

Statement
of
William J. Lynn, III
Deputy Secretary of Defense
before the
Senate Appropriations Committee
Subcommittee on Defense

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Mr. Chairman and members of the committee, thank you for this opportunity to discuss the Fiscal Year 2012 budget proposal for the Department of Defense, as well as the serious problems we face if we are required to operate under a Continuing Resolution for the remainder of FY 2011.

Budget Proposal for FY 2012

The budget request, submitted to Congress two weeks ago to support the mission of the Department in FY 2012, seeks about \$671 billion of discretionary budget authority — including \$553.1 billion to fund base defense programs and \$117.8 billion to support Overseas Contingency Operations, primarily in Afghanistan and Iraq.

In our judgment, this budget is both reasonable, in that it meets national security needs, and responsible, in that it supports the Administration's plan to hold down deficits. It is built around several broad themes:

- The proposed budget takes care of our people. That is our top priority, since the all-volunteer force is America's greatest security asset. We propose a military pay raise of 1.6 percent, which will match the Employment Cost Index and keep growth in military salaries on a par with those in the private sector. We are also asking for \$8.3 billion for family support programs, a sum that fully supports the President's military families initiative. For military healthcare, we are asking for \$52.5 billion, including \$677 million for research and support for traumatic brain

injury and psychological health care, and more than \$400 million to continue medical research on behalf of wounded, ill, and injured Service Members.

- The proposed budget also continues to rebalance the U.S. defense posture to provide the capabilities needed to fight current wars while also building capability for potential future conflicts. To support current war efforts, we plan substantial investment (\$4.8 billion) in intelligence, surveillance, and reconnaissance capabilities, including various unmanned aircraft, which are in high demand by Combatant Commanders. We are also proposing to invest \$10.6 billion in rotary wing aircraft. In addition we are requesting funding for cyber activities, chemical and biological defenses, and security assistance programs to build up the capabilities of our allies.
- To prepare our forces for potential future conflicts, our budget proposal for FY 2012 invests in advanced capabilities. We request \$9.4 billion for the Joint Strike Fighter (JSF) program, including funds to purchase 32 aircraft and to support continued development. We will also instill discipline in this major program by imposing a two-year “probation” period for the STOVL (Short Take Off and Vertical Landing) variant while we seek to fix various design challenges. Meanwhile, we plan to buy 41 additional F/A-18 aircraft and extend production through FY 2014. We plan an aggressive shipbuilding program of 11 ships in FY 2012 and 56 over the next five years, investment in a family of long-range strike options, including a new long-range bomber program, and \$900 million for the

KC-X tanker program. We have a new family of armored vehicles in the works, and we are requesting \$10.7 billion for ballistic missile defenses, including \$8.6 billion for the Missile Defense Agency.

- The proposed budget provides our deployed forces with everything they need to carry out their mission. It includes significant expenditures for reset of damaged and destroyed equipment, for purchases of force protection equipment, for high priority infrastructure projects in Afghanistan that support counterinsurgency objectives, for the Commander's Emergency Response Program (CERP)—a valuable tool in theater—and for funding to assist the transition to a civilian-led mission in Iraq.

In addition to these broad themes, our proposed budget continues the Secretary's reform agenda. That agenda began in FY 2010 and 2011, with a focus on the restructuring and termination of a number of weapons programs. Some programs, such as the F-22 and the C-17, were cancelled because we had already purchased enough of the capabilities they provide. Other programs, like the VH-71 Presidential helicopter, were terminated because of cost overruns, development problems, or because they would have provided what Secretary Gates has termed "exquisite" capabilities that are not central to our current security challenges.

Secretary Gates has continued his reform agenda in FY2012-16 by focusing on streamlining business operations. Through his Efficiencies Initiative, the Services have identified \$100 billion in savings and reinvested those savings into high-priority programs that strengthen warfighting capability. These savings will be realized through better business

practices, reorganizations, and by terminating or restructuring weapons programs. Examples of proposed changes include the elimination of unneeded task forces, combining of air operations centers, consolidation of e-mail servers, and cutting back on lower-priority tasks associated with facilities sustainment and construction. The Services also propose terminating the Non-Line of Sight Launch System, the SLAMRAAM surface-to-air missile, and the Marine Expeditionary Fighting Vehicle (EFV).

The EFV program alone would have consumed \$12 billion in future procurement costs, including about half of all anticipated Marine Corps procurement funding from 2018 to 2025. While the planned EFV would have been a highly capable vehicle, its capability was needed only for a narrow range of high-end missions. After careful evaluation, both the Secretary of the Navy and the Commandant of the Marine Corps recommended termination of the EFV. The Marine Corps will sustain its amphibious assault mission by reinvesting EFV savings into upgrades of existing vehicles as well as a new amphibious vehicle designed to meet a more focused set of requirements.

In addition, our budget identifies \$78 billion in further defense-wide efficiencies in FY 2012 through 2016. These efficiencies allow the defense topline to be reduced in support of the Administration's deficit-reduction efforts, beginning with a \$13 billion reduction in FY 2012. This topline reduction was largely achieved through changes in the portion of our budget less directly related to warfighting capability. These changes include revisions in military health care, changes in the economic assumptions that underlie the budget, and defense-wide personnel changes, including a freeze on civilian pay and personnel levels through FY 2013 (with limited

exceptions) and a reduction in the number of contractors who augment government staffs. We are also reducing, over two years, the number of general and flag officer billets by about 100 and civilian senior executive billets by about 200.

DoD's medical costs have shot up from \$19 billion in FY 2001 to \$52.5 billion in FY 2012. We offer proposals in this budget to slow the growth in medical care costs while continuing to provide high-quality military health care for our troops and their families. We also propose changes in pharmacy co-pays designed to increase the use of generic drugs and mail-order delivery. We are also propose a modest increase in TRICARE enrollment fees for working-age retirees—the first such increase since the mid 1990s—and indexing of those fees to a medical deflator. We intend to phase out subsidies for a number of non-military hospitals where the Department pays premium claims rates.

This budget also proposes a decrease in the permanent end strength of the Army and Marine Corps starting in FY 2015. In one of his first acts in office four years ago, and in the midst of our engagements in Iraq and Afghanistan, Secretary Gates increased permanent end strength by 65,000 for the Army and 27,000 for the Marines. By 2014 we 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 FY 2015 and FY 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 prove incorrect or global conditions change for the worse, there will be ample time to adjust the size and schedule of this change, or reverse it altogether.

The budget also requests \$524 million in FY2012 for the Office of Security Cooperation – Iraq (OSC-I), which will assist in executing foreign military sales. OSC-I will also support military-to-military efforts to advise, train, and assist Iraq’s security forces. The OSC-I is jointly funded with the State Department. In order to provide timely assistance, and help provide a timely transition to a civilian-led mission in Iraq, we need to begin funding OSC-I initiatives in FY 2011 and then provide the requested funds in FY 2012. DoD needs legislative authority to provide this assistance, and we ask Congress to include this authority in our appropriation bill for FY 2011.

Mr. Chairman, this is a thumbnail sketch of the Department’s budget proposal for FY 2012. We look forward to working with this Committee and the Congress as you consider our request. It is our hope that Congress will support this request and enact an appropriations bill for FY 2012 before the start of the new fiscal year on October first.

Serious Problems Associated with a Year-Long Continuing Resolution

Even as we start the debate over the FY 2012 budget, there is unfinished business that concerns us greatly. The Department still needs an appropriation for FY 2011. As members of this committee are aware, the Department of Defense has been operating under a Continuing Resolution (CR) for more than five months. The present CR is due to expire in three days.

If the Congress is unable to enact an appropriation, the Department would presumably continue to operate for the remainder of the year under a CR like the one currently in effect – which I will refer to as a “year-long CR” in the remainder of my statement. In our view, this is not a workable approach.

A year-long CR would adversely affect the people who make up and support our fighting forces and their readiness to defend the nation. Serious problems are already occurring. Both the Army and the Marine Corps have imposed temporary civilian hiring freezes. This means that, for example, when a maintenance position becomes open due to normal attrition, that position cannot be filled. Such decisions save money, but they also plant the seeds for future problems with essential equipment. Because of the CR, the Navy has had to reduce its notice of Permanent Change of Station moves from the usual six months to two, which hurts Navy personnel and puts a greater strain on their families.

If the current CR continues throughout the year, it will cause significantly more harm. While the exact effects depend on decisions yet to be made, the broad consequences are already known. A year-long CR would force the Services to reduce their operating tempo, harming both training and readiness. For example, funding would likely be reduced for some or all of three Brigade Combat Teams returning from Iraq and Afghanistan. This would mean reductions in training at a time when these units will need it most. The Navy would likely be forced to reduce flying hours and steaming days and to cancel exercises and training events. The Air Force is likely to face at least a 10 percent cut in flying hours. All of these cuts would have a significant impact on readiness.

If there were a year-long CR, it would be necessary for each Service to defer equipment maintenance. The Army estimates that a reduction of \$200 million in depot maintenance could be required, adversely affecting the Blackhawk and Kiowa Warrior helicopters, among other platforms. The Navy may need to reduce maintenance by \$900 million, which would result in the cancellation of as many as 29 surface ship maintenance availabilities out of a total of 85. A year-long CR would also mean deferred depot maintenance on as many as 70 airframes and 290 aircraft engines, deferred maintenance on expeditionary equipment, and deferred torpedo and missile certifications. Deferring maintenance in this way does serious damage to the readiness of the world's finest military.

A year-long CR would also seriously harm DoD acquisition programs -- first because of a lack of funding and second because continuation of the current CR would prohibit us from starting new weapons programs or increasing production rates of existing ones. These prohibitions cost us the flexibility necessary to meet warfighter needs.

As a result of the CR serious acquisition problems are already occurring. The Navy was unable to purchase Government Furnished Equipment for the second DDG-51 destroyer as planned on January 31, which will delay the program and add to its cost. Nor could the Navy contract the second Virginia class submarine. We are struggling to avoid disrupting the workforce at the shipyard as a result. Meanwhile, the Army has had to defer a contract for new Chinook helicopters and delay refurbishment of war-torn Humvees.

If the current CR continues through the year, problems like these will snowball. The Air Force would be unable to increase the buy of Reaper unmanned aircraft from 24 to 36, delaying receipt of these critical assets. Under our current planning, the Air Force would let the Joint Air-to-Surface Standoff Missile (JASSM) slip by one year, and the Army would cancel procurement of Sentinel radars, leaving four battalions without advanced air defense. The Navy would buy fewer helicopters. The Missile Defense Agency would face a delay in the production of Terminal High Altitude Defense interceptors (known as THAAD), and the Special Operations Command would slow rotary wing capability improvements.

The facilities we need to carry out our national security mission would also be affected. Under the CRs passed to date, the Services have not been able to start any new major construction projects. About 75 projects across the country have already been delayed. Among them are training facilities in California and Texas, a test and evaluation facility in Maryland, a fuel tank project at Hickam Air Force Base in Hawaii, a new mess hall at Camp Lejeune, North Carolina, and an environmental, safety, and occupational health facility in Ohio. These delays not only affect our capabilities, but also the quality of life for Servicemen and women. And they have a negative impact on project costs.

Under a year-long CR, the Department would have to protect readiness at the expense of long-term facilities sustainment. As a result, conditions on bases and installations would deteriorate. The Army would meet only 75 percent of its Facilities, Sustainment, Restoration, and Modernization (FSRM) requirements, including delays in upgrades to training barracks. The Navy would meet only half of its FSRM requirements, jeopardizing bachelor quarters projects,

dry dock certifications, and air station improvements. The Air Force is likely to face a cut of \$400 million to its FSRM, forcing the deferment of maintenance contracts, dormitory projects, and utilities privatization.

Finally, there will be harmful management consequences associated with a year-long CR, many of them difficult to notice from inside the Beltway. Program managers will delay contracting actions out of necessity, only to be required to act hastily at a later time in an effort to catch up. In the face of uncertainty, other managers will resort to short-term contracts that add expense for the taxpayer and instability for the industrial base.

Wartime funding for Overseas Contingency Operations would also be impacted. Although funding levels would remain roughly equivalent, the funds would not be in the categories that meet current warfighter needs. For example, there would be too much funding for MRAP (Mine Resistant Ambush Protected) vehicles and not enough for Afghan National Security Forces. In order to move funds to where they are needed for warfighter requirements, the Department would need special transfer authority of about \$13 billion.

Although we may be able to surmount the transfer problem for OCO funding, deficits in the base budget under a year-long CR cannot be so easily overcome. Such a CR would cut DoD's FY 2011 base budget by \$23 billion below the \$549 billion requested in the President's budget a year ago. This level of funding would not permit us to carry out our national security commitments properly. At this low base budget level, with many cuts coming half way through the year, DoD would not even receive enough additional funds to cover must-pay expenses,

including \$8 billion for military pay raises and increases in the costs of medical care, fuel, and inflation. To cover these unavoidable expenses, we would be forced to play a shell game, “robbing Peter to pay Paul.” Investment accounts would be especially hard hit, and we would exacerbate the detrimental effects I have just described to our readiness, modernization, and business practices.

In a time of war -- with soldiers, sailors, airmen and Marines on the front lines -- DoD needs an appropriations bill with a reasonable level of spending. Again, the President’s defense budget request for FY 2011 asks for \$549 billion. Based on a number of factors that have changed since our initial budget submission a year ago – including policy changes that led to lower personnel costs and reduced activity forced by the Continuing Resolution – we believe that the Department can now operate effectively with a budget lower than our initial request. However, in our judgment the Department needs an appropriation of approximately \$540 billion for the fiscal year, in order for the military to carry out its missions properly and to maintain readiness and prepare for the future.

In short, a year-long CR will damage national security. It presents the Department – and the nation – with what Secretary Gates has aptly described as “a crisis at our doorstep.” For all of these reasons, we strongly urge Congress to enact a Defense appropriation bill for FY 2011, and to provide funding for the government as a whole.

This concludes my prepared remarks. I welcome the committee’s questions.