

DEPARTMENT OF DEFENSE

PRESENTATION TO THE
HOUSE ARMED SERVICES COMMITTEE
SUBCOMMITTEE ON TACTICAL AIR AND LAND FORCES
U.S. HOUSE OF REPRESENTATIVES

SUBJECT: Impact of a Continuing Resolution and Sequestration on Acquisition, Programming, and the Industrial Base.

STATEMENT OF: Lt Gen Charles R. Davis
Military Deputy, Office of the
Assistant Secretary of the Air Force (Acquisition)

Lt Gen Micahel R. Moeller
Deputy Chief of Staff, Strategic Plans and Programs

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Introduction

The combination of sequestration in fiscal year (FY) 2013 reduced discretionary budget caps in FY 2014-2021, and a possible year-long continuing resolution (CR), will have devastating effects on United States Air Force readiness, modernization efforts and the support for the military and civilian workforce. As directed by the Deputy Secretary of Defense, we have started intensifying our planning for longer-term budgetary uncertainty, including potential sequestration in March. However, the totality of all the unknowns—FY13-18 baselines, CR transfer authorities, new start rules, quantity increases etc.—make all our planning efforts little more than an exercise in futility. The Air Force has already implemented a series of prudent measures to help mitigate our current fiscal year budget risks; however, planning for sequestration and other fiscal constraints have already disrupted our strategic planning efforts and this event will cause short-term and long-term effects that will adversely affect the Air Force today and years into the future. In addition to the difficulties of operating under a year-long continuing resolution, sequestration would produce an estimated \$12.4 billion top-line budget reduction for the Air Force. These reductions and restrictions, along with the mitigation efforts we unilaterally implemented to lower our FY13 spending profile, affect all accounts and have a compounding negative effect over time. Coupled with an FY13 \$1.8 billion estimated shortfall in overseas contingency operations (OCO) funding because of higher than expected operating costs in theater, these constraints have already disrupted current operations and pose severe long-term consequences.

Impacts on Acquisition

The single largest impact of sequestration and CR unknowns is the very serious impact they have on the meticulous acquisition cost and schedule planning mandated in numerous public laws and DoD policy. The increasing inefficiency makes it difficult, if not impossible for our program managers to do their job.

Sequestration cuts to Air Force modernization investments, which under the law must be applied equally at the program, project, and activity level, will impact every one of the Air Force's acquisition programs. For example, the F-35A low rate initial production would see reductions of up to five aircraft from the requested 19 in FY13. Such potential reductions drive up unit costs—resulting in FY14 production funding shortfalls—they also delay follow-on software and flight testing. Test and evaluation delays could increase total test costs across all programs, and delay delivery of critical capability to U.S. servicemen and women in the field at a time when these capabilities are planned to be the cornerstone of our post-Afghanistan ability to refocus our efforts.

One of the more crippling near-term impacts of sequestration is that the roughly 9% across the board cuts will remove all funding reserved to manage risk from every program. More specifically, our program managers will lose virtually all of their resources to address emerging technical issues and any development or test discoveries. We will lose the resources to fix any issues that were not part of the original program baseline.

Each of these long-term investment account disruptions negate thousands of man-hours spent on planning, implementing, and managing complex programs intended to best balance the efficiency of taxpayer dollar expenditure with the effectiveness of capability creation to fulfill the Defense Strategic Guidance. Inflicting a sledgehammer blow to the planned execution of these programs through sequestration harms both aspects of that precious balance. And over time, taxpayer dollars will have to be spent to address the contract re-structures and time-delay inefficiencies that sequestration will induce, while delivery delays of validated capabilities infused with perishable technologies will only reduce our already-shrinking advantage over potential adversaries.

Many of the adverse impacts of sequestration to Air Force operations are aggravated by the fact that we are still operating under a continuing resolution, now five months into the fiscal year. The absence of a final FY13 appropriations bill thrusts each military Service into a planning purgatory of sorts, clouding near- and long-term fiscal programming with a fog of ambiguity, and placing dozens of acquisition programs at risk, particularly those requiring “new start” and “quantity increase” approvals. The President’s Budget requested multiple new start RDT&E projects at a cost of over \$200M. These new projects affect programs such as C-5 (Weather/Radar), B-2 (Common VLF Receiver Increment 1), F-15 (Eagle Passive/Active Warning Survivability System), F-35 and Space Based Infrared System (Space Modernization Initiative). All of our new starts are delayed until we receive an appropriations bill or anomaly approving them.

A year-long continuing resolution coupled with sequestration will create significant impacts on our weapon system program strategies, cost and schedules, and we will be unable to mitigate even the most significant of impacts in investment accounts. Significant changes will be required across the FYDP to our current modernization programs, delaying much needed capability to the warfighter.

Impacts on Programming

Despite the challenges we face in this dynamic fiscal environment, the Air Force remains committed to developing and implementing a program that focuses on maintaining readiness levels for our forces to support Combatant Commanders in their assigned operational missions. However, the combined effects of the continuing resolution and sequestration have induced an unprecedented level of uncertainty into the Air Force Strategic Planning and Programming process. This unpredictability will also introduce a high level of risk to our ability to maintain Air Force unique capabilities and capacity levels necessary to implement the Defense Strategic Guidance. Sequestration will severely strain this commitment to readiness and will require a comprehensive review of DoD's Jan 2012 strategy. Moreover, complying with the discretionary cap reductions in FY 2014 – 2021 pursuant to sequestration provisions in the Budget Control Act will require the Air Force to make trade-offs between maintaining readiness and the pace of modernization. These choices will, most likely, require force structure cuts to meet the full range of our national security responsibilities. Bottom line, in this fiscal crisis environment, we believe the choice to preserve readiness will require the Air Force to get smaller.

Secretary Panetta stated in a recent interview that if those out year cap reductions are allowed to stand, he would have to throw the country's current national defense strategy "out the window." From an Air Force perspective, we will have to address a revised defense strategy based on a post-sequester budget environment. This will require tough strategic choices to ensure the Air Force balances competing requirements across our enduring contributions – Air and Space Superiority; Intelligence, Surveillance, and Reconnaissance; Rapid Global Mobility; Global Strike; Command and Control.

If sequestration occurs, we will also face many difficult challenges in planning and programming for future budget years. To build future year requests, the Air Force uses a formal and deliberate process that conducts an analysis of the strategic and fiscal environment, projects impacts, prioritizes requirements for the next five-ten years, and then applies resources to meet these priorities. Even during times of relative stability, this is a complex task requiring months of effort by hundreds of Total Force Airmen, both military and civilian, across the Air Force.

In this period of unprecedented uncertainty, by contrast, we cannot begin to make informed estimates that serve as the baseline for the next budget year's process. The turbulence is already damaging our strategic processes that historically infuse elements of planning stability to meet future resourcing requirements. For example, the Air Force is prepared to take actions in FY13 to reduce flying hours, weapon system sustainment, and engine repairs. We understand these actions will negatively affect the Air Force in FY14 and create a "bow-wave" of bills that requires a response during the future year program development process. But with so many "unknowns," developing a realistic and reliable program is all but impossible.

Our unchanging goal is to provide the most capable Air Force possible against any potential adversary...today and tomorrow. However, in a continuing resolution and sequestration environment, the Air Force will be forced to make drastic choices that will have both immediate and far-reaching impact on our capability and capacity to provide air and space power effectively across the full spectrum of operational requirements.

Impacts on Industrial Base

As the Air Force makes these difficult and drastic changes, we will drive corresponding changes in the nation's aerospace industrial base that produces our warfighting capabilities. Just as the combined impacts of continuing to operate under sequestration and the continuing resolution drive uncertainty into Air Force planning, the impacts of this untimely pairing carry over into the plans of each and every company in the network of industrial base suppliers supporting the Air Force. While the disruptions to the detailed planning and execution of the Air Force's complex investment and modernization programs, such as the F-35 and KC-46, would be significant, the impacts to the industrial base grow in magnitude as the reductions cascade down through the network of companies that support each program.

When Air Force procurement, even at current levels, is compared against the global market for commercial aircraft, engines and avionics, it becomes clear that the Air Force is, by most measures, a small customer. The prime contractors and the top tiers of subcontractors who provide complete systems, such as engines and avionics, have the financial capability and/or

commercial demand for products to accommodate, however disruptive, the lower levels of production and other adjustments, such as changes in workforce, that will result from the imposition of a sequestration-driven budget. However, there is much more uncertainty associated with the capability of the smaller, more specialized companies in the lower tiers of the industrial base to successfully transition to sequestration levels of production. At these lower tiers, our ability to accurately forecast is hampered by our lack of visibility. However, there is general agreement on the potential courses of action, all of which would be problematic. Some may decide to just close their doors while others may decide to exit the Air Force market and no longer maintain the technical expertise and status as qualified sources. In either case, the costs associated with finding and qualifying new sources will further complicate an already complex situation.

In addition to the impact on the industrial base supporting Air Force procurement, there is the impact on the organic industrial base sustaining the current fleet. Sequestration will, in the near term, slow the flow of aircraft into our depots; for the remainder of FY13, this represents an almost 1/3 reduction in workload. The lack of work, coupled with furloughs for the civilian workforce, will have longer term impacts: creation of an increasing backlog of vital maintenance and repair work with a commensurate reduction in the materiel readiness of broad sections of the Air Force fleet; and the high likelihood of severe and negative effects on the productivity of the workforce. The reduction in depot work also has a hugely problematic business impact on the Air Force Capital Working Fund. Even with cost control measures, the reduced depot level of activity may not generate sufficient funds to sustain depot activity with a positive balance.

Conclusion

The dire effects of sequestration and potential of a year-long continuing resolution that drive continued budgetary uncertainty, make clear the national imperative for a return predictable and stable environment.

Should sequestration and a year-long continuing resolution occur, the Air Force will be forced to take actions that would be devastating. Although we will make every effort to minimize the impact of sequestration to readiness and force modernization, each of those areas will experience painful, palpable, and ultimately expensive disruptions. At a time when Air Force readiness is long-overdue for vital reconstitution, our fleet is aging, and our force is at its smallest since its inception, we find ourselves in the untenable position of forcing further risk to our Nation's defense by sacrificing elements of three keys to the effective provision of airpower—Airmen, readiness, and modernization.