Statement

of

Robert F. Hale
Under Secretary of Defense (Comptroller)

Joseph Westphal
Under Secretary of the Army

Robert O. Work
Under Secretary of the Navy

Erin C. Conaton
Under Secretary of the Air Force

before the

Senate Armed Services Committee

Subcommittee on Readiness

March 29, 2011

Embargoed Until Released
by the Senate Armed Services Committee

Good morning, Madam Chairman, members of the committee. Thank you for this opportunity to discuss our efficiency actions at the Department of Defense.

I am privileged to be joined today by my colleagues from the Armed Services, the Under Secretaries of the Army, the Navy, and the Air Force, who also function as Chief Management Officers for their respective Services. We have a joint statement, after which we would be pleased to entertain your questions.

We would begin by noting that – like Congress – the leadership of the Department of Defense is mindful of the fact that our nation is dealing with significant fiscal and economic pressures. Those pressures have a direct impact on the strength of our national defense.

We owe it to the taxpayers to make the most of every dollar they entrust to us for the defense of the United States. As Dwight Eisenhower once said, "The patriot today is the fellow who can do the job with less money." That statement is, if anything, truer today than it was when President Eisenhower first said it. And it was no accident that Secretary Gates recalled those words in a speech at the Eisenhower Library a year ago.

In that spirit, the Department's budget requests for Fiscal Years 2010 and 2011 included steps to curtail or eliminate programs where we had met our procurement needs, or where programs were seriously troubled or provided capabilities that were judged too narrow to justify their expense. More than 20 programs were restructured or eliminated, among them further production of the F-22 and the C-17 aircraft, the program for the new VH-71 Presidential helicopter, the Navy's DDG-1000 ship program, and the Army's Future Combat System (FCS). Had these and other cancelled programs continued as planned, they would have cost taxpayers hundreds of billions of dollars.

As significant as those savings are, however, the goal of our effort was more than cost-cutting. Its purpose was to rebalance the U.S. military over the long term by reinvesting the savings in force structure and combat capabilities, to meet the needs of the wars we are presently engaged in, as well as those we may face in the future.

In the past year, DoD has continued its cost-cutting effort with particular emphasis on business operations. We have identified plans to save a total of $178 billion in Fiscal Years 2012 to 2016. The Services identified about $100 billion of savings, which they reinvested to increase combat capability. The remaining $78 billion in Defense-wide savings was used to accommodate reductions in the defense topline, thereby contributing to the Administration's efforts to reduce the Federal deficit.

I will summarize each of these efforts separately, beginning with the Defense-wide reductions.

$78 Billion Used to Reduce Federal Deficits

To be clear: The savings of $78 billion across the Department do not represent a cut in the Defense budget compared to current levels; rather, it is a cut in the rate of growth. Even with this substantial reduction, DoD requested $553 billion for the base budget in FY 2012, growing to $611 billion in FY 2016. These budgets permit modest real growth in the near years of the present "FYDP" or Future Years Defense Program.

It is also important to note that, in order to protect warfighter capability, most of this topline reduction was achieved through efficiencies and other changes in portions of our budget less closely related to warfighter capability. To quote the Secretary of Defense: "As a result of the efficiencies and reforms undertaken over the past year, we have protected programs that support military people, readiness, and modernization."

More specifically, of the $78 billion we saved, $68 billion in savings were achieved by shedding excess overhead, improving business practices, reducing personnel costs, and changing economic assumptions. Attachment A to our testimony lists the specific initiatives involved in achieving these $78 billion in savings. We highlight a few of the significant changes.

They include steps to slow the growth in our medical costs. While we will continue to provide high-quality military health care for troops and their families, we are concerned that DoD's medical costs have skyrocketed in recent years -- from $19 billion in FY 2001, to more than $52 billion anticipated in FY 2012. To slow the growth in the costs of medical care, we are proposing some necessary improvements. They include changes in pharmacy co-pays to provide incentives to increase the use of generic drugs and mail order delivery. We are also proposing a modest increase in TRICARE enrollment fees for working-age retirees – the first such increase since the mid-1990s – and we will index those fees to a medical deflator. We also intend to phase out subsidies for several private-sector hospitals where the Department pays premium claims rates. Expected savings from the health care reforms will total $340 million in FY 12 and $7.9 billion through 2016.

A second example of cost-cutting described in the attachment involved personnel decisions. They include -- with limited exceptions -- a freeze on civilian workforce levels that will save $2.5 billion in FY 12 and $13 billion over the FYDP. Also included is a 30 percent reduction in the number of contractor employees who have supplemented and supported our government staffs. These cuts in the number of contractors will save $812 million next year and $5.7 billion over the FYDP. In addition, over the next two years, we will reduce or downgrade 140 general and flag billets out of 900, and more than 200 senior civilian billets out of a total of 1,400. While the savings associated with these changes are modest, they will contribute to a flattening of the DoD structure.

Third, we are taking steps to streamline the Department's organizational structure. As the Secretary of Defense announced last August, we are disestablishing the Joint Forces Command – at a savings of $2 billion over the FYDP – and the Business Transformation Agency – which will save another $337 million.

Altogether, actions affecting the portions of our budget least directly related to warfighting capability account for $68 billion – or more than 87 percent – of our topline savings. The remaining $10 billion in five-year topline savings involved decisions more directly related to military combat capability: $4 billion from restructuring the Joint Strike Fighter Program and $6 billion from a proposed decrease in end strength of the Army and Marine Corps.

This last item deserves more explanation. Four years ago – in the midst of our engagements in Iraq and Afghanistan -- Secretary Gates increased the Army's permanent end strength by 65,000 and the Marines' by 27,000. By 2014, we anticipate that U.S. forces will have completed the military mission in Iraq and largely shifted the security mission in Afghanistan from allied to Afghan forces. As a result, we believe that, in Fiscal Years 2015 and 2016, we can reduce active duty end strength by 27,000 within the Army and by 15,000 to 20,000 in the Marine Corps with minimal risk. If our assumptions about Iraq and Afghanistan turn out to be overly optimistic, or if global conditions change for the worse, we would be able to adjust the size and schedule of this change or even reverse it altogether.

Military Services Save and Reinvest $100 Billion

In addition to the $78 billion in Defense-wide savings, the Military Services have gone through a cost-cutting exercise of their own, identifying savings totaling $100 billion in Fiscal Years 2012 through 2016. These savings reflect organizational improvements, changes to business practices, and termination of underperforming or unneeded weapons programs.

Of the savings realized, $28 billion will be devoted to higher-than-expected operating costs. These are "must pay" expenses to meet requirements such as sustainment of weapons systems, depot maintenance, base support, flight hours, and other training. Without these efficiency savings, we would have been forced to reduce procurement or cut force structure in order to cover these costs.

Of the remaining savings, roughly $70 billion will be retained by the Military Departments and will be reinvested in higher priority military capabilities. Another $2 billion is being reinvested by Special Operations Command.

Attachment B to this testimony lists the full array of planned efficiencies. We will briefly highlight a few of the planned efficiencies in each Service and the uses to which these savings are being put.

Army

The U.S. Army achieved $29.5 billion in savings over the FY 2012 to FY 2016 period. The Army's plan includes consolidating six installation management command regions into four. They also are closing the Evaluation Task Force at Fort Bliss, which was created to assess the now-restructured Future Combat System. This action will make 1,000 Servicemen and women available for other duties at that post. The Army is also leveraging the efforts of other organizations, such as the Defense Information Systems Agency, to eliminate redundancies and reduce the number of their data centers by half.

The Army has decided to reduce military construction costs by $1.4 billion over the FYDP by deferring lower-priority construction projects. Those savings will be reinvested into base operating accounts in order to sustain existing facilities.

In the interest of both efficiency and effectiveness in its procurement programs, the Army has chosen to terminate the SLAMRAAM surface-to-air missile in favor of higher-priority capabilities, saving $103 million in FY 12 and $1.1 billion over the FYDP. They are also terminating the Non-Line-of-Sight Launch System, which was originally a part of the Future

Combat System. It is now considered redundant and not cost-effective. Its cancellation will save some $605 million next year and $3.2 billion over the FYDP.

The savings will be invested in modernizing the Army's battle fleet of Abrams tanks, Bradley Fighting Vehicles, and Stryker wheeled vehicles. Other investments that are planned include accelerated fielding of a new tactical communications network and acquisition of more unmanned aerial vehicles, which are in high demand by Combatant Commanders. The Army has also devoted savings to increased funding for suicide prevention and mental health counseling.

Navy and Marine Corps

The Department of the Navy achieved a total of $4.3 billion in FY 2012 and $35 billion across the FYDP. Highlights include the elimination of selected squadron staffs for submarines, patrol aircraft, and destroyer squadrons. The Navy will also disestablish Second Fleet in Norfolk, a relic of the Cold War. Needed functions will be transferred to Fleet Forces Command, and no ships will leave Norfolk. This action will save $1.2 billion over the FYDP. These and many other decisions will help to cut manpower at about 290 shore commands, which will enable a shift of approximately 6,000 billets to shipboard manning. This will in turn help to man new ships entering the Fleet. It will help to bolster the submarine force with an additional 500 sailors. And it will compensate for excessive crew cuts that were made under a policy termed 'optimal manning.'

The Navy has also achieved savings through a careful review of critical mission requirements, which led to reductions in programs that cost too much or provide too little capability. As a case in point, the Marine Corps will terminate the Expeditionary Fighting Vehicle (EFV). Total savings will amount to $2.8 billion over the FYDP and $13.3 billion through 2025. In place of the EFV, the Marine Corps will continue to support its amphibious assault mission by reinvesting the savings into upgrades of existing vehicles and the creation of a new amphibious vehicle based on requirements that better reflect likely future fights.

In addition the Navy will aggressively pursue efficiencies in acquisition. These efforts should produce more than $1.7 billion in savings associated with multiyear procurement approaches for the F/A-18 aircraft and the E-2D aircraft.

The Navy plans to use its savings to acquire six more ships than planned in the FYDP – a destroyer, a Littoral Combat Ship, a TAGOS oceanographic vessel, and three oilers. The Navy will also acquire 41 additional F/A-18s and execute a Service Life Extension on about 150 more, actions that together will partially compensate for delays with the Joint Strike Fighter. And they plan to develop a new generation of electronic jammers, to increase repair and refurbishment of Marine equipment, and to develop a new generation of sea-borne unmanned aircraft.

Air Force

The Air Force achieved approximately $33 billion in overhead savings across the Future Years Defense Program. The organizational changes include changes to manpower and personnel, consolidation of two Air Operations Centers in the United States and another two in Europe, and consolidation of three Numbered Air Force staffs in areas where major commands can assume the workload. These moves will save $516 million next year and $4.2 billion over the FYDP.

Implementation of better business practices accounts for $2.2 billion in savings next year and $20.6 billion over the FYDP. Actions include:

- A 25 percent reduction in the cost of communications infrastructure, using enterprise-wide services and consolidated data centers that will save $1.3 billion over the FYDP.

- Cuts to fuel and energy costs by Air Force Mobility Command through adoption of commercial best practices in flight planning and use of simulators that will require an investment of $120 million but pay back $715 million over five years.

- Adoption of a new method for acquiring satellites – emphasizing block buys, sustained funding for engineering, fixed price contracts, and full funding over multiple years through advance appropriations. The Air Force is expecting this new acquisition approach – which we refer to as Evolutionary Acquisition for Space Efficiency (EASE) – to create more stability in the industrial base and lower the costs of acquiring satellites.

The savings gained from these and other efforts will help to launch development of a new long-range bomber program. Plans call for a long-range penetrating aircraft, which will be able to carry nuclear weapons and to operate in both manned and unmanned configurations. This program will leverage existing technologies and a streamlined acquisition approach to manage costs.

Savings will also make it possible for the Air Force to invest in a greater number of Evolved Expendable Launch Vehicles to ensure access to space and improve industrial base stability; modern radars for the F-15C and E model aircraft; additional simulators for F35 training; and transition of the MC-12 program into the base budget.

Summary

As these examples illustrate, our efficiency initiatives will support improvements in warfighter capability that would not otherwise have been fiscally feasible.

We recognize that, in order to achieve the warfighter benefits we have described today, we must implement our plans and achieve these efficiency savings. Implementing such a wide array of changes poses formidable challenges. In order to turn plans into reality, each Service Chief Management Officer will monitor the implementation process in his or her Service. Within the Office of the Secretary of Defense, the Under Secretary of Defense (Comptroller) and the Deputy Chief Management Officer will work together to monitor compliance and report successes and problems to the Deputy Secretary of Defense, DoD's Chief Management Officer.

We would also note that we have a powerful incentive to realize these planned efficiencies. The dollars that we plan to save have either been removed from the defense budget or have been reinvested to achieve increases in warfighter capabilities. If we fail to achieve our efficiency plans, we will be forced to scale back programs that contribute to our core mission. That prospect will motivate us to translate planned efficiencies into actual efficiencies.

We will work with the Congress as we plan for implementation of these important initiatives. While most of the proposals do not require legislative authority, some do. For example, one of our military healthcare initiatives requires legislation, as does EASE, the Evolutionary Acquisition for Space Efficiency. We will be submitting required legislative changes.

We want to end our statement by thanking the committee for your support of the Department and the men and women who bear the burdens of our nation's defense. Thanks to you – and the American people – these men and women have the resources to carry out their missions whenever and wherever they are needed.

Attachment A
Defense-Wide Savings ($78B)

OVERVIEW: Last year DoD leaders examined how the department is staffed, organized, and operated as a whole. Special attention was paid to DoD headquarters, administration and support elements outside the four military services: the Office of the Secretary of Defense (OSD), Joint Staff, Combatant Commands, and defense agencies and field activities. All these have seen significant growth in budget, staff, and contractors over the last decade.

This reform effort – combined with a government-wide freeze on civilian salaries and other changes – should yield about $78 billion in savings over the next five years. These savings were used to accommodate our FY 2012-2016 topline reduction. The DoD changes, and associated FY 12-16 savings, include:

Freeze on Civilian Personnel Levels ($13B). A DoD-wide freeze on civilian personnel levels at FY 2010 authorized and funded levels. Continue this freeze through FY 2013. Only limited exceptions – most notably, increases in the acquisition workforce in support of DoD's ongoing insourcing initiative.

Civilian pay freeze ($12B). Government-wide freeze on civilian pay scales in CY 11 and 12.

Defense Health Program ($8B). DoD leaders are proposing reforms in military health care to better manage medical cost growth and better align the department with the rest of the country. These will include initiatives to become more efficient, as well as modest increases to TRICARE fees for working age retirees -- with fees indexed to Medicare Part B inflation in future years. Potential savings from these initiatives could be about $7 billion over five years.

Defense Agencies/OSD efficiencies ($11B). From reducing overhead, staffing, and expenses; more efficient contracting and acquisition; and more.

Disestablish Joint Forces Command ($2B).

Disestablish Business Transformation Agency and reduce intel organizations ($0.6B).

Reduce service support contracts ($6B). Reduce staff support contractors by 10% per year for three years. For example, offices of Under Secretary of Defense for Policy and for AT&L between them will cut nearly 270 contractors. Defense TRICARE Agency will cut more than 780 contractors, and the Missile Defense Agency more than 360.

Reduce reports, studies, boards, and commissions ($1B). Eliminate about 400 internally-generated reports and cancel all reports with date prior to 2006. Starting in February 2011, every report must include the cost of its production. We also will reduce funding for studies.

Reduce senior leadership positions ($0.1B). Reduce more than 100 flag officers (out of about 900) and about 200 Senior Executive Service or equivalent positions (out of about 1,400).

F-35 JSF restructuring and repricing ($4B).

End strength cut for Army and USMC in FY 2015-2016 ($6B).

Adjustments to economic assumptions and other changes ($14B). Economic adjustments include decreases in inflation rates and lower projected military pay raises for FY 12-16 compared to previously assumed levels. Numerous other changes across a variety of activities account for the rest of this $14 billion in savings.

Attachment B
Military Department Efficiencies ($100B)

OVERVIEW: In the spring of 2010, DoD launched a comprehensive effort to increase efficiencies and reduce the department's overhead expenditures. The goal was to sustain the U.S. military's size and strength over the long term by reinvesting those efficiency savings in force structure and other key combat capabilities. Our military leadership conducted a thorough and vigorous scrub of our bureaucratic structures, business practices, modernization programs, civilian and military personnel levels, and associated overhead costs, identifying savings that totaled approximately $100 billion over five years. This paper summarizes major cost-cutting efforts by the military departments as well as significant program decisions for reinvestment that are included in the FY 2012 budget.

Army ($29.5 billion)

<u>Reorganizations ($5.4 billion)</u>
- Reduce infrastructure civilian and military manning as a result of restructuring ($0.1 billion).
- Reduce recruiting and retention incentives ($5.3 billion).

<u>Better Business Practices ($10.3 billion)</u>
- Consolidate e-mail infrastructure and data centers ($0.5 billion).
- Reduce contractor staff augmentation ($3.5 billion).
- Streamline logistics sustainment processes ($0.6 billion).
- Streamline the Installation Management Command ($1.0 billion).
- Reduce support processes ($3.6 billion).
- Streamline recruiting and training processes ($1.1 billion).

<u>Program Reductions/Terminations ($11.0 billion)</u>
- Cancel procurement of SLAMRAAM ($1.1 billion).
- Terminate Non-line of Sight Launch System ($3.2 billion).
- Reduce Abrams sustainment costs ($1.2 billion).
- Delay fielding of Enhanced – Infantry Brigade Combat Team network ($1.4 billion).
- Delayed next generation Ground Combat Vehicle ($0.8 billion).
- Terminate Scorpion landmine ($0.6 billion).
- Other program reductions ($3.1 billion).

<u>Reduced Lower Priority Programs ($2.8 billion)</u>
- Save on military construction costs by sustaining existing facilities ($1.5 billion).
- Reduce recruiting support and other manning initiatives ($1.3 billion).

Navy and Marine Corps ($35.1 billion)

<u>Reorganizations ($15.4 billion)</u>
- Reduce ashore manpower, reassign personnel to operational ships and air units; adjust special pays and advancements; and eliminate duplicative functions ($4.7 billion).
- Disestablish Second Fleet headquarters; staffs for submarine, patrol aircraft and destroyer squadrons; and one carrier strike group staff ($1.2 billion).
- Efficient utilization of personnel (force shaping) and examination of personnel policies/practices; develop housing/BAH efficiencies; and rebaseline advertising ($1.4 billion).

- Reduce contractor support ($1.7 billion).
- Streamline air/ship/equipment maintenance; revalidate flying hour program model; modify fleet training concepts; and restructure maritime prepositioning force squadrons ($4.2 billion).
- Reduce facility sustainment and base support ($2.2 billion).

Better Business Practices ($14.1 billion)

- Increase use of multiyear procurement contracts and acquisition production strategies for ships and aircraft ($5.3 billion).
- Reduce energy consumption ($2.3 billion).
- Reduce Total Ownership Cost through strategic sourcing and quality based maintenance ($1.0 billion).
- Improve warfighting support, including spares realignment and R&D overhead/testing reduction ($5.5 billion).

Program Reductions/Terminations ($5.5 billion)

- Terminate Expeditionary Fighting Vehicle ($2.8 billion).
- Restructure the Joint Light Tactical Vehicle (JLTV) program ($1.6 billion).
- Cancel SM2 Blk III ($0.4 billion).
- Other program reductions ($0.7 billion).

Air Force ($33.3 billion)

Reorganizations ($4.2 billion)

- Manpower and personnel savings ($3.1 billion).
- Streamline installation support ($1.0 billion).
- Consolidate four operations centers and three numbered Air Force staffs ($0.1 billion).

Better Business Practices ($20.6 billion)

- Improve depot and supply chain business processes, gaining weapon system sustainment efficiencies ($3.0 billion).
- Logistics installation efficiencies ($2.9 billion).
- Training efficiencies ($1.7 billion).
- Acquisition excellence ($1.7 billion).
- Program management and administration efficiencies ($1.7 billion).
- Knowledge based services ($1.6 billion).
- Facilities, sustainment, restoration and modernization efficiencies ($1.6 billion).
- Reduce acquisition contract support and overhead ($1.5 billion).
- Space acquisition efficiencies ($1.3 billion).
- Reduce cost of information technology ($1.3 billion).
- Reduce fuel and energy consumption within the Air Force Mobility Command ($0.7 billion).
- Other process efficiencies ($1.6 billion).

Program Reductions/Terminations ($3.7 billion)

- Acquisition program efficiencies ($1.6 billion).
- Reduce program management overhead ($1.3 billion).
- Other program reductions ($0.7 billion).

Reduced Lower Priority Programs ($4.8 billion)

- Major Command support efficiencies ($4.2 billion).
- Other low priority programs ($0.6 billion).

<u>SOCOM savings ($2.3 billion)</u>

- Terminate the Joint Multi-Mission Submersible program ($0.8 billion).
- Consolidate into single Special Operations Forces Info Technology Contract ($0.4 billion).
- Reduce programs where Service-common equipment meets requirements ($0.2 billion).

Summary of Military Services Efficiencies

Savings by category	FY 12	FY 12-16	Savings by Service	FY 12	FY 12-16
Reorganizations	3.5	25.0	Army	2.7	29.5
Better business practices	3.9	45.5	Navy and Marine Corps	4.3	35.1
Program reduction/terminations	2.6	21.5	Air Force	3.4	33.3
Reduce lower priority programs	0.7	8.2	SOCOM	0.4	2.3
Total	**10.7**	**100.2**	**Total**	**10.7**	**100.2**

($ in billions)

<u>Military Department Reinvestments</u>

Of the $100 billion savings identified by the military departments, approximately $28 billion will be used to deal with higher than expected operating costs. Then, over $70 billion collected from overhead and program savings will be reinvested on high priority military capabilities -- funds that would not otherwise be available to support our troops and prepare for threats on the horizon.

- The **Army** intends to use its savings for the following:
  - Provide improved suicide prevention and substance abuse counseling for soldiers;
  - Modernize battle fleet of Abrams tanks, Bradley Fighting Vehicles, and Strykers
  - Accelerate fielding of Army's new tactical communications network to the soldier level;
  - Enhance Intelligence, Surveillance, and Reconnaissance assets;
  - More MC-12 recon aircraft;
  - Accelerate Grey Eagle UAVs (Army Predator variant – MQ-1C);
  - Develop new vertical unmanned air system.

- The **Navy**, as a result of the efficiency savings, is proposing the following:
  - Accelerate development of new generation of electronic jammers;
  - Focus Marine Corps investments on communication and electronic support equipment, as well as equipment modernization to enhance readiness of units in dwell and to modernize capabilities;
  - Develop a new generation of sea-borne unmanned strike and surveillance aircraft;
  - Buy more of the latest model of F/A-18E/Fs;
  - Extend service life of 150 F/A-18 aircraft;
  - Purchase additional ships including a destroyer, LCS, ocean surveillance vessel, fleet oilers;
  - Enhance afloat manning levels.

- The **Air Force** plans the following reinvestments:
  - Buy more advanced Reaper unmanned aerial vehicles;
  - Increase procurement of Evolved Expendable Launch Vehicle;
  - Modernize the radar on F-15s;
  - Buy more simulators for JSF training;
  - Transition MC-12 program into base budget;
  - Initiate a new bomber program
    - Long range
    - Nuclear capable
    - Penetrating
    - Capable of being remotely piloted.