

**RECORD VERSION**

**STATEMENT BY**

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**BEFORE THE**

**SENATE ARMED SERVICES COMMITTEE**

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**THE IMPACTS OF SEQUESTRATION ON NATIONAL DEFENSE**

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COMMITTEE ON ARMED SERVICES**

Chairman Levin, Ranking Member Inhofe, and other distinguished members of the committee, thank you for the opportunity to speak with you about the reduced discretionary caps in 2014 and the continued threat of sequestration under current law, as well as the strategic choices facing the Army.

Let me begin by thanking each member of the committee for your support and commitment to U.S. Army Soldiers, Civilians, and Families particularly while we remain at war and with the specter of great fiscal challenges and strategic uncertainty. The Nation's investment in the Army over the past decade has been decisive in ensuring the success of American Soldiers on the battlefield and achieving our national security objectives.

## **Resourcing the Army**

Throughout our history, we have drawn down military forces at the close of every war. This time, however, we are drawing down our Army before the war is over and at a time when there is grave uncertainty in the international security environment. Today, the Total Army – the Active Army, the Army National Guard, and the U.S. Army Reserve – remains heavily committed in operations overseas and at home. More than 70,000 Soldiers are deployed, including nearly 50,000 Soldiers in Afghanistan, and more than 87,000 Soldiers are forward-stationed across the globe.

We have also learned repeatedly from previous drawdowns that the costs of creating an under-resourced and under-prepared Army will ultimately fall on the shoulders of our Soldiers who will deploy and respond to future contingencies. We have experienced this too many times to repeat this egregious error again. As Chief of Staff, it is my responsibility to provide my best military advice in order to ensure the Army will meet our national security needs in the complex, uncertain environment of the future. It is imperative that we preserve decision space for the Commander-in-Chief, the Secretary of Defense and the Congress. Together, we must ensure our Army can deliver a trained and ready force that deters conflict and compels our adversaries and, when necessary, has the capability and the capacity to execute a sustained, successful major combat operation.

During my more than 37 years of service, the U.S. Army has deployed Soldiers and fought in more than 10 conflicts including in Afghanistan, the longest war in our Nation's history. No one can predict where the next contingency will arise; we only know the lessons of the past. In every decade since World War II, the United States has deployed U.S. Army Soldiers to defend our national security interests. Unfortunately, there is little to convince me that we will not ask our Soldiers to deploy again in the near future.

If the magnitude and speed of the discretionary cap reductions remain, the Army will not be able to fully execute the 2012 Defense Strategic Guidance requirements. From FY14 to FY17, as we continue to draw down and restructure the Army into a smaller force, the Army will have significantly degraded readiness and extensive modernization program shortfalls. Only in FY18 to FY23 will we begin to rebalance readiness and modernization. But this will come at the expense of significant reductions in force structure and endstrength, which will not allow us to execute the 2012 Defense Strategic Guidance and, in my opinion, will make it very difficult for the Army to conduct one sustained major combat operation.

## **Past Budgetary Priorities and Reductions**

In the years since 2003, the Army has relied heavily on Overseas Contingency Operations (OCO) funding to build and maintain the core competencies and readiness for operations overseas.

OCO funds have been used to meet immediate operational needs and to fill voids in Soldier training and modernization procurement.

Prior to 2003, the Army used major exercises at our combat training centers to ensure the readiness of our brigade combat teams. The Army began shifting the focus of these exercises from training for the full range of combat operations to preparing for more limited stability or counterinsurgency (COIN) operations in support of ongoing wars. In 2011, the Army began reintroducing training for combined arms with scenarios replicating the complex nature of future warfare in an effort to restore the core warfighting skills that had atrophied after a decade of COIN-focused operations. The Army had intended in 2013 for all Army brigades not scheduled to deploy to Afghanistan to train for these critical combat functions in their Combat Training Center (CTC) exercises. Unfortunately, our goal to begin rebuilding these core warfighting skills in FY13 has not been realized due to the effects of sequestration. This will be compounded as we potentially face further reductions to our training accounts in FY14 and FY15 due to the reduced caps.

Over the past three years, the Army has absorbed several budget reductions in the midst of conducting operations overseas and rebalancing the force to the wider array of missions called for in the 2012 Defense Strategy Guidance. In 2010, under Secretary Gates, DOD developed a 10-year plan to achieve nearly \$300 billion in efficiencies. To comply with the discretionary caps outlined in the Budget Control Act of 2011, the FY 2013 Budget proposed \$487 billion in DOD funding reductions over 10 years, of which the Army's share is an estimated \$170 billion. With the end of the Afghanistan and Iraq wars and after the collaborative development of the 2012 Defense Strategic Guidance, the Army agreed to reduce our endstrength in order to maintain a balanced, ready and modern force. 98% of the Army's endstrength reductions were taken from the Active Army. As a result, we are in the process of shrinking our Active Army by 14% from a wartime high of 570,000 to 490,000. At the same time, we are keeping the Army National Guard relatively constant, with a 2% reduction from 358,000 to 350,000, and retaining the Army Reserve at 205,000.

In conjunction with endstrength reductions, on 25 June 2013, we announced changes to the Army force structure to reorganize 45 brigade combat teams (BCTs) into 32 BCTs. In doing so, we will eliminate excess headquarters infrastructure while reinvesting the greater combat power of 95 of 98 combat battalions across the remaining Brigade Combat Teams. All of these endstrength and force structure decisions were developed to respond to previous budget cuts and prior to the implementation of sequestration.

If the additional discretionary cap reductions required under current law continue, we will be forced to further reduce the Army endstrength to 420,000 in the Active Army, 315,000 in the Army National Guard, and 185,000 in the U.S. Army Reserve. This would represent a Total Army endstrength reduction of more than 18% over seven years – a 26% reduction in the Active Army endstrength, to include a 45% reduction in Active Army Brigade Combat Teams; a 12% reduction in the Army National Guard; and a 9% in the U.S. Army Reserve.

### **Sequestration Impacts in FY13 and FY14**

Sequestration has had a profound effect on our efforts to prepare units for future contingency operations. The continued implementation of the reduced discretionary caps, beginning in FY 2014, will have drastic impacts across all aspects of Army readiness in training, equipment sustainment and modernization, military and civilian manning, and installation support.

## ***Training***

In FY13, the Army was forced to cancel CTC rotations for seven brigade combat teams – the equivalent of two divisions – that were not slated to deploy to Afghanistan or serve in the Global Response Force. We had intended for all Active Army brigades not scheduled to deploy to Afghanistan to train on their critical core competencies, but we were forced to cancel all CTC rotations for non-deploying units, a total of seven cancelled CTC rotations. As a result, the Army has lost leader development opportunities for approximately 231 company commanders, 112 field grade officers, and 42 battalion commanders.

If sequestration-level reductions continue into Fiscal Year 2014, **85% of the Army's active and reserve component BCTs will not meet readiness levels appropriate for contingency requirements.** Even the seven BCTs that have been funded for collective training at a CTC in preparation for an Afghanistan deployment will only be trained for the Train and Assist mission required for that theater; they will not be prepared for any other contingency operation.

Significant reductions in home station training combined with canceled CTC rotations equates to readiness levels that leave our brigade combat teams unprepared to deploy. In the event of a crisis, we will deploy these units at significantly lower readiness levels. Our Soldiers are adaptive and agile; over time they may accomplish their mission, but their success will come with the greater cost of higher casualties. This means that if these units are called upon to defend South Korea, or to secure chemical and biological weapons in Syria, the Commander in Chief will be forced to send Soldiers into harm's way who have not trained as an integrated Brigade combined arms team.

Twelve years of conflict have resulted in an extensive backlog in our leadership education and training programs due to reductions in schoolhouse capacity. For example, only 68% of Majors, 75% of Warrant Officers, and 71% of Non-Commissioned Officers have completed their critical professional military education (PME) courses necessary to effectively lead Soldiers in current and future assignments. The opportunities lost to train the Army's mid-grade and senior leaders in CTC rotations, collective training, and institutional education will result in the promotion of Army leaders, who are not trained to maneuver units under fire and in combat, leading larger units and organizations. Finally, there continue to be extensive shortfalls in critical specialties and backlogs in institutional training. FY14 cuts will increase the current 200-seat backlog in Aviation Flight Training and will continue to erode the capacity in our sniper, Ranger, and language schools. Risk taken in training readiness cannot be quickly recovered. It takes an Active Army BCT one year to build full training readiness for unified land operations. Missed leader development opportunities will create a deficit that cannot be recovered.

## ***Equipment Sustainment and Modernization***

Sequestration caused the Army to defer approximately \$716 million of FY13 equipment reset (maintenance) into FY14 and FY15. For example, the FY13 Continuing Resolution coupled with sequestration has contributed to a backlog of 172 aircraft awaiting maintenance. Sequestration has also postponed the reset of nearly 700 vehicles, almost 2,000 weapons, over 10,000 pieces of communications equipment, Army Prepositioned Stocks, and numerous Soldier equipment and clothing items. The Army was forced to cut routine maintenance for non-deployed units thereby creating an additional \$73.5 million in deferred maintenance costs that will carry over into FY14. Sequestration also limited the Army's ability field software upgrades necessary to sustain network operations; creating substantial risk in the 135 systems that affect network security, systems operations, integration and information assurance. Altogether sequestration resulted in the release

of nearly 2,600 civilian and contract personnel, eroding critical trade skills in fields such as engineering.

The Army is responsible for maintaining pre-positioned sets of equipment that serve as the strategic hedge in critical regions of the world in order to allow for rapid deployment of Soldiers in times of crisis. Sequestration has forced the Army to defer maintenance and delay the new equipment fielding of these sets – impacting each of the Combatant Commander’s war plans.

In the event sequestration-level discretionary caps continue into FY14, we will assume significant risk in our Combat Vehicle development and delay the fielding of Abrams training simulators by two years. In our aviation program, we cannot afford to procure a new Armed Aerial Scout helicopter; we will have to develop new organizational concepts to mitigate our shortfalls in Aerial Reconnaissance. We will reduce system upgrades for unmanned aerial vehicles. We will delay the modernization of our Apache helicopters. We will delay the modernization of Air Defense Command and Control systems. We will also delay modernization of critical Mission Command systems and the development of the Common Operating Environment (COE) that leverages enterprise technology to gain better interoperability, information security, and capability in our Mission Command software applications.

If reductions of that magnitude continue into FY15 and beyond, every acquisition program will be affected. These reductions will significantly impact 100 modernization programs by not transitioning to production, terminating their funding, restructuring the program or significantly delaying their completion. This will be necessary to facilitate our ability to concentrate the available funds on priority programs in science and technology, Paladin Integrated Management (PIM), Armored Multi-Purpose Vehicle (AMPV) and the JLTV (Joint Light Tactical Vehicle) and multi-year aviation contracts.

FY13 sequestration cuts greatly impacted Army science and technology (S&T) – the seed corn of Army modernization and innovation. Sequestration nearly halved new basic research grants in FY13 and affected grants at more than 120 universities in 38 states. If additional reductions continue, we expect that increasing numbers of Army scientists and engineers will move to private sector jobs, impacting Army S&T now and the development of new capabilities for the future. Applied research and advanced technology development efforts in key capability areas will be further impacted across all areas, including armor, high-energy lasers, anti-access/area denial technologies, electronic warfare, cyber, mission command, night vision, Soldier training, medical research, operation and sustainment cost-cutting initiatives for Army systems and manufacturing technology efforts.

As these lower funding levels continue, we are increasingly concerned about the health of the industrial base and the subsequent consequences for the Army. Shrinking demands and production rates will tend to lead to higher proportional overhead costs and unit costs. Lower demand will also lead to the loss of trained and experienced workers, which will reduce industry’s ability to respond to future requirements. Small businesses, which provide components and subcomponents for large end items and are less likely to have the capital resources to survive gaps in production, may shutter or leave the sector. The engineering and technical workforce necessary to design and develop new systems may migrate to other sectors or retire. Manufacturing skills in highly specialized areas such as aircraft integration and large caliber weapons are likewise difficult to replace if lost due to downsizing.

## **Manning**

*Military Manning.* The Army will strive to retain its most talented Soldiers but will be forced to separate large numbers of high quality experienced, combat Veterans. For example, in FY14, the Army will begin to convene boards to separate up to 30% of the Captains from Year Groups 2007, 2008, and 2009, the majority of whom have served multiple deployments in combat. The loss of experienced manpower will negatively impact short-term readiness and is likely to affect future recruitment and retention. Reductions in endstrength will also impair manning readiness, as the pool of non-available Soldiers is averaging about 13% per year after 12 years of continuous operations.

*Civilian Manning.* This year, we furloughed approximately 197,000 civilian employees, 48% of whom are Veterans, forcing them to take a 20% pay cut for six weeks. Furloughs delayed maintenance services; slowed contracting; and decremented nearly every support function to include medical and family services at every installation. Furloughs have also begun to have a tremendous effect on morale as they come on the heels of two years of frozen pay and performance-based bonuses; we have begun to see some of our highest quality personnel seeking employment in the private sector. Given the lower discretionary caps and the continued threat of sequestration we are preparing to reduce civilian endstrength to levels proportional to military endstrength reductions - an estimated 14% cut to our dedicated civilian workforce.

## **Installations Support**

In FY13, we reduced our base sustainment funds by \$2 billion, a 70% drop from historic levels of funding. In FY14, facilities sustainment will receive 36% of historic funding levels which will meet minimum requirements for installation sustainment of buildings for Health, Life and Safety, but otherwise will significantly impact every service program including municipal, fire and emergency, logistics, facilities engineering, and family programs. For example, we will not be able to fund municipal services contracts for custodial, pest control, or other services and we will be forced to eliminate nearly all preventative maintenance programs. The backlog of approximately 158,000 work orders is 500% above this time last year, and will increase future sustainment costs throughout the year by 31%. We will suspend all restoration and modernization projects which includes those projects needed to support the consolidation of bases in Europe. The degradation of services to Soldiers, Civilians, and their Families, particularly as units continue to deploy into and return from theater and in the midst of the drawdown, will significantly erode recruitment and retention. Likewise, funding for military construction, to include large-scale renovations of older infrastructure, will be more than 50% below historic norms.

## **Fiscal Year 2014**

The Army remains fully committed to the enactment of President's budget for Fiscal Year 2014. The Army's portion of that budget, \$129.7 billion, is necessary in its entirety to ensure that the Army meets the requirements of the 2012 Defense Strategic Guidance. The FY14 budget, however, does not provide the funds necessary to address decaying readiness that is the result of earlier cuts made to our training programs. As a result, I submitted a \$3.2 billion Unfunded Request Memo on 6 June 2013. In addition to the FY14 base budget, the Army has submitted a separate request of \$47.6 billion in FY14 OCO funding for operations in Afghanistan; it is critical that this request be fully funded to support our Soldiers currently deployed and those soon to deploy into theater.

However, given the necessity to prepare for the reduced discretionary caps and threat of sequestration in FY14, the Army's execution of the FY14 budget will proceed along five avenues.

First, Secretary McHugh and I have directed that we accelerate the deliberate downsizing of the Army's Active endstrength from its current level of 532,530 to 490,000 by FY15 instead of FY17. Second, we are implementing force structure changes – including the reorganization of our Brigade Combat Teams – to reduce brigade level headquarters while sustaining combat power. Third, we will be forced to implement a drastic tiered readiness system in which about 20% of the operating force will receive the funds necessary to conduct collective training to reach appropriate readiness levels. Fourth, we will reprioritize our modernization programs and determine which ones are most critical to filling capability gaps and which ones will be delayed or cancelled. Fifth, we will make every effort to recruit and retain a high quality, professional, and disciplined All-Volunteer Force while we support our Veterans transitioning back to civilian life.

## **Strategic Choices**

In March of this year, Secretary Hagel directed a four-month long Strategic Choices and Management Review (SCMR). The SCMR was a valuable forum to discuss the projected impacts of sequestration and to formulate the choices facing us in the areas of endstrength, force structure, readiness, and modernization.

The SCMR review concluded that the Total Army must reduce its endstrength, combat formations, readiness, and modernization programs dramatically to keep pace with each of the proposed budget options. The SCMR process concluded that the Active Army endstrength could be as low as 420,000 while the Army National Guard could be as low as 290,000. Because the U.S. Army Reserve structure is based on their combat support role, the SCMR concluded that their endstrength and structure should not change.

We must strike the right balance between endstrength, readiness, and modernization across the Active Army, the Army National Guard and the U.S. Army Reserve as we reduce the size of the force. To date, 98% of endstrength reductions have been borne by the Active Army; the entire force has been affected by reductions to readiness and modernization accounts. If reduced discretionary caps and sequestration continue, we will be required to reduce endstrength and force structure in the Army National Guard and take modest endstrength reductions in the U.S. Army Reserve in order to ensure we retain a ready force. I am committed to every Army Soldier and every Army formation being ready and prepared to meet the requirements of the 2012 Defense Strategic Guidance. However, if we retain too great a force structure in either the Active Army or the Army National Guard, we will not have sufficient money to train those units.

Ultimately, the size of our Army will be determined by the guidance and amount of funding provided by the Congress. To that end, the SCMR looked at two different funding levels, one that reflects the President's Budget proposal and another that reflects the reductions to the discretionary caps required under current law. In both cases, the Army takes significant budget reductions.

Under the funding levels of the President's Budget proposal, which defers the effects of sequestration for several years, the Army will reach what I believe is the absolute minimum size to fully execute the 2012 Defense Strategic Guidance: 450,000 in the Active Army, 335,000 in the Army National Guard, and 195,000 in the U.S. Army Reserve which would include a total of at least 52 Brigade Combat Teams. In this case, because the President is proposing to defer the largest funding reductions until 2018, we can maintain a ready force, albeit a smaller one, that across the Total Army, can meet the requirements of the 2012 Defense Strategic Guidance. At this size, however, we are at high risk for reacting to any strategic surprise that requires a larger force to respond. In addition, the

Army will only be able to maintain an adequate level of future readiness by accepting a high degree of risk across every modernization program.

The second case examined by the SCMR was how to achieve the additional budget cuts called for under the current law. In this case, the Army was “sized-to-budget,” meaning that in order to build and sustain a ready force, the Army would be reduced to 420,000 in the Active Army, 315,000 in the Army National Guard, and 185,000 in the U.S. Army Reserve which would include significantly less than the 52 Brigade Combat Teams I believe we need. Additionally, it would require us to reduce our modernization accounts by nearly 25%, with no program unaffected. While we have made no final decisions yet, major weapon programs will be delayed and while we tried to protect certain programs, the impact on the industrial base is likely to be severe.

In my professional military judgment, these projected endstrength and force structure levels would not enable the Army to fully execute 2012 Defense Strategic Guidance requirements to defeat an adversary one major combat operation while simultaneously denying the objectives of an adversary in a second theater. Additionally, it is unlikely that the Army would be able to defeat an adversary quickly and decisively should they be called upon to engage in a single, sustained major combat operation. Whatever budget decision made by Congress, the Secretary of the Army and I have determined that we will reduce the size of the Army as needed to ensure that all units – Active Army, the Army National Guard, and U.S. Army Reserve – will be ready for their assigned missions. Therefore, our deliberations should not solely pivot around a discussion of the future Army endstrength but also upon the readiness and capabilities of the Army given the resources available.

### **Congressional Action**

As I have detailed above, the fiscal outlook today and in the near future continues to be exceedingly difficult due to the blunt instrument of sequestration. It is imperative that Congress avoid future cuts through the vehicle of sequestration. Sequestration continues to have a devastating impact on our ability to train, man, and equip the Army. As you continue to work through the issue of continuing resolutions and dealing with sequestration, we ask you to consider the following actions that will allow us to deal with these cuts in a more reasonable and rational way.

*Compensation Reform.* We are extremely grateful for the high quality care and compensation our Nation has shown to our service men and women over the last decade. Military manpower costs remain at historic highs and consume 46% of the Army budget today. As we go forward, we must develop compensation packages that reduce future costs but at the same time recognize and reward our Soldiers and their families for their commitment and sacrifice. If we do not slow the rate of growth of soldier compensation, it will consume a higher, disproportionate percentage of the Army’s budget and we will be forced to reduce the Army’s size below sequestration levels of endstrength and further reduce investments in training, and modernization. We will not be able to afford a force of sufficient capacity, readiness and modernization without compensation reform. It is our solemn duty to our Soldiers and the Nation to ensure that our Soldiers are ready to fight when called to do so. We must make choices that preserve the high quality, All-Volunteer Force as the most critical component of a ready Army.

*Civilian Workforce.* The furloughing of our civilian workforce in FY13 caused much disruption across our Army and impacted our ability to remain focused on critical mission requirements. As we move forward, the shaping and restructuring of the Army civilian workforce is necessary to ensure we have the right mix of talent and skills to support our Army for the future. Additional authorities to increase the cap on the Voluntary Separation Incentive Program (VSIP) and the ability to offer

Voluntary Early Retirement (VERA) are crucial to us in order to maintain our professional and capable civilian workforce.

*BRAC.* Due to reductions in military and civilian endstrength, force structure, and industrial base demand, a future round of base realignment and closure (BRAC) is essential to divest excess Army infrastructure. BRAC would also allow for a systematic review of existing DOD installations to ensure effective Joint and multi-service component utilization. If we do not make the tough decisions necessary to identify inefficiencies and eliminate unused facilities, we will divert scarce resources away from training, readiness, and Family programs and the quality of our installation services will suffer.

## **Conclusion**

We must develop a leaner, smaller Army that remains the most highly-trained and professional All-Volunteer land force in the world; one that is uniquely organized with the capability and capacity to provide expeditionary, decisive landpower to the Joint Force, and is ready to perform the range of military operations in support of Combatant Commanders to defend the Nation and its interests at home and abroad, both today and against emerging threats.

To ensure that we align resources to set ourselves on course to realize this Army, I have established five strategic priorities for the force:

1. Develop adaptive Army leaders for a complex world;
2. Build a globally responsive and regionally engaged Army;
3. Provide a ready and modern Army;
4. Strengthen our commitment to our Army profession; and
5. Sustain the premier All-Volunteer Army.

The impact of sequestration in FY13 coupled with the threat of continued sequestration levels of funding are forcing the Army to implement significant reductions to endstrength, readiness, and modernization in order to generate short-term cost savings. However, this will leave Congress, future administrations, and the Nation with severely reduced options for action. The next administration will have less capability to deter conflict and would be increasingly reliant upon allies in any future conflict, with no guarantee that our allies would be willing or able to provide the assistance needed to meet U.S. national security goals. In the event of a strategic surprise or upon the completion of hostilities, an undersized Army would be unable to conduct long-term stability and transition operations.

The choices we must make to meet reduced funding levels by sequestration could force us to reduce our Army in size and capability to levels that I, as the Chief of Staff of the Army, am not comfortable with. For those that present the choice as one between capacity and capability, I want to remind them that for the Army, Soldiers are our capability. Unlike other services that man their equipment, the Army must train and equip Soldiers to achieve decisive strategic results on the ground. If the funding dictates a smaller Army, then we must be prepared for both reduced capacity and reduced capability. Today, we have the best Army in the world. It is our charge, Congress and

DOD working together, to ensure that by the end of this decade, we still have the best Army in the world. Thank you for taking the time to listen to us about our budgetary concerns.

The strength of our Nation is our Army  
The strength of our Army is our Soldiers  
The strength of our Soldiers is our Families.  
This is what makes us Army Strong!