to preserve and enhance the All-Volunteer Force.

A second order effect of sequestration would be at the Services' recruiting commands. These commands are largely made up of Active and Reserve Component Service members, but

the Military Entrance Processing Stations (MEPS) are manned by roughly 2,300 civilians (80% of the total workforce). The MEPS screen and process over 383,000 applicants for all Services each year and are located at 65 sites serving all states and territories. The impact of civilian furloughs, as well as the hiring freeze, will reduce processing ability during the summer “graduation surge” when the MEPS typically process 41% of all recruits. Processing will continue under sequestration or a continuing resolution, but priority will be given to processing current enlistees shipping to basic training at the expense of screening future applicants and establishing future enlistment contracts.

Other key tools in the recruiting efforts and long term development of the AVF would be adversely affected include the Reserve Officer Training Corp (ROTC). In FY 2012 ROTC had more than 21,000 cadets and midshipmen on scholarship and commissioned 6,200 officers. This is a vital tool in the Services’ recruiting arsenal that is 80% funded by O&M accounts. Although not a recruiting program, the Junior ROTC (JROTC) which is the Department’s largest youth development program will be affected. JROTC included approximately 548,000 student participants and contributed nearly 9 million annual service hours to local communities. These students learn the value of citizenship, service to the country, personal responsibility, and benefit from improved graduation rates. Sustainment of JROTC will be difficult under sequestration and a continuing resolution, including moving 650 schools currently from the waiting list to active programs.

The AVF is reliant upon all of these programs to attract the best and the brightest from our society to serve as our military leaders of the future. The Department and Services have done an outstanding job of meeting recruiting goals over the last several years to maintain the

superior quality of the AVF, but this recruitment will be more difficult in an uncertain and austere fiscal environment.

Total Force Management/Strategic Human Capital Plan

The civilian workforce performs key enabling functions for the military, such as critical training and preparation to ensure readiness, equipment reset and modernization, as well as provide medical care, family support, and base operating services – all vital to supporting our men and women in uniform. Civilians also perform as operators in key mission areas such as intelligence and cyber.

The Department must maintain a properly sized and highly capable civilian workforce that is aligned to mission and workload; complements and delivers support to the military; maintains training and readiness levels; provides medical services and family support critical to the well-being of the All-Volunteer Force; and guards against an erosion of critical, organic skills and an overreliance on contracted services.

Use of Contractors

The private sector, through its approximately 710,000 full time equivalent employees, is and will continue to be, a vital source of expertise, innovation, and support for DoD. However, the Department continues to reduce inappropriate or excessive reliance on contracts, particularly for critical, and closely associated with inherently governmental, work. The Department is also continuing to improve the visibility and accountability of contracted services by expanding and refining the data we collect from contractors (as required by statute) in order to compare it to our civilian and military workforce planning factors.

The Department is currently working to determine the necessary reductions in funding for both the civilian workforce and contracted support required by the FY 2013 NDAA section 955. The Department is still assessing what the overall impact of section 955 will be, although anytime there is a mandated cut in any element of the workforce without adequate time to plan and analyze potential impacts, adverse outcomes in readiness, mission accomplishment, and overall capabilities can be expected. We have not yet identified all possible exclusions, but will ensure that any implementation of NDAA FY 2013, section 955 mandate is consistent with the most pressing national security mission requirements

Conclusion

We understand that the Department of Defense must do its part in addressing the nation's budget concerns; however it must be done in a responsible and judicious manner. That means we must first have a strategy then formulate a budget to meet that strategy. However, as Deputy Secretary Carter stated, “[i]f the Department was forced to operate under the mechanistic sequestration rules and the CR for the remainder of the fiscal year, it would achieve precisely the opposite effect by imposing arbitrary budget cuts that then drive change in national security strategy.”

Without immediate and decisive action from Congress, our national security will be harmed from the results of sequestration and a continuing resolution for FY 2013. Our warfighters, their families, our nation's security, economic recovery, and future place at the global table should not and cannot be held hostage by irresponsible fiscal policies like sequestration. Thank you for the opportunity to speak with you today on these important matters, and I look forward to your questions.