

**STATEMENT OF
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BEFORE THE

SENATE ARMED SERVICES COMMITTEE

ON

THE IMPACT OF SEQUESTRATION ON NATIONAL DEFENSE

28 JANUARY 2015

Chairman McCain, Senator Reed, distinguished members of the committee, thank you for the opportunity to testify about the effects of sequestration on our Navy to date and the potential impacts of reverting back to the sequestration-level discretionary caps imposed by the Budget Control Act of 2011 (BCA) in FY 2016.

In this statement, I will describe the lingering consequences of sequestration in 2013, the current situation resulting from the Bipartisan Budget Act of 2013 (BBA), and specific impacts to readiness and modernization should we revert back to the sequestration-levels in FY 2016. I will also assess specific mission risks and critical assumptions I use to base my assessments.

Continuing Impact of Sequestration in FY 2013

Sequestration in FY 2013 resulted in a \$9 billion shortfall in Navy's budget, as compared to the PB-2013 submission. This instance of sequestration was not just a disruption, it created readiness consequences from which we are still recovering, particularly in ship and aircraft maintenance, fleet response capacity, and excessive carrier strike group (CSG) and amphibious ready group (ARG) deployment lengths. As I testified before this committee in November 2013, the continuing resolution and sequestration reductions in FY 2013 compelled us to reduce both afloat and ashore operations, which created ship and aircraft maintenance and training backlogs. To budget for the procurement of ships and aircraft appropriated in FY 2013, Navy was compelled to defer some purchases to future years and use prior-year investment balances to mitigate impacts to programs in FY 2013 execution. The most visible impacts occurred in Operations and Maintenance funded activities. Specific impacts to Navy programs:

- Cancelled five ship deployments
- Delayed deployment of *USS Harry S. Truman* strike group by six months
- Inactivated, instead of repaired, *USS Miami*
- Reduced facilities restoration and modernization by about 30% (to about 57% of the requirement)
- Reduced base operations, including port and airfield operations, by about 8% (to about 90% of the requirement)
- Furloughed civilian employees for six days, which, combined with a hiring freeze and no overtime, reduced our maintenance and sustainment output through lost

production and support from logisticians, comptrollers, engineers, contracting officers, and planners

- Cancelled fleet engagements and most port visits, except for deployed ships

While the Navy was able to reprioritize within available resources to continue to operate in FY 2013, this is not a sustainable course for future budgets. The actions we took in 2013 to mitigate sequestration only served to transfer bills amounting to over \$2 billion to future years for many procurement programs – those carryover bills were addressed in Navy's FY 2014 and FY 2015 budgets. If we were sequestered again, we would be forced to degrade current and future fleet readiness since sources available to mitigate in FY 2013 are no longer available.

Shortfalls caused by the FY 2013 sequestration remain in a number of areas and the Navy is still working to recover from them. For example, we have not yet recovered from shipyard maintenance backlogs. We are working through shipyard personnel capacity issues to determine when ships can be fit back into the maintenance cycle and are balancing that against operational demands on the ships to ensure we meet the global force management requirement for Combatant Commands. The result of maintenance and training backlogs has meant delayed preparation for deployments, forcing us, in turn, to extend the deployments of those units already on deployment. Since 2013, our ships have deployed beyond the traditional 6-month deployment – many CSGs, ARGs, and destroyers (DDG) reaching 8-9 months or longer. This comes at a cost to the resiliency of our people, sustainability of our equipment, and service lives of our ships.

Maintenance and training backlogs have also reduced Navy's ability to maintain required forces for contingency response to meet Combatant Command operational plan requirements. Although the requirement calls, on average, for three additional CSGs and three additional ARGs to deploy within 30 days for a major crisis, Navy has only been able to maintain an average of one group each in this readiness posture. Root causes can be traced to the high operational tempo of the fleet, longer than expected shipyard availabilities, and retirements of experienced shipyard workers, but the FY 2013 sequestration exacerbated the depth of this problem and interfered with our efforts to recover.

With a stable budget and no major contingencies for the foreseeable future, I estimate that we will recover from the maintenance backlogs that have accumulated from the high

operational tempo over the last decade of war and the additional effects of sequestration by approximately 2018, five years after the first round of sequestration. This is a small glimpse of the readiness “price” of sequestration.

Current Situation:

PB-2014 was the last budget submission to fully meet all the missions of the Defense Strategic Guidance (DSG). The DSG and Quadrennial Defense Review (QDR) are the foundation of our current planning, programming, and budgeting. Congress’s passage of the BBA averted about \$9 billion of an estimated \$14 billion reduction we would have faced under sequestration. It enabled us to fund all planned ship and aircraft procurement in FY 2014, but cumulatively the shortfalls increased risk in Navy’s ability to execute DSG missions. The BBA still left a \$5 billion shortfall below the FY 2014 President’s Budget submission in our investment, operations and maintenance accounts. The shortage in funding compelled us to reduce procurement of weapons (many missile types) and aircraft spare parts, defer asymmetric research and development projects, cancel repair and maintenance projects for facilities ashore, and defer procurement of maintenance/material support equipment for the fleet.

The recent passage of the FY 2015 National Defense Authorization Act (NDAA) and Consolidated and Further Continuing Appropriations Act averted about \$4 billion of the estimated \$15 billion reduction that Navy would have faced under sequestration; an \$11 billion shortfall remains (as compared to PB-2014). We are again able to fund all planned ship and aircraft procurement in FY 2015. This enabled us to continue the refueling and complex overhaul of the *USS George Washington* (CVN 73). This carrier and her associated air wing are critical to maintaining power projection, presence and contingency response capacity. Having the additional global presence resident in this carrier and air wing will decrease the demand placed on the remaining carrier fleet, thus reducing the operating tempo impact on the ship, aircraft, and their crews.

Navy balanced its portfolio to mitigate the \$11 billion shortfall by making choices between capability, capacity, cost, and risk. We were compelled to further reduce the capacity of weapons and aircraft, slow modernization, and delay upgrades to all but the most critical shore

infrastructure. As I described in my testimony to this committee in March 2014, the FY 2015 budget represented another iterative reduction from the resources we indicated were necessary to fully resource the DSG missions, making Navy less ready to successfully *Deter and Defeat Aggression* and *Project Power Despite Anti-Access/Area Denial (A2/AD) Challenges*.

Continuing along this budget trajectory means by 2020 (the DSG benchmark year), Navy will have insufficient contingency response capacity to execute large-scale operations in one region, while simultaneously deterring another adversary's aggression elsewhere. Also, we will lose our advantage over adversaries in key warfighting areas such as Anti-Surface Warfare, Anti-Submarine Warfare, Air-to-Air Warfare, and Integrated Air and Missile Defense.

Return to Sequestration starting in FY 2016

A return to sequestration in FY 2016 would necessitate a revisit and revision of the DSG. Required cuts will force us to further delay critical warfighting capabilities, reduce readiness of forces needed for contingency response, forego or stretch procurement of ships and submarines, and further downsize weapons capacity. We will be unable to mitigate the shortfalls like we did in FY 2013 because prior-year investment balances were depleted under FY 2013 sequestration.

The revised discretionary caps imposed by sequestration would be a reduction of about \$10 billion in our FY 2016 budget alone, as compared to PB-2015. From FY 2016-2020, the reduction would amount to approximately \$36 billion. If forced to budget at this level, it would reduce every appropriation, inducing deep cuts to Navy Operation and Maintenance (O&M), investment, and modernization accounts. The Research, Development, Test and Evaluation (RDT&E) accounts would likely experience a significant decline across the FYDP, severely curtailing the Navy's ability to develop new technologies and asymmetric capabilities.

As I testified to this committee in November 2013, any scenario to address the fiscal constraints of the revised discretionary caps must include sufficient readiness, capability and manpower to complement the force structure capacity of ships and aircraft. This balance would need to be maintained to ensure each unit will be effective, even if the overall fleet is not able to execute the DSG. There are many ways to balance between force structure, readiness, capability, and manpower, but none that Navy has calculated that enable us to confidently execute the current defense strategy within dictated budget constraints.

As detailed in the Department of Defense's April 2014 report, "Estimated Impacts of Sequestration-Level Funding," one potential fiscal and programmatic scenario would result in a Navy of 2020 that would be unable to execute two of the ten DSG missions due to the compounding effects of sequestration on top of pre-existing FY 2013, 2014, and 2015 resource constraints. Specifically, the cuts would render us unable to sufficiently *Project Power Despite Anti-Access/Area Denial Challenges* and unable to *Deter and Defeat Aggression*. In addition, we would be forced to accept higher risk in five other DSG missions: *Counter Terrorism and Irregular Warfare; Defend the Homeland and Provide Support to Civil Authorities; Provide a Stabilizing Presence; Conduct Stability and Counterinsurgency Operations; and Conduct Humanitarian, Disaster Relief, and Other Operations*. (Table 2 provides more detail on mission risks.) In short, a return to sequestration in FY 2016 will require a revision of our defense strategy.

Critical assumptions I have used to base my assessments and calculate risk:

- Navy must maintain a credible, modern, and survivable sea-based strategic deterrent
- Navy must man its units
- Units that deploy must be ready
- People must be given adequate training and support services
- Readiness for deployed forces is a higher priority than contingency response forces
- Capability must be protected, even at the expense of some capacity
- Modernized and asymmetric capabilities (advanced weapons, cyber, electronic warfare) are essential to projecting power against evolving, sophisticated adversaries
- The maritime industrial base is fragile--damage can be long-lasting, hard to reverse

The primary benchmarks I use to gauge Navy capability and capacity are DoD Global Force Management Allocation Plan presence requirements, Combatant Commander Operation and Contingency Plans, and Defense Planning Guidance Scenarios. Navy's ability to execute DSG missions is assessed based on capabilities and capacity resident in the force in 2020.

The following section describes specific sequestration impacts to presence and readiness, force structure investments, and personnel under this fiscal and programmatic scenario:

Presence and Readiness

A return to sequestration would reduce our ability to deploy forces on the timeline required by Global Combatant Commands in the event of a contingency. Of the Navy's current battle force, we maintain roughly 100 ships forward deployed, or 1/3 of our entire Navy. Included among the 100 ships are two CSG and two ARG forward at all times. CSGs and ARGs deliver a significant portion of our striking power, and we are committed to keeping, on average, three additional CSGs and three additional ARGs in a contingency response status, ready to deploy within 30 days to meet operation plans (OPLANs). However, if sequestered, we will prioritize the readiness of forces forward deployed at the expense of those in a contingency response status. We cannot do both. We will only be able to provide a response force of one CSG and one ARG. Our current OPLANs require a significantly more ready force than this reduced surge capacity could provide, because they are predicated on our ability to respond rapidly. Less contingency response capacity can mean higher casualties as wars are prolonged by the slow arrival of naval forces into a combat zone. Without the ability to respond rapidly enough, our forces could arrive too late to affect the outcome of a fight.

Our PB-2015 base budget funded ship and aviation depot maintenance to about 80 percent of the requirement in FY 2016-2019. This is insufficient in maintaining the Fleet and has forced us to rely upon Overseas Contingency Operations (OCO) funding to address the shortfall. Sequestration would further aggravate existing Navy backlogs. The impacts of these growing backlogs may not be immediately apparent, but will result in greater funding needs in the future to make up for the shortfalls each year and potentially more material casualty reports (CASREPs), impacting operations. For aviation depot maintenance, the growing backlog will result in more aircraft awaiting maintenance and fewer operational aircraft on the flight line, which would create untenable scenarios in which squadrons would only get their full complement of aircraft just prior to deployment. The situation will lead to less proficient aircrews, decreased combat effectiveness of naval air forces, and increased potential for flight and ground mishaps.

Critical to mission success, our shore infrastructure provides the platforms from which our Sailors train and prepare. However, due the shortfalls over the last three years, we have been compelled to reduce funding in shore readiness since FY 2013 to preserve the operational readiness of our fleet. As a result, many of our shore facilities are degrading. At sequestration

levels, this risk will be exacerbated and the condition of our shore infrastructure, including piers, runways, and mission-critical facilities, will further erode. This situation may lead to structural damage to our ships while pierside, aircraft damage from foreign object ingestion on deteriorated runways, and degraded communications within command centers. We run a greater risk of mishaps, serious injury, or health hazards to personnel.

Force Structure Investments

We must ensure that the Navy has the required capabilities to be effective, even if we cannot afford them in sufficient capacity to meet the DSG. The military requirements laid out in the DSG are benchmarked to the year 2020, but I am responsible for building and maintaining capabilities now for the Navy of the future. While sequestration causes significant near-term impacts, it would also create serious problems that would manifest themselves after 2020 and would be difficult to recover from.

In the near term, the magnitude of the sequester cuts would compel us to consider reducing major maritime and air acquisition programs; delaying asymmetric capabilities such as advanced jammers, sensors, and weapons; further reducing weapons procurement of missiles, torpedoes, and bombs; and further deferring shore infrastructure maintenance and upgrades. Because of its irreversibility, force structure cuts represent options of last resort for the Navy. We would look elsewhere to absorb sequestration shortfalls to the greatest extent possible.

Disruptions in naval ship design and construction plans are significant because of the long-lead time, specialized skills, and extent of integration needed to build military ships. Because ship construction can span up to nine years, program procurement cancelled in FY 2016 will not be felt by the Combatant Commanders until several years later when the size of the battle force begins to shrink as those ships are not delivered to the fleet at the planned time. Likewise, cancelled procurement in FY 2016 will likely cause some suppliers and vendors of our shipbuilding industrial base to close their businesses. This skilled, experienced and innovative workforce cannot be easily replaced and it could take years to recover from layoffs and shutdowns; and even longer if critical infrastructure is lost. Stability and predictability are critical to the health and sustainment of this vital sector of our Nation's industrial capacity.

Personnel

In FY 2013 and 2014, the President exempted all military personnel accounts from sequestration out of national interest to safeguard the resources necessary to compensate the men and women serving to defend our Nation and to maintain the force levels required for national security. It was recognized that this action triggered a higher reduction in non-military personnel accounts.

If the President again exempts military personnel accounts from sequestration in FY 2016, then personnel compensation would continue to be protected. Overall, the Navy would protect personnel programs to the extent possible in order to retain the best people. As I testified in March 2014, quality of life is a critical component of the quality of service that we provide to our Sailors. Our Sailors are our most important asset and we must invest appropriately to keep a high caliber all-volunteer force. We will continue to fund Sailor support, family readiness, and education programs. While there may be some reductions to these programs if sequestered in FY 2016, I anticipate the reductions to be relatively small. However, as before, this would necessitate higher reductions to the other Navy accounts.

Conclusion

Navy is still recovering from the FY 2013 sequestration in terms of maintenance, training, and deployment lengths. Only 1/3 of Navy contingency response forces are ready to deploy within the required 30 days. With stable and consistent budgets, recovery is possible in 2018. However, if sequestered, we will not recover within this FYDP.

For the last three years, the Navy has been operating under reduced top-lines and significant shortfalls: \$9 billion in FY 2013, \$5 billion in FY 2014 and \$11 billion in FY 2015, for a total shortfall of about \$25 billion less than the President's budget request. Reverting to revised sequester-level BCA caps would constitute an additional \$5-10 billion decrement each year to Navy's budget. With each year of sequestration, the loss of force structure, readiness, and future investments would cause our options to become increasingly constrained and drastic.

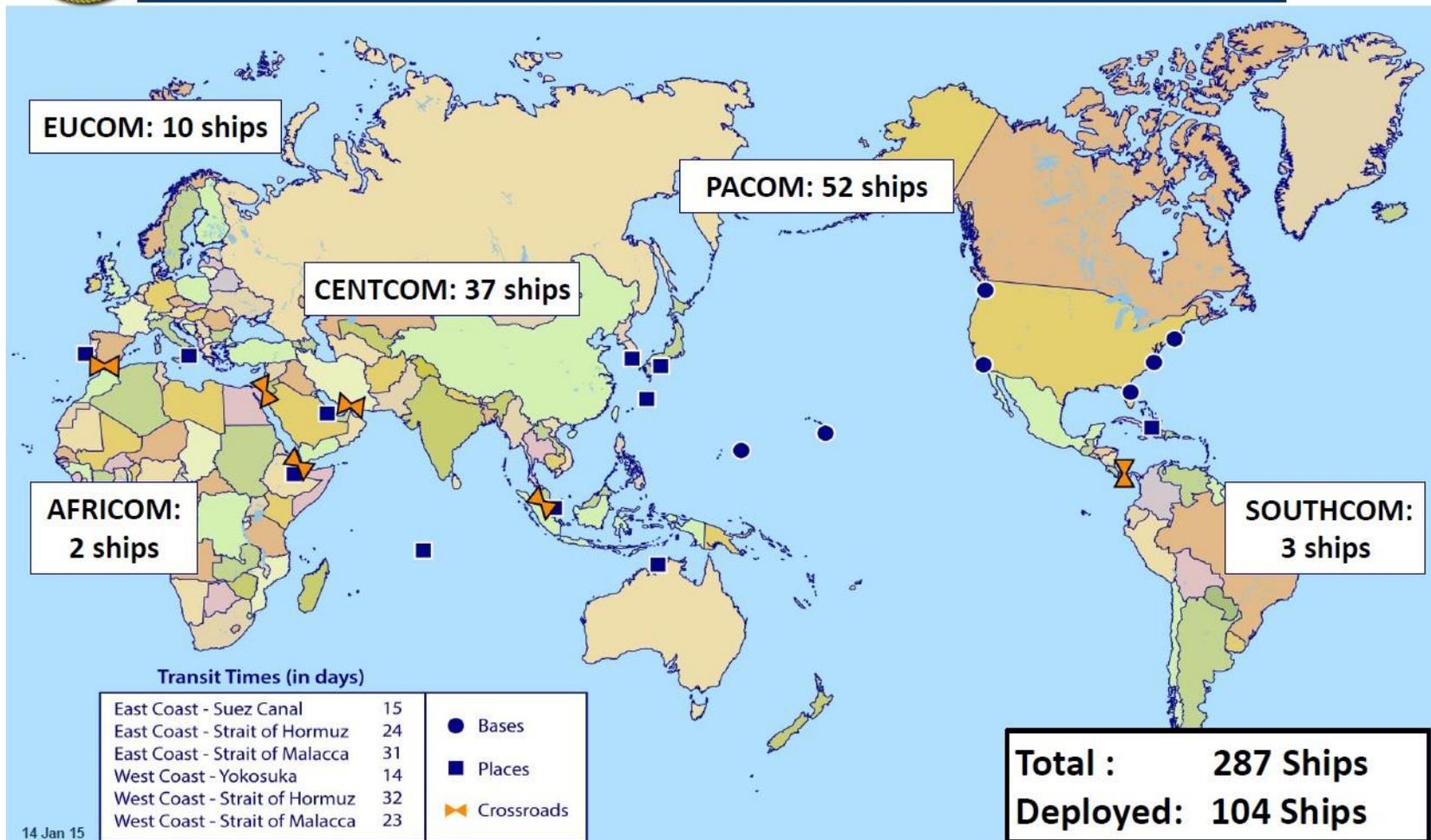
The Navy already shrank 23 ships and 63,000 personnel between 2002 and 2012. It has few options left to find more efficiencies.

While Navy will do its part to help the Nation get its fiscal house in order, it is imperative we do so in a coherent and thoughtful manner to ensure appropriate readiness, warfighting capability, and forward presence—the attributes we depend upon for our Navy. Unless naval forces are properly sized, modernized at the right pace, ready to deploy with adequate training and equipment, and capable to respond in the numbers and at the speed required by Combatant Commanders, they will not be able to carry out the Nation’s defense strategy as written. We will be compelled to go to fewer places, and do fewer things. Most importantly, when facing major contingencies, our ability to fight and win will neither be quick nor decisive.

Unless this Nation envisions a significantly diminished global security role for its military, we must address the growing mismatch in ends, ways, and means. The world is becoming more complex, uncertain, and turbulent. Our adversaries’ capabilities are diversifying and expanding. Naval forces are more important than ever in building global security, projecting power, deterring foes, and rapidly responding to crises that affect our national security. A return to sequestration would seriously weaken the United States Navy’s ability to contribute to U.S. and global security.



Navy Today



Where it Matters, When it Matters

Mission Impacts to a Sequestered Navy

	Defense Strategic Guidance Missions	Navy Ability to Execute
Project Power and Win Decisively	Project power against a technologically capable adversary	Major challenges to achieve warfighting objectives in denied areas: <ul style="list-style-type: none"> Inadequate power projection capacity Too few strike fighter, command/control, electronic warfare assets Limited advanced radar and missile capacity Insufficient munitions
	Execute large-scale ops in one region, deter another adversary's aggression elsewhere	Limited ready capacity to execute two simultaneous large scale ops: <ul style="list-style-type: none"> 2/3 of required contingency response force (2 of 3 Carrier Strike Groups and 2 of 3 Amphibious Readiness Groups) not ready to deploy within 30 days
	Conduct limited counterinsurgency and other stability operations	Increased risk due to: <ul style="list-style-type: none"> Reduced funding to Navy Expeditionary Combat Command Reduced ISR capacity (especially tactical rotary wing drones)
	Operate effectively in space and cyber space	This mission is fully executable in a sequestered environment <ul style="list-style-type: none"> Navy continues to prioritize cyber capabilities
Protect the Homeland	Conduct globally-distributed counter terrorism and irregular warfare operations	Increased risk due to: <ul style="list-style-type: none"> Fewer sea base options and less ISR capacity (drones) Reduced funding to Navy Expeditionary Combat Command
	Conduct humanitarian assistance and disaster relief	Increased risk due to: <ul style="list-style-type: none"> Reduction in operations, maintenance, and flying hour accounts
	Defend the Homeland and provide support to civil authorities	Increased risk due to: <ul style="list-style-type: none"> Reduction in operations, maintenance, and flying hour accounts
	Maintain a safe, secure, effective nuclear deterrent	This mission is fully executable in a sequestered environment <ul style="list-style-type: none"> Navy's top budget priority in any fiscal scenario
	Prevent the proliferation and use of nuclear, biological, and chemical weapons	This mission is fully executable in a sequestered environment
Build Security Globally	Provide a stabilizing presence to influence events, reassure allies, and respond to crises	Increased risk due to: <ul style="list-style-type: none"> Less ships forward Decline of steady state presence & contingency response forces

Table 2: Mission Impacts to a Sequestered Navy