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HEARING

ON

NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2013

AND

OVERSIGHT OF PREVIOUSLY AUTHORIZED PROGRAMS

BEFORE THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

FULL COMMITTEE HEARING

ON

BUDGET REQUEST FROM THE DEPARTMENT OF DEFENSE

HEARING HELD
FEBRUARY 15, 2012

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FISCAL YEAR 2013 NATIONAL DEFENSE AUTHORIZATION BUDGET REQUEST FROM THE DEPARTMENT OF DEFENSE

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
Washington, DC, Wednesday, February 15, 2012.

The committee met, pursuant to call, at 10:05 a.m. in room 2118, Rayburn House Office Building, Hon. Howard P. "Buck" McKeon (chairman of the committee) presiding.

OPENING STATEMENT OF HON. HOWARD P. "BUCK" MCKEON, A REPRESENTATIVE FROM CALIFORNIA, CHAIRMAN, COMMITTEE ON ARMED SERVICES

The CHAIRMAN. The hearing will come to order.

Good morning, ladies and gentlemen. Thank you for joining us today as we consider the President's fiscal year 2013 budget request for the Department of Defense. To put this budget in context, it is critical to examine the strategy that has informed its submission.

At the outset, I want our witnesses to know that I appreciate the hard work that went into the development of the strategy. It is no small effort to completely revise a strategy 1 year after the submission of the Quadrennial Defense Review and less than 3 months after the submission of a budget request.

However, I do have serious concerns about the trajectory that this new strategy puts us on. Although this strategy is framed as making the military more nimble and flexible, it is not clear how slashing the Armed Forces by over 100,000 during a time of war, shedding force structure and postponing the modernization makes that so. The President must understand that the world has always had and will always have a leader. As America steps back, someone else will step forward.

We have now heard multiple times that the strategy drove the budget and not the other way around. I suppose this starts with the President's call to slash at least $400 billion from defense last April in advance of any strategic review. An honest and valid strategy for national defense can't be founded on the premise that we must do more with less or even less with less. Rather, you proceed from a clear articulation of the full scope of the threats you face and the commitments you have. You then resource the strategy required to defeat those threats decisively. One does not mask insufficient resources with a strategy founded on hope.

Furthermore, the President's new defense strategy "supports the national security imperative of deficit reduction through a lower level of defense spending." The Administration appears committed

to ensuring the military is the only sector of the Federal Government to meaningfully contribute to deficit reduction.

Simultaneously, the budget proposes additional spending by diverting savings from declining war funding to domestic infrastructure spending. How can you save by not spending money that wasn't in the budget to begin with? This is a cynical gimmick that once more ensures our military, and only our military, is held responsible for what little deficit reduction this budget represents.

White House Chief of Staff Jack Lew said, the time for austerity is not today. Ask the 124,000 service members who will have to leave the military how they feel about that.

The President's budget is a clear articulation of his priorities. The President's budget asks the men and women in uniform, who have given so much already, to give that much more so that the President might fund more domestic programs.

The President claimed that the budget would rise every year but ignores the fact that this request is $46 billion less than what he said he needed last year and more than $5 billion less than what was appropriated for fiscal year 2012. Furthermore, despite the new strategy's goal of pivoting to Asia, a theater where naval assets and airlift are decisive, the budget calls for retiring 9 ships, removes 16 more from the new construction plan, and cuts our airlift fleet by hundreds.

This isn't the only place where the President's public statements and missions seem to diverge. We cannot neglect the war. The President was committed to counterinsurgency strategy in 2009, yet inexplicably, and certainly not based on the advice of his commanders, announced our withdrawal date and to pull out the surge forces before the end of the next fighting season.

Mr. Secretary and Chairman Dempsey, before the President makes another announcement about troop withdrawals, I implore you to heed our commanders' advice. We are seeing success. Let's not make a decision to pull some of the remaining 68,000 troops before we see what happens this fighting season. Let's wait to reassess any more force level decisions until the end of the year.

I have more questions, but with that, I will conclude. Thank you again for being here. I look forward to your testimony and call now on Ranking Member Smith for his opening statement.

[The prepared statement of Mr. McKeon can be found in the Appendix on page 63.]

STATEMENT OF HON. ADAM SMITH, A REPRESENTATIVE FROM WASHINGTON, RANKING MEMBER, COMMITTEE ON ARMED SERVICES

Mr. SMITH. Thank you, Mr. Chairman.

Thank you, Mr. Secretary and General Dempsey for being here. And I applaud you for the effort that you've put in, of course, over the last year. This did start quite some time ago with a major strategic review of our military and our national security needs that was, as has been documented, a very holistic transparent process, in which you brought in all of the military leaders and really sat down and thought about what our national security needs are going to be for the next 10 years.

The strategy, without question, was where this whole process started, and I applaud you for that. And you have laid out a very clear and coherent strategy. Now when it comes to the budget numbers, I think it is important to take a step back and have a little perspective on exactly what they are.

The defense budget has doubled over the course of the last 10 years. The budget that has been put before us, as the chairman points out, will be increasing the defense budget every year from this year forward. We hear about these cuts. These cuts are from what was projected to be needed to be spent a year or two ago. They are not actual cuts, with the sole exception of this year.

Yes, after doubling the defense budget over the course of the last 10 years, not even counting the overseas contingency operations money, this one year, we go from $530 billion last year to $525 billion, and then it goes up every single year for the next ten. It is part, I guess, of sort of "Washington-think" that when you increase the budget, you can call it a cut. You know, it is a decrease in the increase, perhaps, but it is an increase nonetheless. So we have to keep those numbers in perspective.

I think it is also worth pointing out that over the course of the last 10 years, I don't think there is a single person on this committee who would argue that we have done an outstanding job of efficiently and effectively spending those dollars on the defense budget. Anybody who would argue that we can't go back and look at our acquisition and procurement process and do it much better, do it in a way that is actually going to deliver more capable pieces of equipment at less money, and that is what these gentlemen have done if they have taken a look at those last 10 years and figured it out how to do it better.

Now I am not going to be overly critical of those last 10 years; 9/11 happened, and we had to respond. We had to fund the military. And when you have to act that fast, mistakes will be made. And I know the people who were making those decisions back then did their level best in a very difficult time.

But to not learn from that experience 10 years later and figure out a way to spend that money, that would be a betrayal of our job and of the job of the people in the Pentagon, so I applaud you for doing that. I think we have a budget that did put the strategy first that puts us in the right direction. And then also I will point out that this is the law.

The budget numbers that we have projected for the next 10 years and that Secretary Panetta and General Dempsey had to live under were passed by this Congress. Now I know some Members of the committee voted for it and some Members didn't, but it is the law of the land, passed by the House and the Senate. The $487 billion reduction in the projected increases is the law that these people had to follow and that we passed and gave to them.

So as we hear today about various different programs and areas where we think that this budget is cutting too much, it would be most helpful—and I doubt this will happen, but I will ask for it anyway—that if, as people are making those criticisms, they point out where they would like to find the money, either within the defense budget, you can say, okay, your strategy is all right, but you should have spent more money here and less money there.

Or if you don't think that is possible within the defense budget, then by all means, let us know what taxes you want to raise to produce more money, or if you don't want to do that, what other programs, preferably with some specificity, instead of just generally saying we would like to spend less money on government, that you are going to cut. Otherwise, this is just an exercise in imagining that we have more money than we actually do.

These gentlemen didn't have that luxury. They had to put together a budget based on the law that we gave them. And again, I will emphasize I think they did a very good job of it. They put out a strategy that understands how the world is changing. The main threats that we are going to face are going to be asymmetric nonstate terrorist threats, and then also Iran, North Korea, their missile technology—we need a different sort of military to confront that than the one that fought two major land wars in the last 10 years.

This strategy reflects those changes. To give one example, the Special Operations Command will keep going up because we know how critical they are to precisely the fight that we face. They are going to increase that ISR [intelligence, surveillance, and reconnaissance] capability, through unmanned aerial vehicles and other sources, also going up to make sure that we meet the needs that are in front of us.

Now there are a lot of other things that aren't going up, but that is because things have changed. We need a new strategy to confront the threats that we did, and in a difficult budget environment, you guys did that and put together a very good strategy.

So I hope we will have a realistic conversation. And if more money wants to be spent here, tell us where we should find it and tell us how to balance that out. You never forget that it is also in our national security interest to have a strong economy and a fiscally responsible Government. And if we don't have those things, the strongest military in the world will not be able to protect us.

So this is a very interesting debate that we are going to have over the course of the next several months. I look forward to the comments from the Members of this committee and from the Secretary and the General. We have a lot of difficult work to do, but I think we are off to a good start, and I look forward to working with everybody on the committee and at the Pentagon to get the job done for the American people. Thank you.

[The prepared statement of Mr. Smith can be found in the Appendix on page 65.]

The CHAIRMAN. Thank you.

We are fortunate to have us today our Secretary of Defense, the Honorable Leon E. Panetta, from the U.S. Department of Defense; General Martin E, Dempsey, United States Army, Chairman, Joint Chiefs of Staff; the Honorable Robert F. Hale, the Under Secretary of Defense (Comptroller) of the Department.

Thank you, gentlemen, for being here.

Mr. Secretary, the time is yours.

STATEMENT OF HON. LEON E. PANETTA, SECRETARY OF DEFENSE

Secretary PANETTA. Thank you, Chairman McKeon, Congressman Smith, Members of this committee.

It is always nice to be able to return to the House. It was my home in the past, and I still consider it one of the good moments of my history in public service.

If I could ask that my statement be made part of the record, and I will try to summarize it as briefly as I can.

The CHAIRMAN. No objection, so ordered.

Secretary PANETTA. I appreciate the opportunity to appear before you to discuss the President's budget request for the fiscal year 2013 for the Department of Defense.

Let be begin, first of all, by thanking all of you for the support that you provide to our service members and to their families. These brave men and women—and they are, for anybody who has gone to the battlefield or talked to those in uniform, they are without question the next greatest generation of individuals—along with the Department's civilian professionals who support them, they have done everything that has been asked of them and more during more than a decade of war. And again, I thank you for the support that you have provided to them.

The fiscal year 2013 budget request for the Department of Defense was, indeed, a product of very—of a very intensive strategy review that was conducted by the senior military and civilian leaders of the Department. All the service chiefs, all of the combatant commanders participated in this effort. We also had the advice and guidance from the national security team and the President as well.

The total request represents a $614 billion investment in national defense. It includes $525.4 billion requested for the Department's base budget and $88.5 billion in spending in support of our troops in combat.

The reasons for this review are clear. First, the United States is at a strategic turning point after a decade of war and obviously a very substantial growth in defense budgets. But, second, with the Nation confronting very large debts and very large deficits, Congress passed the Budget Control Act of 2011, imposing by law on us, by law, a reduction in the defense budget of $487 billion over the next decade.

We at the Department decided to step up to the plate to abide by the law and to use this crisis as an opportunity to try to establish a new strategy for the force of the future, and that strategy has guided us in making the budget choices that are contained in the President's budget. The fact is that we are at a turning point that would probably have required us to make a strategic shift under any circumstances.

The U.S. military's mission in Iraq has ended, but we still have a tough fight on our hands in Afghanistan, but 2011 marked significant progress in reducing violence and transitioning to Afghan-led responsibility for security. And we are on track to complete that transition by the end of 2014. The NATO [North Atlantic Treaty Organization] ministers, ISAF [International Security Assistance

Force], all of the NATO countries are unified in this strategy, and we are abiding by our Lisbon commitments.

Last year, the NATO effort in Libya also concluded with the fall of Gadhafi, and successful counterterrorism efforts have significantly weakened Al Qaeda and decimated its leadership.

But despite what we have able to achieve, unlike past drawdowns, where threats have receded, the United States still faces a complex array of security challenges across the globe. We are still a nation at war in Afghanistan. We still face threats to our homeland from terrorism. There is a dangerous proliferation of lethal weapons and materials.

The behavior of Iran and North Korea continues to threaten global stability. There is continuing turmoil and unrest in the Middle East from Syria to Egypt to Yemen and elsewhere. Rising powers in Asia are testing international rules and international relationships, and there are growing concerns about cyber intrusions and cyber attacks.

Our challenge must be to meet these threats; to meet these threats, protect our Nation and our people, and at the same time meet our responsibility to fiscal discipline. This is not an easy task. It is a tough challenge.

To build the force we need for the future, what we decided to do is develop a new strategic guidance that consists of the following five key elements: Number one, the military will be smaller, and it will be leaner, but it should be agile. It should be flexible, ready to deploy quickly and technologically advanced.

Second, we have to rebalance our global posture and presence to emphasize Asia-Pacific and the Middle East. These are the areas of greatest concern in the future.

Third, for the rest of the world we need to build innovative partnerships and strengthen key alliances and key partnerships from Europe to Latin America to Africa.

Fourth, we will ensure that we have the capability to quickly confront and defeat aggression from any adversary, anytime, anywhere.

And, fifth, this can't just be about cuts, it has to be about investments. What do we protect and prioritize in terms of investments, in technology and new capabilities, as well as our capacity to grow, adapt and mobilize as needed.

While sharing this strategy and shaping the strategy, we didn't want to make the mistakes of the past. And every time we have gone through these drawdowns there have been serious mistakes that have been made. Our goal was to maintain the strongest military in the world, to not hollow out the Force. That is extremely important: To not hollow out the Force, which means to maintain a large force structure and then cut training and equipment and all the other things that are essential to make that a first-rate force. Thirdly, to take a balanced approach to budget cuts, put everything on the table and look at every area in the Defense Department budget. And, lastly, to not break faith with the troops and their families, people that have been deployed time and time again to the battlefield.

Throughout the review, we also made sure that this was an inclusive process. General Dempsey, as Chairman, and I worked

closely with the leadership of the Services, combatant commanders and consulted regularly with Members of Congress as well as the President and members of the Administration. As a result of these efforts, the Department is strongly unified behind the recommendations that we are presenting today.

Consistent with the Budget Control Act, this budget reflects $259 billion in savings in the first 5 years. We obviously project meeting our $487 billion number over 10 years, but in the budget we present to you, it is the 5-year cycle, and that includes $259 billion in savings.

It is a balanced and complete package, and as I said, it follows the key elements that we laid out in our strategy. The savings come from three areas. First, efficiencies; second, force structure and procurement reforms and adjustments; and, finally, compensation. Compensation is an area that has grown by 90 percent, and we felt that we had to achieve some cost controls in the future there as well.

Let me just quickly go through each of those areas. If we tighten up the force, then I think we have a responsibility to tighten up the operations of the Department by reducing excess overhead, eliminating waste and improving business practices across the Department. As you know, the fiscal year 2012 budget proposed about $150 billion in efficiencies over 5 years, and we are in the process of implementing those changes.

But we felt we could do more, so we have identified another $60 billion in additional savings over the next 5 years through measures such as streamlining support functions, consolidating IT [information technology] enterprise services, rephrasing military construction projects, consolidating inventories and reducing service support contractors. As we reduce force structure, we also have a responsibility to try to provide the most cost-efficient support for the force. And that is the reason the President will request Congress to authorize the Base Realignment and Closure process for 2013 and 2015.

Look, as somebody who has gone through BRAC [Base Realignment and Closure], and I went through it in my district and know what it means and know the impact that it can have, it is a controversial process that impacts on Members and impacts on their constituencies. I understand that. And, yet, it is the only effective way to try to achieve the needed infrastructure savings that we have to achieve in the long run.

Lastly, to provide better financial information, we are also increasing our emphasis on audit readiness and accelerating key timelines. In October of 2011, I directed the Department to accelerate the efforts to achieve fully auditable financial statements. Originally, under a mandate, we were supposed to do that by 2017; I asked that it be done by 2014.

But efficiencies alone are not enough to achieve the required savings and that is obviously why we had to make significant adjustments to force structure and procurement investments. But we did it in line as, again, with the strategies that we put in place. And let me quickly walk through those. First, we knew that coming out of the wars, the military would be smaller.

Our approach to accommodating these reductions was to use this as an opportunity, as tough as it is, to fashion an agile and flexible military that we will need in the future. We have got to have an adaptable and battle-tested army that is there for decisive action and capable of defeating an adversary on land and also at the same time be innovative.

We need a Navy that maintains forward presence and is able to penetrate enemy defenses; a Marine Corps that is a middle-weight expeditionary force with reinvigorated amphibious capabilities; an Air Force that dominates air and space and provides rapid mobility in global strike and persistent ISR; and a National Guard and Reserve that can continue to be ready and prepare for operations when needed.

To ensure an agile force, we made a conscious choice—that we have decided not to maintain more force structure than we could afford to properly train and equip. That was the point I made about not doing something that hollows out the Force.

We are implementing force structure reductions that are consistent with this strategic guidance for a total savings of about $50 billion over the next 5 years. The biggest pieces of that include resizing the Active Army, where at 562,000, we will be going down to about 490,000 by 2017. This will be gradual, and at that point, it will be a level that will still be higher than pre-9/11.

Same thing is true for the Marine Corps. We will go from 202,000 to 182,000 marines. We will also reduce and streamline the Air Force's airlift fleet, basically going after aging C–5As and C–130s but will still remain a fleet of 275 strategic airlifters and 318 C–130s.

The Navy will protect a fleet of 285 ships and protect our highest priority and most flexible ships, but we will be retiring 7 lower priority Navy cruisers that, frankly, need to be upgraded with ballistic missile defense capability. That hasn't happened, and it would require significant repairs in order to do that.

Second, the strategic guidance made clear that we have got to protect our capabilities and project our power to Asia-Pacific and the Middle East. To this end, we have maintained the current bomber fleet. We maintained the aircraft carrier fleet, 11 ships and 10 air wings. We maintained the big deck amphibious fleet. We restore Army and Marine Corps forces structure in the Pacific. After the drawdown from Iraq and the drawdown in Afghanistan, we are going to maintain a strong presence not only in the Pacific but in the Middle East as well.

This budget also makes selected new investments to ensure that we develop new capabilities, $300 million to fund the next-generation Air Force bomber; $1.8 billion to develop the new Air Force tanker; $18.2 billion for the procurement of 10 new warships.

Third, this strategy makes clear that even though Asia-Pacific and the Middle East are the areas of greatest concern and priority, the United States will work to strengthen our key alliances, build partnerships and develop innovative ways, such as rotational deployments, to sustain U.S. presence elsewhere in the world.

With regard to NATO, we will be investing almost $200 million in the NATO Alliance Ground Surveillance System and $9.7 billion

to develop and deploy missile defense capabilities that protect the U.S. homeland and strengthen regional missile defenses.

Fourthly, the United States must have the capability to fight more than one conflict at a time. This is essential. But we are in the 21st century, and 21st century combat is a lot different. And we need to have the capabilities to deal with threats in the 21st century. That means we need to invest in space, in cyberspace and long-range precision strikes and the continued growth of Special Operations Forces to ensure that we can still confront and defeat multiple adversaries, even with the force structure reductions that we have outlined. Even with some of the adjustments to force structure, this budget sustains a military that we believe is the strongest and will remain the strongest in the world.

We will have an Army of more than 1 million Active and Reserve soldiers, 18 divisions, 65 brigade combat teams, 21 combat aviation brigades. We will have well a Navy battle force of 285 ships that will remain the most powerful and flexible naval force on Earth. We will have a Marine Corps with 31 infantry battalions, 10 artillery battalions, and 20 air tactical squadrons; and an Air Force that will continue to ensure air dominance with 54 combat coded fighter squadrons in the current bomber fleet.

Lastly, we have to invest. If we are going to leap ahead of our adversaries technologically, we have got to be able to have some key investments in new technologies. We provide $11.9 billion for science and technology research; $2.1 billion for basic research; $10.4 billion to sustain continued growth in Special Operations Forces; $3.8 billion for unmanned air systems; and $3.4 billion for cyber activities.

Let me also mention a key element that we absolutely have to maintain, which is a strong, capable and ready National Guard and Reserve. To that end, we are going to retain—we have asked the Army to retain mid-level officers and NCOs [noncommissioned officers], so that the structure and experienced leaders will be there if we have to mobilize and regrow the Force quickly.

Another important element is to preserve our ability to quickly adapt and mobilize a strong and flexible industrial base. We have got to have an industrial base for the future. This budget recognizes that industry is our partner in the defense acquisition enterprise.

And, finally, to the most fundamental element of our strategy and our decisionmaking process, our people, far more than any weapons system or technology, the greatest strength of the United States is our military, the men and women in uniform.

One of the guiding principles in our decisionmaking process was to keep faith with them and their families. So we are protecting family assistance programs. We are protecting basic benefits. We are sustaining important investments in the budget to try to assist our troops with their needs and the needs of their families. Yet, in order to build the force needed to defend the country under existing budget constraints, the growth in costs in military pay and benefits has to be on a sustainable course. As I said, this is an area of the budget that has grown by 90 percent. We have got to implement some efforts to try to control those costs in the future.

The budget contains a roadmap to address the costs of military pay and health care and retirement in ways that we believe are fair, transparent, and consistent with our fundamental commitment to our people.

Let me conclude by saying this, Members of the committee: This, as I said, has not been an easy task. Putting together this kind of balanced package has been a difficult undertaking for everyone, but at the same time, we have viewed it as a very important opportunity to try to shape the force we need for the future. I believe that all of us, the Service chiefs and the combatant commanders have developed a complete package here aligned to achieve our strategic aims and at the same time meet our responsibility to fiscal discipline.

As you look at the individual parts this plan—and I urge you to do that, look at every element of the plan that we have submitted—I encourage you to bear in mind the strategic tradeoffs that are inherent in any particular budget decision.

This is a zero-sum game, and as far as I know, there is no free money around, and the need to balance competing strategic objectives has to take place in a resource-constrained environment. We need your support and partnership. We look forward to that.

I understand these are tough issues, and I also understand that this is the beginning, not the end, of this process.

But this is what Congress mandated. The majority of this committee voted for the Budget Control Act. We are mandated under law to meet these requirements of almost a half a trillion dollars in savings over the next 10 years. We have taken that responsibility seriously. We need your partnership to do this in a manner that preserves the strongest military in the world. This will be a test for all of us, whether reducing the deficit is about talk or about action.

And, let me finally be very clear. When you take a half a trillion dollars out of the defense budget, it comes with risk. We think they are acceptable risks. But, nevertheless, there are risks here. We are dealing with a smaller force. We are going to have to depend on the speedy mobilization. We are going to have to depend on new technologies. We are going to have to take care of troops coming home to make sure that they have jobs and have the support that they need.

There is very little margin for error in this budget.

This is why Congress must do everything possible to make certain that we avoid sequestration. That would subject the Department to roughly another $500 billion in additional cuts that would take place through a meat-axe approach and that we are convinced would hollow out the Force and inflict serious damage to the national defense.

So the leadership of this Department, both military and civilian, is united behind this strategy that we presented and the budget that we are presenting, but we look closely to working with you in the months ahead to do what the American people expect of their leaders, to follow the law, to do our part in reducing the deficit, to be fiscally responsible but also to develop a force that can defend this country, a force that supports our men and women in uniform

and a force that is and always will be the strongest military in the world.

Thank you, Mr. Chairman.

[The prepared statement of Secretary Panetta can be found in the Appendix on page 66.]

The CHAIRMAN. Thank you very much.

General Dempsey.

STATEMENT OF GEN MARTIN E. DEMPSEY, USA, CHAIRMAN, JOINT CHIEFS OF STAFF

General DEMPSEY. Chairman McKeon, Congressman Smith distinguished Members of this committee, thank you for the opportunity to discuss the President's defense proposed budget for fiscal year 2013.

I would like to begin by saying this budget represents a responsible investment in our Nation's security. At its core, it is an investment in our people, the sons and daughters of America who serve this Nation in uniform.

Allow me to open with a few words about them and what they have accomplished. The last 10 years of war have been among the most challenging in our history.

Through it all, the Joint Force has persevered, and it has prevailed. Our families have stood with us deployment after deployment after deployment, and so have you. Together, we have fulfilled our solemn vow to protect and defend America, her citizens and her interests.

As I sit with you today, our service men and women remain globally engaged. They are deterring aggression, developing partners, delivering aid, and defeating our enemies. They stand strong, swift, and ready in every domain every day. I had the privilege to be with a few of them while traveling to Afghanistan and Egypt earlier last week.

As always, I witnessed extraordinary courage and skill in the young soldiers just off patrol in the deep snows of the Hindu Kush, and the men and women of the NATO training mission managing the development of the Afghan National Security Forces and the brave and vigilant Marine security detachment in our embassy in Cairo, and in the superb junior airmen who flew us to the right place at the right time. They exemplify a professional military with a remarkable and reliable record of performance.

In just the past year, for example, we further crippled Al Qaeda. We helped protect the Libyan people from near certain slaughter, while affirming NATO's important role beyond the borders of Europe. We brought to a close more than 20 years of military operations in and over Iraq. And like we did in Iraq, we are steadily transitioning responsibility for security onto Afghan shoulders. And, of course, as you recall, we helped Japan recover from a perfect storm of tragedy and destruction.

And, of course, these were just the most visible accomplishments. Behind the scenes and beneath the surface, we defended against cyber threats. We have sustained our Nation's nuclear deterrent posture, and we worked with allies and partners to build capacity and to prevent conflict across the globe. We continue to provide this Nation with a wide range of options for dealing with the security

challenges that confront us. And in an increasingly competitive, dangerous and uncertain security environment, we must remain alert, responsive, adaptive, and dominant.

This budget helps us to do that. It is informed by a real strategy that makes real choices. It maintains our military's decisive edge, and it sustains our global leadership.

Moreover, it ensures we keep faith with the true source of our strength, and that is our people.

With this in mind, allow me to add just a few additional comments to those of the Secretary. First, this budget should be considered holistically. It is really a joint budget for a Joint Force rather than individual Service budgets formed parochially. It presents a comprehensive, carefully devised set of decisions. It achieves balance among force structure, modernization, pay, and benefits. Changes that aren't informed by that context, the context of jointness, risk upending the balance that I have just described and potentially compromising the Force.

Second, this budget represents a way point, not an end point, in the development of the Joint Force we will need for 2020 and beyond. It puts us on a path to restore versatility at an affordable cost. Specialized capabilities that were once on the margins become more central, even while we retain and must retain our conventional overmatch. It builds a global and networked Joint Force that is ably led and always ready.

And, third, this budget does honor our commitments made to our military family. It keeps faith with them. There are no freezes or reductions in pay. There is no lessening in the quality of health care received by our Active Duty service members and our medically retired wounded warriors. Now that said, we simply can't ignore the increasing cost of paying benefits. To manage costs, we need pragmatic reform. All of this can be done in a way that preserves our ability to recruit and then retain the best of America's talented youth.

Finally, all strategies and the budgets that support them carry risk. This is no different. In my judgment, the risk in this strategy and budget lies not in what we can do but in how much we can do and how often we can do it. This budget helps us buy down this risk by investing in our people and in the joint capabilities they most need.

To close, thank you. Thank you for keeping our military strong, thank you for taking care of our military family, for supporting those who serve, who have served and importantly who will serve.

I know you share my pride in them, and I look forward to your questions.

[The prepared statement of General Dempsey can be found in the Appendix on page 76.]

The CHAIRMAN. Thank you very much.

Thank you for your testimony. Thank you for your service. Thank you for doing a great job in a very difficult situation.

You have mentioned the Deficit Reduction Act, and Mr. Smith mentioned it. And again, many of us voted for it; some didn't. The Deficit Reduction Act called for serious reductions in our spending.

I understand the results of the last election and people said you have got to go to Washington and get our financial spending in

order. Everything needs to be on the table, defense included. And I don't think anybody would argue with a budget as large as we have in the Defense Department that we can't find savings. And this is a huge, a huge cut.

Defense accounts for 20 percent of our overall budget. And the first tranche of the savings that we voted on in the Deficit Reduction Act, 50 percent of the savings come out of defense. So I would say that we have given and given a lot out of defense.

And then the sequestration, I mean, when we voted for the deficit reduction, we were told that the "super committee" [Joint Select Committee on Deficit Reduction], that the sequestration was so bad that it would force the super committee to do its work to find other savings in the entitlement programs, which is where the real problem is anyway. Because if we eliminated all defense spending, if we eliminated all education spending, if we eliminated all transportation spending, if we eliminate the total discretionary budget, we would still be running a deficit of over half a trillion dollars.

So, all of this talk, all of this agony of going through all of these cuts, which are very significant, don't really address the real deficit problem. It is not the Defense Department that is putting us into a very precarious situation in spending.

Having said that, you have stepped up to the plate. You have found the cuts over the next 5 years that are very serious, and you have devised the strategy the best way you can to meet the threats that we can meet given the cuts.

Just a couple years ago, before you got here, Mr. Secretary, before you got here, Mr. Chairman, Secretary Gates in that same seat was saying that we had to, over the next 5 years, have a 2-percent growth over inflation, or we would have to reduce the size of the Force.

Well, that has come to pass because we not only are not having a 2-percent growth over inflation; we are actually having a reduction when you consider inflation. And your report from the Department points that we are going to have negative real growth over the next 5 years based on this budget when you take into account inflation.

So we understand that, and we are going to work through that, and you have stepped up and said that the military can live with this. But the sequestration we cannot live with. I think we are all in total agreement on that.

So I have a question. The way we are moving forward right now, there is nothing in this budget to deal with sequestration except a possible tax increase if that is needed at the end of the day.

This budget that we will be dealing with kicks in, starts with the new fiscal year on October 1. Being realists, I think all of us understand that we are probably not going to have that budget. The Senate says that they are not going to pass one, and we will do ours on the House side. But being an election year, I think we probably understand we are not going to have a normal year.

We haven't had a normal year for years, so maybe we are going to have a normal year, and we will be with a CR [Continuing Resolution] from October 1, at least through the election. And, you know, I don't know how we will come back and deal with this in January.

But in January, the sequestration kicks in. Now you have had 6, 7, 8 months to really work on this budget, to go through a strategy and budget, and you have done exhaustive work to come up with this budget. A week or so ago, we had Dr. Carter and Admiral Winnefeld, the secretaries of the Services and the chiefs. And one of the Members of this committee asked Dr. Carter what he had done, what was being done to plan for sequestration. His answer was basically we don't have to do any planning for it. All we have to do is pull out the budget and take 8 percent off of every line item.

I think everybody in here probably understands the chaos that would create. I don't know how many contracts the Department has; I know it is hundreds. Those would all have to go back and be renegotiated. Pensions, retirement plans, health insurance, all of the things that would have to be dealt with, further force reduction immediately. And given that we have got the CR hanging over us and then sequestration kicking in—I, Mr. Secretary, talked to you about this.

I put in a bill—this is going to be serious, dealing with everything that we are talking about here today, the sequestration just takes it right over the top. And we are looking at all the news reports that we are hearing, the saber-rattling going on over in Iran, the new leadership in Korea, I mean, I think the world is in a very, very serious situation.

And I know, General, you have told us in a meeting a couple weeks ago that in your 37 years, this is the most serious you have ever seen it.

So I think these are serious questions.

My bill would move, would pay for the first year of sequestration, which moves it back a year. It does it with as little pain as possible through attrition, decreases the size of the Federal workforce.

But I am asking you, Mr. Secretary, if this is something you could support, trying to fix sequestration now instead of having all of the people that will be laid off this year in preparation for next January, if it wouldn't be better to move ahead and fix that now, deal with it now, not wait for the December 31 deadline and that would still give us then next year to work on next year's problems and sequestration.

Secretary PANETTA. Mr. Chairman, as I have said time and time and time again, sequestration is a crazy process that would do untold damage to our national defense. It is a mechanism that would do, you know, just kind of blindsided cuts across the board and would really hollow out the Force. So I am prepared to work with you in every way possible to try to work on both sides to try and develop an approach that would de-trigger sequestration. My hope was frankly that the super committee would take that responsibility and do that. I think that is what everybody's hope was.

That didn't happen and that really concerned me. And so whatever, whatever we can do on both sides to try to develop an approach that would de-trigger sequester and avoid that kind of horrific result, I am certainly prepared to work with you on that.

The CHAIRMAN. Thank you. Thank you very much.

Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

I will point out that the overall budget that the President submitted contained $3 trillion in 10-year savings so that if that budget were passed, that more than meets the $1.2 [trillion] that was required to avoid sequestration. So there was a plan put on the table, and I share the chairman's remarks that the sooner we resolve that overall issue, the better for all concerned, whatever that plan may wind up looking like.

And I wanted to just get a couple more comments from you about BRAC, because you have seen since that discussion started, it has not been greeted warmly on the Hill, to put it mildly, except by me. I think I might be the only one I think who has had a single positive thing to say about it. And I just sort of looked at it logically and said, you know, if we are shrinking the force by the size that we are in reaction to the fact that Iraq is done, Afghanistan is winding down, we are moving two brigades out of Europe. We are making substantial changes within the strategy.

I mean, regardless of the debate about the budget, we are going to be moving things around. I mean, logically, there is no way we can do that without doing some closures and realignments; I just don't see where it is possible. I certainly have a large number of bases in my State and various degrees of vulnerability. And I understand that, but it has to be done as far as I can see. So I will maybe give you just a minute or two to make another pitch for why we at least need to be at least a little bit more open to what, in my mind, is an absolutely necessary step.

Secretary PANETTA. Well, I mean, it goes to the point that as we make the reductions that I think will take place under any circumstances as a result of some of the drawdowns in the wars that we are engaged in, we are going to have units returning or coming back that will be drawn down.

That means that the force that we maintain will need less infrastructure to support it. That is just a reality.

How do you make the decision as to what parts of that infrastructure ought to be reduced or changed or eliminated? That has been—frankly, that has been a challenge as long as I have been in this town to try to make those decisions. And ultimately what happened was that someone developed the BRAC process as a way to effectively do that by putting all of these decisions in one package and having an up-or-down vote.

I was a part of going through three BRAC processes. I had installations in my district and one of those BRACs eliminated Fort Ord in my district, which represented 25 percent of my local economy. So I know the impact that the BRAC process has. At the same time, we were able to establish a campus of the California State university system there and reuse that area and, frankly, came out on the better end of the deal.

But, nevertheless, it is a tough process to go through. And yet, you know, standing back, I can't see a better way to do this other than BRAC, because if you try to do this on a piecemeal basis, you know, we know what is going to happen: It is not going to go anywhere. The only effective way to deal with it is to put it in this kind of package.

But, by the way, I also understand the costs involved. You know, BRAC costs a hell of a lot of money to do cleanup and all the other things need to be done.

Mr. SMITH. That should be done. This is not about, you know, this is a way we can save money. We know it is not in our previous five experiences. Now, in the long term, it does save money. You better keep that in mind.

Secretary PANETTA. Yes.

Mr. SMITH. Yes, for the 5-, 10-year numbers, the long term matters. It is more about making sure you have the force structure and basing system that you need to support your National Security Strategy.

Secretary PANETTA. That is right.

Mr. SMITH. Thank you. I just want to make one quick editorial comment on Guam and just, you know, for you to be clear. I know we are doing the realignment in the Pacific. There are still some details to work out, just primarily of our negotiations with Japan, what to do about Okinawa and elsewhere, and I know there has been a significant reduction in what is going to go, the number of marines that are going to go to Guam from the previous plan.

Mr. SMITH. I would just like, as you are still trying to figure out what exactly to do in Okinawa, if you could consider perhaps more marines going to Guam and also not just rotational but on a permanent basis.

And, believe me, I understand. We rolled this plan out I think 6 years ago. It was going to cost $10 billion, and then there were all kinds of demands, and it wound up being $23 billion to move into Guam, which was completely unacceptable. And the people in Guam are going to have to work with you to get those costs under control, but I just hope you will consider the fact that there is still more capability there to move some of those marines to Guam if we can perhaps get a more cooperative reception about how to make the finances work. So I hope you will consider that as you go forward with the Pacific plan.

Secretary PANETTA. Thank you very much for that.

We are—you know, we very much view this as an opportunity to try to really give us a chance to reposture our force in the Pacific. Guam is a very important part of that. Believe me, it is something we are seriously looking at, and we are trying to work with the Japanese to try to get this done. This thing has been around for 15 years, and nothing has happened, and the time has come to try to get this resolved, and that is what we are trying to do.

Mr. SMITH. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

And we haven't had a chance to talk about this, but my thinking is really evolving on this whole Guam issue. And we are talking about reducing the marines by 20,000. Maybe one way to do that would be to just bring the marines that we take out of Okinawa, bring them to Camp Pendleton or some—bring them home and maybe leave some prepositioned equipment in place or something.

I think when we are talking about the tremendous cuts that we have to make then we are going to have to really look at that seri-

ously, because this is just escalating, and we may be able to solve two problems instead of one.

Mr. Bartlett.

Mr. BARTLETT. There is obviously no wild enthusiasm in Congress for additional BRAC rounds for two reasons. Every one of those facilities is in somebody's district. It might be yours that gets gored. And, secondly, we really do not save any money in the short term because of the cleanup.

You know, we have been on some of these bases for a hundred years. Our families have lived there. Our kids have played there. And we are making the statement that these are second-class citizens, because they can live and play in a place that really isn't even good enough to give away.

I know the law may require us to do this environmental cleanup, but I think we make the laws here in Congress, and we could change that law. If the local community doesn't want the facility, we will plant some trees and lock the gate and come back in a hundred years and cut the trees; and by that time, whatever the environmental problem was, it will undoubtedly be much less.

If we force you to keep open infrastructure that you don't need, clearly, this impacts what you can do in personnel, in modernization, and in R&D [Research and Development]. Would you tell us for the record how much more you could do in personnel, modernization, and R&D if we could close these facilities without the obligatory cleanup?

[The information referred to can be found in the Appendix on page 99.]

Mr. BARTLETT. I have a question, General Dempsey. If you ask our combatant commanders what they would like more, it is always ISR. So it is appropriate that the new defense strategy cites intelligence, surveillance, and reconnaissance as one of the capabilities "critical to our future success."

Yet the DOD [Department of Defense] budget request for fiscal year 2013 is approximately $1 billion, or 25 percent, less than fiscal year 2012 for ISR programs. Each of the Services is terminating a major ISR program in the fiscal year 2013 budget request: the Army's enhanced medium-altitude reconnaissance and surveillance system, the Navy's medium-range maritime unmanned aerial system, and the Air Force's Block 30 Global Hawk unmanned aerial system.

In the case of the Global Hawk, 18 aircraft will be placed in storage. Nine of these are currently deployed and supporting combat command operations. Would you please explain what appears to be a real conflict between the new strategy and fiscal year 2013 budget investment decisions?

General DEMPSEY. I will, sir. Thanks for asking.

First of all, you are right that combatant commanders—and I was one—have an insatiable—literally, that word by that definition—an insatiable appetite for ISR. What we have learned over the course of the last 10 years is that certain of those platforms—I mean, once you procure them, you begin to recognize both the limit of their—the expansiveness or limitations of their capabilities. And what you see reflected in our budget is a look across all of the various components of this thing called ISR to determine which

ones are actually delivering the best value—meaning the best possible intelligence, surveillance, and reconnaissance capabilities at the best value. At the best business case, if you will.

And so, for example, the Block 30 Global Hawk has fundamentally priced itself out of our ability to afford it when the U–2 [Dragon Lady high-altitude reconnaissance aircraft] gives, in some cases, a better capability and, in some cases, just a slightly less capable platform. So what you are seeing there is our ability to eliminate redundancy, to continue to invest in the best value, and to avoid at every possibility redundancy that fundamentally is too expensive.

Mr. BARTLETT. Secretary Panetta, with the delay in the F–35 [Lightning II fifth-generation multirole fighter] aircraft program, what steps have you directed the Air Force, the Army, and the Marines to take to maintain the necessary fighter inventory until the F–35 can be procured in numbers to replace legacy fighter fleets?

Secretary PANETTA. We have ensured, obviously, that we maintain our full fighter force in place—and obviously it continues to require upgrades. We are prepared to make those upgrades as necessary.

Our goal here is to develop the fifth-generation fighter. We think that is absolutely essential. And F–35s are coming off the production line. They continue to be tested. Frankly, the tests are going pretty well. We have got to do some software tests on all three models.

I just took the STOVL [short take-off vertical landing] off of probation because it had five problems that Secretary Gates had identified that put it on probation. It has been able to deal with all five problems, and now we are looking at the software aspects. So this plane is on path to hopefully coming into full production within the next few years.

Mr. BARTLETT. Thank you very much.

The CHAIRMAN. Thank you.

Mr. Reyes.

Mr. REYES. Thank you, Mr. Chairman.

First and foremost, Mr. Secretary, thank you for coming to El Paso and covering a few of the issues that you have covered with the committee here this morning.

I have got two areas that I would like for both you and General Dempsey to focus on.

The first one deals with the reaction to the request for another possible BRAC from our allies abroad. And I know you have had a chance, since first asking for that authority, to go out and talk to at least some of our allies; and so I am curious if you could share that with the committee.

And then the other issue—and then I will give you the rest of my time—the other issue is the Administration is fixing to launch yet another effort of troops in New Mexico and Arizona. And I am concerned that not only is that very expensive but it puts our troops in a questionable position. Because they are not trained for law enforcement. They are trained for combat. And I would appreciate it if you would comment on this latest effort to deploy troops in New Mexico and Arizona.

As I understand it from the information that I have, it is against the ultra light vehicles that the cartels are using. But there are certainly better ways to do that than a full force presence in those—in those two areas.

So if you would cover that, I would yield the rest of my time to both of you.

Secretary PANETTA. Congressman, let me address the first part of your question; and then I will have General Dempsey comment on the second part.

On the first part of the question, we are—and we have been—looking at infrastructure abroad very carefully. Because, obviously, if we are going to look at infrastructure in this country, we are obligated to look at infrastructure abroad.

We are going to be taking down two brigades in Europe. That will impact on infrastructure there. We have already closed in the period of the last I guess 6 to 7 years 100 bases in Europe. We are probably looking at probably 23 additional bases that we will be looking at as well. So that we are, as a result of drawing down our forces there, looking at what savings we can make in infrastructure in that arena.

General DEMPSEY. Congressman, on the issue of use of troops on the border, you know, we went down that path to meet an immediate need several years ago; and every year we review our posture in that regard. And we have seen it all along as an interim strategy, a transitional strategy, and one that could ultimately be replaced by technical means, whether it is ISR in the military sense or other surveillance capabilities available on the commercial market.

So we understood when we began this, our role filling that immediate need. We are eager, actually, to partner and are partnered with Department of Homeland Security, with the FBI [Federal Bureau of Investigation], with State and local governments. We do exercise it periodically, but I am not eager to have that become a core competency of the uniformed military.

Mr. REYES. And it is important to note that this is a very expensive proposition when you deploy troops and especially when we have already built up the border patrol to over 21,000 agents.

I was just last week in Nogales, Arizona—Tucson and Nogales, Arizona. And speaking to the people there, they comment on the fact that everywhere that they are we have border patrol agents.

So I am really at a loss to understand why we would want to deploy troops at a time when we are trying to save money. That is a very expensive proposition.

The border is a safe environment in spite of all the rhetoric that we hear politically. So I would hope that we could rethink that if at all possible at a time when we are trying to save money.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Thornberry.

Mr. THORNBERRY. Thank you, Mr. Chairman.

Mr. Secretary, let me just add a couple of brief facts to some conversation that you have already had this morning.

One is that the President instructed the Pentagon in the spring of 2011 to look for $400 billion in savings in the Defense budget.

Now that was before your time, and it was before General Dempsey's time. But any notion that the $487 [billion] sprung out of Congress just from the Budget Control Act spontaneously in some way is obviously not true. It was under way long before we ever got that that point.

The second point I wanted to throw out is a little more specificity on BRAC. By the way, I have supported every round of BRAC since I have been in Congress. But the 2005 round of BRAC will not even break even until 2018, according to GAO [Government Accountability Office]. That means for 13 years it is going to cost more money to have BRAC than it would if you didn't have BRAC.

And so having the Pentagon suggest two more rounds when it will aggravate the budget situation for 13 years, or at least a decade, leaves me scratching my head a little bit. And I think it is important to put a little more specificity. It doesn't even break even for a decade, which I think is problematic.

But, General Dempsey, another thing that leaves me scratching my head these days is the reports that the military and the Administration are looking at substantial cuts to our nuclear deterrent. Under START [Strategic Arms Reduction Treaty], we are going to end up with about 1,500 weapons. If the reports are right, there is consideration of cutting that 80 percent down to, say, 500, just for rounding, and that is being generous.

It seems to me if we end up with 500 nuclear weapons and country A has a couple hundred, that all the incentive in the world is for them to catch us, because it is not that far and not that hard for them to do. So I would appreciate your best professional military judgment on whether cuts of 80 percent in our nuclear stockpile really are good for the national security of the United States.

General DEMPSEY. I won't comment on the 80 percent figure, Congressman. What I will say is that what has been reported is the CliffsNotes version—not that you would ever understand what CliffsNotes are from your personal education—but it is the CliffsNotes version of what is a very comprehensive set of discussions internal to the military with the national security staff on what is our next negotiating strategy notably with Russia. And the status quo, by the way, is always an option and one that is in play.

So at this point, sir, I would just—I would encourage you not to become too concerned with the media reports of what is a very comprehensive process.

Mr. THORNBERRY. Well, I do become very concerned, partly because it does nothing but encourage other countries to advance their nuclear program. If they see that we are going to come down from 1,500 to some number in the low to middle hundreds, it does nothing but encourage our enemies and discourage our friends. And the result of that is more nuclear weapons programs all across the world, which would seem to me to be something that we would not want to have happen.

So I get very concerned if our military takes seriously any notion that we can—can even begin to approach reductions on that scale. I am worried about where we are with the last round of START, but much less something that goes to that level concerns me very much.

Mr. Secretary, let me ask one last thing. Vice President Biden has said that the Taliban is not our enemy, and I have a quote here says—that supports that.

Do you agree—do you believe that the Taliban is our enemy in Afghanistan? And if they are not our enemy, can we leave a secure and stable Afghanistan without addressing the Taliban and their safe havens in Pakistan?

Secretary PANETTA. The Taliban, as you know, Congressman, is a very broad group. Our primary enemy in that part of the world is Al Qaeda. And the Taliban elements, the terrorist elements that support Al Qaeda are also our enemy. And there are some elements, obviously, of the Taliban that support Al Qaeda; and those are the ones that we have been targeting.

Mr. THORNBERRY. Can we leave a safe and secure Afghanistan without dealing with those elements of the Taliban that support Al Qaeda?

Secretary PANETTA. I think—our goal is to make sure that they never again can establish a safe haven in Afghanistan from which to conduct attacks on this country, and that remains our primary goal.

The CHAIRMAN. Mr. Reyes—I mean, Mr. Andrews. Excuse me.

Mr. ANDREWS. Thank you, very much, Mr. Chairman. I would like to hear Mr. Reyes ask more questions.

But I want to thank General and Mr. Secretary, Secretary Hale for your service to our country and particularly, Secretary Panetta and Mr. Hale, your accessibility to members of this committee and the Congress. It is refreshing, and you have been the most accessible leaders of the Defense Department I have ever encountered, and I am very grateful for that.

I also wanted to thank you, Mr. Secretary, for your comment on page 3 of your written testimony about the very personal priority you put on achieving audit readiness for the Department. My friend and colleague, Mr. Conaway, has taken a lead on this issue. He wrote it into law in an effort he and I worked on together, and he has very diligently led a panel of this committee to try to achieve that reality.

All the discussions we are having this morning and are going to have in the next couple of months may be based on false data if we don't have good financial statements. So I think—you know, this is a boring topic that doesn't make headlines, but it is absolutely critical to an intelligent discussion of the hard financial choices we have in front of us. So I thank you for your very personal investment in that issue.

And I did want to get to a more controversial question now.

Despite some of the rhetoric, which I think corresponds to the year on the calendar, the budget proposal that you have submitted, if I understand it, for every $100 that we spent in the core Defense budget last year we are going to spend $99 in fiscal year 2013; and for every hundred people we had in uniform, at least authorized to be in uniform, we are going to have $99. So I think before we get too excited about what the 1-year budget means we have got to understand that.

I do share with Mr. Smith and I think with you an understanding of the difficult political realities of the BRAC process but

the necessary decisions that must be made, and I wonder if you could outline for us what some of the strategic tradeoffs would be if we don't do the BRAC process. You know, you have been through it. I have been through it. I think everybody on the committee has, one way or another. Tell us what happens if we bend to the easy decision and not do BRAC. What do we give up in that trade-off?

Secretary PANETTA. I mean, look, you all know this. The Defense Department budget is made up of only so many parts. I have identified the areas that involve savings that we can focus on, and we put everything on the table. Those parts are efficiencies, whatever we can do to try to eliminate waste and cut down on bureaucratic overhead, and there is a lot of that. But, you know, we have added about $60 billion in savings in that area.

The second area, obviously, is force structure. And that means that—you know, that involves cutting personnel out of the force; and we have already targeted about a hundred thousand reduction in both the Army and the Marine Corps.

Thirdly, modernization, weapons, procurement areas, and there we have gone after significant savings. We still have to, obviously, maintain technology and weapons systems that are key, but we have put on hold some of the areas that we think we can achieve some savings. We have gone after cost effectiveness. We have gone after affordability and tried to deal with some of those areas as well in terms of savings. And then the last area is compensation, which involves the pay and benefits for our military.

Okay. So if infrastructure is part of the force structure reduction savings, and let's assume we don't do any infrastructure savings and yet we still have to come up with additional savings, where are you going to go?

Mr. ANDREWS. Right. I think it is fair to say that if we don't do infrastructure then there is only three places to look——

Secretary PANETTA. That is right.

Mr. ANDREWS [continuing]. The compensation for the troops and their families and the civilian employees, tools and weapons that we need to defend the country, or other strategic priorities about what we can do around the world.

I mean, I was involved in a piece of litigation against BRAC that went to the United States Supreme Court. I have been through this one. But I also understand that we won't cut that infrastructure without the BRAC; and, as difficult as it is, I frankly would encourage you to ask for that new authorization and would like to work with you to support it. Not because I like BRAC, but because I even greater dislike the alternatives to it.

I thank you for your time and testimony this morning.

The CHAIRMAN. Thank you.

Mr. Jones.

Mr. JONES. Mr. Chairman, thank you very much.

And, Mr. Secretary, I might be the only Republican on the committee to say thank you for your recent decision about bringing our troops out in 2013. This has been a great interest and concern to me.

I have Camp Lejeune Marine Base in my district, Cherry Point Marine Air Station. That is what my question will deal with. You, being an elected official, served in the House I think with my fa-

ther a few years ago, Walter Jones senior. You know better than any of us here, or as good as any of us, that politics is local. There is no question about it.

I have Cherry Point Marine Air Station in my district. I also have the depot in my district. And so it brings the question that Mr. Bartlett was asking you about, the F–35, and of course at Cherry Point, because of the depot, the interest in the F–35B. And knowing that at one point in a discussion I had a few months ago there was a thought that maybe at some point in time as this F–35 becomes on line and becomes a reality that there might be eight squadrons going down to Cherry Point.

Well, I realize in this very difficult budget year and none of us know what we would like to see today might not be a possibility tomorrow. So if you would expand a little bit more on how you feel that the progress has been made on the F–35 and knowing that you believe that we do need a strong fighter system in our country, if you would elaborate just a little bit more on that, I would appreciate it.

Secretary PANETTA. Thank you, Congressman.

You know, the only way the United States remains the strongest military power in the world is to keep developing new generation fighters that have the technologies and capabilities that we are going to need in the future. And I had the opportunity to go to Pax River and see the development that is behind the F–35 and actually sit in there and look at the technology that is involved. I mean, we are talking about spectacular technology that would be part of this plane in terms of stealth capabilities and also targeting capabilities. And it is the next-generation fighter. It is what we are going to need.

And, very frankly, the countries are all lined up waiting for this plane because they know how good it is going to be; and that is why we have got to keep it on track.

We can have three variants. I cannot go into defending all the decisions that were made before I became Secretary, but three variants is not an easy process. It means you have to look at a lot of different questions that arise depending on the capabilities that you are trying to design in each area. But, nevertheless, each of those is important. We need a Navy plane, we need a Marine plane that can lift, as the STOVL will, and, obviously, we need an Air Force plane. So those are the key ingredients.

My view is, you know, based on what—because I came into this pretty skeptical about where this thing was. I looked at the facts. I looked at the testing that is going on. I looked at the production rates that are out there. I am convinced that we can deal with the final problems that are there, largely software issues that we have got to face.

We are producing these planes even as we speak, but they are continuing to be tested. My goal is, working with the industry, to make sure that any changes here now can be as cost efficient as possible. That is what I worry about. I don't want big changes in these planes, because that will ramp up the cost real fast. So the real challenge right now is to keep these costs under control as we resolve the final issues involved with this plane. But I am convinced we are going to be able to put that in place.

Mr. JONES. Mr. Secretary, thank you for that answer.

I have spent almost 10 years trying to clear the names of two marine pilots, John Brow and Brooks Gruber, who crashed the V–22 in Arizona on April the 8th. Nineteen marines were burned to death. And I appreciate what you said when you said you wanted to make sure that the manufacturer of this plane have it ready and no hidden problems like they found with the vortex ring state that brought that plane down.

And I am hopeful that the Marine Corps will give the two wives who have requested a paragraph to make it clear that their husbands were not at fault, and I hope that I won't have to come to you at some point in time and show you the evidence that we have accumulated over 10 years that the pilots knew nothing about how to react to vortex ring state that night.

So I do appreciate your answer and thank you again for your leadership of our country; and, General Dempsey, thank you as well. And may God continue to bless our men and women in uniform.

And with that, Mr. Chairman, I will yield back, because I had a little bit of extra time before they started the clock.

The CHAIRMAN. Thank you.

Mrs. Davis.

Mrs. DAVIS. Thank you.

And thank you, Mr. Secretary and General Dempsey, for going out of your way and really talking about the fundamental element of this new strategy, which I think is our people; and ensuring that keeping faith with our soldiers, our sailors, our airmen, and marines and their families particularly remains a top priority.

Mr. Secretary, as we think of this process and move forward of changing our force structure and reducing personnel end strength over the next few years, what are we doing to ensure that we retain a spectrum of experience and knowledge across the Services and specialties? And, within that package, what is your greatest concern?

Secretary PANETTA. Let me yield to General Dempsey on that, because he has been very involved in how we approach the retention of some of these mid-level officers.

General DEMPSEY. I will hearken back to my time as the Chief of Staff of the Army, because that is the issue that the service chiefs are grappling with the Secretary's guidance.

But one of the things we did back in the 1990's is, when we separated soldiers we did so—and I said soldiers but servicemen in general—when we separated them, we were separating them too quickly. We actually had reduction in force boards that sat specifically to tell people to go. But we could do that, because we were passing them into a pretty good economy. Maybe one would even argue a booming economy back in those years. And we were no longer in conflict.

The big difference about what we are doing right now is that those other assumptions I just mentioned are not any longer valid. We are passing people into a struggling economy. We are still in conflict and likely to remain in conflict. So what we are doing as service chiefs is taking a look at how do we, first of all, pace this.

And to the question, by the way, that is related to BRAC, if you fix too many variables on us—if you, for example—there is some physics involved—if you fix the variable called infrastructure and if we are kind of maxed out in terms of literally physical ability to pass people out of the service in a dignified way, it doesn't leave us many levers to pull in the middle. It is operations maintenance, training, and equipment.

That is why we are concerned about BRAC, and it is also why we are concerned about the pace at which we separate people. Now once we settle in on the pace—and we have—then we look internal to our systems. We have any number of personnel policies, promotion rates, accession rates; we have evaluation reports, board processes. But to the extent that we can use the existing processes to identify the highest performing personnel, keep them, encourage them, continue to develop them, we will be in good shape. To the extent that this is accelerated on us, if it is accelerated, then we get into a position where we are forcing people out; and at that point I won't be able to sit here and guarantee you that we are going to be keeping the right people.

Mrs. DAVIS. Do you see—is part of that discussion really formalizing longer periods of time between the eligibility for promotion and the promotion among noncommissioned and commissioned officers?

General DEMPSEY. It is a great point and one which we—it is a Rubik's cube, to tell you the truth. We twist it and turn it. In some ways, you want to accelerate promotions, because it is an incentive for especially the highest performing personnel to see that they have a great deal of potential and that that potential is being fulfilled. On the other hand, it has the other effect that you just described.

So, you know, I would use a somewhat overused word probably, but I think it is a matter of finding the balance between—let's call it talent management and then managing the personnel system to treat people with dignity and respect but also reshape the Force.

Mrs. DAVIS. I really appreciate that. I think there are concerns. There should be concerns that, for many of the men and women who are serving, that the fact that they would be leaving the Services faster perhaps than they had ever imagined means that we have to put a lot more resources into that transition period and really ensuring that they have the skills and talents necessary. And are we looking at that in terms of a whole different kind of preparation as they leave? It is almost a preparation as they come in so that they are leaving in a different manner.

Secretary PANETTA. You asked what worries me the most—and, frankly, that is one of the issues I worry about the most.

As we draw down over these next 5 years, we are going to be putting another 12,000 or more out, you know, bringing them back. And, right now, the system is clogged. It doesn't work as efficiently, frankly, as it should. And we have got to do a better job of being able to take these young men and women that come out and give them the counseling, give them the education benefits, give them the jobs, give them the support systems that they absolutely have to have in order to be able to reestablish themselves in the communities. Otherwise, we are going to be dumping them in these com-

munities, no jobs, no support; and that is why we have high unemployment now among our veterans, is that that is exactly what is happening. We have got to change that.

Mrs. DAVIS. Thank you.

The CHAIRMAN. Thank you.

Mr. Forbes.

Mr. FORBES. Thank you.

Mr. Secretary, your schedule only allows me 5 minutes for questions, so I am going to try to be concise and help you be concise in your answers.

But you made a statement that this will be a test of whether reducing the deficit is about talk or action. I just want to be clear. We welcome a conversation with you or the President about serious deficit reduction. We wish we could have had it before the President pushed through an $800 billion stimulus package that many of us believed was ill advised or a health care bill that is putting a lot of our employers out of business.

But be that as it may, we want to reduce the deficit; we just don't want to do it on the backs of the men and women who are fighting for this country every day.

And to answer the ranking member's question he put before us: What wouldn't you have voted for? I wouldn't have voted for that $800 billion stimulus package which contains almost twice what these cuts were, and I would repeal the health care bill tomorrow.

But let's look at the approach of how we got here. And wouldn't you agree that if we had been more responsible in handling our budget as a Federal Government that the better approach would have been for us to have developed a national strategy—Department of Defense to develop a national strategy to defend the country, to be able to discuss exactly what we needed for that strategy, to determine what the resources would be in order to meet that strategy, and then come to Congress and say this is what we need to do in order to do that job to defend the country? Wouldn't you have agreed that that would have been a better approach?

Secretary PANETTA. Congressman, a better approach—and I say this not so much as Secretary of Defense but as a former OMB [Office of Management and Budget] Director and chairman of the House Budget Committee—the better approach would have been for Congress, both Republicans and Democrats and the President, to sit down and develop a comprehensive deficit reduction package.

Mr. FORBES. Mr. Secretary, I understand that. But I am talking about, as far as the strategy, wouldn't it have been a better approach to have done it in the manner that I just delineated?

Secretary PANETTA. That would have been nice, but we were mandated to up come up with a $487 billion reduction.

Mr. FORBES. I understand that. But wouldn't that have been the better approach?

Secretary PANETTA. Of course.

Mr. FORBES. Okay. And then point in fact, as you mentioned, that is not the approach that we took. What we did was to give you $487 billion of cuts, and then you were forced to create a strategy that worked within the parameters of those cuts; is that correct?

Secretary PANETTA. That is right.

Mr. FORBES. And then, based on that, Mr. Secretary, isn't it true that it would be virtually impossible for you or anybody else testifying on behalf of this budget to delineate for us the portion of that strategy that was driven by these budget cuts versus the portion of the strategy that was driven by security changes around the world?

Secretary PANETTA. I don't think you have to make a choice between fiscal discipline and national security. I really don't.

Mr. FORBES. Mr. Secretary, I am just trying, because of my 5 minutes—isn't it true, though, that, as you said, you were forced to have $487 billion of cuts. You worked a strategy that worked within those parameters. But isn't it virtually impossible for you or anyone else to tell us what portion of that strategy was driven by that $487 billion of cuts versus just security changes that took place around the world?

Secretary PANETTA. As I said, we would have been required to look at a change in strategy under any circumstances because of the drawdowns that were taking place. This is not just a deficit reduction.

Mr. FORBES. I understand that. I understand that. And we have two different components. We have security changes that would have had strategy change and we have budget cuts that would have caused it. But isn't it true that you cannot delineate between those two?

Secretary PANETTA. Well, they were both involved in determining our strategy.

Mr. FORBES. Exactly. Now, you also mentioned that this was imposed on you by law. I know I have heard you state before this would not have been the figure you would have picked, the $487 billion. Is that true?

Secretary PANETTA. That is for sure.

Mr. FORBES. I wouldn't have picked that, and I didn't vote for that figure.

But you have had a lot of discussions with the President. You heard Mr. Thornberry say the President came out and said he wanted $487 billion of cuts before the strategic cut was taking place. In your discussions with the President in looking at the strategy, at any time has the President ever voiced to you the fact that he thought this $487 billion of cuts was too much?

Secretary PANETTA. I think the President understood that this was not going to be easy and that there would be risk involved in doing it.

Mr. FORBES. I understand. That is not my question. Did the President ever voice to you the fact that he felt this $487 billion in cuts was too much?

Secretary PANETTA. He felt, as I did, that Congress and the President had gone forward with this Budget Control Act and we were obligated to fulfill it.

Mr. FORBES. And had he—you disagree with that figure. I disagree with that figure. Had the President disagreed with that figure, could he not have put any of those cuts back in the budget that he had just presented to Congress?

Secretary PANETTA. I think the President shared your concern, which is what do we do about reducing the deficit. That was the only thing that was worked out by Congress on a bipartisan basis.

Mr. FORBES. Did he put any of those cuts back into this budget? Any of the cuts made, did he roll them back and say that was too much, I am going to put them back in the budget?

My time is up. Thank you, Mr. Chairman.

Secretary PANETTA. I don't think he could have done that without the support of Congress.

The CHAIRMAN. Thank you.

Mr. Langevin.

Mr. LANGEVIN. Thank you, Mr. Chairman.

Mr. Secretary, General, thank you for being here today and your testimony, your tireless service to our Nation. We are all grateful.

I want to focus on two important areas in the budget and priorities for me: *Virginia* Class submarine and I also want to talk about cybersecurity. Mr. Secretary, as you know, the *Virginia* Class submarine is a model procurement program; and we are only now beginning to reap the rewards of an aggressive cost-management effort and a consistent two-boat-per-year funding level.

The proposed delay of one of these subs from fiscal year 2014 to outside the FYDP [Future Years Defense Program] I believe could disrupt these gains and incur significant extra costs. How did the Department come to this decision and how does the Department propose to mitigate the military risks, the monetary costs, and the workforce challenges generated by the shift?

Obviously, the *Virginia* Class submarine is a program that has come in on time and under budget because of the efficiencies that we gain from bloc buys and bringing stability to the supply chain; and I am concerned this delay is going to cost us in these areas.

Second, as you know, I have been a long and staunch supporter and advocate for increased investments in cybersecurity; and I am pleased to see the continued escalation of the attention being paid to cybersecurity and the projected $18 billion in funding from fiscal year 2013 to fiscal year 2017.

Mr. Secretary and General, how does the proposed budget address these threats and the vulnerabilities that we face in the cyber arena? And I know you talked a bit about this today, but I would like to expound on that. And in the event of a large-scale cyber attack, how resilient are our power grids and military bases?

Obviously, our military bases in many ways are dependent on the critical infrastructure of our electric grids that is owned and operated by the private sector; and if they go down our military bases and their ability to function are vulnerable. What efforts are we doing to make them resilient and have some of their own power to provide backup, if necessary?

General DEMPSEY. If I could, Congressman, I will talk cyber; and then I will ask Mr. Hale to talk about submarines; is that right?

We are very concerned about cyber. You know, we talk about what is new in the world in terms of threats over the last 10 years or emerging. For us, it is emerging capabilities. It is special operating forces, it is cyber, and it is ISR. Those same capabilities are also becoming available to our adversaries. And in the case of cyber in particular we have been acting to prepare ourselves in terms of

our vigilance on our systems and our defensive mechanisms, and we have got—as you know, we stood up CYBERCOM [U.S. Cyber Command]. We have got a cyber strategy.

But we remain vulnerable; and we are trying, through a series of tabletop exercises and conversations with the national security staff as well on the Senate side now notably, we are trying to determine the next steps. And there is legislation pending sponsored by Senators Lieberman, Collins, Rockefeller, and then a Feinstein amendment to that that is a very good and important first step in providing the kind of information-sharing and expanding—for potentially the first step in expanding protections beyond the dot-mil domain for all the reasons you suggest.

But make no mistake about it. There is controversy—and plenty of it—around this issue because of the Department—we are the Department of Defense. There is the Department of Homeland Security, FBI. So there are authorities to be considered. And we are working through all of that. What I am suggesting to you is that the current legislation pending is a good first step.

Secretary HALE. In terms of the *Virginia* Class submarine, which is I think what you are referring to, we are planning to buy nine in this FYDP. A year ago, we were planning to buy 10; and we will buy 2 a year in this FYDP, except for fiscal year 2014 we will buy 1. So it is an affordability decision, frankly. The submarine fits into our strategy, and we will certainly continue to buy. But we were looking, frankly, to ways to comply and be consistent with the Budget Control Act.

Secretary PANETTA. I was asked this question yesterday. And, you know, if there are cost efficiencies that can be achieved here that allow us to do this with savings and in a more cost-effective way, we are prepared to look at that.

Mr. LANGEVIN. I have additional questions, but my time is coming to an end. I would just reiterate the importance, obviously, of the *Virginia* Class submarine program. I am concerned about its delay, and it is going to wind up costing us I believe in both our workforce if we are not careful and also the efficiencies——

The CHAIRMAN. The gentleman's time has expired.

Mr. LANGEVIN. With that, I yield back.

The CHAIRMAN. Mr. Wilson.

Mr. WILSON. Thank you, Mr. Chairman.

Thank you all for being here today.

And I share the concern of Chairman Buck McKeon. The American people need to know this, that what is being proposed is a reduction of 80,000 personnel in the Army, 20,000 marines, 10,000 personnel of the Air Force. I am truly concerned at a time of war that we would have these reductions which I think is going to put American families at risk, those serving in the military and the American public at large. And it just—I just find it inconceivable. Every day we read about another threat to our country of instability around the world.

Additionally, Mr. Secretary, I know that you are having to make tough choices and in particular, though, I identify with veterans. I served 31 years in the Army, and I am just grateful for my service and the commitment and dedication and commitments to veterans, too, from and to. But I am very concerned that the Adminis-

tration is proposing cost increases on health care for military retirees, and these are extraordinary. For TRICARE Prime that a proposal for fiscal year 2013 increases enrollment fees between 30 and 78 percent. Over 5 years, the enrollment fees would increase between 94 and 345 percent.

How can we justify such increases when really commitments were made to the people who have made such a difference in protecting our freedoms?

General DEMPSEY. Let me answer that, if I could, Congressman.

You know, when we said that in order to rebalance this military of ours—and, by the way, you know, I don't want to let it pass entirely that I don't share your concern. But I will tell you that I am responsible to this Nation to do a risk assessment on the size of the force against the strategy, and my assessment is that the budget we have proposed and the force structure we are building toward is adequate to meet the needs of the Nation. If I didn't, I would tell you.

In terms of compensation, the TRICARE enrollment fees of which you speak haven't been adjusted since the mid-'90s. They are an anachronism in terms of any other health care program. And I don't ever accept, by the way, the comparison of military benefits to civilian because of what we ask our uniformed military to do.

On the other hand, we cannot any longer allow our paid compensation health care—and, as you know, we are going to look at retirement at some point in the out-years—we simply can't allow that to keep growing. As the Chief of Staff of the Army I knew that if my manpower costs exceeded 45 percent, I would break the Army because I wouldn't have the money to invest in the other things I have to invest in. We are close, and now is the time to act, and that is why we have taken this action.

Mr. WILSON. And my concern would be that we should be providing more—that this is not the burden.

Additionally, Mr. Secretary, last year, the former governor of Maine, John Baldacci, was hired to review military health care. I understand that he has completed his report. Could you provide the committee a copy?

Secretary PANETTA. I will be happy to.

Mr. WILSON. Has his report in any way influenced the Defense budget reforms?

Secretary PANETTA. I am sure—I believe it has, but, frankly, I have not reviewed it myself. But let me get back to you on that and provide you a copy of that.

Mr. WILSON. And, additionally, I would like to know the salary paid and then the supporting costs for his services.

Secretary PANETTA. Sure.

[The information referred to can be found in the Appendix on page 99.]

Mr. WILSON. And, in conclusion, I want to thank both of you. You have raised a great concern about sequestration, the risk to the American people. What do you recommend that we do? And in particular I am very hopeful that of course you would support the very progressive and very positive legislation of Chairman Buck McKeon.

Secretary PANETTA. I have indicated my concerns about sequestration. I would just urge you to work on a bipartisan basis to develop an approach that can pass the Congress that would de-trigger sequestration.

Mr. WILSON. And the consequence of sequestration?

Secretary PANETTA. It would be devastating. You take another $500 billion out of this Defense budget, the strategy I just presented you I would have to throw out the window.

Mr. WILSON. And indeed, Mr. Secretary, I have been very positive about your service, because I know sincerely you believe this. But we have got the get the message out. Just the word "sequestration" puts people to sleep. So please be the Paul Revere I know.

Thank you very much.

General DEMPSEY. Congressman, I forgot to thank you for your 31 years of service. Thank you.

The CHAIRMAN. Ms. Bordallo.

Ms. BORDALLO. Thank you, Mr. Chairman; and I would like to welcome Secretary Panetta and General Dempsey. I appreciate the Administration's continued focus on the Asia-Pacific region and that DOD intends to press forward with the buildup of Guam. Thank you, gentlemen.

The DOD recently announced a changed realignment plan for Guam. What is the rationale for changing the implementation plan with Japan? What prompted these decisions? What is the benefit of the proposed realignment? To what extent did the passage of the Budget Control Act play in these changes? And can you also elaborate on the strategic importance of keeping marines forward-deployed? How is this necessary to keep our treaty agreement with Japan?

Mr. Secretary.

Secretary PANETTA. Congresswoman, first and foremost, let me indicate that no decisions have been made with regards to what exactly that realignment will be. We are in discussions with Japan.

Ms. BORDALLO. I understand.

Secretary PANETTA. We are trying to make decisions. This is an issue, as you know, that has been out there for a long time; and we just think it is time to try to get it done and to try to resolve it. And Japan has been very helpful and cooperative in trying to work with us in that effort, and we will continue to keep you informed. Because, obviously, it affects your home area; and we want to make sure that you know what we are thinking about before we actually make any final decisions here.

It is important to try to try to keep that presence forward. My view is that we need a Marine presence that is forward. I do not want to draw that Marine presence back to this country. I think it has to be forward in the Pacific. We are trying to be innovative in the way we are doing that. The approach that we are taking in Australia is an example of the kind of rotational presence that we think can make sense. We are talking to the Philippines about doing the same thing.

But the bottom line is that we want to maintain the Marine force forward presence in the Pacific. That is an essential element of our strategy.

Ms. BORDALLO. Thank you.

Another question I have: When the Japanese see the updated plans from DOD and identify the reduced number of marines coming, will they reduce the overall funding that they were going to supply for the buildup? Will this lead to reduction in support for civilian infrastructure that is needed to support the military population on Guam? If the Japanese do reduce their funding commitment, how will the Department ensure that the infrastructure needs continue to be addressed?

Secretary PANETTA. That is also one of the things we are discussing.

As you know, one of the elements here is the development of a new Futenma air facility; and it is an expensive process because it involves environmental permits that have to be obtained. It is a very expensive project. But, at the same time, they have been very generous in saying that whatever moves have to be made they will support—they will give us a lot of the funds to try to support that.

That continues to be a part of our conversation; and, as I said, I am very pleased with the attitude that the Japanese are taking.

Ms. BORDALLO. So you don't think there will be any reduction at this point?

Secretary PANETTA. No.

Ms. BORDALLO. Mr. Secretary, Deputy Secretary Carter certified in writing—and I know this question has been asked before I arrived by Congressman Bartlett—he certified in writing to Congress that the Global Hawk system was essential to national security. Global Hawk was $220 million cheaper per year to operate than the U–2. The decision to pull 18 Global Hawk Block 30 aircraft out is shortsighted, in my opinion.

Your recommendation to terminate Block 30 is a complete reversal of your decision. Can you explain how an asset can be critical to national security and then less than 1 year later be terminated? And can you answer how the Air Force will compensate for the loss of this capability?

Secretary PANETTA. I am going to have General Dempsey speak to that.

But, look, we are very committed to unmanned systems. We think that is the future. But, at the same time, we have to make judgments about which ones are most cost-effective; and I think that was behind the decision here.

General DEMPSEY. Yes, ma'am. And we are flying four other variants of Global Hawk. This is not about Global Hawk. It is about Global Hawk Block 30, and it has become too expensive relative to other capabilities we have.

Ms. BORDALLO. All right. And I have one final question, if I could.

The fiscal year 2012 NDAA [National Defense Authorization Act] requires that DOD meet five requirements in order to spend Government of Japan funding that is currently sitting unobligated to the U.S. Treasury. Now this is a matter of great concern in our community. What steps is DOD taking to meet these five requirements?

Secretary HALE. It is part of the overall discussions. We need to arrive at—we need to arrive at an agreement with Japan, and we need some——

The CHAIRMAN. Mr. Hale, the gentlelady's time has expired. Could you take that one for the record for her please? Thank you.

[The information referred to can be found in the Appendix on page 100.]

The CHAIRMAN. Mr. Turner.

Mr. TURNER. Thank you, Mr. Chairman; and, gentlemen, thank you for being here.

Secretary Panetta, I want to thank you for our meeting last week with Congressman Andrews where we discussed the issue of national standards for custody rights for our service members. We asked you to affirm Secretary Gates' and DOD's policies supporting a national standard.

As you know, unbelievably, across the country there are Federal law court judges that will take custody away from our servicemen based upon their time away serving their country. This committee has been very active on this issue, every member of the committee having endorsed the national standard, the House having passed five times a national standard. We would appreciate your support and advocacy to assist us in making that law.

Secondly, I appreciate your statement on the Budget Control Act and the issues of sequestration. It is a thing—you know, as we look to sequestration I think the American public does not know the great risk that could be imperiling our military. Your statements on it are important. That is one of the reasons I voted against the Budget Control Act, so we would not have this gambling with our military security.

Mr. Secretary, as you know, I am the chairman of the Strategic Forces Subcommittee. Nuclear weapons fall under my category. I have three questions, two for you and one for the General concerning that.

Mr. Secretary, as you know, your predecessor, Secretary Gates, agreed to transfer some $5.7 billion to the National Nuclear Security Administration for specific purposes that were articulated in this document, which I ask to be included in the record, that was to govern the transfer of these billions to the National Nuclear Security Administration.

[The information referred to can be found in the Appendix on page 92.]

Mr. TURNER. I would ask if you would characterize the Department of Defense level of comfort with how the initial $5 billion tranche has been spent. For example, where did DOD's $1.2 billion go that it gave to the NNSA [National Nuclear Security Administration] to begin construction on the plutonium replacement facility known as CMRR [Chemistry and Metallurgy Research Replacement Facility]? And how about the funding for the W–76 warhead which is again delayed in the NNSA budget this year, seemingly without regard to the Navy's need for this warhead?

And, secondly, Mr. Secretary, you kindly, in a correspondence in November, responded to the chairman and myself requesting that we receive briefings on the nuclear war plan; and you had indicated that you would agree to reinstitute those briefings with our committee.

[The information referred to can be found in the Appendix on pages 89–91.]

Mr. TURNER. They have not commenced, and we are afraid it might be stuck in the bureaucracy of DOD. We would appreciate your assistance there.

General, with respect to Congressman Thornberry's question on the proposed 80-percent cut to our nuclear arsenal, you indicated that these were just proposals or plans that were being reviewed and it might be premature for discussing them. But I would like your input on the initiation of where these are coming from.

Because it is our understanding that the President has asked to consider an 80-percent cut going to a warhead inventory of somewhere around 300. If you could confirm that the Administration is in fact the one that is initiating, that this is not just coming from somewhere arbitrary within the bureaucracy, that would be helpful, also.

Mr. Secretary.

Secretary PANETTA. If I could comment on your last question, this was all part of a nuclear posture review that was mandated by law and that the Administration began that process of going through the review. And the second step was basically, you know, how do we now implement the review that was taking place?

So it kind of followed that procedure, and there are a number of options that are being discussed. And, as the General has pointed out, one of those options is maintaining the status quo; and no decisions have been made. This has been something that has been part of a process for discussion within the national security team and remains there at this point.

As you know, reductions that have been made, at least in this Administration, have only been made as part of the START process and not outside of that process; and I would expect that that would be the same in the future.

With regards to your question on the funding issue, let me ask Bob Hale to respond to that. That is the $5.7 [billion].

Secretary HALE. We are working closely with NNSA. I think there are concerns on our part, theirs, too. There has been some cost growth that it sounds like you are aware of. But they are fully committed to meeting our needs, and we are trying to work with them. These are important programs, and we need to carry forward with them.

I think I will try to provide you more detail for the record.

[The information referred to can be found in the Appendix on page 99.]

Secretary HALE. But I can tell you that we have a nuclear weapons council that meets regularly with NNSA representatives as well as ours, and they are deeply engaged in these issues.

Mr. TURNER. But you do have concerns; correct?

Secretary HALE. Yes.

Secretary PANETTA. Finally, let me commend your leadership on the adoption issue. We did have a chance to discuss it. I share the concern that you raised. I think it does need to be addressed. You have been successful at passing it in the House side. It doesn't seem to come out of the Senate. And I think the one thing I indicated to you is I want to work with you to see if we can actually try to get something done on this issue this year.

The CHAIRMAN. Thank you.

Mr. Courtney.

Mr. COURTNEY. Thank you, Mr. Chairman, and thank you to the witnesses.

Secretary Panetta, again, I want to thank you for visiting the Groton shipyard. Back in November, you had a chance to climb on board the *Mississippi* and the *North Dakota*, which is under construction, as well as really a pretty extraordinary town hall with the workers on the pier there where you very eloquently described the value of the industrial base to our national security.

In light of that, I just—to follow up on Mr. Langevin's questions, the *Mississippi,* which was christened just a few weeks later, had come in $64 million under budget, 12 months ahead of schedule; and there is no question that the momentum of two subs a year, which took 20 years to get us up to that pace, is achieving savings.

That block for contract shift—which, by the way, that is the third time it has been changed, not the second time, Mr. Hale—there is no question that, in terms of materials management, in terms of workforce management, in terms of layoffs, which is inevitably going to flow from that shift, is going to result in costs. And I guess the question is, you know, did you include that in your FYDP in terms of the costs of that dip in production which, again, we are seeing real results now in terms of savings because of the higher production rate.

Secretary HALE. So far as I know, the FYDP is fully funded. I hear your point, if they take $487 billion out of the budget, and we tried to do it in a way consistent with our strategy, but we had to do it. And this is one of the issues raised with the Navy to discuss with them. And they would have preferred not to do it, so would we, but it is where it is. It is a fiscal '14 decision. We will get another chance to look at it in light of current fiscal realities.

Mr. COURTNEY. Well, the strategy, of course, which was articulated at the outset today, clearly focuses on Asia-Pacific, and you can't have an effective strategy without a strong undersea fleet.

Thank you for saying that you are willing to continue to work on this.

Secretary HALE. We will take a look at it as the Secretary——

Mr. COURTNEY. The long-term effect in terms of the fleet size will be decades.

Secretary PANETTA. Now, you know, I was very impressed with what I saw in Groton. I don't want to lose those skills. I don't want to lose those abilities. I want to maintain that kind of industrial base. So we will continue to do whatever we can to work with you to see what we can do to try to reduce those costs in the future.

Mr. COURTNEY. Thank you, Mr. Secretary.

I would also want to go back to Mr. Thornberry's point about the 2005 BRAC, which, again, I respect the fact that you have deep, profound personal experience in terms of what you went through in your time in Congress. But some of us have our own experience as well. I served on the Readiness Subcommittee for the last 5 years. We have been following the 2005 BRAC like a box score in terms of its results. It cost about twice as much as was predicted; and, as Mr. Thornberry said, the net savings are still years away.

And, you know, obviously, we all get sort of pinned as being sort of looking at our own backyard when this issue gets discussed, but

I think there is a legitimate question here, particularly with the fact that we have got to deal with the Budget Control Act caps. You know, how you do this in terms of not costing money in the short term?

I mean, the answer we have gotten so far from Dr. Carter and yourself is that it is zero in terms of projected savings for the plan that was submitted there. So, you know, zero minus zero equals zero.

I mean, if we don't do it—I mean, it just doesn't—it is a nullity in terms of trying to achieve the Budget Control Act targets; and, frankly, I think that is a very big threshold question which the Department has to answer before I think there is going to be any willingness to look at this thing at all.

Secretary PANETTA. You know, I mean, I hear what you are saying; and the 2005 costs are—frankly, you know, it is just unacceptable the way that process ultimately worked out in terms of how much it cost us. On the other hand, obviously, in the long run it will produce some savings.

I guess what I would suggest to you is that, you know, we have been through three BRAC rounds. There are some lessons to be learned here. If we are going to do another BRAC round, as we have recommended, perhaps we need to do it in a way that tries to acknowledge some of the lessons learned here to make sure that we achieve the savings that we have to achieve as part of the BRAC process. Maybe that is a better way to approach this issue.

Mr. COURTNEY. Well, it is my understanding that we are going to see language sometime in March in terms of the proposal. And, again, there is going to be a high degree of skepticism for those of us who, again, have been tracking the overall results of the last round. And certainly I know you have gotten mixed comments here today, but I just want to at least share, certainly for some of us, this is a real problem.

And I yield back.

The CHAIRMAN. The committee will take a 5-minute break and reconvene at 5 minutes after, and Mr. Kline will be next.

[Recess.]

The CHAIRMAN. The committee will come to order.

The chair recognizes Mr. Kline.

Mr. KLINE. Thank you, Mr. Chairman.

Thank you, gentlemen, for being here, for your testimony, for your extraordinary service to our country.

I very much appreciated, General Dempsey, your testimony. You mentioned that the families have stood with us, talking about our men and women in uniform and stressing the importance of keeping faith with the true source of our strength, that is our people.

And it is in that line, in that vein, Mr. Secretary, that I want to raise a subject that I have raised in the past in this committee. And that is the subject with the sort of convoluted name of the Post-Deployment Mobilization Respite Absence program, PDMRA; and although the name is a little convoluted, it is pretty straightforward.

DOD enacted this program back in January of 2007 with the express purpose of taking care of our troops, recognizing that we have men and women deployed for extraordinarily long periods of time

and rewarding them with this program so that they could spend more time with those families, the families that have stood with us and so that we could keep faith with our men and women in uniform and their families.

This program has been in effect and running, doing what it is supposed to do, easing stress on our men and women in uniform, rewarding the families. And then on October 1st of 2011, the Department came out with a new policy. And it came out with this policy—of course, it affects the soldiers who are deployed today to Kuwait or Afghanistan, changing the number of days that you can get as a reward for extended periods of service; and you could have a negative impact of over 3 or 4 weeks, in some cases, because of this new policy.

And so I am—I understand the Department is perfectly allowed to make policy changes, but I am very concerned that it looks like there is no provision for grandfathering those that are overseas now. We have a part of a brigade combat team of the famous Red Bulls out of Minnesota and surrounding states that are over in Kuwait right now, and there is a lot of confusion about what the policy is going to be.

I think it is important that we keep faith, that we not change things around during the middle of a deployment and so we don't have our soldiers sitting over there wondering, and their families wondering, what this policy is going to be.

So I have a question for you, Mr. Secretary, is will you grandfather this new policy so that the soldiers that are deployed now get what they thought they were going to get when they deployed? It applies to all, but I am particularly talking about members of the Guard and Reserve who are making decisions based on these sorts of policies.

So if you know that answer, I would take it now. If you don't, I would take it for the record.

[The information referred to can be found in the Appendix on page 100.]

Mr. KLINE. I actually sent you a letter a month ago, January 18th, to be exact, requesting the answer to this. And I understand from talking to staff that that is in the works, and I am going to get an answer.

But I just think it is really, really important that we keep that faith and that we not change policy and we not have that kind of an impact on our men and women in uniform.

So that is my first question.

Secretary PANETTA. Congressman, if I could just respond to that.

We are looking at that program. It is an important program, and I am looking at the implications of what happened with the policy change to determine whether or not we should make any adjustments. I am not going to make any promises to you, but I will assure you that I will take a hard look at that before we get you the answer.

Mr. KLINE. Please do. And I would just reiterate that, in my opinion, from where I am sitting looking at my own experience and talking to many of my constituents and many people in Minnesota, who have been really impacted by these deployments, the Red Bulls had the longest combat deployment of any unit, Active, Re-

serve, National Guard, any Service; and so I just think it is really, really important that we keep faith with those men and women.

Now I have another really quick question. I know you have answered this before, but I see that we are talking—and I think, General Dempsey, you mentioned that we are looking at—or the Secretary—both of you talked about modifying the retirement system for our men and women in uniform. And I just want to underscore again that any such changes will not affect those already serving; is that correct?

Secretary PANETTA. Our position, strong position here is that all those that are currently serving would be grandfathered in under the present system. As the Commission reviews future changes, they are not going to be affected.

Mr. KLINE. Thank you.

My time has expired, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Loebsack.

Mr. LOEBSACK. Thank you, Mr. Chair.

Before I say anything else, I do want to, I guess, concur with Mr. Kline. We have Iowans who are in that Red Bull group as well, and we have many of the very same concerns in Iowa when it comes to the Guard and Reserve.

And I do want to thank both of you—or all three of you—for your service.

At the outset, I just want to quote from the defense strategy when it states that "the concept of reversibility, including the vectors on which we place our industrial base, our people, our Active-Reserve Component balance, our posture, and our partnership emphasis is a key part of our decision calculus."

The strategic guidance also states that DOD will "make every effort to maintain an adequate industrial base."

I strongly believe that a critical part of our industrial base is, in fact, organic based, our arsenals, certainly our ammunition plants and our depots. They provide, I believe, a critical function of our readiness and our ability to supply our troops in the event that we have another conflict. We are drawing down now but in the event that we have future conflicts.

We have got to maintain, I think, the capabilities of the organic industrial base to respond to future contingencies—there is no doubt about it—and allow for reversibility highlighted in the strategy. And I strongly believe that the Department must ensure that this organic manufacturing base be preserved but that it be actively supported.

Secretary Panetta, Chairman Dempsey, has the Department actively engaged the military services to develop a plan to sustain our organic industrial base, including our organic manufacturing capabilities? And, if so, what is that plan?

Secretary PANETTA. Well, that is part and parcel of the whole strategy here, which is to maintain that industrial base that you talked about. And the industrial base, I think, does include the areas you have just defined. We need to have that as part of our ability to be able to mobilize and to be able to reverse any steps we have taken in order to be prepared for the future.

We are looking at a broad strategy here as to how best do we do this to make sure that, as we fund the industrial base, we do

it in ways that obviously are cost savings but at the same time maintain those areas in place. It is sometimes not an easy balance. But my goal is, I do not want to put anybody out of business in that area. I think we need to have it, and we are going to do everything we can to ensure that they are around.

Mr. LOEBSACK. Thank you.

General Dempsey.

General DEMPSEY. I can assure you, Congressman, that as the service chiefs have briefed me on their plans they have also briefed the Secretary, and it is always part of the conversation.

Mr. LOEBSACK. Thank you.

The strategic guidance also states that "the challenges facing the United States today and in the future will require that we continue to employ National Guard and Reserve forces."

I guess I have a couple of questions related to that.

Both Secretary Panetta and Chairman Dempsey, can you explain what role DOD's total force policy will play in implementing the new strategic policy across each of the Services? And can you explain further how the total force policy will be implemented in light of the proposed force reductions among the Services? And, within that, how will the experience and readiness of the Operational Reserve be maintained?

That is a big question, I understand, and kind of a series of questions.

General DEMPSEY. Yes, sir, it is a very big question and one that is a work in progress.

What we are taking a look at is—it is fundamentally how we balance Active, Guard, and Reserve. And then within that a subset is, as you balance the Force, how much is of it is operational, that is to say, ready to go today and how much is strategic, ready to go in 30 days, 6 months, or a year.

And as the service chiefs come and appear before you, they are doing that work within their rotational schemes. Every Service has a rotational scheme; and they will be able to articulate what portions of each of those components need to be available in those bins now, 30 days, 60 days, a year. May not be able to give you the details, but that is what we are working toward.

Mr. LOEBSACK. All right.

Mr. Secretary.

Secretary PANETTA. It is really essential here. We have learned a great deal over the last few years in our ability to make the fullest use of the Reserve and the Guard. I mean, if you go out to the battlefield you can't tell the difference between National Guard units and Active Duty. They are out there doing exactly the same thing, and they are getting tremendous experience, they are getting tremendous capabilities. I want to be able to continue that capability so that they are ready to go. And, you know, the Services are working on plans to make sure that we have that kind of rotational ability.

Mr. LOEBSACK. I just want to echo that. Our Guard and Reserve have been absolutely fantastic, not just in Iowa and Minnesota but throughout the country; and they have done a great job in their operational roles, not just strategic.

Thank you very much to all of you.

Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. I appreciate the gentleman's concern for the workforce, and I would encourage you to look at my bill. Because they are going to be making layoffs, you know, planning for next January's sequestration, that could be avoided if we could fix that problem now.

Mr. Rogers.

Mr. ROGERS. Thank you, Mr. Chairman. I am on your bill, by the way; and I share the gentleman from Iowa's concerns. I have spoken repeatedly in recent months with General Stein and General Dunwoody about this very issue.

And I am sad to see General Dunwoody retire, by the way. She is a class act.

But one of the thing she has assured me is that you all are determined to not get caught like we were caught off guard going into Iraq and Afghanistan and Iraq when it came to our depots' capabilities. And I believe we have heard General Stein when they say that.

Then I look at the budget that has just been proposed and I look at depot funding for 2013 and it's 82 percent of last year, and last year the majority of the funding was in OCO [Overseas Contingency Operations]. This year, none of it. Reset was a little better. Ninety-three percent of last year all of this funding last year and this year is OCO. The numbers for depot maintenance for the Army Reserve is 57 percent of last year, for the National Guard is 64 percent of last year.

And my question is, if we want to make sure we are ready for the next—and, by the way, obviously, we are still in a war and we have other theaters threatening. Why has depot maintenance been cut so much and why is there no funding in the traditional reset accounts?

General Dempsey.

General DEMPSEY. Yes, sir, I mean, the demand is going down. Yes, we remain in conflict, but in Iraq we went from 50,000 a year ago down to roughly 300 uniform personnel now. I mean, when that demand goes down, so, too, does the demand signal back into the depots. Although, as you correctly point out, there will be a period of residual recapitalization and retrofit and so forth.

But some of what you see reflected there, this wasn't done as a budget drill. It was based upon the demand signal and how we have to take action immediate—but let me ask Mr. Hale to comment.

Secretary HALE. I think some of what you are seeing is, as we shift funding from OCO to the base, as the Iraq war ended, some of those units, some went to Afghanistan but some are coming home, and we need to get their funding back in the base budget. That is some of what is driving those trends.

And then, as General Dempsey said, we are seeing lower requirements in some cases because the tempo of operations will be lower when we are out of Iraq.

Mr. ROGERS. Yes. Those are just much larger percentages of reduction. Just quickly, you know, we still have some real significant reset demands that I understand in maybe '14 and '15 we may see

some larger reductions, but those are awfully sharp hills to go off this again.

Secretary HALE. Again, to my knowledge, reset is a difficult issue, and it is hard to predict, and it is hard to know exactly when their equipment will be available. We are very mindful that we need to fix or repair this equipment that is coming out of Iraq and that will come out of Afghanistan, and we will do everything we can to work with you. I think we have $9.3 billion, if my memory serves me right, for reset in fiscal '13 budget. There is a lot of money in there, and we are trying to do our best to make sure it works.

Mr. ROGERS. Is it your plan to do the reset in our depots, all of it?

Secretary HALE. Well, it is a combination. In some cases, equipment is so bad we have to replace it. But where it is fixable, yes, we will be in the depots.

Mr. ROGERS. All of the reset will be done in our depots.

Secretary HALE. Yes.

Mr. ROGERS. Great.

While the Army is downsizing, this decrease in depot maintenance seems to be a little severe, given that we are still in Afghanistan. Do you envision a flattening off of this?

Again, I go back to when I was first here right when we went into Afghanistan and Iraq, and it was 18 months before we were really up and running like we should have been. I am concerned that this downsizing you all plan to continue it, rather than reach a plateau and make sure that we are ready with this depot infrastructure. Give me some reassurance that we are not going to keep the——

Secretary PANETTA. Well, my whole point here is that we have to be ready to mobilize and surge quickly, and I want to be able to have the facilities I need in order to do that. That is one of the requirements I basically made to the service chiefs and all of them to make sure that we have the base on which, if we have to go, we have got them and they are in place. Closing those facilities is going to hurt us. And so my point is, let's try to do what we can to maintain what we need in order to mobilize quickly.

Mr. ROGERS. And that is what I am looking for, reassurance. These numbers, you are confident that with these cuts you are still going to be able to maintain that core capability——

Secretary PANETTA. That is correct.

Mr. ROGERS [continuing]. If we need—in the event we are in North Korea or Iran 6 months from now.

Secretary PANETTA. Yes, absolutely.

General DEMPSEY. And with these numbers I share the Secretary's confidence and commitment he just made to you. Sequestration cannot make that commitment.

Mr. ROGERS. I agree. It can never happen.

I have got some more questions. My time is up, and I will just submit those for the record.

Thank you, gentlemen, for your service.

The CHAIRMAN. Thank you very much.

Ms. Tsongas.

Ms. TSONGAS. Thank you, Mr. Chairman; and thank you all for your testimony. It is quite an array of issues you have to deal with, so I give you great credit for being so responsive to all our questions.

I just wanted to note that past testimony before this committee has rightly noted that our Nation's fiscal crisis represents a threat to our national security. As Secretary of State Hillary Clinton and former Secretary of Defense Bob Gates have both noted, our rising debt has implications for both our influence around the world and our ability to project strength.

To that end, I commend the diligence with which you have prepared the Department's strategic guidance, along with the fiscal year 2013 budget, which was shaped by that guidance. In the initial round of cuts that has been required by the Budget Control Act, a ranking member noted—Ranking Member Smith rightly noted that it is a decrease in the increase. And we actually had a witness last week—sorry, I can't remember his name but—who said that a strategy without fiscal constraint is not a strategy. So I think that forces have combined to create a strategy that acknowledges the constraints we deal with but also the world in which we live.

You also noted that—as you are doing this, you noted the fundamental importance of keeping faith with our military personnel. So I am going to go to an issue that we have discussed before.

In your last appearance before the committee, Secretary Panetta, we talked about the fact that the military's rate of sexual assault among service members is much too high. In 2010, there were 2,670 reported sexual assaults in the military. By the Pentagon's own estimate, 13 percent of sexual assaults are reported. And in your last testimony you committed, despite budget austerity measures, to absolutely work to confront sexual assault, to encourage survivors to come forward, and to continue to fund programs that prevent it.

As we restructure the Force in the coming year, this is a problem we must continue to work to address. As we all know, a climate of trust is fundamentally important to how our military operates; and failure to address it truly does erode that climate.

In January of this year, you publicized policy, some mandated by the fiscal year 2010 NDAA, giving victims who report a sexual assault an option to quickly transfer from their unit in order to remove them from the proximity of an alleged perpetrator. You stated that the DOD would require the retention of written records of sexual assault for a period of 50 years to make it easier for service members to claim veterans benefits.

You also announced that $9.3 million would be spent on training to give rape investigations and prosecutions more teeth to provide service members with the protections they deserve.

I want to thank you for all your efforts and your commitment to sexual assault prevention and response, and I am particularly encouraged by the near doubling of the Department's budget request for the Sexual Assault Prevention and Response Office for fiscal year 2012.

You have many, many tools now in your tool chest that didn't exist in prior years, but these policies will only prove effective if we

make sure that military commanders and leaders at every level are aware of these policies and are able to appropriately respond to it. We must make sure that every person that a rape survivor could turn to is ready to appropriately respond to protect that service member. And we have been learning, as people have been coming to our office, that some of these changes are not making themselves known on the ground.

Lower level leadership is the key to changing the culture in the military that has allowed this problem to exist for far too long, and that is why I am encouraged to hear that you have acknowledged that you are conducting an assessment on how the military trains commanders and leaders. Still, we have much work to do.

So my question, Secretary Panetta, is, going forward, how do you see this coming together to continue to create a continued strategic approach, institutionalizing prevention of and response to sexual assault, making sure that all levels of the military are aware of the tools in the toolbox and how—and guidance in their response?

And I left you very with little time. If I have to take an answer for the record, I will.

Secretary PANETTA. Thank you, Congresswoman. Thank you for your leadership on this issue. This is very important to me.

I think we have to take steps to make sure that we have a zero tolerance with regard to sexual assault. And you know the problems. All of the steps you outlined, that I presented, we are pushing on every one of those fronts to make sure that we do everything possible to try to limit sexual assaults.

I have got—the final thing is really what you mentioned, which is we have got to get our command structure to be a lot more sensitive about these issues, to recognize sexual assault when it takes place, and to act on it, not to simply ignore it. That is one of the important things.

Ms. TSONGAS. Thank you, and we will follow up in future hearings. Thank you.

The CHAIRMAN. Mr. Franks.

Mr. FRANKS. Well, thank you, Mr. Chairman.

Gentlemen, thank you for being here, General Dempsey, Secretary Panetta, Mr. Hale.

Secretary Panetta, I guess, first of all, I would like to echo the concerns of Mr. Thornberry regarding the Administration's consideration or potential proposal of reducing our nuclear—our strategic nuclear inventory by as much as 80 percent. I mean, I have to suggest to you I consider that reckless lunacy. And your response, in all deference to you, sir, was really a nonresponse; and it did little to assuage my concerns.

And I just have to tell you for the record, given the need for a broad umbrella that America represents to the world in terms of our nuclear deterrent, given the importance of being able to demonstrate in the mind of any enemy, even those that are not altogether sound, of our overwhelming capability to respond and overwhelm any aggression on the part of someone with nuclear capability, I just want to go on record as saying that there are many of us that are going to do everything we possibly can to make sure that this preposterous notion does not gain any real traction.

So, with that said, let me shift gears and ask you a question related to missile defense.

As you know, homeland defense is listed as the first policy priority in the Ballistic Missile Defense Review; and, furthermore, the ground-based midcourse defense system is currently the only proven missile defense system that protects the U.S. homeland from long-range ballistic missile attacks. And yet, with that said, the fiscal year '13 budget request is $250 million less than was enacted in fiscal year '12, which is a follow-on to a decrease of $180 million in fiscal year '11.

Now, the budget cuts to these systems makes it very clear to me that the Administration is willing to diminish our only system that protects—our only prudent system that protects our homeland from long-range ballistic missiles. And, furthermore, the budget request increases funds for several of the European Phased Adaptive Approach systems which, to the casual observer, might indicate that the Administration has actually subordinated protecting the continental U.S. from ballistic missiles to that of protecting Europe.

Now, unless you or your Department or this Administration has assessed that the threat to our homeland from long-range ballistic missiles has declined such that GMD [Ground-Based Midcourse Defense] is no longer the critical system we all thought it was or unless somehow the Administration's commitment to protecting the homeland has in some way declined, I guess I am in the middle of a conundrum here, Mr. Secretary.

And so my question is this: Would you explain, in your mind, in the policy of the Department, whether GMD is indeed a critical system to protect our national security? And, if so, how does this rather specific and direct cut to these systems reflect that commitment?

Secretary PANETTA. First and foremost, Congressman, I obviously share your concern that we have to do everything possible to protect our homeland; and, for that reason, we maintain the full nuclear deterrent here and in the triad. Every aspect of the triad is maintained, because I believe that is extremely important to our ability to protect our homeland.

With regard to the specific decision on the funds there, even though it is less than what we have provided, the fact is that it meets our needs in terms of upgrading the missile system that we have. You know, our missile system is in place, it is ready to go, it is effective. We are not going to reduce that effectiveness in any way here.

The sole point here is to try to do what we can to, obviously, achieve some savings but at the same time make sure that it doesn't impact on our readiness. And I can assure you that nothing in this budget impacts on our ability to respond and protect this country under the nuclear deterrent.

Mr. FRANKS. Well, Mr. Secretary, I don't doubt for a moment your commitment to this country. I would just suggest to you that the policies that we are hearing here should alarm us all.

And with that, Mr. Chairman, I yield back.

The CHAIRMAN. Thank you.

Ms. Pingree.

Ms. PINGREE. Thank you very much, Mr. Chair.

Thank you all for your time today, your testimony, and for your service to this country.

Secretary Panetta, I truly appreciate hearing the steps that the DOD has taken towards a sustainable defense budget and how it correlates to the President's new strategic guidance. With emphasis placed on the need to keep the agile and flexible military force, I will be interested to hear in the future how the force structure will serve those needs. Specifically, the Navy already has agility built into its force, which would help support strategic targeted operations.

In addition to reevaluating our strategy after 10 years of war, I do believe that we must continue to provide our service members and their families the support that they need, and I am pleased to hear you speaking about that today. We truly need to keep our promise to the honorable men and women who have earned their benefits. I am also pleased to hear that it is a priority of yours.

And I was very pleased with the testimony of my colleague, Ms. Tsongas, that it is a priority of yours and General Dempsey to take care of our military as well as addressing military sexual trauma; and I agree with her that there is still a great deal that needs to be done in regards to that.

I want to talk a little bit about Afghanistan. The deaths of bin Laden, Anwar al-Awlaki, and the elimination of much of Al Qaeda's leadership, are testament to the success and effectiveness of the small, rapid missions instead of the nation-building missions of the past. The emphasis, based on a lily pad strategy, will help us continue to address our national security priorities as well as draw down unnecessary troop levels in Europe, for example.

Secretary Panetta, I was pleased to hear you announce a few weeks ago that the drawdown from Afghanistan would begin as early as mid-2013. Although I appreciate accelerating the drawdown slightly, I would like to hear more about the number of troops that will be withdrawn in 2013, as well as the schedule set for the pace of withdrawal of the 68,000 troops who will remain.

As a long-standing opponent of the war, I also have serious concerns that the lessons learned from Iraq are not being implemented fully in Afghanistan. As the DOD attempts to rein in costs, I am puzzled why contracting in Afghanistan has not been more closely scrutinized, especially since many of the contractors overlap in both Iraq and Afghanistan.

The Special Inspector General for Iraq Reconstruction has highlighted over half a billion dollars, $640 million to be exact, that could be used more effectively elsewhere and almost a third, $217 million, of which were payments to contractors for reimbursements that were not supported by any documentation.

For example, Inspector General Stuart Bowen specified that an audit of Anham LLC, which has contracts in both Afghanistan and Iraq totaling almost $4 billion, revealed they overbilled DOD by at least $4.4 million for spare parts, including $900 for a switch valued at $7.05.

Now I know I have asked a lot here today and there is a limited amount of time available, but let me ask a couple of questions; and if you are able to discuss it, that would be great. If not, I will take the answers for the record.

My questions are: What steps have been taken to implement the lessons learned from Iraq in the case of Afghanistan? Has it been successful and what more can we do at this time of the important budget-cutting that is currently going on?

Secretary PANETTA. Congresswoman, there is no question that a lot of lessons were learned in Iraq; and many of those lessons are being applied in Afghanistan.

I think the good news is that 2011 was really kind of a turning point. In 2011, the level of violence went down. We weakened the Taliban significantly. More importantly, the Afghan Army really came into its own operationally. It started really being effective in terms of providing security.

We have gone through several tranches of areas where we are transitioning to Afghan security and governance. The second tranche, which we just have gone through and announced, when we complete that over 50 percent of the population will be under Afghan security and Afghan control. We are going to continue those tranches through 2012 as well as into 2013.

In 2013, our goal is that, when the final tranche is completed, that the Afghans will take the lead with regards to combat operations and we will be in a support mode. Although we will be combat ready, we will basically be operating in support through the remainder of 2014.

We are on track now, according to Lisbon, to be able to draw down with our ISAF forces by the end of 2014; and then the discussion will be what kind of enduring presence we have there.

But bottom line is I think we are on the right track with regard to completing our mission in Afghanistan.

Ms. PINGREE. Thank you.

The CHAIRMAN. Thank you, Mr. Secretary.

Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman; and, gentlemen, thank you for your long service and your demonstrated patience this morning with being here.

Leon, I want to add my comments to what Rob Andrews said. Thank you for your forward lean on the audit issue and sustaining an audit, property resourcing that. You and Bob Hale and your team, the ripples that your comments have made and the efforts that have gone forward since October I have seen them felt all down through the organization, which is where it has got to get done. So thank you for that, and I appreciate it.

We still don't know yet from General Allen—you said yesterday to the Senate—how we are going to bring home the 23,000 that are scheduled this year. I am just worried that your comments of the last few weeks were a little premature. I don't think anybody says it has gotten a whole lot safer in the east of Afghanistan.

And I understand the glowing comments you were just making about the Afghan Army. Concern that fighting season in 2013 is split by Ramadan and that we would have our folks in a position to allow something to go on in the second half right after Ramadan, the last half of that fighting season in 2013, is counterproductive to what we are trying to get done.

Can you help me understand—I am in a position to have some information on intelligence as to what is going on, and it did not—

I was a bit shocked with your comments, because it is not marrying up with the evidence I had at that point in time from things improving on the ground that rapidly to—and since then that questions of certain folks you should know just makes your—maybe you were misquoted or maybe overstated with respect to that, but I am concerned that we——

And then one final question.

Secretary PANETTA. Sure.

Mr. CONAWAY. Rumors more recently that even more accelerated drawdowns are going on, and the question yesterday in the Senate was that no decision was made. Does that imply that those conversations are, in fact, going on within the Administration separate and apart from what General Allen is telling you and the commanders on the ground are telling you? That would be of great concern to us if these are political decisions being driven within the White House for whatever reason, that they would start having those conversations. Can you help me understand what is going on there?

Secretary PANETTA. Yes, first and foremost, after 40 years, I am never responsible for any headlines on any article that involves comments that you make.

My comments were perfectly in line with our commitments under Lisbon. And to prove it, all of the defense ministers in the last meeting I attended, all of them concur in the same strategy, which is we are in together and out together by 2014, and we are all following exactly the same process here. We are doing the tranches. We are doing the transition to Afghan authorities.

Obviously, we are watching it closely to make sure that it is working. So far, it is working. The Afghan Army is doing a great job. We have got to continue to put them in place. We have got to make sure that they are able to achieve security.

Everything is conditions-based when you are in war. That is a bottom line here. So we are going to be tracking this very carefully as we go through that process.

With regards to the decisions, obviously, we are in the process of how do we draw down to 23,000 the surge, and General Allen will present a plan to General Dempsey within a few months to be able to show how that will be accomplished.

And then, beyond that, frankly, no decisions have been made, because we are looking at the situation on the ground, what we are going to need in order to achieve the mission that we are all interested in achieving.

Mr. CONAWAY. So we are still set on what the mission is and no instructions to change the battle plan to reflect lower levels of American troops beyond the 68,000. None of that is in the works or pushing forward at all.

Well, thank you for that.

One minor—one issue with respect to the budget, I think it was also a $600 million decrease in defense funding because of the switch—or adding $600 million for green energy or renewable energy efforts, that is a cut to defense spending. It is not your core mission. You know, we are going to pay—and Secretary Mabus is bragging on the—paying $15 a gallon for jet fuel to fly F–18s as a demonstration project, I guess; and it just makes no sense in

these kinds of budgetary constraints that we would pay $15 a gallon.

And even if you ramp that industry up as good as it is going to get, you are going to be paying twice for that blend of algae and fossil fuels over just what straight fossil fuel is. So I am not real keen on spending that $600 million. I think you could find a better place to spend $600 million in defending this country, as opposed to demonstration projects that might not yield the benefits that we want.

So, again, I appreciate your long service to our country.

I yield back.

The CHAIRMAN. The gentleman's time has expired.

Mr. Critz.

Mr. CRITZ. Thank you, Mr. Chairman.

Secretary Panetta, General Dempsey, Secretary Hale, thanks so much for being here. Thank you for your service to this country.

Secretary Panetta, the Air Force recently announced force structure changes in light of the new national defense strategy. These changes include major aircraft reductions above combat and mobility forces and announced the closing of an Air Reserve station in Pittsburgh, Pennsylvania, outside of BRAC process.

The base serves 1,400 Active Reserve and Guard units of both Navy and Air Force and has tens of millions of dollars appropriated for improvements. Can you tell me if the decision to close the base was made in coordination with your office or with other stakeholders and how many other bases are being identified for unilateral Department of Defense closure outside of the BRAC process?

Secretary PANETTA. Congressman, I really recommend that you ask the chief of the Air Force that question. Because the decision to make that decision was in his hands as part of the strategy here that was being implemented to kind of fulfill the strategic goals that we were after. So on that specific decision I would recommend you ask him that question.

Mr. CRITZ. Okay, thank you. And it plays actually into a larger role. Because, as you know and are aware, that the Air Force's restructuring plan proposes a reduction of 65 C–130 tactical airlifters, getting us to a total fleet projection of 318 aircraft. Part of that is because we are going to be lowering the Army to a structure of about 490,000 members. My concern is that pre-9/11 the Army was at about 480,000, so very similarly sized, and we had 530 C–130 tactical airlifters. And I am just curious as to the Air Force's new restructuring plan isn't realistic, given previous demands for tactical airlift and future demands in this new strategy. Can you elaborate on any of this, the Secretary or General Dempsey?

General DEMPSEY. I cannot elaborate on that specific issue except to say that the collaboration between the Air Force and the Army on their lift requirements, that has been accomplished, and you will have both of them here at some point in the future.

Mr. CRITZ. Right. Yes.

General DEMPSEY. But, you know, this is about accounting rules. So if you have X number of airborne brigades, how much lift do you need; X number of ground combat brigades, how much lift do you

need? And those accounting rules have been adjusted over time based on lessons learned.

Do you want to add anything.

Secretary HALE. Well, I would add that C–130s are important to us, but all our studies show we have too many, frankly. And so what you are seeing is adjusting in tough budget times to go down to what we believe are the minimum requirements that meet our wartime needs.

Mr. CRITZ. Yes, well, and part of my concern is that we are actually adding, I guess, duties to the Air Force's C–130, because they are going to be doing the C–27J lift as well.

And just as a sort of general idea, I look at the C–27J, it was going to be sort of a pickup truck, and a C–130 might be more like a tractor trailer truck. And I am just curious if the C–130 going to be able to get into the same airports as the C–27 and is it really a cost savings? Or are we going to start saying, well, we can't get into these places, so we are going to up the tempo for the Chinooks to do what the C–130s can't do?

I guess my question is long-term. This is a short-term savings. Is it also a long-term savings? Have we looked at the 20-, 30-year life cycle of these aircraft?

Secretary PANETTA. I think they have looked at the long-term savings that would be achieved here. I mean, part of the goal in developing our strategy was obviously to ensure that we had not only agility and ability to deploy quickly but that what we were using was multimission and designed to accomplish a series of missions, not just one. And the problem with that one aircraft was that it was kind of single-mission oriented.

Mr. CRITZ. Right.

Secretary PANETTA. And that is why I think the Air Force recommended that we move towards that choice of the C–130s.

Mr. CRITZ. Okay, I am a little suspicious. I have just heard from some of my Army friends that they like the greens, they like the same uniform in the aircraft above them, and it makes them a little more comfortable.

General DEMPSEY. That shocks me, Congressman, for the record.

Mr. CRITZ. My last question, in a very short amount of time, is we have used the National Guard at a level in the last 10 years in OIF [Operation Iraqi Freedom] and OEF [Operation Enduring Freedom] that we have never seen in the past. The future defense plan, does it maintain that same tempo of use of National Guards, or are we going to see—and I don't want to say diminishing, but much less use of National Guard in forward operations?

General DEMPSEY. What we do, sir, is we respond to the demand. So as the combatant commanders put a demand on the system, the service chiefs meet it. The answer to your question is we will have Active Component and notably Guard and Reserve in an ARFORGEN [Army Force Generation] cycle that meets the demand. If the demand goes down, there will be fewer demanded.

Mr. CRITZ. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Mr. Wittman.

Mr. WITTMAN. Thank you, Mr. Chairman.

And Secretary Panetta, General Dempsey, Secretary Hale, thank you so much for joining us today and thank you for your service.

Secretary Panetta, I want to begin with you and go back to some of the statements you made about this effort of budget reductions being driven by strategy and ask you this: I know that part of that strategy is an increased operational capability and presence in both the Middle East and the Asia-Pacific. Within that context, we are looking now about an additional SSN [nuclear-powered attack submarine] being moved outside of FYDP; and we know that in that particular theater, especially the Asia-Pacific, the SSN is a very frequently utilized asset.

Also, we are going to be pushing the SSBN(X) [*Ohio* replacement ballistic missile submarine] 2 years further down the road, so it is not going to be operational or deployable until at least the 2020s. And we are going to have a significant period of time where we have a reduced number of ballistic missile submarines in a time where we know that is a very critical element to our nuclear triad. Looking at those things strategically and where we are reemphasizing our efforts, that seems to be counter to that.

And I would ask this: With that in mind, have we looked at and can you tell me—from the perspective of China, can you tell me how many subs they are building per year and how many submarines they will have in fiscal year '17 and beyond, just to have a comparison as to where we are going to be strategically?

General DEMPSEY. If I could, Congressman, we should take that one for the record and make it in a classified setting.

[The information referred to can be found in the Appendix on page 101.]

Mr. WITTMAN. Okay, very good.

Secretary PANETTA. Clearly, our goal here was to not only maintain but to strengthen our presence in the Pacific. That is the reason, frankly, we maintained 11 carriers. The Navy assures me that we have more than adequate submarine fleet to be able to accompany our forces there. We have delayed the *Ohio* class based on costs and trying to make sure that we could control those cost overruns as we went through the process, but I can assure you are we are still committed to getting that online.

Mr. WITTMAN. Another issue, too, there with our fleet as we are looking at the reduction in the size of the fleet, you talk about the seven cruisers that are going to be brought out because of the cost of modernizing them to a BMD [Ballistic Missile Defense] platform. But you are also looking, too, at a fleet that has been really pushed. We are talking about maintenance that has been put off. So many ships, as far as their A_o, their operational availability, is really being pushed.

If we are looking at that in a strategy that denotes more challenges there in the future, especially with our naval capability—and just having been to an exercise, a Bold Alligator, and looking at our operational capability within the Marine Corps that is necessitated by ships, and looking also at our amphibious ship decline in numbers, I would ask, too, how are we going to reconcile that with operational availability, with ship availability based on backlog of maintenance and our L class ships essentially going down, yet we are going to be emphasizing that capability as part of our strategy? How do we fix or how do we address that—what I see as a conflict?

General DEMPSEY. If I could take a shot at that one, Congressman, you are talking about a specific single Service. In this case, you are talking about the Navy.

I mentioned in my opening comment we really need to think about this as a joint force; and what we are doing as service chiefs and as joint chiefs is looking at our war plans and determining how we meet the demands of the war plans innovatively, differently, creatively, and integrate those capabilities that we did not have 10 years ago.

So while it might seem that the Navy, actually, as part of this Joint Force has actually benefited from this new strategy as it has shifted to the Pacific, but it hasn't been without cost to them at all. And the entire Joint Force has to be appreciated to understand how we meet the needs of the Nation in terms of the new strategy.

Mr. WITTMAN. Sure. I certainly appreciate that.

I guess my concern is, is that with that reemphasis in those areas and looking at this new strategy, while I understand the cross capability that is there, it still appears to me, though, as where we are going to be calling on our Navy. In many instances, the capacity and capability there is going to be pushed to the absolute maximum.

We look at the number of MEBs [Marine Expeditionary Brigades] that can be deployed and the things that we are asking our folks in the Marine Corps and the Navy to do in a joint atmosphere. It seems to me that they are going to be pushed in a situation where it may not be the most challenging of situations, where we say, wow, we can't do all the things that we need to do.

So my concern is that if this is indeed being driven by strategy—and, Mr. Secretary, you spoke of increased risk—my question is, is are these scenarios, is it an acceptable risk? In your mind, is it an acceptable risk?

Secretary PANETTA. Well, I think it is an acceptable risk. We are going to be maintaining 285 ships. We have got 285 ships now. We will have 285 ships in 2017. In that next 5-year period our hope is to increase the fleet to 300 ships. So our goal is to try to make sure that we have a flexible, deployable, and capable Navy that is out there.

The CHAIRMAN. Thank you.

Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman; and thank you, Mr. Secretary and General Dempsey, for being here today.

I know that the development of a new strategy and related changes in the budget requests were very difficult undertakings, and some of the responses that I have heard from some on the committee to your work has been unfounded criticism. There is no way a 1-percent reduction of the Pentagon's base budget from 2012 to 2013 could mean the difference between the world's greatest military and a hollowed-out force; and under the Administration's proposal, the DOD base budget will remain essentially constant between 2013 and 2017, after adjusting for inflation.

I believe there is room for additional savings in the Department's budget, and those may very well come when we can get some clean accounting statements. And I am glad to know that that time period, Mr. Secretary, you have moved up to 2014, I believe, right?

And I share your concern about and your opposition to across-the-board cuts that would be mandated by sequestration.

But before I ask any questions, I would like to ask a couple of things. Last October, there were records that I requested, and those records were not submitted until last week. Can you be more prompt after this hearing with supplying any records or answers that are requested?

Secretary PANETTA. Congressman, I was not aware of that. But, in the future, if you make a request for documents and you don't get them in an expedited way, I wish you would call me and let me know; and we will make sure you get them in time.

Mr. JOHNSON. All right. Thank you.

And also in that regard, Mr. Secretary, a DOD report on rare earth elements was due in June of 2011; and it has not been completed as of yet. And we were also promised an interim report in December, but we have received no interim report. Can this be gotten to us quickly?

Secretary HALE. That one is an interagency coordination. I know it is late. I am told it will be very soon.

Mr. JOHNSON. Thank you. Any timeframe?

Secretary HALE. I don't have a specific time. Let's get back to you with more specifics.

[The information referred to can be found in the Appendix on page 101.]

Mr. JOHNSON. All right. Thank you.

Secretary PANETTA. My legislative aide is saying a couple of weeks. We hope that will be in that period.

Mr. JOHNSON. All right. Thank you. That is great.

Mr. Secretary, I am concerned that the pivot to the Asia-Pacific increases the risk of an increasingly adversarial military competition with China, and that is not in either country's best interests. How do we execute this new strategy without beginning a new Cold War? And I might add that I definitely see a need for us to reposition our thinking in terms of the Asia-Pacific region.

Secretary PANETTA. I just had this discussion with the vice president of China yesterday. We are—you know, we are a Pacific power. They are a Pacific power. And while we have had our differences, the fact is we have some common concerns that we need to confront.

One is nuclear proliferation in that area, and it is as much a concern to China as it is to us.

Secondly, it is the whole issue of ensuring that trade routes and commerce flows freely in that area. That is another area that we have a joint concern.

Thirdly, we have humanitarian needs in that area that we need to respond to, and they are as much concerned about that as we are. Area after area, there are some common areas that we have concerns that will help us improve the regional cooperation in that area. That is the kind of relationship we would like to have with China, and that is what we hope to develop. But in order to do that we have to do that from a position of strength, and that is why we have to maintain our presence in the Pacific.

Mr. JOHNSON. Thank you, Mr. Secretary.

The CHAIRMAN. Thank you.

Mr. Hunter.

Mr. HUNTER. Thank you, Mr. Chairman.

Thank you all for your service and your time.

Let me start with this. This is a quote from Secretary Perry and General Shalikashvili, Chairmen of the Joint Chiefs of Staff under President Clinton:

"A dramatic reduction in the threat allowed for a significant reduction in the size of our military forces. The most obvious benefit of reductions in force and support structure was a reduction in the defense budget. This peace dividend—I am quoting—this peace dividend, amounting to about $100 billion a year, has been a major contributor to the balanced budget that our country now enjoys. The question, of course, is did the Nation pay too high a price for this benefit? In particular, was the capability of the military forces reduced to the extent that they cannot adequately protect American national interests? Our answer to that question is an emphatic no."

A year and a half later, terrorists murdered about 3,000 Americans and off we went to war. And, as Secretary Rumsfeld said, we went with the Army we have, not the one that we wanted or wished for.

I would like to know in general, how do you differentiate yourself from these two leaders in that time who were presiding over what they would not call—but we look back and see—was a hollowing out of the military?

General DEMPSEY. Well, I differentiate from them because I think we each face our own different circumstances.

I mean, you know, I mentioned earlier in response to another question that the fiscal reality of the '90s is different than the fiscal reality of this decade. And it seems to me that, as others have testified, that we can only remain a global power if we have got that balance, the aggregate of diplomatic, economic, and military power. And what you are seeing us do is try to reconcile a different set of circumstances from any—from any of our predecessors and to ensure that we do form a strategy and map the budget to it, as opposed to just reacting to budget cuts. And I can only assure you we did that and that this will have to be seen as having been effective or not over time.

Mr. HUNTER. Thank you, General.

Okay, moving on then, let me hit on to a few other things in no particular order here.

One of the main points of the budget is calling for more capability in the Guard and Reserve. Yet the NGREA, that is National Guard Reserve Equipment Account, is zeroed out in this budget. There is no request for NGREA at all when we are going to put more on the backs of our Guard and Reserve.

The National Guard Reserve Modernization account, reduced by 44 percent.

Navy Reserve over the next 5 years goes down by 9,000 sailors based on current capability, even though in 5 years we will have LCS [Littoral Combat Ship] and a lot of different programs, more UAVs [unmanned aerial vehicles], Fire Scouts, which we will then need to get them back for and that will be more expensive, shortsighted.

Air Force is reducing, it looks like, two Active and five Reserve squadrons. It should be the other way around, just from our point of view, kind of common sense. If you are there to save money, you look at these Reserve and National Guard air squadrons. They are the ones that pulled a lot of weight in Iraq and Afghanistan.

I think Chairman Kline had a statement on that matter. It just doesn't make sense, two Active, five Reserve, when you could support a lot more Reserve for the cost of one Active.

Drones and technologies, we are to ask for half as many Reapers. Even though we say the strategy is so that we could rely more on technology, we are reducing Reapers in half. We are reducing the number of Global Hawks. We cancelled the Navy's next generation of UAV because the Fire Scout can do the job. That is all fine if your argument wasn't that we are going to rely more on this type of technology, but then you cut it at the same time. That doesn't make sense to me.

Third, Asia-Pacific. We fund ship repair at 100 percent, which we all know is about 80 percent of what it really needs. You still have ships going out that are not even close to being capable to do their job.

You cut seven cruisers—it looks to me like we cut seven cruisers so that we could fund 100 percent of 80 percent of the Navy's needs, if that makes sense, meaning you cut seven cruisers so that you can—we don't want to have to fix the things that are expensive to fix, so we just let them go. That is what is happening here.

Navy refuses to down select on the LCS. That is Congress' problem as well as DOD's, in my opinion. We should be able to at least down-select on an LCS. I don't care which one it is. You can't train for the same class. You are training different sailors to work on two different ships, different logistical tails, different modules—or same modules but different command decks inside. You are going to have to have sailors get trained for two totally different things.

And, lastly, something that I noticed, the joint light tactical vehicle, you are going to have contracts going out in June of this year. Ford came to us and said, hey, if you prolong this a year, Ford will get involved and save you hundreds of millions of dollars; and we said no.

There are some major problems with this budget. My main point is this: The strategy and the budget contradict each other. They do not go hand in hand, they don't fit, and it looks to me like the things that we are trying to accomplish are not going to be paid for.

Anyway, that is my opinion; and I am sticking to it.

Thank you, Mr. Chairman. Thank you, gentlemen, again for your service. I appreciate it. Thanks for what you are doing and for coming in here with it.

General DEMPSEY. Thanks for reading the thing. Obviously, you studied it quite a bit.

The CHAIRMAN. The gentleman's time has expired. Will you please answer those questions for the record?

General DEMPSEY. We would be happy to.

[The information referred to can be found in the Appendix on page 101.]

The CHAIRMAN. Ms. Hochul.

Ms. HOCHUL. Thank you, Mr. Chairman. Thank you for joining us today and for your service to our country.

Certainly I echo some of these sentiments, because we are concerned about the need to cut costs. That is the great challenge that faces you, and we appreciate the stress that you are under to accomplish this. However, it does seem that the more cost-effective way to approach it is to continue standing Reserve and Guard units in a stronger capacity than has been announced thus far.

So we are asking for your consideration. As a representative of the Niagara Falls Air Reserve Station, we are expected to, if all goes according to, as projected, to lose 16 percent of the Nation's Guard. That is a big hit for an area like ours.

And as you were talking I took to heart what you said, Mr. Secretary, about the need to have jobs when our veterans come home. My part of the country sends a lot of people to war, and they come back to our area and the jobs are just not there. So we treasure these jobs as well as the proximity we have to the border of Canada.

We believe that you will certainly understand the need to ensure that we have a continued mission, if not the C–130s that the Guard currently has but another mission to fall in its place; and that is very important for a variety of reasons.

But, again, what you have said about our military security being linked to our economic security and our industrial base and our manufacturing, do you envision a policy or what are your thoughts on a policy whereby, using our limited Department of Defense procurement dollars, do we actually give preferences to domestically produced materials? Is that something under consideration? Is that something that you think would help our jobs situation back home, to shore up our economy and our industrial base as well, sir?

Secretary PANETTA. Well, let me begin by saying you can't view the Defense Department budget as a jobs program. I know there are jobs that are dependent on it. I know we care an awful lot about the people that work under our Department. But the bottom line is, what do we need in order to get the best defense for this country and where can we get it?

And, frankly, we do look at the U.S. industrial base as supplying, frankly, the biggest part of that. Why? Because I can't rely on—I don't want to rely on foreign suppliers for that. I have got to rely on U.S. suppliers in the event that we have a crisis and we have got to respond.

Ms. HOCHUL. I agree with you 100 percent.

And I would like your comments added, sir.

General DEMPSEY. Yes, thanks. Thank you, ma'am.

Just on this Active, Guard, and Reserve issue, we have really got to be clear—I mean, the Active is Active because they are full-time, 24/7/365; and we fund them to be full-time so that they can be the most responsive for us. The Guard and Reserve, if they were full-time, if they were ready on the same timeline, would cost exactly the same thing.

But yet, you know, on occasion we will be told the Guard and Reserve are cheaper. They are, because we only employ them for X number of days a year. Once you bring them in and you want them to serve for 365, the fully encumbered costs are identical. The ques-

tion for the Nation that we are trying to answer is how much Active, because you need them right now, how much Guard and Reserve, and then, within that, how many of them do you need within 30 days, 180 days, or a year?

So, believe me, we want to do what is best for the Nation, but this is not a—you know, the Active, Guard, Reserve, it is not a dichotomy, it is a trichotomy, has to be handled very carefully, or we will talk ourselves into something that won't deliver when we need it to deliver.

Ms. HOCHUL. And I take that to heart. But I want to get back to the Secretary's comments. Is there anything that this Congress can do to assist in your stated goal, which I share, that we can do for more our industrial base, our local manufacturing, and, again, our national security, as opposed to relying on manufactured items from countries that may turn on us and may not end up being our friends. Is that something we can work on together? Because I think that is important.

Secretary PANETTA. Yes, absolutely. I would have no problem working with you on that aspect, because I want to be able to turn to our base in this country when we have to respond and mobilize.

Ms. HOCHUL. Thank you very much.

Mr. Chairman, I yield back the balance of my time.

The CHAIRMAN. Thank you.

Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

Gentlemen, I appreciate you hanging around just for my questions.

General, you spoke about the ISR capabilities. I represent Robins Air Force Base, and we have the JASORS [Joint Advanced Special Operations Radio System] there. And it is not appropriate here, but I would like to get some information to you. There is a very efficient way to increase the capabilities of that unit and those planes that would, I think, be a significant cost savings, so I will provide that information for all of you. I will work my staff to your staff.

I will tell you I did not vote for sequestration. I represent Robins Air Force Base. As I said, I am from Georgia. We have Fort Benning. We have Fort Gordon. We have Fort Stewart. We have Moody Air Force Base. We have King's Bay.

I also, as the chairman would tell you, that I am one of the ones that did not sign the letter saying no cuts to the military. I recognize that we are going to have to have some reductions.

What I see happening, though, through the communities that have such a large military industrial base, is the fear between sequestration and the talk of BRAC. It is disrupting businesses, whether it is an entrepreneur that wants to build a restaurant or a city who is trying to determine what sewer capacity they need or water capacity or other types of infrastructure they need. It is I think in the end causing us more unemployment because of that uncertainty.

Zell Miller was one of Georgia's governors and was a U.S. Senator. And one of the things that he did—and he received some criticism for it when he did it, but in the end it worked—he went through a process called redirection where he asked every agency to deliver—the agency head was to deliver the 5 percent that they

would cut. It wasn't up to any of the elected officials. The agency heads delivered the 5 percent that they would cut.

So your base commander could deliver the 5 percent that they would take out, and then they were allowed to present back to a command where they would put 2½ percent of that. The net result of that was a 2½ percent reduction and spending and, quite honestly, a more efficient agency.

And so, as somebody who has come from a State appropriations committee—and Secretary Panetta and General and Comptroller, I know that you all have more experience than I do with these issues—but that is something that we did see that worked.

I would also like to say, Mr. Secretary, there are 89 of us that are freshmen Republicans. We would very much enjoy a discussion with the President. That is something that we are not allowed. I wish we could. I wish that that was said about us working together could happen, and obviously that means that you have those meetings.

But I would ask, as we talk about these cuts, you know, there is no discussion of cutting food stamps. We are talking about cutting veterans' benefits. You know, there is not talk of cutting housing programs or other things. I mean, the things that have been outlined to us are cuts to the military. And we need your help.

I mean, when Fox News and CNN are on—and I watch Fox, I will tell you—but CNN is a Georgia company and—I mean, we need you out there talking about the damage that sequestration is going to do to national security, to our economy, the military industrial complex.

Those people work. My people at Robins want to get up in the morning and go to work and have a job. They want to build an airplane.

So I would just ask that we are going to do everything we can to have your back, and we need you out there outlining the damage that can be done for us.

Secretary PANETTA. Congressman, thank you for those comments; and, obviously, I will continue to talk about the impact that sequester would have. And I agree with you. Just having the shadow of that out there is of tremendous concern to communities across the country, to industries across the country, and is something that we really have to try to get rid of.

But just to—bottom line here is we were handed a number for defense reductions. We stepped up to the plate. We met our obligations to try to do this in a way that would still preserve for us an effective force to deal with the threats. But you can't balance the budget on the backs of defense, either.

Mr. SCOTT. Absolutely.

Secretary PANETTA. You have got to look at every other area in the budget in order to deal with the deficits that we are confronting; and I just hope Congress ultimately makes the decision, along with the President, to do that.

Mr. SCOTT. And, Mr. Secretary that is the statement that we need to hear over and over and over from those of you at the DOD and our military leaders. You can't balance the military budget on the backs of the military.

Thank you so much.

The CHAIRMAN. Thank you for waiting to get your question out there.

Thank you very much, Mr. Secretary, General, Mr. Hale. We appreciate your being here, appreciate the work you are doing.

This hearing is now at an end.

[Whereupon, at 1:15 p.m., the committee was adjourned.]

A P P E N D I X

February 15, 2012

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

FEBRUARY 15, 2012

Statement of Hon. Howard P. "Buck" McKeon

Chairman, House Committee on Armed Services

Hearing on

Fiscal Year 2013 National Defense Authorization

Budget Request from the Department of Defense

February 15, 2012

Thank you for joining us today as we consider the President's fiscal year 2013 budget request for the Department of Defense.

To put this budget in context, it is critical to examine the strategy that has informed its submission. At the outset, I want our witnesses to know that I appreciate the hard work that went into the development of the strategy. It is no small effort to completely revise a strategy one year after the submission of the Quadrennial Defense Review and less than 3 months after the submission of a budget request.

However, I do have serious concerns about the trajectory that the new strategy puts us on. Although this strategy is framed as making the military more "nimble" and "flexible," it is not clear how slashing the armed forces by over 100,000 during a time of war, shedding force structure, and postponing modernization makes that so. The President must understand that the world has always had, and will always have a leader. As America steps back, someone else will step forward.

We have now heard multiple times that the strategy drove the budget—and not the other way around. I suppose this starts with the President's call to slash at least $400 billion from defense last April, in advance of any strategic review.

An honest and valid strategy for national defense can't be founded on the premise that we must do more with less, or even less with less. Rather you proceed from a clear articulation of the full scope of the threats you face and the commitments you have. You then resource a strategy required to defeat those threats decisively. One does not mask insufficient resources with a strategy founded on hope.

Furthermore, the President's new defense strategy "supports the national security imperative of deficit reduction through a lower level of defense spending." The Administration appears committed to ensuring the military is the only sector of the Federal Government to meaningfully contribute to deficit reduction. Simultaneously, the budget proposes additional spending by diverting "savings" from declining war funding to domestic infrastructure spending.

How can you "save" by not spending money that wasn't in the budget to begin with? This is a cynical gimmick that once more ensures our military—and only our military—is held responsible for what little deficit reduction this budget represents.

White House Chief of Staff Jack Lew said "the time for austerity is not today." Ask the 124,000 service members who will have to leave the military how they feel about that.

The President's budget is a clear articulation of his priorities. The President's budget asks the men and women in uniform who have given so much already to give that much more, so that the President might fund more domestic programs. The President claimed that the budget would rise every year, but ignores the fact that this request is $46 billion less than what he said he needed last year and more than $5 billion less than what was appropriated for fiscal year 2012. Furthermore, despite the new strategy's goal of pivoting to Asia, a theater where naval assets and airlift are decisive, the budget calls for retiring 9 ships, removes 16 more from the new construction plan, and cuts our airlift fleet by hundreds.

This isn't the only place where the President's public statements and missions seem to diverge. We cannot neglect the war. The President was committed to a counterinsurgency strategy in 2009, yet inexplicably—and certainly not based on the advice of his commanders—announced our withdrawal date and to pull out the surge forces before the end of the next fighting season. Mr. Secretary and Chairman Dempsey, before the President makes another announcement about troop withdrawals, I implore you to heed our commanders' advice. We are seeing success. Let's not make a decision to pull some of the remaining 68,000 troops, before we see what happens this fighting season. Let's wait to reassess any more force-level decisions until the end of the year.

Statement of Hon. Adam Smith

Ranking Member, House Committee on Armed Services

Hearing on

Fiscal Year 2013 National Defense Authorization

Budget Request from the Department of Defense

February 15, 2012

Mr. Chairman, thank you for holding this hearing. I would like to thank our witnesses, the Secretary of Defense, Leon Panetta, and the Chairman of the Joint Chiefs of Staff, General Martin Dempsey, for appearing here today. Both of them have long and distinguished careers on behalf of our Nation.

Earlier this year, the President released the findings of a strategic review, which clearly articulated the global threat environment, and presented a broad strategy to address those threats moving forward. The budget released earlier this week supports that strategy by ensuring that our military has the tools and resources necessary to deter, confront, and defeat threats wherever they may emerge. This is the right way to develop a defense budget—generate a coherent strategy, and then provide resources to fund that strategy.

I have consistently said that we can rationally evaluate our national security strategy, our defense expenditures, and the current set of missions we ask the military to undertake and come up with a strategy that enhances national security by spending taxpayer dollars more wisely and effectively. I believe the fiscal year 2013 defense budget meets that goal.

This budget is also fully consistent with the funding levels set by the Budget Control Act passed by Congress. Although I did not support this act, many members of the House Armed Services Committee did, Congress passed it, and the Department of Defense has submitted a budget that complies with the congressionally mandated funding levels.

Over the last few years, our military has put together a significant string of foreign policy successes, including the death of bin Laden, Anwar al-Awlaki, the elimination of much of Al Qaeda's leadership, the end of the war in Iraq, and supporting the uprising in Libya. The budget lays out a strategy that will enable the United States to build on those successes and confront the threats of today as well as in the future.

AS PREPARED – EMBARGOED UNTIL HEARING

SECRETARY OF DEFENSE LEON E. PANETTA
DEFENSE BUDGET REQUEST – WRITTEN SUBMITTED STATEMENT
HOUSE ARMED SERVICES COMMITTEE
WEDNESDAY, FEBRUARY 15, 2012

Chairman McKeon, Ranking Member Smith, members of the committee. I appreciate the opportunity to appear before you to discuss the President's budget request for Fiscal Year 2013 (FY13).

Let me begin by first thanking you for your support for our service members and our military families. These brave men and women, along with the Department's civilian professionals who support them, have done everything asked of them and more during more than a decade of war.

Defense Strategy Review

The FY13 budget request for the Department of Defense was the product of an intensive strategy review conducted by the senior military and civilian leaders of the Department with the advice and guidance of President Obama. The total request represents a $614 billion investment in national defense – including a $525.4 billion request for the Department's base budget, and $88.5 billion in spending to support our troops in combat.

The reasons for this review are clear: first, the United States is at a strategic turning point after a decade of war and substantial growth in defense budgets. Second, with the nation confronting very large debt and deficits, Congress passed the Budget Control Act of 2011, imposing limits that led to a reduction in the defense budget of $487 billion over the next decade.

Deficit reduction is a critical national security priority in and of itself. We at the Department decided that this crisis presented us with the opportunity to establish a new strategy for the force of the future, and that strategy has guided us in making the budget choices contained in the President's budget. We are at an important turning point that would have required us to make a strategic shift under any circumstances. The U.S. military's mission in Iraq has ended. We still have a tough fight on our hands in Afghanistan, but over the past year we have begun a transition to Afghan-led responsibility for security– and we are on track to complete that transition by the end of 2014, in accordance with our Lisbon commitments. Last year, the NATO effort in Libya also concluded with the fall of Qadhafi. And successful counterterrorism efforts have significantly weakened al-Qaeda and decimated its leadership.

But despite what we have been able to achieve, unlike past drawdowns when threats have receded, the United States still faces a complex array of security challenges across the globe: We are still a nation at war in Afghanistan; we still face threats from terrorism; there is dangerous proliferation of lethal weapons and materials; the behavior of Iran and North Korea threaten global stability; there is continuing turmoil and unrest in the Middle East; rising powers in Asia are testing international relationships; and there are growing concerns about cyber intrusions and attacks. Our challenge is to meet these threats and at the same time, meet our responsibility to fiscal discipline. This is not an easy task.

To build the force we need for the future, we developed new strategic guidance that consists of these five key elements:

- First, the military will be smaller and leaner, but it will be agile, flexible, ready and technologically advanced.
- Second, we will rebalance our global posture and presence to emphasize Asia-Pacific and the Middle East.
- Third, we will build innovative partnerships and strengthen key alliances and partnerships elsewhere in the world.
- Fourth, we will ensure that we can quickly confront and defeat aggression from any adversary – anytime, anywhere.
- Fifth, we will protect and prioritize key investments in technology and new capabilities, as well as our capacity to grow, adapt and mobilize as needed.

Strategy to FY13 Budget

We developed this new strategic guidance before any final budget decisions were made to ensure that the budget choices reflected the new defense strategy.

While shaping this strategy, we did not want to repeat the mistakes of the past. Our goals were: to maintain the strongest military in the world, to not "hollow out" the force, to take a balanced approach to budget cuts, to put everything on the table, and to not break faith with troops and their families. Throughout the review we made sure this was an inclusive process, and General Dempsey and I worked closely with the leadership of the Services and Combatant Commanders, and consulted regularly with members of Congress.

As a result of these efforts, the Department is strongly united behind the recommendations we are presenting today. Consistent with Title I of the Budget Control Act, this budget reflects $259 billion in savings over the next five years and $487 billion over the next ten years compared to the budget plan submitted to Congress last year. Under the five year budget plan, the base budget will rise from $525 billion in FY13 to $567 billion in FY17. When reduced war-related funding requirements are included, we expect total U.S. defense spending to drop by more than 20 percent over the next few years from its peak in 2010, after accounting for inflation.

This is a balanced and complete package that follows the key elements of the strategy and adheres to the guidelines we established. The savings come from three broad areas:

- First, efficiencies – we redoubled efforts to make more disciplined use of taxpayer dollars, yielding about one quarter of the target savings;
- Second, force structure and procurement adjustments – we made strategy-driven changes in force structure and procurement programs, achieving roughly half of the savings;
- Finally, compensation – we made modest but important adjustments in personnel costs to achieve some necessary cost savings in this area, which represents one third of the budget but accounted for a little more than 10 percent of the total reduction.

Changes in economic assumptions and other shifts account for the remainder of the $259 billion in savings. Let me walk through these three areas, beginning with our efforts to discipline our use of defense dollars.

More Disciplined Use of Defense Dollars

If we are to tighten up the force, I felt we have to begin by tightening up the operations of the Department. This budget continues efforts to reduce excess overhead, eliminate waste, and improve business practices across the department. The more savings realized in this area, the less spending reductions required for modernization programs, force structure, and military compensation.

As you know, the FY12 budget proposed more than $150 billion in efficiencies between FY 2012 and FY 2016, and we continue to implement those changes. This budget identifies about $60 billion in additional savings over five years. Across the military services, new efficiency efforts over the next five years include:

- The Army proposes to save $18.6 billion through measures such as streamlining support functions, consolidating IT enterprise services, and rephasing military construction projects;
- The Navy proposes to save $5.7 billion by implementing strategic sourcing of commodities and services, consolidating inventory, and other measures;
- The Air Force proposes to save $6.6 billion by reducing service support contractors and rephasing military construction projects;

Other proposed DoD-wide efficiency savings over the next five years total $30.1 billion, including reductions in expenses in the Office of the Secretary of Defense and the Defense Agencies.

Additionally, we are continuing the initiative to improve the Department's buying power by seeking greater efficiency and productivity in the acquisition of goods and services. We are

strengthening acquisition support to the warfighter, executing acquisitions more efficiently, preserving the industrial base, and strengthening the acquisition workforce. This budget assumes that these policies produce savings of $5.3 billion over the next five years.

In terms of military infrastructure, we will need to ensure that our current basing and infrastructure requirements do not divert resources from badly needed capabilities.

As we reduce force structure, we have a responsibility to provide the most cost efficient support for the force. For that reason, the President will request that Congress authorize the Base Realignment and Closure process for 2013 and 2015. As someone who went through BRAC, I realize how controversial this process can be for members and constituencies. And yet, it is the only effective way to achieve infrastructure savings.

Achieving audit readiness is another key initiative that will help the Department achieve greater discipline in its use of defense dollars. The Department needs auditable financial statements to comply with the law, to strengthen its own internal processes, and to reassure the public that it continues to be a good steward of federal funds. In October 2011, I directed the Department to emphasize this initiative and accelerate efforts to achieve fully auditable financial statements. Among other specific goals, I directed the Department achieve audit readiness of the Statement of Budgetary Resources for general funds by the end of calendar year 2014, and to meet the legal requirements to achieve full audit readiness for all Defense Department financial statements by 2017. We are also implementing a course-based certification program for defense financial managers in order to improve training in audit readiness and other areas, with pilot programs beginning this year. We now have a plan in place to meet these deadlines, including specific goals, financial resources, and a governance structure.

These are all critically important efforts to ensure the Department operates in the most efficient manner possible. Together, these initiatives will help ensure the Department can preserve funding for the force structure and modernization needed to support the missions of our force.

Strategy-driven Changes in Force Structure and Programs

It is obvious that we cannot achieve the overall savings targets through efficiencies alone. Budget reductions of this magnitude require significant adjustments to force structure and investments, but the choices we made reflected five key elements of the defense strategic guidance and vision for the military.

1. *Build a force that is smaller and leaner, but agile, flexible, ready and technologically advanced*

We knew that coming out of the wars, the military would be smaller. Our approach to accommodating these reductions, however, has been to take this as an opportunity – as tough as it is – to fashion the agile and flexible military we need for the future. That highly networked and capable joint force consists of:

- an adaptable and battle-tested Army that is our nation's force for decisive action, capable of defeating any adversary on land;
- a Navy that maintains forward presence and is able to penetrate enemy defenses;
- a Marine Corps that is a "middleweight" expeditionary force with reinvigorated amphibious capabilities
- an Air Force that dominates air and space and provides rapid mobility, global strike and persistent ISR, and;
- National Guard and Reserve components that continue to be ready and prepared for operations when needed.

To ensure an agile force, we made a conscious choice not to maintain more force structure than we could afford to properly train and equip. We are implementing force structure reductions consistent with the new strategic guidance for a total savings of about $50 billion over the next five years.

These adjustments include:

- Gradually resizing the active Army to 490,000, eliminating a minimum of eight BCTs and developing a plan to update the Army's brigade structure;
- Gradually resizing the active Marine Corps to about 182,100, eliminating six combat battalions and four Tactical Air squadrons;
- Reducing and streamlining the Air Force's airlift fleet by retiring all 27 C-5As, 65 of the oldest C-130s and divesting all 38 C-27s. After retirements, the Air Force will maintain a fleet of 275 strategic airlifters, and 318 C-130s – a number that we have determined is sufficient to meet the airlift requirements of the new strategy, including the Air Force's commitment for direct support of the Army;
- Eliminating seven Air Force Tactical Air squadrons – including five A-10 squadrons, one F-16 squadron, and one F-15 training squadron. The Air Force will retain 54 combat-coded fighter squadrons, maintaining the capabilities and capacity needed to meet the new strategic guidance;
- Retiring seven lower priority Navy cruisers that have not been upgraded with ballistic missile defense capability or that would require significant repairs, as well as retiring two dock landing ships.

The strategy review recognized that a smaller, ready and agile force is preferable to a larger force that is poorly trained and ill-equipped. Therefore, we put a premium on retaining those capabilities that provide the most flexibility across a range of missions. We also emphasized readiness. For fiscal 2013, the Department is requesting $209 billion in the base budget for Operation and Maintenance, the budget category that funds training and equipment maintenance among other aspects of operations. That represents an increase of six percent compared to the enacted level in 2012, even though the overall base budget will decline by one percent. Striking the right balance between force structure and readiness is critical to our efforts to avoid a hollow force, and we will continue to focus on this area to ensure that we make the right choices.

2. *Rebalance global posture and presence to emphasize Asia-Pacific and the Middle East*

The strategic guidance made clear that we must protect capabilities needed to project power in Asia-Pacific and the Middle East. To this end, this budget:

- Maintains the current bomber fleet;
- Maintains the aircraft carrier fleet at a long-term level of 11 ships and 10 air wings;
- Maintains the big-deck amphibious fleet;
- Restores Army and Marine Corps force structure in the Pacific after the drawdown from Iraq and as we drawdown in Afghanistan, while maintaining persistent presence in the Middle East;

The budget also makes selected new investments to ensure we develop new capabilities needed to maintain our military's continued freedom of action in face of new challenges that could restrict our ability to project power in key territories and domains. Across the Services, this budget plan requests $1.8 billion for FY13, and a total of $3.9 billion over the next five years, for enhancements to radars, sensors, and electronic warfare capabilities needed to operate in these environments.

Other key power projection investments in FY13 include:

- $300 million to fund the next generation Air Force bomber (and a total of $6.3 billion over the next five years);
- $1.8 billion to develop the new Air Force tanker;
- $18.2 billion for the procurement of 10 new warships and associated equipment, including two Virginia-class submarines, two Aegis-class destroyers, four Littoral Combat Ships, one Joint High Speed Vessel, and one CVN-21-class aircraft carrier. We are also requesting $100 million to develop the capability to increase cruise missile capacity of future Virginia-class submarines;

- $2.2 billion in FY13 for the procurement of an additional 26 F/A-18E/F Super Hornet aircraft;
- $1.0 billion in FY13 for the procurement of 12 EA-18G Growler aircraft, the Navy's new electronic warfare platform that replaces the EA-6B.
- $38 million for design efforts to construct an Afloat Forward Staging Base planned for procurement in FY14. This base can provide mission support in areas where ground-based access is not available, such as counter-mine operations, Special Operations, and ISR.

3. *Build innovative partnerships and strengthen key alliances and partnerships*

The strategy makes clear that even though Asia-Pacific and the Middle East represent the areas of growing strategic priority, the United States will work to strengthen its key alliances, to build partnerships and to develop innovative ways to sustain U.S. presence elsewhere in the world.

To that end, this budget makes key investments in NATO and other partnership programs, including:

- $200 million in FY13 and nearly $900 million over the next five years in the NATO Alliance Ground Surveillance system. This system will enable the Alliance to perform persistent surveillance over wide areas in any weather or light condition.
- $9.7 billion in FY13, and $47.4 billion over the next five years, to develop and deploy missile defense capabilities that protect the U.S. homeland and strengthen regional missile defenses. The request includes the Phased Adaptive Approach that is being deployed first in Europe and is designed to protect NATO allies and forces from ballistic missile threats.
- $800 million for the Combatant Commanders exercise and engagement program. Jointly with the State Department, we will also begin using the new Global Security Contingency fund that was established at our request in the FY12 legislation.

The new strategy also envisions a series of organizational changes that will boost efforts to partner with other militaries. These include:

- Allocating a U.S.-based brigade to the NATO Response Force and rotating U.S.-based units to Europe for training and exercises;
- Aligning an Army BCT with each regional Combatant Command to foster regional expertise;
- Increasing opportunities for Special Operations Forces to advise and assist partners in other regions, using additional capacity available due to the gradual drawdown from the post-9/11 wars.

4. *Ensure that we can confront and defeat aggression from any adversary – anytime, anywhere*

The strategic guidance reaffirmed that the United States must have the capability to fight more than one conflict at the same time. Still, the strategic guidance recognizes that how we defeat the enemy may well vary across conflicts.

This budget invests in space, cyberspace, long range precision-strike and the continued growth of special operations forces to ensure that we can still confront and defeat multiple adversaries even with the force structure reductions outlined earlier. It also sustains the nuclear triad of bombers, missiles and submarines to ensure we continue to have a safe, reliable and effective nuclear deterrent.

Even with some adjustments to force structure, this budget sustains a military that is the strongest in the world, capable of quickly and decisively confronting aggression wherever and whenever necessary. After planned reductions, the FY17 joint force will consist of:

- An Army of more than one million active and reserve soldiers that remains flexible, agile, ready and lethal across the spectrum of conflict, with 18 Divisions,

approximately 65 Brigade Combat Teams, 21 Combat Aviation Brigades and associated enablers.

- A Naval battle force of 285 ships – the same size force that we have today –that will remain the most powerful and flexible naval force on earth, able to prevail in any combat situation, including the most stressing anti-access environments. Our maritime forces will include 11 carriers, 9 large deck amphibious ships (although we should build to 10 such ships in FY18), 82 guided missile cruisers and destroyers, and 50 nuclear powered attack submarines.
- A Marine Corps that remains the nation's expeditionary force in readiness, forward deployed and engaged, with 31 infantry battalions, 10 artillery battalions and 20 tactical air squadrons.
- An Air Force that will continue to ensure air dominance with 54 combat coded fighter squadrons and the current bomber fleet, with the Joint Strike Fighter in production and the next generation bomber in development. Our Air Force will also maintain a fleet of 275 strategic airlifters, 318 C-130s and a new aerial refueling tanker.

5. *Protect and prioritize key investments, and the capacity to grow, adapt and mobilize*

The force we are building will retain a decisive technological edge, leverage the lessons of recent conflicts and stay ahead of the most lethal and disruptive threats of the future.

To that end, the FY13 budget:

- Provides $11.9 billion for science and technology to preserve our ability to leap ahead, including $2.1 billion for basic research.
- Provides $10.4 billion (base and OCO) to sustain the continued growth in Special Operations Forces;
- Provides $3.8 billion for Unmanned Air Systems by funding trained personnel, infrastructure, and platforms to sustain 65 USAF MQ-1/9 combat air patrols with a surge capacity of 85 by FY16. We slowed the buy of the Reaper aircraft to allow us time to develop the personnel and training infrastructure necessary to make full use of these important aircraft. We also protected funding for the Army's unmanned air system Gray Eagle;
- Invests $3.4 billion in cyber activities, with several initiatives receiving increased funding relative to last year. The scale of cyber threats is increasing and we need to be prepared to defeat these threats, mitigate the potential damage, and provide the President with options to respond, if necessary. We are investing in full spectrum cyber operations capabilities to address the threats we see today and in the future. The Department is also pleased to see progress being made in Congress regarding cyber legislation and is supportive of the bipartisan legislation being introduced by Senators Lieberman, Collins and Rockefeller;
- Provides $1.5 billion to fund the Department's Chemical and Biological Defense program.

At the same time, the strategic guidance recognizes the need to prioritize and distinguish urgent modernization needs from those that can be delayed – particularly in light of schedule and cost problems. Therefore this budget identifies about $75 billion in savings over the FYDP resulting from canceled or restructured programs. Key modifications and associated savings over the FYDP include:

- $15.1 billion in savings from restructuring the Joint Strike Fighter by delaying aircraft purchases to allow more time for development and testing;
- $1.3 billion in savings from delaying development of the Army's Ground Combat Vehicle due to contracting difficulties;
- $2.2 billion in savings from curtailing the Joint Land Attack Cruise Missile Defense Elevated Netted Sensor System (JLENS) due to concerns about program cost and operational mobility;

- $4.3 billion in savings from delaying the next generation of ballistic missile submarines by two years for affordability and management reasons;
- $0.8 billion in savings from delaying selected Army aviation helicopter modernization for three to five years.

We will also terminate selected programs, including:

- The Block 30 version of Global Hawk, which has grown in cost to the point where it is no longer cost effective, resulting in savings of $2.5 billion;
- Upgrades to High Mobility Multipurpose Wheeled Vehicles (HMMWVs); we will focus our modernization resources on the Joint Light Tactical Vehicle, resulting in savings of $900 million; and
- The weather satellite program, because we can depend on existing satellites, resulting in savings of $2.3 billion;

We have also invested in a balanced portfolio of capabilities that will enable our force to remain agile, flexible and technologically advanced enough to meet any threat. We will ensure that we can mobilize, surge, and adapt our force to meet the requirements of an uncertain future. To that end, ground forces will retain the key enablers and know-how to conduct long-term stability operations, and the Army will retain more mid-grade officers and NCOs. These steps will ensure we have the structure and experienced leaders necessary should we need to re-grow the force quickly.

Another key element is to maintain a capable and ready National Guard and Reserve. The Reserve Component has demonstrated its readiness and importance over the past ten years of war, and we must ensure that it remains available, trained, and equipped to serve in an operational capacity when necessary. We will maintain key combat support capabilities and ensure that combat service support capabilities like civil affairs are maintained at a high readiness level. We will also leverage the operational experience and institute a progressive readiness model in the National Guard and Reserves in order to sustain increased readiness prior to mobilization.

In keeping with the emphasis on a highly capable reserve, this budget makes only relatively modest reductions in the ground-force reserve components. Over the next five years, the Army Reserve will be sustained at 205,000 personnel, the Army National Guard will marginally decrease from 358,200 to 353,200 personnel, and the Marine Corps Reserve will sustain an end-strength level of 39,600 personnel. The Navy Reserve will decrease from 66,200 to 57,100 personnel over the next five years. Over the same span, the Air Force Reserve will decrease from 71,400 to 69,500 personnel, and the Air National Guard will decrease from 106,700 to 101,200 personnel.

Another key part of preserving our ability to quickly adapt and mobilize is a strong and flexible industrial base. This budget recognizes that industry is our partner in the defense acquisition enterprise. A healthy industrial base means a profitable industrial base, but it also means a lean, efficient base that provides good value for the taxpayers' defense investments and increases in productivity over time.

Ensuring Quality of the All-Volunteer Force

Now to the most fundamental element of our strategy and our decision-making process: our people. This budget recognizes that they, far more than any weapons system or technology, are the great strength of our United States military. All told, the FY13 budget requests $135.1 billion for the pay and allowances of military personnel and $8.5 billion for family support programs vital to the well-being of service members and their families.

One of the guiding principles in our decision making process was that we must keep faith with our troops and their families. For that reason, we were determined to protect family assistance programs, and we were able to sustain these important investments in this budget and continue efforts to make programs more responsive to the needs of troops and their families. Yet in order to build the force needed to defend the country under existing budget constraints, the growth in costs of military pay and benefits must be put on a sustainable course. This is an area

of the budget that has grown by nearly 90 percent since 2001, or about 30 percent above inflation – while end strength has only grown by three percent.

This budget contains a roadmap to address the costs of military pay, health care, and retirement in ways that are fair, transparent, and consistent with our fundamental commitments to our people.

On military pay, there are no pay cuts. We have created sufficient room to allow for full pay raises in 2013 and 2014 that keep pace with increases in the private sector. That means for 2013, we propose a pay increase of 1.7 percent for service members. However, we will provide more limited pay raises beginning in 2015 – giving troops and their families fair notice and lead time before changes take effect. Let me be clear: nobody's pay is cut in this budget nor will anyone's pay be cut in the future years of this proposal.

This budget devotes $48.7 billion to health care costs – an amount that has more than doubled over the last decade. In order to continue to control the growth of these costs, we are recommending increases in health care fees, co-pays and deductibles to be phased in over four to five years. None of the fee proposals in the budget would apply to active duty service members, survivors of service members who died on active duty, or retirees who retired due to disability. Most of the changes will not affect the families of active-duty service members – there will be no increases in health care fees or deductibles for families of active duty service members. Those most affected will be retirees – with the greatest impact on working-age retirees under the age of 65 still likely to be employed in the civilian sector. Even with these changes, the costs borne by retirees will remain below levels in most comparable private sector plans – as they should be.

Proposed changes include:

- Further increasing enrollment fees for retirees under age 65 in the TRICARE Prime program, using a tiered approach based on retired pay that requires senior-grade retirees with higher retired pay to pay more and junior-grade retirees less;
- Establishing a new enrollment fee for the TRICARE Standard/Extra programs and increasing deductibles;
- Establishing a new enrollment fee for the TRICARE-for-Life program for retirees 65 and older, also using a tiered approach;
- Implementing additional increases in pharmacy co-pays in a manner that increases incentives for use of mail order and generic medicine;
- Indexing fees, deductibles, pharmacy co-pays, and catastrophic caps to reflect the growth in national health care costs.

We also feel that the fair way to address military retirement costs is to ask Congress to establish a commission with authority to conduct a comprehensive review of military retirement. But the President and the Department believe that the retirement benefits of those who currently serve should be protected by grandfathering their benefits. For those who serve today I will request there be no changes in retirement benefits.

Fully Supporting Deployed Warfighters

The costs of Overseas Contingency Operations (OCO) are funded separately from the base budget in a stand-alone FY13 request of $88.5 billion. That funding level represents a decrease of $26.6 billion from the FY12 enacted level.

This year's OCO request, which ensures that deployed troops have all the financial resources they need to conduct their challenging missions, primarily supports operations in Afghanistan but also requests relatively small sums for the Office of Security Cooperation in Iraq (OSC-I) and the repair or replacement of equipment redeploying from Iraq.

Our FY13 OCO request includes funding for added personnel pay and subsistence for deployed forces; communications; mobilizing Reserve Component units; transportation; supplies; deployment and redeployment of all combat and support forces; force sustainment; and sustainment and replenishment of war reserve stocks.

For FY13 we request $5.7 billion in funding for the Afghan National Security forces (ANSF). It is critically important that we maintain sufficient financial support to ANSF so that they can ultimately assume full security responsibility across Afghanistan.

Much tough fighting lies ahead in Afghanistan, but the gradually improving situation permits the remainder of the U.S. surge force to redeploy by the end of September 2012, leaving 68,000 U.S. troops in Afghanistan at that time. The FY13 OCO request assumes a continued level of about 68,000 troops in Afghanistan. While future changes in troop levels may be implemented during FY13, those decisions will be based on advice from field commanders about conditions on the ground.

In Iraq, OCO funding supports continued security assistance and cooperation with Iraqi Security Forces through the OSC-I in the areas of common interest, including counterterrorism, counter-proliferation, maritime security, and air defense. This funding is critical for the U.S. to strengthen its long-term partnership with Iraq. Additionally, to ensure that U.S. forces redeployed from Iraq are ready and equipped for future operations, this funding replenishes equipment and stocks for these forces.

A Balanced Package

Members of the committee: putting together this balanced package has been a difficult undertaking and, at the same time, an important opportunity to shape the force we need for the future. I believe we have developed a complete package, aligned to achieve our strategic aims. We have achieved buy-in from the Service Secretaries, the Service Chiefs, Combatant Commanders, and the senior enlisted leaders of the Department.

Our strategy review preceded and guided the budgeting process. This strategy-first approach enabled the Department to balance strategic priorities, place individual budget decisions within a broader strategic context, and ultimately, to guide us in making some tough choices.

As a result, the FY13 request is a carefully balanced package that keeps America safe and sustains U.S. leadership abroad. As you take a look at the individual parts of this plan, I encourage you to do what the Department has done: to bear in mind the strategic trade-offs inherent in any particular budget decision, and the need to balance competing strategic objectives in a resource-constrained environment.

Each decision needs to be judged on the basis of the overall strategy that it supports, recognizing that unwinding any one piece puts our whole package in jeopardy. The bottom line is that I believe there is little room for modification to preserve the force and capabilities we believe are needed to protect the country and fulfill assigned missions.

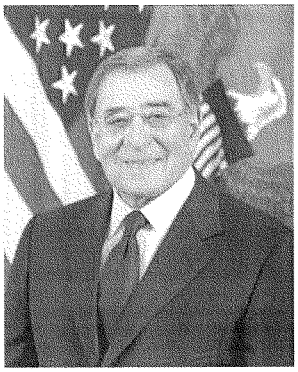
Ultimately that means we will need your support and partnership to implement this vision of the future military. I understand how tough these issues can be, and that this is the beginning and not the end of this process. Make no mistake: the savings we are proposing will impact all 50 states. But it was this Congress that mandated, on a bi-partisan basis, that we reduce the defense budget, and we need your partnership to do this in a manner that preserves the strongest military in the world. This will be a test of whether reducing the deficit is about talk or action.

My hope is that now that we see the sacrifice involved in reducing the defense budget by almost half a trillion dollars, Congress will be convinced of its important responsibility to make sure that we avoid sequestration. That would be a doubling of the cuts, another roughly $500 billion in additional cuts that would be required to take place through a meat-axe approach, and that we are convinced would hollow out the force and inflict severe damage on our national defense.

So the leadership of this department, both military and civilian, is united behind the strategy that we have presented, and this budget. I look forward to working closely with you in the months ahead to do what the American people expect of their leaders: be fiscally responsible in developing the force for the future – a force that can defend the country, a forced that supports our men and women in uniform, and a force that is, and always will be, the strongest military in the world. # # #

Leon E. Panetta

Secretary of Defense



Leon Edward Panetta was sworn in as the 23rd secretary of defense on July 1, 2011.

Before joining the Department of Defense, Mr. Panetta served as the director of the Central Intelligence Agency from February 2009 to June 2011. Mr. Panetta led the agency and managed human intelligence and open source collection programs on behalf of the intelligence community.

Secretary Panetta has dedicated much of his life to public service. Before joining CIA, he spent 10 years co-directing with his wife, Sylvia, the Leon & Sylvia Panetta Institute for Public Policy, based at California State University, Monterey Bay. The Institute is a nonpartisan, not-for-profit center that seeks to instill in young men and women the virtues and values of public service. In March 2006, he was chosen as a member of the Iraq Study Group, a bipartisan committee established at the urging of Congress to conduct an independent assessment of the war in Iraq.

From July 1994 to January 1997, Mr. Panetta served as chief of staff to President Bill Clinton. Prior to that, he was director of the Office of Management and Budget, a position that built on his years of work on the House Budget Committee. Mr. Panetta represented California's 16th (now 17th) Congressional District from 1977 to 1993, rising to House Budget Committee chairman during his final four years in Congress.

Early in his career, Mr. Panetta served as a legislative assistant to Sen. Thomas H. Kuchel of California; special assistant to the Secretary of Health, Education and Welfare; director of the U.S. Office for Civil Rights; and executive assistant to Mayor John Lindsay of New York. He also spent five years in private law practice.

He served as an Army intelligence officer from 1964 to 1966 and received the Army Commendation Medal.

Mr. Panetta holds a Bachelor of Arts degree in political science and a law degree, both from Santa Clara University. He was born on June 28, 1938 in Monterey, where his Italian immigrant parents operated a restaurant. Later, they purchased a farm in Carmel Valley, a place Secretary and Mrs. Panetta continue to call home. The Panettas have three grown sons and six grandchildren.

STATEMENT OF

GENERAL MARTIN E. DEMPSEY, USA

CHAIRMAN

JOINT CHIEFS OF STAFF

BEFORE THE HOUSE ARMED SERVICES COMMITTEE

FY13 DEPARTMENT OF DEFENSE BUDGET

FEBRUARY 15, 2012

Chairman McKeon, Representative Smith, and distinguished members of the Committee, it is my privilege to update you on the state of the United States' Armed Forces and to comment on the President's budget proposal for fiscal year 2013. The context for this year's posture testimony is unique. Our military has transitioned many of our major operations, and we have new strategic guidance that sets priorities. We are also facing real fiscal constraints and an increasingly competitive security environment. The President's proposed fiscal year 2013 defense budget accounts for these realities. It provides a responsible investment in our nation's current and future security.

Global Military Operations

Today our Armed Forces stand strong. We are proud of the performance and accomplishments of our men and women in uniform over the past year. They have carried out far-ranging missions with much success. They have defended our homeland, deterred aggression, and kept our Nation immune from coercion. And despite a decade of continuous combat operations, our troops and their families remain resilient.

U.S. Forces-Iraq recently completed its mission. More than twenty years of military operations in and over Iraq came to conclusion. The security of Iraq is now the responsibility of the Iraqi people, leaders, and security forces. We have transitioned to a normal military-to-military relationship. Diplomats and civilian advisors are now the face of the United States in Baghdad. To be sure, Iraq still faces challenges to the country's future. But as we look to that future, we will continue to build ties across Iraq to help the people and institutions capitalize on the freedom and opportunity we helped secure.

In Afghanistan, we are seeing the benefits of the surge in combat forces begun in early 2010. The security situation is improving. By nearly every measure, violence has declined. The Taliban are less capable, physically and

psychologically, than they were two years ago. Afghan and ISAF forces have maintained persistent pressure on insurgent groups and have wrested the initiative and momentum from them in much of the country. But these groups remain determined, and they continue to threaten the population and the government. Combat will continue.

Key to long-term stability in Afghanistan is the development of the Afghan National Security Forces (ANSF). In 2011, the Afghan National Army grew by 18 percent. The Afghan National Police grew by 20 percent. These forces, combined with the nascent but ever more capable Afghan Local Police, are steadily assuming responsibility for Afghan security. The process of transition began in July, and today, after nearly completing the second of five "tranches" of transition, Afghan security forces are now responsible for the day-to-day security of almost half of Afghanistan's population. Developing the ANSF, degrading insurgent capabilities, and turning over responsibilities have allowed us to begin a measured draw down of our forces in Afghanistan. We have withdrawn over 10,000 of the surge troops and will withdraw the remaining 23,000 by the end of this summer. By that time, we expect the ANSF to achieve their initial operating capability and to be responsible for securing nearly two-thirds of the Afghan population. They are on track to meet the goal of assuming full lead for security by the end of 2014.

Sustaining progress in Afghanistan requires dealing with some significant challenges. The ANSF and other national and local government institutions require further development. Corruption remains pervasive and continues to undermine the capacity and legitimacy of government at all levels. Insurgent sanctuaries in Pakistan remain largely uncontested. And ultimately, much more work remains to achieve the political solutions necessary to end the fighting in Afghanistan.

Our military has been vigilant and active in other areas and with other missions to keep America and our partners safe. We decapitated al-Qa'ida and

pushed this terrorist network decidedly closer to strategic defeat through the successful special forces operation targeting Osama Bin Laden. We supported NATO in its UN mission to protect civilians in Libya allowing them to end Muammar Qaddafi's tyrannical rule. We responded quickly to the devastating earthquakes and tsunami that struck Japan, saving lives and acting on our commitment to this key ally. We fended off cyber intrusions against our military's computer networks and systems. And we helped counter aggression and provocation from Iran and North Korea.

A Time of Transition

While our military continues to capably and faithfully perform this wide array of missions, we are currently in the midst of several major transitions. Any one of them alone would be difficult. Taken together, all three will test our people and our leadership at every level.

First, we are transitioning from a war-time footing to a readiness footing. With the end of our operations in Iraq and Libya and the ongoing transition of security responsibilities in Afghanistan, our troops are steadily returning home. From a peak of more than 200,000 troops deployed to combat two years ago, we have fewer than 90,000 today. This shift cannot lead us to lose focus on on-going combat operations. But, it does mean we must give attention to restoring our readiness for full spectrum operations. We need to reset and refit, and in many cases replace, our war-torn equipment. We need to modernize systems intentionally passed over for periodic upgrading during the last decade. We must retrain our personnel on skills used less often over the last decade. And we will have to do all of this in the context of a security environment that is different than the one we faced ten years ago. We cannot simply return to the old way of doing things, and we cannot forget the lessons we have learned. As described in the Department's recently released strategic guidance, we should adjust our missions, our posture, and our organizational structure in order to adapt to ever evolving challenges and threats.

Second, our military is transitioning to an era of more constrained resources. The days of growing budgets are gone, and as an institution we must become more efficient and transparent. We must carefully and deliberately evaluate trade-offs in force structure, acquisition, and compensation. We must make the hard choices, focus on our priorities, and overcome bureaucratic and parochial tendencies. In sum, we must recommit ourselves to being judicious stewards of the Nation's resources.

Third, tens of thousands of our veterans—and their families—are facing the transition to civilian life. Many enlistments are coming to their normal conclusion, but we are also becoming a leaner force. As we do this, we must help our veterans find education opportunities, meaningful employment, and first-class health care. We must pay particular attention to those bearing the deepest wounds of war, including the unseen wounds. We must help those who have given so much cope with—and where possible, avoid—significant long-term challenges such as substance abuse, divorce, depression, domestic violence, and homelessness. Addressing these issues is not the exclusive responsibility of the Services or veterans organizations. How we respond, as a military community and as a Nation, conveys our commitment to our veterans and their families. It will also directly affect our ability to recruit and retain our Nation's best in the future.

I have outlined several priorities for the Joint Force to help us anticipate and navigate the challenges these transitions present. We will maintain focus on achieving our national objectives in our current conflicts. We will begin creating the military of our future—the Joint Force of 2020. We will also confront what being in the Profession of Arms means in the aftermath of war. And above all else, we will keep faith with our Military Family. In doing all these things, we will provide an effective defense for the country and strengthen the military's covenant of trust with the American people.

A Responsible Investment

The President's Fiscal Year 2013 Department of Defense base budget of $525 billion and overseas contingency operations (OCO) budget of $88 billion represent a responsible investment in our Nation's security. The decisions underlying them flow from the strategic guidance the Department of Defense issued last month. This guidance set priorities for assessing our programs, force structure, and spending in the context of a persistently dangerous and increasingly competitive security environment. With those priorities in mind, the budget proposal strikes an appropriate and necessary balance between succeeding in today's conflicts and preparing for tomorrow's challenges. It accounts for real risks and real fiscal constraints, marrying versatility with affordability.

The tradeoffs were complex, and the choices were tough. They will produce $259 billion in savings over the next five years and a total of $487 billion over the next ten years. They will not lead to a military in decline. Rather, this budget will maintain our military's decisive edge and help sustain America's global leadership. It will preserve our ability to protect our vital national interests and to execute our most important missions. Moreover, it will keep faith with the true source of our military's strength—our people.

The merits of this budget should be viewed in the context of an evolving global security environment and a longer term plan for the Joint Force. Coming on the heels of a decade of war, this budget begins the process of rebalancing our force structure and our modernization efforts and aligns them with our strategy. Essentially, we are developing today the Joint Force the Nation will need in 2020, and our plans to build this force will unfold over the course of several budget cycles. This budget is the first step—a down payment. If we fail to step off properly, our recovery will be difficult, and our ability to provide the Nation with the broad and decisive military options will diminish.

It is worth addressing head-on some of the major changes we are planning as we adapt to changing global opportunities and challenges. And just as this budget must be viewed in the context of a broader plan, these changes must be viewed in the context of our evolving force. They represent a comprehensive, carefully devised package of decisions that strikes a fine balance. They are not, and cannot be viewed as, individual, isolated measures. In all cases, needed capabilities are preserved or, when necessary, generated, through one or several programs.

This budget will make critical investments in our future force. Certain specialized capabilities, once on the margins, will move to the forefront. Networked special operations, cyber, and Intelligence, Surveillance, and Reconnaissance will become increasingly central. The results will be a Joint Force that is global and networked, that is versatile and innovative, and that is ably led and always ready. This force will be prepared to secure global access and to respond to global contingencies. We will be a military that is able to do more than one thing at a time—to win any conflict, anywhere.

Particular attention will be placed on our anti-access/area-denial capabilities. The proliferation of technology threatens our unfettered access to the global commons—access that is fundamental to global commerce and security. As we rebalance our global posture to emphasize the Asia-Pacific region and the Middle East, we are adjusting our operating constructs and the systems we employ. This includes divesting some outdated ships, planes, and equipment as well as investing in new programs. We will also commit to our partnerships and to helping develop our partners' security capabilities.

Similarly, this force will place added focus on our military's cyber defense capabilities. The threats to the average American's day-to-day life and our military capabilities that emanate from cyber space have evolved faster than many could have imagined. We must adapt to these threats with similar adroitness and capacity. This budget allows for us to expand many of our

nascent cyber capabilities and to better protect our defense networks. Similarly, bipartisan cyber legislation being introduced in Congress is a good first step in developing protection for our Nation's critical infrastructure. With much work to be done, we look forward to working with agencies across the government and with our allies and partners to confront this broad range of emerging threats.

While some additional capabilities for our Joint Force will be needed, others will not. The Joint Force of the future will be leaner than today's. We will no longer be sized for large scale, prolonged stability operations. As a result, we expect to draw down the Army from 562,000 to 490,000 by the end of fiscal year 2017, and the Marine Corps from over 202,100 to 182,100 by the end of fiscal year 2016. Some of this reduction was planned several years ago when Congress authorized temporary end strength increases to support our operations in Iraq and Afghanistan.

But in making ourselves leaner, we will not make the mistakes of previous draw downs. We will not retain organizational structures that lack the people, training, and equipment necessary to perform the tasks we expect from them. We will be realistic about the organizations we keep, while also maintaining our ability to reconstitute and mobilize forces. We will still be able to respond to any large scale mobilization against us. To do this, the Joint Force will retain capacity in our reserve components and our industrial base should they be required to surge. We will maintain the Army Reserve end-strength at 205,000 and reduce the Army National Guard by only 5,000 down to 353,200. The Marine Corps reserves will be retain their current strength.

Another major concern among our troops, their families, retirees, and with the American public is military compensation and benefits. I want to make it clear that cuts in spending will not fall on the shoulders of our troops. There are no proposed freezes or reductions in pay. There is no change to the high quality health care our active duty members and medically retired

Wounded Warriors receive. But we cannot ignore some hard realities. Pay and benefits are now roughly one third of defense spending. Pay will need to grow more slowly in the future. We are also proposing a commission to review of military retirement. And to control the growth of healthcare costs, we are also recommending changes to TRICARE. These adjustments include modest, new or phased-in increases in health care fees, co-pays, and deductibles largely for our retirees—but not our active duty service members. Even with these increases, TRICARE will remain one of the finest medical benefits in the country.

Overall, these proposed changes value both the demands of military service and our duty to be good stewards of the Nation's fiscal resources. They will sustain the recruitment, retention, and readiness of the talented personnel we need. Most importantly, they will sustain our enduring commitment to our troops and their families—we must never break faith with them. I want to note, however, that keeping faith with our service men and women is not just about pay and benefits. It is also about ensuring we remain the best trained, best equipped, and best led force on the planet.

The last, and perhaps most critical issue, is risk. This budget and the strategy it supports allow us to apply decisive force simultaneously across a range of missions and activities around the globe. They mitigate many risks, but they accept some as well, as all strategies must. The primary risks lie not in what we can do, but in how much we can do and how fast we can do it. The risks are in time and capacity. We have fully considered these risks, and I am convinced we can properly manage them by ensuring we keep the force in balance, investing in new capabilities, and preserving a strong reserve component. We can also compensate through other means, such as effective diplomacy and strong partnerships. I believe that these risks are acceptable and that we will face greater risk if we do not change from our previous approaches.

Conclusion

In the upcoming year, our Armed Forces will build on the past year's achievements, adapt to emergent challenges, seize new opportunities, and continue to provide for our common defense. We will continue to face threats to our security, whether from aggressive states or violent terrorist organizations. But our military will be ready for them, and our response will be a source of pride for the American people. In all of our efforts, we will aim to maintain strength of character and professionalism—at the individual and institutional level—that is beyond reproach.

As we embark on this critical new course, we will need Congress' support to help us build the Joint Force the Nation needs and to strengthen our relationship with the American people. As I stated before, this budget and the choices that underlie it should be understood in the context of the comprehensive, carefully balanced, multi-year plan they support. These choices were tough. Some decisions will be controversial. But they call for an investment that allows our force to take the steps necessary to ensure our Nation's defense for years to come. We ask Congress to support this budget and, more importantly, to avoid the deep and indiscriminant cuts that sequestration would impose.

I thank this Committee, and the entire Congress, for all you have done to support our men and women under arms and their families. Your resolute attention to their needs and to our security has been both invaluable and greatly appreciated.

General Martin E. Dempsey
Chairman, Joint Chiefs of Staff

General Martin E. Dempsey serves as the 18th Chairman of the Joint Chiefs of Staff. In this capacity, he serves as the principal military adviser to the President, the Secretary of Defense and the National Security Council. By law, he is the nation's highest-ranking military officer. Prior to becoming Chairman, the general served as the Army's 37th Chief of Staff.

Past assignments have taken him and his family across the globe during both peace and war from Platoon Leader to Combatant Commander. He is a 1974 graduate of the United States Military Academy and a career armor officer.

As a company grade officer, he served with the 2nd Cavalry in United States Army Europe and with the 10th Cavalry at Fort Carson. Following troop command he earned his Masters of Arts in English from Duke University and was assigned to the English Department at West Point. In 1991, GEN Dempsey deployed with the Third Armored Division in support of OPERATION DESERT STORM. Following DESERT STORM, he commanded 4th Battalion 67th Armor (Bandits) in Germany for two years and then departed to become Armor Branch Chief in US Army Personnel Command. From 1996-1998 he served as the 67th Colonel of the Third Armored Cavalry Regiment. Following this assignment as the Army's "senior scout" he served on the Joint Staff as an Assistant Deputy Director in J-5 and as Special Assistant to the Chairman of the Joint Chiefs of Staff. From September 2001 to June 2003, General Dempsey served in the Kingdom of Saudi Arabia training and advising the Saudi Arabian National Guard. In June of 2003, General Dempsey took command of the 1st Armored Division in Baghdad, Iraq. After 14 months in Iraq, General Dempsey redeployed the division to Germany and completed his command tour in July of 2005. He then returned to Iraq for two years in August of 2005 to train and equip the Iraqi Security Forces as Commanding General of MNSTC-I. From August 2007 through October 2008, GEN Dempsey served as the Deputy Commander and then Acting Commander of U.S. Central Command. Before becoming Chief of Staff of the Army, he commanded US Army Training and Doctrine Command from December 2008-March 2011.

General Dempsey's awards and decorations include the Defense Distinguished Service Medal with Oak Leaf Cluster, the Distinguished Service Medal with three Oak Leaf Clusters, the Defense Superior Service Medal, the Legion of Merit with two Oak Leaf Clusters, the Bronze Star with "V" Device and Oak Leaf Cluster, the Combat Action Badge, and the Parachutist Badge. In addition to his Masters' Degree in English, he holds Masters' Degrees in Military Art and in National Security Studies.

General Dempsey and his high school sweetheart Deanie have three children: Chris, Megan, and Caitlin. Each has served in the United States Army. Chris remains on active duty. They have six wonderful grandchildren: Kayla, Mackenna and Finley by Chris and daughter-in-law Julie, Luke by Caitlin and son-in-law Shane, and Alexander and Hunter by Megan and son-in-law Kory. Caitlin and Shane are expecting their second child this spring.

(Current as of Jan 2012)

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U.S. House of Representatives

Washington, DC 20515–6035

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ROBERT L. SIMMONS, II, STAFF DIRECTOR

September 13, 2011

The Honorable Leon Panetta
Secretary of Defense
1000 Defense Pentagon
Washington, DC 20301-1000

Dear Secretary Panetta:

From your time in Congress, we know that you appreciate the importance of the legislative branch's oversight responsibilities. It is because of our shared experience in this regard that we write to you today to ask for your assistance in ensuring there is vital transparency as the Administration embarks on its review of NSPD-14 and NSPD-28, the current Presidential guidance for the Nation's nuclear deterrence and employment strategies and the Nation's nuclear command and control requirements.

As you may know, a precedent exists, which historical records will demonstrate, that provides for more fully-informed Congressional oversight. In the early 1990s, then-House Armed Services Committee (HASC) Chairman Aspin, then-Senate Armed Services Committee (SASC) Chairman Nunn, then-Secretary of Defense Cheney, and then-Chairman of the Joint Chiefs of Staff General Powell agreed to processes and procedures intended to ensure thorough and detailed Congressional oversight of U.S. nuclear weapons policy, nuclear war plans, and related budgetary, programmatic, and operational matters. Because of the highly sensitive nature of the information provided under this arrangement, provision was made for only two HASC staffers and two SASC staffers to be read in. Those staffers were then in a position to brief certain members of the respective committees.

We see no good reason not to restart this process as the Administration begins its new review, the so-called mini-Nuclear Posture Review (NPR) and we ask for your prompt assistance in restarting this thorough and detailed cooperation to aid congressional oversight. We are concerned that pursuant to present policy from the Office of the Secretary of Defense, Congress is afforded virtually no information regarding the Nation's nuclear weapons deterrence or employment strategies. Likewise, we are concerned that there are serious issues in the Nation's nuclear command and control system that only greater executive-legislative cooperation can resolve.

We encourage you to direct the civilian and military staff of the Department to restart the Aspin-Nunn-Cheney-Powell framework and to promptly work with staff of the House and

Senate Armed Services Committees, prior to the completion of the 90 day review (i.e., the mini-NPR). Your personal consideration of this request may enable Congress and the executive branch to resolve cooperatively their respective concerns about section 1056 of H.R. 1540, the National Defense Authorization Act for Fiscal Year 2012.

We firmly believe such cooperation from the Department of Defense is vital to ensure that Congress can do its job. If your staff have any questions, they may contact Tim Morrison of the House Armed Services Committee staff.

Sincerely,

Howard P. "Buck" McKeon
Chairman
House Armed Services Committee

Michael R. Turner
Chairman
Subcommittee on Strategic Forces

MRT:tm

CC: The Honorable Adam Smith, Member of Congress
The Honorable Loretta Sanchez, Member of Congress
The Honorable Carl Levin, Senator
The Honorable John McCain, Senator
General C. Robert Kehler, Commander, U.S. Strategic Command
Admiral Mike Mullen, Chairman, Joint Chiefs of Staff
Admiral James A. Winnefeld Jr., Vice Chairman, Joint Chiefs of Staff

SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000

NOV 2 2011

The Honorable Michael R. Turner
Chairman
Subcommittee on Strategic Forces
Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman,

Thank you for your letter of September 13, 2011. As you know, the Administration is conducting an ongoing analysis of nuclear planning and related issues. This analysis, called for in the 2010 Nuclear Posture Review, will provide an updated assessment of the requirements for nuclear deterrence and stability, and will inform future U.S. positions for nuclear arms control.

This Administration is committed to working with Congress and supporting effective Congressional oversight on nuclear policy and modernization issues. To this end, I invite you to participate in a set of classified briefings that I have directed my staff, working in conjunction with the Joint Staff and U.S. Strategic Command, to develop for the Chairmen and Ranking Members of the House and Senate Armed Services Committees and the Strategic Forces Subcommittees, and also for the relevant staff directors. These briefings will be scheduled to begin in late 2011. The provision of such information will be subject to strict safeguards given its extremely sensitive nature.

I am sending a similar letter to Chairmen McKeon, Levin, and Nelson.

Sincerely,

cc:
The Honorable Loretta Sanchez
Ranking Member

MEMORANDUM OF AGREEMENT
BETWEEN
THE DEPARTMENT OF DEFENSE
AND
THE DEPARTMENT OF ENERGY
CONCERNING
MODERNIZATION OF THE U.S. NUCLEAR INFRASTRUCTURE

I. Introduction

Consistent with the recommendations from the 2010 Nuclear Posture Review (NPR), the Secretaries of the Department of Defense (DoD) and the Department of Energy (DOE) agree that it is necessary to modernize the nuclear weapons infrastructure of the United States. This infrastructure is maintained by the National Nuclear Security Administration (NNSA) – an organization located within DOE. Modernization of the infrastructure is needed to ensure safe, secure, sustainable and cost-effective operations in support of scientific and manufacturing activities. It is also necessary to bolster key scientific, technical and manufacturing capabilities needed to ensure that the U.S. nuclear weapons stockpile remains safe and effective while avoiding the requirement for new nuclear tests. Finally, a strengthened stockpile management program is needed to address known technical problems and to help ensure support for ratification of the New Strategic Arms Reduction Treaty and Comprehensive Test Ban Treaty.

This Memorandum of Agreement (MOA) documents the program and budgeting commitments made by DOE and the DoD (collectively herein the "Parties") in connection with this initiative. The MOA also specifies annual reviews of the program to be carried out jointly by the two Departments under the auspices of the Nuclear Weapons Council (NWC).

II. Statutory Authority

1. DoD enters into this MOA under the authority of 10 U.S.C 113.

2. DOE enters into this MOA under the authority of section 646 of the Department of Energy Organization Act (Pub. L. 95-91), as amended; 42 U.S.C. § 7256.

III. Agreements

1. DoD agrees to work with the Office of Management and Budget to transfer to DOE $5.7 billion of budget authority in Fiscal Years 2011-15 for NNSA's nuclear weapons and Naval Reactors programs. This includes a transfer of $4.5 billion of budget authority to the Weapons Activities/Nuclear Security Enterprise appropriation, including $561 million in FY 11. This also includes transfer of an additional $145 million of budget authority to the Weapons Activities/Nuclear Security Enterprise appropriation for science, technology and engineering activities in the Enhanced Stockpile Stewardship program in FY 12-15 to match an identical DOE investment. If the transfer of budget authority is approved, the modernization activities identified in Attachment 1, which is attached to and constitutes an

integral part of this MOA, will be fully funded through 2015 within the base NNSA budget plus this transfer. Separate from nuclear weapons program activities, DoD intends to transfer an additional $1.1 billion of budget authority for FY 11-15 for Naval Reactors, including $80.6 million in FY 11. These transfers of budget authority are intended to be reflected in the President's Budget for FY 11-15. Attachment 1 details the transfers by year and program.

2. As noted in Attachment 1, DOE agrees to use this transferred budget authority to supplement NNSA funding in order to fully fund the following:

   - Complete the design and begin construction of the Chemistry and Metallurgy Research Facility Replacement (CMRR) nuclear facility (NF) at Los Alamos National Laboratory (LANL) – a facility that conducts plutonium research and development and provides analytical capabilities in support of pit surveillance and production. Plan and program to complete construction by 2020, and ramp up to full operations in 2022.
   - Increase pit production capacity and capability at the adjoining PF-4 facility (part of the main plutonium facility) at LANL to demonstrate pit reuse by 2017 and production by 2018-2020. Plan and program to ramp up to a minimum of 50-80 pits/year in 2022.
   - Complete the design and begin construction of the Uranium Processing Facility (UPF) at Y-12 to support production and surveillance of highly-enriched uranium components. Plan and program to complete construction by 2020; ramp up to a minimum of 50-80 Canned Sub Assemblies (CSAs) per year in 2022.
   - Complete the ongoing Life Extension Program (LEP) for the W76 warhead (to be completed by 2017) and LEP for the B61 bomb (first production unit [FPU] by 2017). Completion will free up capacity for other life extension programs.
   - Ensure that capabilities are available so that future warhead life extension programs will allow for increased margin and enhanced warhead safety, security and control.
   - Begin LEP study by FY 11 to explore the path forward for the W78 and the W88 systems (anticipated FPU following the completion of the B61 LEP, currently scheduled for 2020)—one option for which is a common ICBM/SLBM warhead.

3. DOE agrees to provide the resources necessary to fund at sufficient levels scientific, technical and engineering activities related to maintenance assessment and certification capabilities for the stockpile. All budget authority will be identified and designated for this use prior to submission of the President's Budget for FY 2011. Among other things, this budget authority will be prioritized to:

   - Restore sufficient funds for warhead surveillance and for the science and technology that support stockpile assessment and certification in the absence of nuclear testing.
   - Adequately fund directed stockpile work including maintenance, assembly, disassembly and dismantlement activities.
   - Protect the human capital base at U.S. nuclear weapons laboratories —including the ability to design nuclear warheads as well as development and engineering expertise and capabilities—through a stockpile stewardship program that fully exercises these capabilities.

4. Naval Reactors will use $1.1 billion in increased FY 11-15 budget authority to:

   - Design/develop the new reactor plant for the OHIO Class submarine replacement,
   - Design/construct a reactor core and refuel the DOE Land Based Prototype Reactor Plant in New York with technologies and capabilities planned for OHIO replacement core—this will test the manufacturability of the replacement reactor and thereby mitigate technical, cost and schedule risks.

5. DOE also agrees to strictly limit the use of transferred budget authority to support only those elements identified in Attachment 1 in its budget throughout the period from FY 11-15. The DoD target transferred budget authority will become part of the baseline funding for (1) Weapons Activities/National Security Enterprise appropriation aligned to programs in Directed Stockpile Work, Campaigns and Readiness in the Technical Base and Facilities, and (2) Naval Reactors appropriations. Both DoD and DOE agree to make every effort to ensure that Congress appropriates the funds in the amounts and for the purposes identified in this agreement.

6. DOE agrees that the transfer of budget authority from DoD is planned to be a one-time transfer during the period FY 2011-2015 consistent with the 2010 NPR recommendations. During this period, no additional transfer from DoD to DOE for purposes of this MOA shall be effected. NNSA's budget for FY 11-15 reflects planning for these recommendations approved by the President. If future Presidential decisions do not support the activities specified, then this MOA will be revised accordingly. Funding requirements for budgets submitted beyond FY 2015 will be negotiated as needed.

7. NNSA will not require additional resources during this period from DoD to meet the requirements of the NPR, so long as those requirements remain as stated in this MOA. If available funds fall below target amounts, or if costs grow, DOE agrees to work with DoD to adjust target dates so as to carry out the intent of these initiatives as quickly as possible but without any additional DoD funds.

IV. Reviews

1. In order to implement this agreement, and ensure its effective operation, the two Secretaries agree to direct their staffs to conduct and participate in the following reviews:

   - Semi-annual programmatic reviews by the NWC,
   - Annual NNSA programming and budgeting reviews which are conducted at the weapons program element level and include the items in this MOA. Specifically, NNSA will engage the NWC regarding its program of work for the items in Attachment 1, and the annual proposed funding necessary to support this work, to ensure agreement that the commitments of this MOA are being fulfilled. Any disagreements identified by the NWC will be brought to the attention of the Secretaries of Defense and Energy and will be resolved jointly.

2. The Secretary of Defense designates the Under Secretary of Defense (AT&L) as the senior staff contact for carrying out this agreement, in coordination with the Under Secretaries of Defense for Comptroller and for Policy. The Secretary of Energy designates the Under Secretary for Nuclear Security as the senior staff contact for carrying out this agreement, assisted by the Chief Financial Officer.

3. The Secretaries of Defense and Energy agree that the modernization of the U.S. nuclear infrastructure and effective support to the nuclear stockpile are critical to achieving President Obama's vision for a safe, secure and effective nuclear deterrent. The Secretaries fully support this agreement, which represents a key step toward accomplishing required modernization and advancing the national security of the United States.

V. General Provisions

1. This MOA in no way restricts either Party from participating in any activity with other public or private agencies, organizations, or individuals.

2. This MOA is neither a fiscal nor a funds obligation document. Nothing in this MOA authorizes or is intended to obligate the Parties to expend, exchange, or reimburse funds, services, or supplies, or transfer or receive anything of value.

3. This MOA is strictly for internal management purposes for each Party. It is not legally enforceable and shall not be construed to create any legal obligations on the part of either Party. This MOA shall not be construed to provide a private right or cause of action for or by any person or entity.

4. All agreements herein are subject to, and will be carried out in conformance with, all applicable laws, regulations and other legal requirements.

5. This MOA enters into effect upon signature. It may be modified by mutual agreement of the Parties in writing.

6. The Parties may discontinue participation in this MOA in writing at any time.

Signed in duplicate.

FOR THE DEPARTMENT OF DEFENSE:

Robert M. Gates
Secretary of Defense
Date: MAY 3 2010

FOR THE DEPARTMENT OF ENERGY:

Steven Chu
Secretary of Energy
Date: APR - 1 2010

Attachment 1

DoD Budget Authority Target Transfer to NNSA

Item	Added Funding Above NNSA Base ($ millions)					
	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Total
Weapons Activities/Nuclear Security Enterprise Appropriation						
Infrastructure						
CMRR-NF	151.4	255.0	260.0	242.2	300.0	1,208.6
Uranium Processing Facility	59.8	55.4	135.9	193.4	320.0	764.5
High Explosive Pressing Facility	30.0	30.4	-	-	-	60.4
Neutrons for Material/ Nuclear Science	-	-	-	-	-	-
Life Extension Programs (LEPs)						-
B61 Bomb Stockpile Systems	160.0	131.0	133.0	169.0	192.0	785.0
Follow-on LEP	26.0	56.0	102.0	300.0	300.0	784.0
W76-1 Warhead Quantities	40.0	46.0	46.0	46.0	46.0	224.0
Plutonium Sustainment	36.0	38.0	38.0	39.0	30.0	181.0
Advanced Certification	57.8	85.6	110.6	111.3	79.6	444.9
Enhanced Stockpile Stewardship	0	39.0	33.0	48.0	25.0	145.0
Subtotal, Transfer to Weapons Activities/Nuclear Security Enterprise	**561.0**	**736.4**	**858.5**	**1,148.9**	**1,292.6**	**4,597.4**
Naval Reactors Appropriation						
Reactor Design and Development						
Trident Replacement Reactor	45.4	83.0	122.7	153.8	192.9	597.8
Land-based prototype	35.2	67.9	101.0	125.0	158.0	487.1
Subtotal, Transfer to Naval Reactors	80.6	150.9	223.7	278.8	350.9	1,084.9
Total DOD transfer to NNSA	**641.6**	**887.3**	**1,082.2**	**1,427.7**	**1,643.5**	**5,682.3**

WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING

FEBRUARY 15, 2012

RESPONSE TO QUESTION SUBMITTED BY MR. BARTLETT

General DEMPSEY. The cost of cleanup has gone down significantly from the BRAC rounds of 1990s to the latest round because we have been conducting ongoing remediation of environmental hazards on the installations. We are obligated to remediate the property regardless of whether the base is closed or not. Therefore, these costs are not offsets to the savings generated by BRAC closures.

Additional detail: BRAC is a process that does not have a predetermined outcome. Using statutory selection criteria that emphasize military value and a force structure plan looking out 20 years, DOD must complete a comprehensive review before it can determine which installations should be realigned or closed. The list of closures is then reviewed by an independent Commission that can (and has in the past) altered the list. Its review includes holding public hearings and visiting various sites. The commission's review results in a list of closures and realignments that are sent to the President and are subject to review by Congress. It is this thorough process that produces the list of installations that DOD will close. [See page 17.]

RESPONSE TO QUESTION SUBMITTED BY MR. WILSON

Secretary PANETTA. Relative to Dr. Baldacci, he was tasked to review the military health system for opportunities to improve care and reduce costs. He was also asked to lead one of the site review teams evaluating the processes inherent in the Disability Evaluation System (DES) for our wounded warriors. Dr. Baldacci completed a confidential summary of his observations prior to his departure in March 2012. USD (P&R) would be happy to meet with you and discuss his observations.

In this position, Mr. Baldacci received an annual salary of $165,300. [See page 30.]

RESPONSE TO QUESTION SUBMITTED BY MR. TURNER

Secretary HALE. Of the $5.7 billion transferred in FY 2011 for the National Nuclear Security Administration (NNSA) Future Years National Security Programs for FY 2011–2016, only funds provided in FY 2011 and FY 2012 (approximately $1.5 billion prior to enactment adjustments) were applied to the NNSA defense weapons programs. The Department of Defense (DOD) cannot now clearly identify the application of this funding in FY 2013 and beyond.

You asked specifically about the Chemistry and Metallurgy Research Replacement (CMRR) construction project and the W76 life extension program (LEP). Modernizing the U.S. strategic nuclear enterprise as a whole is a key national security priority. The decision to defer the CMRR was a difficult one, but was made to permit critical warhead life extension programs to move forward in the newly constrained fiscal environment. This tradeoff was approved by the Nuclear Weapons Council after careful review. Moreover, the DOD's independent Uranium Processing Facility (UPF)/CMRR study concluded that if funding limits constrained parallel construction of the two facilities, then phased construction would be a prudent alternative approach, with UPF construction beginning first.

The DOE's FY 2013 budget proposes to defer construction of the CMRR for at least 5 years while meeting the plutonium requirements by using existing facilities in the nuclear complex which avoids $1.8 billion of costs from FY 2013 to FY 2017.

The W76 LEP was fully supported in the FY 2012 and FY 2013 budget years. However, the FY 2013 budget out-year profile stretches out the W76 LEP completion by 3 years still meeting the DOD requirements.

We are currently working with NNSA to restructure the entire portfolio of work driven by the DOD requirements to match the out-year funding available in the NNSA FY 2013 President's budget. It is hoped that the resulting plan will alleviate all of our concerns. [See page 34.]

RESPONSE TO QUESTION SUBMITTED BY MR. KLINE

Secretary PANETTA. The Department does not plan to grandfather currently mobilized/deployed units. The revised PDMRA accrual rates continue to provide members required to deploy/mobilize beyond established thresholds with an adequate number of administrative days for respite upon return home. Members also accrue 30 days of leave per year, and each Service also provides members with a reintegration period upon the unit's return home prior to full demobilization.

Changes to the PDMRA program resulted from a comprehensive review of the program requested by the former Chief of Staff of the Army. The program revisions: simplified a difficult to understand and administer program by replacing graduated accrual rates with set accrual rates based on deployment/mobilization location; eliminated the 4-day per month accrual rate, which resulted in some members receiving excessive administrative absence days off for respite; and, enhanced equity in the PDMRA benefit between Active Component and Reserve Component members by focusing the benefit on deployment/mobilization locations. The program changes were fully vetted and supported by the Military Departments, each of which continues to support the changes. I mention this to let you know that the decision to change the program was not taken lightly.

The revised PDMRA accrual rates continue to provide Reserve Component (RC) members required to deploy/mobilize beyond established thresholds with a reasonable number (up to 24 days per year) of administrative absence days for respite. Members deployed to Iraq or Afghanistan may accrue up to 24 PDMRA days per year. Members deployed to Combat Zone Tax Exclusion (CZTE) areas may accrue up to 24 PDMRA days per year, provided the Military Department Secretary has designated the area as a 2-day per month PDMRA accrual location. Most RC members deployed to a CZTE areas also receive: Government-funded transportation to their leave destination under the Rest and Recuperation (R&R) Leave Program (members deployed to Iraq or Afghanistan also receive 15 administrative absence days under the Non-chargeable R&R Leave Program); $680 in monthly compensation (Family Separation Allowance- $250, Hazard Duty Pay- $225, Hostile Fire Pay- $100, Per Diem- $105); tax free military pay under the CZTE benefit; 30 days of leave per year; and a reintegration period upon the unit's return home prior to full demobilization. When viewed with regard to all benefits and compensation provided, RC members continue to be adequately compensated under the revised PDMRA program. Accordingly, the Department does not plan to exempt Reserve Component members deployed or mobilized prior to October 1, 2001 from the PDRA program changes.

As a point of clarification, the revised PDMRA accrual rates only apply to that portion of an ongoing deployment/mobilization that occurs on or after October 1, 2011. Previous PDMRA accrual rates apply to that portion of an ongoing deployment or mobilization that occurred prior to October 1, 2011. The Department's implementation of the PDMRA change on October 1, 2011, ensures members serving side-by-side receive the same benefit, and provides equity between Service members with regard to PDMRA. Grandfathering the benefit would perpetuate the disparate treatment of Service members with regard to PDMRA. [See page 37.]

RESPONSE TO QUESTION SUBMITTED BY MS. BORDALLO

Secretary HALE. We have begun discussions with the Government of Japan focused on adjustment to the number of marines relocating to Guam as part of our effort to achieve a more geographically distributed, operationally resilient and politically sustainable force structure in the region. The Department continues to study the requirements for a smaller force on Guam which meets the PACOM Commander's operational requirements, and the Commandant of the Marine Corps requirements for training and quality of life in the Pacific Region. These efforts will delink the movement of marines to Guam and resulting land returns south of Kadena from progress on the Futenma Replacement Facility. Additionally, we expect to provide the independent assessment of the U.S. force posture in East Asia and the Pacific region by late June, in accordance with Section 346 of the FY 2012 National Defense Authorization Act. Master planning efforts and assessments of the impacts to Guam's civilian infrastructure will take place once the size and type of Marine units are finalized and will require the following: detailed facility planning; base master planning; a bilateral agreement on cost sharing; and appropriate environmental impact analysis. [See page 33.]

RESPONSE TO QUESTION SUBMITTED BY MR. WITTMAN

General DEMPSEY. [The information referred to is classified and retained in the committee files.] [See page 50.]

RESPONSE TO QUESTION SUBMITTED BY MR. HUNTER

General DEMPSEY. Based on the new strategy, we prepared a budget that strikes an appropriate and necessary balance between succeeding in today's conflicts and preparing for tomorrow's. The hard choices we made to develop this balance were directly informed by the new strategic guidance, and account for real risks and real fiscal constraints. Although the budget represents responsible investment in our national security, the trade-offs were tough and the choices were complex.

I am an advocate of looking beyond this particular budget submission, out to 2020. The merits of our choices should be viewed in the context of an evolving security environment and a longer-term plan for the joint force. [See page 54.]

RESPONSE TO QUESTION SUBMITTED BY MR. JOHNSON

Secretary HALE. An interim report on rare earth was provided to Congress on August 18, 2011 and a final report was provided March 9, 2012. Together, they address the issue of assessing the rare earth material supply chain and the availability of material versus demand from the defense industrial base. [See page 52.]

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

FEBRUARY 15, 2012

QUESTION SUBMITTED BY MR. SMITH

Mr. SMITH. The FY2012 National Defense Authorization Act included a requirement for the Department to report on the cost-benefit, return on investment, and long-term payback of LEED and other green building rating systems. It also included a prohibition on using funds for LEED Gold or Platinum certification unless the Secretary of Defense provided Congress with a notification stating the cost-benefit and demonstrated payback for such a decision. Following passage of the FY2012 NDAA, a Navy statement, cited by the *Federal Times* claims "the Navy is moving ahead with its plan to certify all of its buildings as LEED Gold by the end of fiscal 2013." Please provide the committee with an update on the Department's plans to meet the reporting requirement included in the FY2012 NDAA, including a general framework and scope of the study, whether the Department is planning on meeting with interested outside parties to solicit input, and whether the Department intends to perform this report internally or whether it will be contracted out. In addition, is the Department or any of the Services, moving forward with a LEED-only policy or are other green building rating systems or alternative approaches being considered?

Secretary PANETTA. The report on cost-benefit, return on investment, and long-term payback of LEED and other green building rating systems affects all the Services. Office of the Deputy Under Secretary of Defense for Installations and Environment (DUSD I&E) has been provided recommendations on the path forward and outside party assistance.

Navy's policy is that "All applicable/certifiable types of building projects (vertical construction) must be registered with USGBC (or equivalent) and have the required submittal documentation to meet the required LEED silver level rating (or equivalent)." NAVFAC has maintained a commitment to meeting the Guiding Principles for High Performance and Sustainable Buildings established through Executive Order (EO) 13423 and the expanded requirements in EO 13514. Navy is developing a High Performance Building Standard which incorporates cost effective features of ASHRAE 189.1. ASHRAE 189.1 is a commercially recognized whole building design consensus standard for high performing buildings which provides performance and prescriptive requirements in site sustainability, water use, energy efficiency, renewable energy, indoor environmental quality, building impact on the atmosphere, materials, and resources. The High Performance Building Standard will automatically make all new construction and major renovation projects achieve the equivalent of LEED Silver certification.

QUESTIONS SUBMITTED BY MR. WILSON

Mr. WILSON. The Afghan National Security Force budget request has been cut by 50% and has been justified by a reduction in the need for front-loaded costs, such as equipment and facilities. That is understandable, but a reading of the budget request also shows a 55% reduction in funds from $1.1B to $500M for "training and operations" allocated to the Ministry of Interior forces which includes the Afghan National Police. How can such a significant cut not have a serious impact on the critical police training effort as it only increases in importance to both U.S. plans and to the Afghan people's security?

Secretary PANETTA. The Afghan National Security Forces (ANSF), including the Afghan National Police (ANP), are growing in capability. It is this growth in capability which in fact is reducing the costs to develop the ANP. Growth in capability is covered by two distinct phases: "Build ANP" capabilities and "Sustain ANP" capabilities. During fiscal year 2012, the ANP is on track to achieve their planned end strength of 157,000 personnel. Once they achieve their target end strength, the ANP enters into the "Sustain" phase in fiscal year 2013 and subsequently would reduce their requirement for initial entry training to focus on sustaining the force level. Another projected savings is based upon the Afghans assuming a greater role in the overall training mission in fiscal year 2013 and thus significantly reducing DOD's reliance upon mentor and trainer contracts to meet these needs. The ANP is growing in overall strength and in capability, including the capability to train new re-

cruits. This process will be reflected in both their operating and generating forces. For clarification, the funding decrease for training and operations for the ANP is from $l.l billion in fiscal year 2012 to $570 million in fiscal year 2013 for a reduction of 48 percent.

Mr. WILSON. The Afghan National Security Force budget request has been cut by 50% and has been justified by a reduction in the need for front-loaded costs, such as equipment and facilities. That is understandable, but a reading of the budget request also shows a 55% reduction in funds from $1.1B to $500M for "training and operations" allocated to the Ministry of Interior forces which includes the Afghan National Police. How can such a significant cut not have a serious impact on the critical police training effort as it only increases in importance to both U.S. plans and to the Afghan people's security?

General DEMPSEY. The Afghan National Security Forces (ANSF) fund was designed to quickly develop Afghan infrastructure, satisfy equipment requirements, and accelerate training, with most significant investments made in previous years. We now have the infrastructure, equipment, and police force in place and the reduced ANSF funding request is a reflection of that fact.

The training and operations budget reductions reflect the ongoing transition of training workload from the Combined Security Transition Command—Afghanistan (CSTC–A) to the Ministry of Interior (MoI). As the MoI begins taking on more of the training workload, a variety of training savings will be realized, including a reduced contracted trainer requirement, consolidated specialized training, and literacy training requirements.

QUESTION SUBMITTED BY MR. LANGEVIN

Mr. LANGEVIN. In a time of unprecedented deficit reduction, I am concerned we are not making progress towards improving energy efficiency of DOD facilities and incorporating new technologies into these efforts. How is the Department leveraging current and previous investments in science and technology to maximize returns on investment?

Secretary PANETTA. The Department of Defense (DOD) facility energy strategy is designed to reduce costs and improve the energy security of our fixed installations. It has four elements: reduce the demand for traditional energy through conservation and improved energy efficiency; expand the supply of renewable and other distributed (on-site) generation sources; enhance the energy security of our installations directly (as well as indirectly, through the first two elements); and leverage advanced technology.

As you noted, one of the ways DOD can lower its energy costs and improve its energy security is by leveraging advanced technology. Technology has been DOD's comparative advantage for 200 years, as evidenced by the military's leadership in the development of everything from interchangeable machine made parts for musket production to the Internet. This advantage is no less important when it comes to facility energy.

To leverage advanced technology relevant to facility energy, three years ago, the Department created the Installation Energy Test Bed, as part of the existing Environmental Security Technology Certification Program. The rationale is straightforward. Emerging technologies offer a way to cost effectively reduce DOD's facility energy demand by a dramatic amount (50 percent in existing buildings and 70 percent in new construction) and provide distributed generation to improve energy security. Absent outside validation, however, these new technologies will not be widely deployed in time for us to meet our energy requirements. Among other problems, the first user bears significant costs but gets the same return as followers. These barriers are particularly problematic for new technologies intended to improve energy efficiency in the retrofit market, which is where DOD has the greatest interest.

As the owner of 300,000 buildings, it is in DOD's direct self-interest to help firms overcome the barriers that inhibit innovative technologies from being commercialized and/or deployed on DOD installations. We do this by using our installations as a distributed test bed to demonstrate and validate the technologies in a real-world, integrated building environment. Projects conduct operational testing and assessment of the lifecycle costs of new technology while addressing DOD-unique security issues. For example, the Test Bed is doing a demonstration of an advanced control system that could increase boiler efficiency by five percent; if the technology proves out, DOD can deploy it on thousands of boilers and see a meaningful energy savings. More generally, by centralizing the risk and distributing the benefits of new technology to all DOD installations, the Test Bed can provide a significant return on DOD's investment.

The Test Bed has about 70 projects underway in five broad areas: advanced microgrid and storage technologies; advanced component technologies to improve building energy efficiency, such as advanced lighting controls, high-performance cooling systems and technologies for waste heat recovery; advanced building energy management and control technologies; tools and processes for design, assessment, and decision making on energy use and management; and on site energy generation, including waste-to-energy and building integrated systems.

QUESTION SUBMITTED BY MR. TURNER

Mr. TURNER. Secretary Panetta, during our Oct 13 hearing last year, you said: "With regards to reducing our nuclear arena, I think that is an area where I don't think we ought to do that unilaterally, we ought to do that on the basis of negotiations with the Russians and others to make sure we are all walking the same path."

- Do you still believe, as you stated to this committee last year, that U.S. nuclear force reductions should not be unilateral?
- Can you tell us anything about press reports that the nuclear guidance review currently under way in the Administration, in response to President Obama's direction contained in PPD–11, compelled the Administration to review only three scenarios for future U.S. nuclear force postures: (1) 1100 to 1000 deployed warheads; (2) 800 to 700 deployed warheads; and (3) 400 to 300 deployed warheads?

Secretary PANETTA. I will reiterate that we have gone through a nuclear review and presented options to the President, but these options are in no way unilateral.

As stated in the Nuclear Posture Review (NPR), the United States intends to pursue further reductions in nuclear weapons with Russia. The Department's NPR follow-on analysis of deterrence requirements and force postures will help identify the force levels needed to support these objectives and any potential risks. The completion of this analysis is necessary to inform the formulation of any future arms control objectives involving our strategic nuclear stockpile.

QUESTIONS SUBMITTED BY MS. BORDALLO

Ms. BORDALLO. Please explain how DOD's budget, with respect to the civilian workforce, is not a continuation of Secretary Gates' arbitrary constraints on civilian direct hire full-time equivalents?

Secretary PANETTA. While the DOD's FY 2013 budget request reflects a continuation of the direction to hold civilian full-time equivalents to FY 2010 levels, DOD Components requested and received exceptions to those levels for recognized workload increases. In the aggregate, U.S Direct Hires are declining by 7,367 from FY 2012 to FY 2013. The reduction is in the reimbursable program (12,194) which is partially offset by an increase in the direct program. The direct program increases by 4,827 for critical workload requirements supporting the National Guard and Reserves; the acquisition, audit and contract management communities; and medical readiness programs.

Ms. BORDALLO. How does the DOD's budget request reconcile with legislative language set forth in Division A, Section 8012 of Consolidated Appropriations Act of 2012 (P.L. 112–74), which states that " . . . during fiscal year 2012, the civilian personnel of the Department of Defense may not be managed on the basis of any end-strength, and the management of such personnel during that fiscal year shall not be subject to any constraint or limitation (known as an end-strength)," and more specifically, that the fiscal year 2013 budget request be prepared and submitted to the Congress as if this provision were effective with regard to fiscal year 2013?

Secretary PANETTA. The DOD budget request complies with section 8012 of the Consolidated Appropriations Act of 2012 (P.L. 112–74). Defense civilian personnel are not managed on the basis of end strength. The Defense budget is managed based on executive and legislative guidance, strategic plans, resource levels, workload, and mission requirements. As required by the Congress, the DOD documents the civilian personnel levels supported in the budget request in the OP–8 exhibit. The OP–8 reflects the specific funding for civilian personnel, as well as the number of full-time equivalents (FTEs) and end strength.

Ms. BORDALLO. President Obama has made reducing reliance on contractors and rebalancing the workforce a major management initiative of his Administration. Does the Department's FY13 budget request and reductions in the civilian workforce reflect an opinion that the Department has achieved an appropriately balanced workforce?

Secretary PANETTA. The Department's "sourcing" of functions and work between military, civilian, and contracted services must be consistent with workload requirements, funding availability, readiness and management needs, as well as applicable laws and statute. The fiscal year 2013 budget request, and associated civilian workforce reductions, reflects our best judgment today and represents a carefully coordinated approach based on the Department's strategy and policy that balances operational needs and fiscal reality. The Department remains committed to meeting its statutory obligations to annually review missions, functions, and workforce composition, including reliance on contracted services, and to ensure the workforce is appropriately balanced and aligned to our most critical priorities.

Ms. BORDALLO. In FY10, the Department added 17,000 new positions as a result of insourcing contracted services. Can you tell us what that number was in FY2011? And to what extent will insourcing continue to be a workforce shaping tool?

Secretary PANETTA. In fiscal year 2011, DOD organizations reported that they established nearly 11,000 civilian positions as a result of insourcing contracted services. The Department remains committed to meeting its statutory obligations to annually inventory and review contracted services and identifying those that are no longer required or are inappropriately aligned to the private sector. Insourcing remains a very effective and critical tool for the Department to rebalance its workforce, realign inherently governmental and other critical work to Government performance (from contract support), and, in many instances, to generate resource efficiencies.

Ms. BORDALLO. The Department's budget request overview included discussion of improved buying power and how acquisitions are managed. To what extent does the Inventory of Contracts for Services impact these improvements and management of the Total Force?

Secretary PANETTA. The Department began its Better Buying Power initiative in 2010 to improve the way the Department acquires defense goods and services. The Inventory of Contracts for Services is one data source used to help the Department improve the stewardship of our resources allocated to contracted services and helps ensure efficiency through better management. This includes improving accountability and visibility into the level of effort associated with contracted services, maximizing competition, conducting spend analyses, and rationalizing the Department's supplier base. With regards to Total Force management, the post submission review of the annual Inventory of Contracts for Services is used to inform workforce planning through assessing economies of scale or scope, identify potential areas of risk and overreliance on contracted services, and identify opportunities for efficiencies. This includes reviewing the nature or way the contract is administered as well as the organizational environment within which it is being performed. Additionally, the Inventory of Contracts for Services will identify areas to strengthen contract oversight and assist in the preparation of budget justification materials and spending analyses.

Ms. BORDALLO. The Department requested emergency relief from the Paperwork Reduction Act in order to move forward, after 4+ years of non-compliance, with the Inventory of Contracts for Services. However, OMB has failed to act on that request. What is the impact to the Department's progress, and the fiscal implications, of not getting the emergency filing approved?

Secretary PANETTA. As of early April, the Department has not received the emergency waiver to the Paperwork Reduction Act (PRA) as requested from OMB in December 2011 and is proceeding with the full PRA filing process that will take an additional 2–3 months. While the Department continues to press forward and will submit the annual Inventory of Contracts for Services (ICS) in June as required by statute, this submission will include contractor full time equivalents (CFTE) calculated from obligated dollar amounts and an Army factor derived from data reported by their contractors, as opposed to on actual direct labor hours as required by statute. Without the emergency waiver to the PRA as requested, the Department is delayed by at least 1 more year to demonstrably improve the ICS, and at least 2 years from full compliance with the fiscal year 2011 NDAA changes to section 2330a of title 10 requiring that CFTE be calculated based on direct labor hours and other data collected from private sector providers.

Until the PRA waiver is granted, the Department cannot take steps to modify statements of work to collect the required data. Most DOD Components had planned to begin modifying statements of work this fiscal year. As a result of the delay, contracts will likely not begin being modified until fiscal year 2013, resulting in a delay until fiscal year 2014 of the first real data collection.

While the fiscal implications are challenging to quantify, they do exist and are related to Components' ability to improve planning for increasingly scarce resources. Delays in collecting direct labor hours prevent the Department from getting an accurate accounting of the level of effort for contracted services, which would facilitate assessing those services using a common unit of measure, full-time equivalents. Without this level of fidelity, making value-based decisions and trade-offs by distinguishing between direct labor hours supporting the mission and indirect costs, overhead, and other costs is adversely impacted. For example, the Army, which has had the necessary PRA waiver in place for over 5 years, has found that approximately half of all Army contract dollars in the base budget go to non-labor costs, such as overhead and profit, rather than direct execution of mission and workload. Such increased fidelity has enabled the Army to more appropriately realign limited resources to its more pressing priorities.

Ms. BORDALLO. The Department says it is still looking at where it is most cost-effective to insource. However, if the Department is holding to FY10 civilian levels and in fact, if this budget further reduces the civilian workforce, how can DOD organizations insource if it is more cost-effective?

Secretary PANETTA. The Department remains committed to its statutory obligations under title 10 to annually review contracted services and ensure that they are being performed in the most cost-effective manner possible. While the overall civilian workforce is reduced in the FY13 budget request, insourcing remains a viable tool to realign workload from the private sector and deliver services using Government civilians while providing the best value to taxpayers. While the Department has directed organizations to maintain civilian authorizations, with certain exceptions at FY10 levels, DOD organizations may insource contracted services that meet the necessary criteria by absorbing work into existing Government positions by refining duties or requirements; establishing new positions to perform contracted services by eliminating or shifting equivalent existing manpower resources (personnel) from lower priority activities; or on a case-by-case basis, requesting an exception.

Ms. BORDALLO. What if the work is found to be inherently governmental or otherwise should be performed by civilians, instead of contractors? What flexibility is there to immediately convert that work to civilian performance without having to ask permission to add civilians or reduce staffing in other equally important missions?

Secretary PANETTA. The Department remains committed to its statutory obligations under title 10 to annually review contracted services and ensure appropriate performance of functions that are inherently governmental, closely associated, or otherwise exempted from private sector performance (to mitigate risk, ensure continuity of operations, build internal capability, meet and maintain readiness requirements, etc). Contracted services that meet the necessary criteria should be immediately divested, if of low priority, or insourced to Government performance. Where appropriate, DOD organizations may immediately insource by absorbing work into existing Government positions by refining duties or requirements; establishing new positions to perform contracted services by eliminating or shifting equivalent existing manpower resources (personnel) from lower priority activities; or on a case-by-case basis, requesting an exception. In order to ensure increasingly constrained resources are allocated appropriately and with consideration for organizational mission priorities, the Department is currently assessing the process by which the civilian workforce is administered in order to increase management flexibilities at the mission level.

Ms. BORDALLO. The FY12 NDAA capped contract spending for FYs 12 and 13 at FY10 levels. And the Congress directly linked that cap to the civilian personnel cap. In FY10, the Department requested just over $60 billion for contract services. In this budget, you requested around $70 billion. But you've reported to the Congress that your spending in FY10 was actually upwards of $100 billion, and by some estimates nearly $200 billion. Since you cannot obligate more than approximately $60 billion this fiscal year, what is the Department going to stop doing? What work is going to cease? Or will you increase civilian personnel—which may be more cost-effective since you're seeking the most cost-effective mix?

Secretary PANETTA. The FY 2012 NDAA cap applies to the base budget for contract services for all appropriations except Military Construction (MILCON); Research, Development, Test and Evaluation (RDT&E); and medical care entitlements provided by private care providers. The Department's base budget request in FY 2010 that establishes the cap is $67 billion. Actual execution for FY 2010 for the accounts included in the cap was $113 billion, but includes contract services funded in the Overseas Contingency Operations (OCO). The Department does not distinguish base obligations from OCO obligations in the accounting systems. The FY 2012 enacted base budget for contract services is below the cap by $1.7 billion after adjusting for civilian personnel growth and shifts from the OCO to base budget (both adjustments are allowed in the FY 2012 NDAA). The FY 2013 base budget request is below the cap by $0.5 billion.

Ms. BORDALLO. The GAO recently reported that DOD contributes nearly $3.3 billion to defense contractor pension plans, hidden as overhead charges in contracts. Surely this is a more ripe area for savings than considering retirement reform for military personnel or asking our dedicated civilian workforce to continue to bear the brunt of budgetary reductions?

Secretary PANETTA. Pensions are a major cost for Department of Defense (DOD) contractors and a significant factor in attracting and retaining the caliber of workers we need them to have to be able to perform on DOD contracts. The Department is significantly increasing its audit, contract pricing, cost accounting, and contract oversight capability by increasing the capacity and capability of the Defense Contract Audit Agency and the Defense Contract Management Agency. DOD is challenging all costs throughout the Department to include contractor costs of our acquisition programs. We have specialized audit and actuarial teams monitoring and evaluating pension costs for reasonableness and accuracy.

Generally, DOD contractors are following the lead of commercial contractors by reducing and controlling pension costs using defined contribution plans in place of the more expensive and volatile defined benefit plans. However, contractor pension costs for older defined benefit plans will increase over the next 5 to 7 years, even if the plans have been scaled back or are not allowing new entrants. This is due to the Pension Protection Act, which increased the annual minimum funding requirement to ensure pension plans are funded sufficiently.

Ms. BORDALLO. What assurances can you give the Committee that as widespread civilian reductions are occurring across the military departments work is not shifting illegally to contract performance?

Secretary PANETTA. Reductions in the civilian workforce are correlated to workload and mission prioritization. The Department is committed to ensuring that workload associated with civilian reductions does not shift to contract but is eliminated or realigned to other civilians. On December 1, 2011, the Under Secretary of Defense for Personnel & Readiness issued guidance to the Department reiterating the statutory prohibition on conversion of work to contracts. This guidance-directed vigilance in preventing the inappropriate conversion of work to contract performance, particularly as the Department adapted to declining budgets and operating in a constrained fiscal environment. Specifically, managers and Commanders were reminded of their obligations to preclude such illegal shifting of work as they implemented the results of organizational assessments, continued to assess missions and functions in terms of priority, and revisited both their civilian and military force structures. Through the use of our ongoing communications with national labor leadership, the Department has been able to look into allegations of improper workload shifts and, if justified, take corrective actions.

In addition, the DOD has established an internal, multilevel governance process for monitoring implementation of all efficiencies, to include those resulting in civilian workforce reductions. Any issue, such as illegal shifting of work, can be addressed via this governance process for adjudication. If circumstances warrant, an exception request to increase the civilian workforce to meet workload requirements can be made.

Long-term, as the Department makes improvements to its Inventory of Contracts for Services, as required by title 10, we will have increased visibility and accountability into such contracts. Specifically, improvements currently under way will enable the Department to more accurately identify contracted level of effort based on direct labor hours and associated data. This increased fidelity into contracted services will serve as another critical tool for the Department to monitor and preclude possible workload realignment.

Ms. BORDALLO. There was a lot of discussion last year about the "exceptions" to the FY10 civilian levels Secretary Gates mandated. Please provide a detailed list of all exceptions across the Department approved to date and the reason for those exceptions, as well as those exceptions across the Department that have been requested but not approved, and the justification for such.

Secretary PANETTA. The list of exceptions approved by the Deputy Secretary of Defense and the adjustments approved by the Deputy Secretary of Defense in the FY 2013 budget request are provided below.

Organization	Date	Reason for Increase	FY 2013 Request	Approved	Justification for Disapproval
Waivers Granted by the DSD					
US Central Command	8/4/2011	Military to civilian conversion (10) and contractor to civilian insourcing (31)	41	10	The remaining 31 civilian billet exceptions were to be addressed through the Joint Manpower Validation Process.
US Strategic Command	8/4/2011	Contractor to Civilian Conversion	198	None	The requirement must be addressed through the Joint Manpower Validation Process.
Defense Information Systems Agency	9/26/2011	Increased workload to support customers - Examples include the Army Enterprise email, Air Force Distribution Standard System, the Air Force Integrated Budget Documentation and Execution System. Fourteen additional FTEs were added to minimize potential Base Realignment and Closure disruptions as DISA consolidated operations at Fort George G. Meade, MD. 28 FTEs were a result of positions being converted from contractor to civilian. Five FTEs were in support of the Student Educational Employment Program. One FTE supported the Military to Civilian conversion.	257	228 Full-Time 14 Temporary Total 242	Fifteen billets for the DISA Command Center were not approved. The request was not deemed to be tied to new work; instead, it was a consequence of re-establishing a mission that had been transferred to CYBERCOM. Reestablishing this capability at the DISA Command Center would not have been in the spirit of efficiency.
Defense Logistics Agency	7/12/2011	Transfer of workload and personnel associated with the disestablishment of the Business Transformation Agency	13	13	
Air Force	6/21/2011	Per White House direction, Science and Technology could not be reduced. Positions supported RDT&E funded civilians in the area of Test and Evaluation.	346	346	

Organization	Date	Reason for Increase	FY 2013 Request	Approved	Justification for Disapproval
Waivers Granted by the DSD (cont.)					
Army	6/21/2011	Per White House direction, Science and Technology could not be reduced. Positions supported RDT&E funded civilians in the area of Test and Evaluation.	784	784	
Defense Finance and Accounting Services	6/21/2011	Increased workload request, mainly from the Army and Audit Readiness. ($25M)	300	300	
Navy	10/18/2011	Portsmouth Naval Shipyard SSN availability Scope changes (+245); Norfolk Naval Shipyard/SERMC workload increase from 1.2M to 1.55M man days and performance/overtime (+857), Puget Sound and Pearl Harbor Shipyard SSN schedule changes (-133)	969	969	
Navy	10/18/2011	Security Services In-sourcing to comply with 10 USC 2465	240	240	
Defense Logistics Agency	7/12/2011	Transfer of workload and personnel associated with BRAC 05: Washington HQ Services - 42 FTEs; DoD Education Activity - 48 FTEs; Army - 191 FTEs; Navy - 11 FTEs; Marine Corps - 1 FTE	293	293	
		Total Waivers	**3,441**	**3,197**	
Increases approved in the Budget Review					
Various	2/2/2012	Defense Acquisition Workforce and Defense Contract Audit Agency	1,060	1,060	
Air Force	2/2/2012	Air Force Medical Readiness Review	488	488	
SOUTHCOM	2/2/2012	Contractor to Civilian Conversion	55	55	
Various	2/2/2012	Audit Readiness Acceleration - DCAA +2, Marine Corps +1, Navy +11, DFAS +6, OSD +2, Army +12, Air Force +2	36	36	
Washington Headquarters Services	2/2/2012	Support Consolidated Adjudication Facility and Personnel Security	23	23	
USSTRATCOM	2/2/2012	Joint Functional Component Command-Space	22	22	
Classified	2/2/2012	Classified	17	17	
Washington Headquarters Services	2/2/2012	Single Enterprise Contracting Office	83	83	
Washington Headquarters Services	2/2/2012	Increased workload from JFCOM Disestablishment	6	6	
Deputy Chief Management Office	2/2/2012	Technical adjustment to correct resources following the disestablishment of the Business Transformation Agency	18	18	
Defense Human Resource Activity	2/2/2012	Yellow Ribbon Reintegration Program as mandated by Congress	12	12	
Defense Human Resource Activity	2/2/2012	Personnel Security	13	13	

Organization	Date	Reason for Increase	FY 2013 Request	Approved	Justification for Disapproval
Increases approved in the Budget Review					
Air Force	2/2/2012	Headquarters manpower and information technology support for TRANSCOM Joint Enabling Capability Command	10	10	
Defense Legal Services Agency	2/2/2012	To retain 6 attorney positions to help adjudicate over 20,000 cases annually	6	6	
Department of Navy	2/2/2012	Classified	4	4	
Defense Human Resource Activity	2/2/2012	Sexual Assault Prevention and Response	1	1	
Army	2/2/2012	Sexual Assault Prevention and Response	5	5	
Classified	2/2/2012	Classified	17	17	
Air Force	2/2/2012	Service requested adjustments	80	80	
		Total Budget Increases	**1,956**	**1,956**	
		Grand Total	**5,397**	**5,153**	

Ms. BORDALLO. The Department identified over $60 billion in additional savings being generated during next 5 years through measures such as streamlining of support functions, consolidating I.T. enterprise services, rephasing military construction projects, consolidating inventories, and reducing service support contractors. Of that $60 billion, how much is associated with civilian personnel and how much is associated with service support contractors?

Secretary PANETTA. Many of the initiatives comprising the $60 billion in additional savings encompass reductions to civilian personnel and/or service support contractor requirements. For example, savings of $10 billion resulted from reducing the civilian pay raise, and approximately $1 billion was saved by the Army adjusting the civilian workforce to reflect the military end strength reduction. The Department also has a specific initiative to reduce service support contractors by $1 billion across the next 5 years.

Ms. BORDALLO. Based on your answer above, is that ratio appropriate given the large scale reductions in the civilian workforce that resulted from last year's budget and considering that contracted services have grown at a rate of 150% over the past decade while the civilian workforce increased at a much more moderate rate?

Secretary PANETTA. Over the past decade (FY 2003 to FY 2013), our budget for civilian payroll costs has grown by approximately 60 percent whereas budgeted contract services have only grown by approximately 40 percent. The Department employs a total workforce management concept whereby we strive to maintain the proper balance of military, civilian and contractor workforces. DOD sourcing of functions and work among military, civilian, and contracted services must be consistent with workload requirements, funding availability, readiness and management needs, as well as applicable laws and regulations.

Ms. BORDALLO. Do you believe that workforce sourcing decisions involving non-appropriated fund employees, where work is being outsourced, should be subject to the same stringent cost analysis requirements that are applicable under title 10 provisions to appropriated fund employees?

Secretary PANETTA. Across the Department, non-appropriated fund (NAF) resources that support operations such as exchanges and morale, welfare, & recreation programs are administered in an economical, efficient, and business-like manner. To that end, contracts using NAF must be executed in a manner that best serves the NAF instrumentality in a fair, equitable, and impartial manner. DOD Components are required to establish and maintain systems necessary to ensure individual fiduciary responsibility for properly using NAF resources and preventing waste, loss, or unauthorized use of such funds. While the provisions requiring cost analyses for outsourcing of work delineated in title 10 do not specifically apply to NAF employees, the Department is committed to making sure, consistent with its policies regarding NAF instrumentalities, that any sourcing decisions related to NAF activities are fiscally advantageous to the Department and the commands/installations they support. Our efficient and business-like NAF system enables the Department to continue to deliver the services and fiscal outcomes necessary to sustain our NAF programs which directly support our entire military community.

Ms. BORDALLO. The Air Force recently briefed members of the House about large-scale reductions in the civilian workforce. How is the Department, specifically your staff, ensuring that those reductions are well-reasoned and based on workload and necessity, factoring in risk and cost, as opposed to simply implementing a mandated civilian personnel level?

Secretary PANETTA. The Air Force conducted a focused strategic review of the entire Air Force civilian workforce to evaluate the high-priority mission areas and determine where positions needed realignment. The Air Force examined the full spectrum of operations—from base-level to headquarters—to develop a wide range of efficiency initiatives to streamline and right-size the organization and management staffs, ultimately to forge a leaner, more effective Air Force. The Air Force followed Secretary of Defense guidance from Resource Management Directive 703, focusing reductions in overhead and support areas while minimizing the impact to functions and to aircraft operations and maintenance, acquisition excellence, and the nuclear enterprise. As part of that review, the Air Force had to make tough decisions on which areas to resource in order to provide the Nation with the capabilities that it requires.

Specific missions that are identified by the Air Force for growth include intelligence, surveillance, and reconnaissance (ISR); the nuclear enterprise; and acquisition excellence. The effect on the civilian workforce at individual installations depends to a large degree on which missions are located at a particular location. Other factors in the decisionmaking process included the number of encumbered positions versus vacancies, the funding source for the civilian positions (operations and maintenance, depot maintenance activity group, and acquisition demonstration), and the impact of lost intellectual capital at the installation level.

Ms. BORDALLO. What processes are in place to ensure the workload associated with reductions being made in the civilian workforce is in fact ceasing, as opposed to being absorbed by other labor sources such as contractors or military personnel?

Secretary PANETTA. Reductions in the civilian workforce are correlated to workload and mission prioritization. The Department is committed to ensuring that workload associated with civilian reductions does not shift to other sectors of the Total Force, such as military or contract performance.

To that end, on December 1, 2011, the Under Secretary of Defense for Personnel & Readiness issued guidance to the Department reiterating the statutory prohibition on conversion of work to contracts. This guidance directed vigilance in preventing the inappropriate conversion of work to contract performance, particularly as the Department adapted to declining budgets and operating in a constrained fiscal environment. Specifically, managers and Commanders were reminded of their obligations to preclude such illegal shifting of work as they implemented the results of organizational assessments, continued to assess missions and functions in terms of priority, and revisited both their civilian and military force structures.

Additionally, on March, 2, 2012, the Under Secretary of Defense for Personnel & Readiness issued guidance to the Department regarding the use of "borrowed" or "repurposed" military manpower. This guidance is intended to ensure that amidst declining operational tempos for our military personnel and, as civilian reductions associated with efficiencies are implemented, military personnel are not inappropriately utilized, particularly in a manner that may degrade unit readiness.

Through the use of our ongoing communications with national labor leadership, the Department has been able to look into allegations of improper workload shifts resulting from civilian workforce reductions and, if justified, take corrective actions. In addition, the DOD has established an internal, multilevel governance process for monitoring implementation of all efficiencies, to include those resulting in civilian workforce reductions. Any issue, such as inappropriate shifting of work, can be addressed via this governance process for adjudication. If circumstances warrant, an exception request to increase the civilian workforce to meet workload requirements can be made.

Ms. BORDALLO. Recently this committee heard of an instance in which, because of budget reductions, a janitorial services contract had been eliminated. As a result, professional civilian personnel have been advised by management that they are now responsible for trash removal and bathroom cleaning—services previously provided by contract. Surely the quest for efficiency is not intended to divert people from their core missions or result in them working in filthy conditions. Yet, this is how the reductions which DOD claims are so well-reasoned are being executed in the field. Was any workforce analysis conducted to inform these reductions or were they the result of a "salami slice" approach across all elements of the Department?

Secretary PANETTA. The reductions in the Department's workforce, both civilian and contract support, are correlated to workload and based on mission/function prioritization, reflecting the changes in the Department's strategy and force structure. The Department has established an internal, multilevel governance process for monitoring implementation of all efficiencies and associated budget reductions. Occurrences such as the above, if accurately described, are the exception, not the norm, and the Department is committed to using its established governance processes to prevent such adverse impacts.

Ms. BORDALLO. What recourse, in a particular year of execution, does a manager or Commander have if he or she wishes to insource a contract in order to achieve fiscal savings?

Secretary HALE. The Department remains committed to its statutory obligations under title 10 to annually review contracted services and ensure that they are being performed in the most cost-effective manner possible. Where appropriate, DOD organizations may immediately insource by absorbing work into existing Government positions by refining duties or requirements; establishing new positions to perform contracted services by eliminating or shifting equivalent existing manpower resources (personnel) from lower priority activities; or on a case-by-case basis, requesting a Deputy Secretary of Defense (DSD) exception to their existing civilian levels. Several exceptions have been granted by the DSD for recognized workload that is appropriately performed by Government civilians. To ensure increasingly constrained resources are allocated appropriately and with consideration for organizational mission priorities, the Department is currently assessing the process by which the civilian workforce is administered in the year of execution.

Ms. BORDALLO. To what extent was the decision to hold across-the-board civilian levels, without commensurate across-the-board constraints on contracts, informed by cost and risk assessments?

Secretary HALE. The FY 2013 budget request extended two initiatives that were initiated in the FY 2012 budget request to balance the workforce with mission priorities. The initiative to hold civilian FTE levels at the FY 2010 level and the direction to reduce service support contractors that provide staff support by 10 percent. Both initiatives are associated with ongoing organization assessments and mission prioritization in an effort to streamline business process and reduce administrative workload. Overall, funding for contract support services is reduced in FY 2013 by almost 3 percent. The FY 2013 base budget reflects a total of $131.9 billion for contract support services for all appropriations (excluding Military Construction), which is $3.9 billion (3 percent) below the FY 2012 enacted budget of $135.8 billion. The amount of funding for civilian direct hires (both U.S. and Foreign Nationals) declines $70 million from $76.560 billion in FY 2012 to $76.490 billion in FY 2013. The reduction in civilian funding is less than 0.1 percent. The Department will continue to monitor the implementation of both initiatives to ensure actions are taken to minimize program risk.

Ms. BORDALLO. We've heard a lot about decreases and reductions in contracted services, yet when we look at the figures and talk to the field, what is evident is that reductions in contracts are very narrowly defined and limited to only a miniscule subset of what the Department actually purchases in terms of services. Why has the Department chosen to levy across-the-board reductions to only military E/S and civilian personnel without considering wholesale reductions to more expensive contractors?

Secretary HALE. The FY 2013 budget reflects a balanced workforce that decreases spending on military end strength, civilian personnel, and spending for contract services. It reflects our best judgment today and represents a carefully coordinated approach based on the Department's strategy and policy that balances operational needs and fiscal reality. Proposed reductions in military end strength are linked to declines in our current overseas commitments; revised strategy, posture and operational planning; and changes to our force structure. Similarly, the proposed reductions in civilian personnel and contracted services are predominantly associated with ongoing organizational assessments and mission prioritization in an effort to reduce administrative workload. The funding for contract support services declines by a higher rate (3 percent) from FY 2012 to FY 2013 than the funding for civilians (less than 0.1%). Contracted services are a key enabler of the warfighter and a source of overall infrastructure operations, and in many instances provide cost-effective support. The Department remains committed to meeting its statutory obligations to annually review services provided by contract, ensuring that they are aligned to our most pressing priorities and continue to be the most cost-effective means of delivering such support.

QUESTION SUBMITTED BY MR. LOEBSACK

Mr. LOEBSACK. I am concerned about changes to the community pharmacy program under TRICARE proposed in the FY13 budget request. When TRICARE beneficiaries have a child who is sick and needs a prescription immediately, they should not have to pay even more than they already do to go to their local pharmacy, especially because using mail order in that case isn't an option. Interaction with a pharmacist has many benefits, including cost savings given that poor medication adher-

ence results in $290 billion in waste annually. I think the ongoing use of local pharmacies by TRICARE beneficiaries bears out the importance of direct access to a pharmacist. How is DOD preserving this relationship between the patient and their local pharmacist and ensuring that TRICARE beneficiaries are able to receive prescriptions they need immediately without being forced to pay more when mail order isn't an option?

Secretary PANETTA. Under the FY13 budget proposal TRICARE beneficiaries will continue to have the option of filling prescriptions at a military treatment facility pharmacy, a retail network pharmacy, through TRICARE Pharmacy Home Delivery or a non-network retail pharmacy. We fully recognize the role of community pharmacies in many aspects of healthcare, however the mail order option is less expensive than retail for both TRICARE beneficiaries and the Government, and provides 24/7 access to a registered pharmacist. Compared to other national and Federal health plans, the DOD pharmacy benefit remains the most generous and robust in coverage. Even with the recent copay increase and proposed FY13 copay changes, the DOD beneficiaries have minimal out-of-pocket costs for all medications, including acute medications obtained through retail pharmacies.

Over the last few years, Department of Defense (DOD) has made significant efforts to control rising pharmacy benefit costs. The strategies and efforts pursued have been drawn from private sector best business practices, national trends, Congressional mandates, professional consultants, and independent studies. Each effort has had an effect in controlling the rise in pharmacy costs. Based on recent analysis of prescriptions maintenance medications filled for DOD, the data show mail order drugs are more cost-effective than purchasing them from a drugstore, the brand name standardized market basket cost per 90-day supply was 19% lower at either mail order or military pharmacies, compared to the retail pharmacy network.

Under the budget proposal, the vast majority of drugs will continue to be available from retail pharmacies. Only non-formulary drugs, which are relatively few, will no longer be generally available at retail. However, there is always an alternative drug in the same drug class on the uniform formulary and available at retail.

A broad range of Medication Management Therapy (MTM) services are provided through DOD. MTM is a component of the Patient Center Medical Home (PCMH) model which is being implemented throughout the Military Services Treatment Facilities. The PCMH model enables clinical pharmacists to contribute to the healthcare team through services focused on medication management in improving patient clinical outcomes while lowering total healthcare costs. In addition, the Managed Care Support Contractors, through their Case Managers and disease management programs, are also engaged in improving beneficiary outcomes for conditions that account for high cost drug expenditures.

QUESTIONS SUBMITTED BY MR. CONAWAY

Mr. CONAWAY. How will your ability to become audit-ready be affected by the current strategy or manpower changes and do you anticipate the need for additional resources once the FIAR plan has been revised to meet your expedited goals?

Secretary PANETTA. An appropriate level of personnel, training, tools, and support is being targeted to achieve auditable financial statements, and the Department plans to spend $300 million to $400 million a year (excluding resources to implement Enterprise Resource Planning Systems) over the next 6 years on improving business operations and achieving auditable financial statements. The Department has reported that the resources and plans were in place to meet the previous 2017 goal.

The Department of Defense is committed to achieving audit readiness for the Statement of Budgetary Resources (SBR) in 2014. Today we face very tight budgetary limits and the Department has carefully scrutinized requests from Components for additional funding to meet the accelerated SBR goal. Where appropriate, the Department has included those requirements in out Fiscal Year 2013 budget requests.

Mr. CONAWAY. The Department should include objective and measurable criteria regarding FIAR-related goals in its senior personnel performance plans and evaluations. Performance evaluated on the basis of such criteria should be appropriately rewarded or held accountable. Evaluated performances should be documented and tracked to measure progress over time. How will senior leadership across the DOD be held accountable for audit preparedness in their specific departments?

Secretary PANETTA. In October 2011, I directed that achieving auditable financial statements will be an "all hands" effort across the Department. Leadership commitment from the highest level is setting the tone and priority for audit readiness.

Auditability is a goal that every commander, every manager, and every functional specialist must understand and embrace to improve efficiency and accountability within the Department.

The Service Secretary and Chief of Staff for each Military Service have committed to achieving specific near-term goals in support of their plans for achieving auditable financial statements. I have reviewed these commitments and plans and am holding civilian and military senior leaders from across the Department accountable for progress against those plans. Senior executives, both financial and functional, now have audit goals in their individual performance plans and we are working to include them in General and Flag Officer performance plans as well. Their performance against their plans will be assessed each year during their annual appraisal. This helps ensure those under their leadership are getting the message that better control over financial assets has a big effect on mission success, and everyone has a part to play.

Mr. CONAWAY. Last year, I was very impressed with your leadership in moving the audit-ready SBR deadline up to 2014. In that same vein, do you believe we can find more efficiencies/better business practices to alleviate the burden of budget-reduction on our troops? How do you plan to continue this strategy?

Secretary PANETTA. Our streamlined approach to achieve improved financial information and audit readiness focuses efforts on first improving information that DOD uses to manage: budgetary information and count and location of mission-critical assets. Improving budgetary information provides more visibility of budgetary transactions, resulting in more effective use of resources; provides for operational efficiencies through more readily available and accurate cost and financial information; and improves fiscal stewardship by ensuring funds appropriated, expended, and recorded are reported accurately, reliably, and timely. Improving mission-critical asset information provides more reliable and accurate logistics supply chain and inventory systems; improves our ability to timely acquire, maintain, and retire assets; allows for more effective utilization of assets; provides better control over assets preventing their misuse, theft, or loss; and reduces unnecessary reordering. The acceleration of both of these goals should result in efficiencies that allow resources to be reallocated to mission requirements. The strategy complements our ongoing emphasis on increased resource stewardship and cost consciousness.

Mr. CONAWAY. During several of your press statements and speaking engagements, you have said that we cannot break faith with those who serve but the President is asking for an independent commission to study military retirement. What type of research has the DOD conducted regarding the effects of changing the retirement system would have on recruiting and retention of quality service members?

Secretary PANETTA. As part of its vigorous, internal review, the Department has contracted with RAND–NDRI, a recognized expert, to use its Active and Reserve dynamic retention and cost model, to model and analyze the impact on recruiting and retention of various military retirement system alternatives. While many in the private sector, and elsewhere, have suggested alternatives to the current military retirement system, few of these alternatives have undergone rigorous modeling or analysis. The Department is committed to ensure any proposal it develops is sound and does not harm the Department's ability to recruit and retain the future force. Secretary Panetta has also made clear that current members will be grandfathered; for those who serve today, there will be no changes in retirement benefits.

In addition to this ongoing review, the Administration and the Department recommended Congress establish an independent commission to review military retirement, and if enacted, the Department will provide the Commission significant input.

Mr. CONAWAY. The Department should include objective and measurable criteria regarding FIAR-related goals in its senior personnel performance plans and evaluations. Performance evaluated on the basis of such criteria should be appropriately rewarded or held accountable. Evaluated performances should be documented and tracked to measure progress over time. How will senior leadership across the DOD be held accountable for audit preparedness in their specific departments?

General DEMPSEY. In October 2011, Secretary Panetta directed that achieving auditable financial statements will be an "all hands" effort across the Department. The highest levels of leadership are setting the tone and priority for audit readiness. Auditability is a goal that every commander, every manager, and every functional specialist must understand and embrace to improve efficiency and accountability within the Department.

The Service Secretaries and Chiefs have committed to achieving specific near term goals in support of their plans for achieving auditable financial statements. Both Secretary Panetta and Deputy Secretary Carter have reviewed these commitments and plans and are holding senior leaders across the Department, both civilian

and military, accountable for progress against those plans. Financial and functional senior executives now have audit goals in their individual performance plans and annual evaluations and we are working to include them in General and Flag Officer performance plans.

QUESTIONS SUBMITTED BY MR. WITTMAN

Mr. WITTMAN. As we move to enable the ANSF and ALP to take the lead on combat operations in Afghanistan, how are we calculating the risk that the plan could fail and we will once again have to retake the lead in combat operations planning and execution? Last March we were briefed by General Petraeus that progress in Afghanistan was "fragile and reversible."

What has changed in the last 11 months that makes us so sure that the ANSF and the Afghan government are capable of countering the Taliban and the terrorist networks along the border region with Pakistan? Last year the Chairman of the JCS testified before us that, "We cannot allow the Taliban to reorganize and reconstitute as they did in 2004 and 2005, regain their oppressive influence over the Afghan people, and once again provide safe haven to Al Qaeda." What is the chance that the Taliban regains their foothold and provides a safe haven to Al Qaeda? This safe haven and enabling provided by the Taliban is the environment that allowed 9/11 to be planned and executed. Would you classify our progress in Afghanistan as stable and irreversible?

Secretary PANETTA. Over the past 11 months, we have significantly reduced the Taliban's capabilities, while increasing the size and ability of the Afghan National Security Forces (ANSF) as they begin the transition process. ANSF and Coalition operations focused on the south and southwest of Afghanistan have decreased the Taliban's ability to support the insurgency. The process of transitioning the security lead to the ANSF is progressing, with more than half of the population in Afghanistan living in areas that have begun the transition process. Over the last 12 months, the ANSF have not only increased their ranks by more than 55,000 personnel, but they have also greatly increased their capabilities. Although risk has decreased, risk still exists, particularly due to Pakistan sanctuaries and the slow pace of improved governance and development in Afghanistan. DOD continues to review these risks through our quarterly assessment processes. We expect the ANSF, in partnership with their U.S. and Coalition partner forces, to continue to make gains over the next year that will ensure the transition of lead for security to the ANSF by the end of 2014 in accordance with the NATO Lisbon Summit goal.

Mr. WITTMAN. Secretary Panetta, in this budget plan we are purchasing 2 *Virginia* Class SSNs and we are moving one SSN out of the FYDP. We are delaying the start of SSBN(X) by 2 years. SSBN(X) will not realistically be operational and deployable until the 2020s. Do you know how many submarines the Chinese are putting to sea this year and the total they have planned between now and FY17?

Secretary PANETTA. We expect the People's Liberation Army Navy will have 63 submarines by the end of 2012, and 75 submarines in their order of battle by 2017. Additional details may be available by separate cover.

Mr. WITTMAN. Secretary Panetta, we are shifting our focus and strategy to increased operations and increased presence in the Asia-Pacific and the Middle East. This increase in presence is already resulting in an increase in deployment lengths and an increase in the frequency of deployments for our Navy. Our surface combatants, carriers, and submarines have routinely deployed to support cyclic combat operations and contingency operations around the globe for 10 straight years.

Basic maintenance has been pushed to the right over the past 10 years and our fleet is in desperate need of routine shipyard availabilities and maintenance work. Couple this problem with the fact that among other early decommissioning plans, we are decommissioning 7 Aegis cruisers that are between 20–25 years old.

The fact is this new strategy is juxtaposed against a fleet that is decreasing in size, while the fleet's tasking is being increased. How do we expect to increase our presence and project power effectively in the Pacific and Indian Oceans with a fleet that is currently at 284 ships with no realistic plan of growing to 313 ships? Is a 313-ship fleet still the goal? If we accept the risk of a smaller fleet with increased responsibilities, how do we ensure that fleet is built to last and capable of an increased workload without compromising operations and maintenance standards?

Secretary PANETTA. The Navy has long played a pivotal role in providing presence and reassurance to our allies and partners in the Asia-Pacific (AP) region. It has also provided deterrence against those who seek to threaten U.S. and allied security interests. To build upon the approximately 50 ships that currently operate daily in the AP region, the Department of the Navy will rebalance its fleet resources towards

the Pacific. The Navy will look to homeport a greater number of ships on the Pacific coast in coming years as well as forward-deploy Littoral Combat Ships in Singapore on a rotational basis. Marines and their associated lift will rotate through Australia on a regular basis.

The presence provided by the Navy's forward deployed ships will be augmented by the routine deployment of U.S.-based Pacific ships to the AP region. The Navy's presence in the AP region will complement and be complemented by the array of exercises, operations and forward presence provided by the other Services.

The Department of Defense seeks to build the fleet to 300 ships but a number of factors will affect that calculus, including cost, readiness, and risk. For the present, the current ship inventory is judged to be sufficient to provide the requisite capability and capacity to achieve the direction of the Department's new strategic guidance. The Department is also committed to ensuring the Nation has a ready fleet that is prepared to fight and win at sea. To aggressively grow a fleet that is not properly resourced to maintain the highest state of training and readiness has the strong potential to create a hollow force. The Department is committed to ensuring that does not occur.

To achieve the expected end of service life for the fleet's vessels, the Department of the Navy has undertaken specific initiatives. Large surface combatants, the Aegis cruisers and destroyers, are having their cyclic response plan adjusted from a 27-month cycle to a 32-month cycle. This will align the maintenance cycle of the large surface combatants with the aircraft carrier with which they are associated and will protect planned shipyard maintenance. The Department of the Navy will also continue its fleet modernization program to upgrade combat systems, communications, and engineering capabilities. These investments will provide the fleet with more ready and capable warships. The Department is also closely working with the Department of the Navy to fund ship and aircraft maintenance to ensure that all necessary maintenance is funded within the baseline budget request.

Mr. WITTMAN. Mr. Secretary, what are the U.S. strategic objectives in Afghanistan? What level of capability will the Afghan National Security Forces need to possess in order to achieve these objective as they take the lead in security operations in 2014? Specifically, how many Afghan National Army kandaks and equivalent units of the Afghan National Police will need to be independent or effective with advisors in order for U.S. forces to move to a primarily advisory role?

Secretary PANETTA. Our core goals are to disrupt, dismantle, and defeat Al Qaeda, and prevent Afghanistan from ever again becoming a safe haven that could threaten the United States or our Allies and partners, and to deny the Taliban the ability to overthrow the Afghan Government. The Afghan National Security Forces (ANSF) are critical to achieving and sustaining our core goals in Afghanistan. The ANSF are on track to take the security lead in Afghanistan by the end of2014. The degree to which kandaks can operate independently is one measure of effectiveness of the ANSF; however, our ability to adjust roles and achieve our goals is also based on other factors, such as the enemy threat situation, the degree of governance and development, and progress against corruption. As such, we have not designated a specific number of independently operating kandaks as a metric for determining when our forces can transition from combat to advisory operations in Afghanistan.

Mr. WITTMAN. As we move to enable the ANSF and ALP to take the lead on combat operations in Afghanistan, how are we calculating the risk that the plan could fail and we will once again have to retake the lead in combat operations planning and execution? Last March we were briefed by General Petraeus that progress in Afghanistan was "fragile and reversible."

What has changed in the last 11 months that makes us so sure that the ANSF and the Afghan government are capable of countering the Taliban and the terrorist networks along the border region with Pakistan? Last year the Chairman of the JCS testified before us that, "We cannot allow the Taliban to reorganize and reconstitute as they did in 2004 and 2005, regain their oppressive influence over the Afghan people, and once again provide safe haven to Al Qaeda." What is the chance that the Taliban regains their foothold and provides a safe haven to Al Qaeda? This safe haven and enabling provided by the Taliban is the environment that allowed 9/11 to be planned and executed. Would you classify our progress in Afghanistan as stable and irreversible?

General DEMPSEY. The best way to address your concerns is to discuss what we will do to provide long-term support to the ANSF and the Afghan government in order to prevent extremists from re-establishing a foothold in Afghanistan. We continue to work with the Afghan government on the establishment of a long-term strategic partnership in order to provide a framework for our bilateral cooperation in the areas of security, economic and social development, and institution building.

This will ensure that the United States will be able to target terrorism and support the development of a sovereign Afghan government that defeats our common enemies.

Mr. WITTMAN. As Village Stability Operations and the Afghan Local Police Program expands we have seen increasing numbers of U.S. Special Operations Forces operating in remote and isolated areas. As key enablers shift to training and advising the ANSF, or drawing down to support the reduction to 68,000 troops, how are we mitigating the risk to SOF in remote areas? How do you plan to maintain sufficient key enablers such as MEDEVAC, intelligence support, and logistics?

General DEMPSEY. The force disposition that will reflect the 68K troop strength is still being developed. The plan may affect Special Operation Force's (SOF) ability to remain in some areas of Afghanistan as coalition force disposition will likely change. Since over 50% of the logistics support for VSO/ALP SOF units comes from the Regional Commands and Battle Space Owners, SOF can expect that in some cases supply lines will become longer. However, US SOF have routinely operated in remote areas of Afghanistan for a considerable time. The number of SOF units operating in remote areas has grown with the expansion of the VSO/ALP program and this expansion is not without risk. The expansion so far has been commensurate with our ability to resupply, enable, and ensure that force protection considerations have not been degraded. MEDEVAC capabilities in support of current SOF footprint conducting VSO/ALP are within prescribed timelines of SECDEF policy. Whenever a quick reaction force is required to add additional forces to a threatened VSO/ALP site, SOF-partnered forces such as the Afghan Commandos, Afghan National Army Special Forces or the Afghan Partner Units are dispatched to the VSO/ALP location to mitigate any threat.

QUESTIONS SUBMITTED BY MR. HEINRICH

Mr. HEINRICH. Secretary Panetta, I am deeply concerned, and I know a number of my colleagues are as well, about the budget cuts to small satellite programs such as Operationally Responsive Space (ORS) and the Space Development and Test Directorate in fiscal year 2013.

The FY13 budget seeks to repeal the establishment of the ORS program office and eliminate already marginal investments in small satellite programs. Given the increasingly competitive environment in space and the high cost of procuring traditional, multibillion dollar satellites, I fear these cuts are penny-wise and pound-foolish. Specifically, the FY13 Defense Budget Overview proposes a "restructure of the Operationally Responsive Space (ORS) program in order to provide more responsive and timely space capabilities to the warfighter," yet the funding request in the ORS budget line was $0.

How is the elimination of the ORS office that is responsible for spearheading this effort consistent with providing "more responsive and timely space capabilities to the warfighter"?

How does DOD intend to continue its support of the concept and mission without any resources dedicated to this effort?

Secretary PANETTA. The fiscal year 2013 budget request terminates the Operationally Responsive Space (ORS) Program Office, but not our commitment to achieving the goals of ORS. Responsive and resilient space capabilities are still critical to protecting our ability to operate effectively in space. As the National Security Space Strategy notes, ensuring U.S. capabilities are developed and fielded in a timely, reliable, and responsive manner is critical for national decisionmakers to be able to act on time-sensitive and accurate information and for military forces to be able to plan and execute effective operations. To that end, we will incorporate the ORS efforts, principles, and activities into the Air Force Space and Missile Systems Center (SMC) Program Offices and fund integration of ORS concepts into the SMC through existing programs. This will ensure resilient, survivable, flexible, and responsive capabilities are considered in all future space programs, not merely in one discrete program office.

Mr. HEINRICH. As you know, the ORS–1 imaging satellite was launched in June 2011 in response to an urgent requirement from the Commander of USSTRATCOM in support of CENTCOM.

It is my understanding that ORS–1 has met and exceeded CENTCOM's expectations.

Can you speak a little more on what the warfighter's response has been to this reconnaissance asset?

If the ORS mission has been realigned into other programs, how much funding is being allocated for this mission? How does DOD plan to use commercial capabilities, including hosted payloads in FY13?

General DEMPSEY. Yes, CENTCOM has been satisfied with the performance of ORS–1 to date. The capabilities of ORS–1 and associated applications continue to grow. The operational program is fully funded through the design life of the satellite.

The ultimate goal for ORS is to incorporate the ORS concepts into the broader space mission. As part of the transition, the Air Force Space Command's Space and Missile Systems Center (SMC) will be the direct recipient of ORS residual activities. While the Air Force is still working the specific details, the intent is to explore alternatives including partnerships with other nations, commercial firms, and international organizations; as well as alternative U.S. Government approaches such as cross-domain solutions, hosted payloads, responsive options, and other innovative solutions. To support these efforts, $10.0 million has been transferred from ORS to the following programs: Advanced EHF Milsatcom, Global Positioning System III—Operational Control Segment, Space Based IR System—High, Space Control Technology, and Technology Transition.

QUESTIONS SUBMITTED BY MR. OWENS

Mr. OWENS. Secretary Panetta, you propose with this budget to reduce the number of Army Brigade Combat Teams (BCTs) by eight, with two coming from Europe. How far along is the Department in determining which U.S.-based BCTs will be drawn down, and when might your analysis of these decisions be made available to Members of Congress, Commanders at U.S.-based installations and the general public? Will Members or home installations have the opportunity to weigh in before these decisions go into effect?

Secretary PANETTA. The Army is considering a number of potential options, but no final decisions have been made as to which U.S.-based BCTs will be drawn down. An announcement on specific force structure actions is expected sometime before, or in conjunction with, submission of the FY14 President's Budget in early February 2013. The Army will develop a plan that will provide detailed information regarding the draw down and address notification of affected congressional districts and Army installations prior to the decision going into effect.

Mr. OWENS. Secretary Panetta, it should come as no surprise that your request for additional BRAC authorizations has been met with some resistance from Members of Congress, including myself. I do appreciate General Odierno's recent statements that closures of major installations are not in the works, and I believe many of us are willing to work with the Department if there is unused or otherwise excess real-estate on your books. Giving the Department carte blanche to begin a process for closing installations, however, is not something I for one am open to considering. I have concerns not only for major installations here in the U.S., but also for the costs generally associated with a BRAC request. Can you give us a range of the potential costs for a BRAC round, and are there any details available on where the money to pay for such an effort would come from?

Secretary PANETTA. The costs of a potential BRAC round will not be understood until after the formal review process is complete. The Department must develop its recommendations, have them reviewed by the independent BRAC Commission, forwarded by the President to Congress, and if Congress does not enact a joint resolution disapproving the recommendations, the Department can develop budget estimates of the costs.

The Department is committed and legally obligated to follow the normal internal budget deliberation process to determine the source of funds for implementation costs. As BRAC is a key priority, the Department will apply the resources necessary to support both a robust and thorough BRAC analysis and an efficient and effective implementation process. BRAC has an upfront cost, but it begins generating savings almost immediately, and those savings will partially offset its initial costs. Moreover, BRAC will generate recurring savings far in excess of the upfront investment.

Mr. OWENS. Secretary Panetta, affordability is the underlying premise of the F–35 program—yet this budget proposes for the 4th year in a row a flat production rate of 30 aircraft per year; in your opinion, what can be done in the near term to help drive down costs and ensure an efficient ramp rate to make certain the F–35 program will be affordable in the long term?

Secretary PANETTA. The Department is reducing costs in the near term by keeping production low to mitigate the cost risks from concurrent production and testing. Concurrency is a transitory issue, and those risks will progressively decline as the

program nears the completion of development and testing. Additionally, the Department is managing production costs through the transition from cost type to fixed-price-type contracts, which began with the Low-Rate Initial Production (LRIP) Lot 4 contract. In LRIP Lot 5, the Government's cost risk is being mitigated by transferring some responsibility for concurrency cost to the prime contractor. The LRIP Lot 6 and 7 contracts will implement an event-based contracting strategy that buys aircraft quantities based upon development and test progress. This strategy provides a means to control the production rate, which will be informed by demonstrated development performance against the 2012 plan and concurrency cost risk reduction. These steps will control near-term costs while ensuring that aircraft procured will last their required service life, come with the required mission capability, and have a reduced need for post-production modifications.

Production efficiencies are not entirely postponed to the future even when production quantity remains level under this staged production approach. Beyond cost reduction from improved learning in touch labor that this approach will generate, quality improvements are expected to reduce current scrap, rework, and repair costs. Process and performance improvements across the supplier base in material and overhead accounts are expected to reduce costs as well. Improved timely incorporation of test-discovered changes in the production configuration will deliver jets that require fewer post delivery modifications. These coupled aspects should result in real affordability gains each year as production contracts are negotiated on a basis of expected improvements accordingly.

Mr. OWENS. Secretary Panetta, can you speak to the importance of international participation to controlling costs on the F–35 program?

Secretary PANETTA. International participation is very important in controlling costs because the production of additional aircraft reduces aircraft unit costs for all the participating nations. The F–35 program continues to be the Department of Defense's largest cooperative program, with eight Partner countries participating under Memorandums of Understanding for System Development and Demonstration and for Production, Sustainment and Follow-on Development. The eight Partner countries are Australia, Canada, Denmark, Italy, The Netherlands, Norway, Turkey, and the United Kingdom. All the Partners recently met, and each expressed its continued commitment and support for the program. Currently, Partner and U.S. buys are projected to total 697 and 2,443 aircraft, respectively.

In addition to the cooperative partners, there is strong Foreign Military Sales interest. In 2010, Israel signed a letter of agreement to purchase 19 F–35A variants for $2.75 billion, with deliveries scheduled to begin in 2016. Israel plans to purchase an additional 56 F–35As in the future. In December 2011, Japan selected F–35 using a competitive process. On February 1, 2012, Japan signed a $6-million agreement to conduct F–35 studies. Japan is expected to sign an agreement to purchase the first 4 of a planned acquisition of 42 Conventional Take-Off and Landing F–35A aircraft by June 2012. Deliveries will begin in 2016.

Mr. OWENS. General Dempsey, the F–35 program has been restructured a number of times—three times in the past three years. I just want to confirm for the record that the requirement to develop and field an affordable, 5th-generation multirole strike fighter remains. Is that correct?

General DEMPSEY. Yes, the Department is committed to the JSF program of record that includes all three variants. We have slowed procurement in order to complete more testing and minimize concurrency issues before buying significant quantities.

QUESTIONS SUBMITTED BY MR. RUPPERSBERGER

Mr. RUPPERSBERGER. As semiconductor manufacturing continues to move offshore, particularly to China and Taiwan, it can be expected that there will be a rise in counterfeit chips. This is especially concerning because they are used in critical information systems and weapons systems. How does the Department plan to ensure that the U.S. Government has a reliable source for leading-edge technology and manufacturing for its military systems? Is there a long-term plan to deal with this issue?

Secretary PANETTA. There is a multitiered effort within the Department of Defense (DOD) to address Counterfeiting. It starts with an acquisition program assessing program risk and the consequence to the system if the system, a subsystem, assembly, or an individual item is counterfeited or incorporated by a DOD Prime or sub-tier supplier into a higher level system. Those identified as being at-risk then require assignment of a level of traceability implemented through Quality Assurance procedures at the Prime, sub, and any DOD-direct suppliers for each at-risk

item. Depending on the level of risk, suppliers may be required to document the authenticity of the item on the low end, perhaps for the use of qualified suppliers, or at the high end, procure only from a trusted source. The goal is to leverage the management of critical application items, including critical safety items and mission-critical components. This management process is already well defined and applies strong controls for the identified parts. The risks typically considered fall into the areas of Technical, Program, and Cost. As part of risk assessment and mitigation, DOD Program Managers are required to document the risk of counterfeits and their countermeasures in either their Program Protection Plan or their Systems Engineering Plan. The Department advocated this approach to the Office of Management and Budget's Intellectual Property Enforcement Coordinator's (IPEC) Federal Anti-Counterfeiting Working Group, as the chair of its Risk and Traceability Teams. With IPEC, DOD will lead the development of a Federal Acquisition Guide on Identification and Mitigation of Counterfeit Risk.

Specific DOD steps are:

- Anti-Counterfeit policy (DOD Instruction) is in development
- In the interim:
  - More than 2,000 personnel have been trained in counterfeit detection and mitigation.
  - DOD representatives participate in industry groups that have written anti-counterfeit standards to be approved by the association membership.
  - Code has been developed within the Department's primary system for tracking non-conforming material, the Product Quality Deficiency Reporting system that enables Components to tag suspected counterfeit items, for further investigation.

These initial steps are part of a comprehensive anti-counterfeiting program that will extend from system development to counterfeit material disposal over the next 3 years.

Mr. RUPPERSBERGER. The Defense Science Board (DSB) Task Force on High Performance Microchip Supply Report dated February 2005 included a recommendation (#5) that stated "Developing cost-effective technology for the design and fabrication of low-production-volume, leading-edge technology ASICs will require the combined efforts of DOD, the semiconductor industry, and semiconductor fabrication equipment suppliers" and "DDR&E should now take another look at ASIC production and formulate a program to address barriers to low- to medium-volume custom IC manufacturing." Based on the DSB Report recommendation, has the DOD developed any plans for an alternative, more flexible approach to manufacturing trusted, low-volume, leading-edge microelectronics?

Secretary PANETTA. Yes. The Department recognizes that leading-edge Application-Specific Integrated Circuit (ASIC) manufacturing technology resides in the global commercial sector and that the number of companies with the right capabilities is decreasing. The DSB Report supported the Department's need for low-volume access to leading-edge ICs. Since 2004, the Department partnered with the National Security Agency to gain economies of scale by aggregating ASIC demands. A contract was competitively awarded to a commercial firm to serve as a leading-edge, trusted ASIC foundry for a 10-year period to ensure access to leading-edge technology over a long term. This program has resulted in thousands of trusted ICs delivered to defense and national security programs. A trusted accreditation process was established, through which more than 50 industrial firms are accredited as trusted suppliers of IC technologies. The combination of the Trusted Foundry contract and the trusted supplier network provides DOD and its contractors with a rich set of technologies and options.

The Department is now in the process of formulating plans for the next 10 years. Numerous options are under study, including a short-term extension of the current arrangement and a recompetition for long-term sources of trusted IC manufacturing. Our plans will depend on the competitive marketplace to decrease costs and increase the array of technology options available to DOD. We are working with industry to outline a plan that will provide the Department with the flexible access to the widest array of trusted ASIC technologies available. We anticipate this plan will be complete late FY 2012 for implementation in FY 2013 and will be incorporated into the Department's Program Protection Plan.

Mr. RUPPERSBERGER. We understand that DOD and Air Force seek to on-ramp New Entrant competitors for national security space launch. As you know, I strongly support competition in space launch which will reduce costs to the taxpayer, according to an extensive Government Accountability Office review. How will DOD and the Air Force off-ramp from a block buy contract with ULA to enable New Entrants to compete?

Secretary PANETTA. Since the Government Accounting Office report was released, several steps have been taken to certify New Entrants. First, the New Entrant Certification Strategy was signed by the Air Force, the National Reconnaissance Office, and National Aeronautics and Space Administration (NASA), and released in October 2011. The document defines the coordinated certification strategy for commercial New Entrant launch vehicles. The certification strategy is anchored on NASA's existing model. Second, the United States Air Force Launch Services New Entrant Certification Guide was signed and released in October 2011. The Guide provides a risk-based approach the Air Force will use to certify the capability of potential New Entrant launch companies for Evolved Expendable Launch Vehicle (EELV) missions. The Guide lists the criteria any New Entrant must meet in order to launch a high-value operational satellite.

To facilitate the certification of potential new entrants, the Air Force has identified two missions that providers may bid on—the Space Test Program (STP)—2 and the Deep Space Climate Observatory (DSCOVR) missions. These non-National Security Space (NSS), EELV-class missions have a higher risk tolerance and will provide an opportunity for the potential new entrant to prove their capability for certification. Once a New Entrant is certified, launch services not covered under the FY13 Block Buy could be competed. When the Phase I Block Buy expires and New Entrants are certified, we will have a full and open competition for launch services.

Mr. RUPPERSBERGER. The Air Force has indicated that it has asked United Launch Alliance to fill out a matrix of what price they would charge for 6 to 10 boosters per year, across a range of 3 to 5 years, in order to determine a pricing "sweet spot" for ULA booster cores in a block buy procurement. How does the Department of Defense and the Air Force intend to independently assess whether the pricing is fair and reasonable? If the Air Force determines that the "sweet spot" is 10 booster cores per year for 5 years because this is the largest quantity order, how does it intend to allow New Entrants to compete?

Secretary PANETTA. The Department of Defense and the Air Force are committed to fostering competition while ensuring the reliability and capability of New Entrants desiring to participate in fulfilling National Security Satellites launch requirements.

Part 1: The Air Force will independently develop price estimates based upon certified cost and pricing data, as well as independent cost estimates. The Defense Contract Audit Agency (DCAA) and the Defense Contract Management Agency (DCMA) have committed to full participation in the Evolved Expendable Launch Vehicle (EELV) proposal evaluation and negotiation activities, thereby ensuring the final cost of space launch services represents the best value to the Government.

Part 2: The Air Force and the Department of Defense see competition as a critical element of our long-term efforts to reduce launch costs. The new EELV acquisition strategy, set to begin in FY13, entails an evaluation of an economic order quantity of EELV booster cores, covers contract periods ranging from 3 to 5 years, and encompasses a quantity range of 6 to 10 booster cores per year. By examining a range of contract options and terms for EELV procurement, and by examining progress by New Entrants in the coming months, the Air Force will be well-positioned to balance the rate and commitment decision with our fundamental priorities: operational requirements, price, budget and enabling competition. Once a New Entrant is certified, launch services not covered under the FY13 Block Buy could be competed. When the Phase I Block Buy expires and New Entrants are certified, we will have a full and open competition for launch services.

QUESTIONS SUBMITTED BY MR. SCHILLING

Mr. SCHILLING. The strategic guidance states the DOD will have a key element focused on investments in technology and new capabilities as well as the capacity to grow, adapt and mobilize as needed. Does this mean you will be ensuring that our organic base, including arsenals and depots, will be properly utilized and workloaded to ensure our capabilities to meet future threats is kept warm?

Secretary PANETTA. The Department agrees it is essential for national defense that we maintain depot maintenance and the arsenal organic capabilities that enable our forces to respond to mobilization, national defense contingency situations, and other emergency requirements. In addition to the formal processes and reporting requirements required by 10 U.S.C. § 2464, 10 U.S.C. § 2466, and 10 U.S.C. § 2476, the Office of the Assistant Secretary of Defense for Logistics and Materiel Readiness oversees programs and initiatives designed to support our Nation's organic industrial base.

Mr. SCHILLING. How does the DOD view its working capital bases like Arsenals? These are the most cost-effective part of our Army's flexible industrial base as they do not cost taxpayers large pots of money, but instead encourage public-private partnerships that help our economy.

Building on that, I have been aware of a study that has been going on to address the organic base in the future. When will that plan be released and what is your plan for the organic base in the future?

Secretary PANETTA. As operational requirements are reduced in Iraq and Afghanistan, workloads in all Army organic industrial base (OIB) facilities are projected to decline at moderate rates. Throughout this period and beyond, the Army's Depots and Arsenals will continue to be designated as Centers of Industrial and Technical Excellence (CITE) for maintenance and repair; for example, Pine Bluff Arsenal is CITE for chemical and biological defense equipment and the Army's manufacturer of white and red phosphorus, incendiary, illumination and color smoke ammunition rounds.

To mitigate reductions in Overseas Contingency Operations (OCO) funded work at Army OIB facilities, the Army Materiel Command's TACOM Life Cycle Management Command worked with its commercial partners, Army Program Executive Offices (PEOs), Program Management Offices (PMOs), and the Army's OIB activities to highlight the Army's OIB capabilities and identify opportunities for the Arsenals to partner with commercial firms to meet future PEO/PMO requirements. For example Rock Island Arsenal (RIA) is partnering with Sivyer Steel Corporation, a company that operates a foundry that has expertise in casting, molding, core making and machining. RIA and Sivyer anticipate that this partnership will yield the production of competitively priced, high quality castings. The partnership will also reduce lead time, and yield an increased workload for the foundry.

The Army's strategy for ensuring that the Army's OIB remains viable and relevant include: investment in new technology, training and plant equipment at the same rate that the Army modernizes its weapon systems; identifying and aligning core competencies and workloads to support current and future surge requirements; investment to maintain "state-of-the-art" capabilities and quality of work environment standards; and prioritizing funding to achieve the desired end state—viable and relevant OIB facilities.

Mr. SCHILLING. You brought up the important point that we will have a large number of veterans entering the system.

What specifically do you plan to do to help them transition back into the civilian world?

General DEMPSEY. Currently, all Services provide mandatory Pre-Separation Counseling and voluntary DOL Transition Assistance Program Workshops, VA benefits briefings and Individualized Coaching opportunities to assist Service members as they transition out of the military. In August 2011, the President called on the Department of Defense (DOD) and Veterans Affairs (VA) to lead a Task Force with the White House economic and domestic policy teams and other agencies, including the Department of Labor (DOL), to develop proposals to maximize the career readiness of all Service members. This DOD Employment Initiative Task Force is one element of the President's comprehensive plan to reduce Veteran unemployment and to ensure all of America's Veterans have the support they need and deserve when they leave the military, look for a job, and enter the civilian workforce.

This task force is reviewing transition programs that are currently being offered within DOD, VA and DOL and expects to implement a new training and services delivery model to help strengthen the transition of our Service members from military to civilian life in Spring of 2012. The model will establish the framework for ensuring Service members (of both Active and Reserve Components) meet a set of career readiness standards prior to transition to civilian life. These standards will be sub-divided into employment, technical training, and education. They will ensure Service members depart the military career-ready with a meaningful set of "tools" that will position them to achieve desired transition outcomes.

Mr. SCHILLING. I do not want to see the issues that veterans from Vietnam who suffered from Agent Orange exposure come back around to our most recent veterans.

Will you be working with the Department of Veterans Affairs to ensure that those who are leaving DOD will get the care they need to address issues like exposure to depleted uranium?

General DEMPSEY. The Department of Defense (DOD) and Department of Veterans Affairs (VA) are actively engaged in several important efforts to ensure exposure-related information is shared between our departments. Any confirmed exposures which involved clinical care or assessment are recorded in the Service mem-

bers' medical records, and these records are available to the VA. In addition, the post-deployment health assessment and post-deployment health reassessment are made available to the VA health care providers. These assessments are filled out by every Service member following deployment and include self-reported exposures. To further enhance our collaboration, the Departments recently signed a data transfer agreement (DTA) allowing the 2-way sharing of embedded fragment analysis data, including data on individuals with retained DU fragments.

The Departments are working towards an overarching exposure-related DTA that will permit the sharing of all occupational and environmental exposure-related data. Also under way are efforts to create Individual Longitudinal Exposure Records (ILERs). Once developed, ILERs will capture a wide variety of exposure-related data from a number of different sources that will link that information to Service members over the course of their military careers. This information will be available to DOD and VA health care providers, and it promises to improve the quality of health care. It will also ensure more timely and accurate adjudication of exposure-related claims and access to Service-connected benefits.

For the past two decades, DOD has been working closely with the VA on concerns related to depleted uranium (DU) exposures. To date, neither the DOD nor VA have identified any illnesses in DU-exposed Service members or Veterans that have been linked with those exposures. The DOD and VA continue to study DU exposures and ensure any Service members or Veterans that may be at risk are periodically monitored. The Military Services continue to identify Service members with documented exposures and refer them to the VA so they have the opportunity to be included in the VA's DU Follow-up Program. Only 10 Service members with DU exposure have been identified resulting from duty in Iraq or Afghanistan. (See http://www.publichealth.va.gov/exposures/depleted_uranium/followup_program.asp)

QUESTIONS SUBMITTED BY MR. SCOTT

Mr. SCOTT. Do you support or oppose lifting the ban on U.S. flag and general officers from visiting Taiwan? Besides Taiwan, what other countries are U.S. flag and general officers banned from visiting?

Secretary PANETTA. As a matter of policy and consistent with the policy stated in the Taiwan Relations Act, we review and consider, in coordination with the U.S. Department of State, travel by U.S. flag and general officers to Taiwan on a case-by-case basis; there is no ban on such travel. In addition, we will continue to support the practice of sending retired flag and general officers to Taiwan to serve in a mentorship capacity as part of our robust program for defense and security engagement with the armed forces of Taiwan.

Mr. SCOTT. Do you support or oppose lifting the ban on U.S. flag and general officers from visiting Taiwan? Besides Taiwan, what other countries are U.S. flag and general officers banned from visiting?

General DEMPSEY. Having retired general and flag officers visit Taiwan assists Taiwan and aids our ability to assess Taiwan's defense needs accurately. We will, therefore, continue the practice of sending retired flag officers to Taiwan to facilitate improving Taiwan's defense capabilities. Visitors have included Admiral (ret) Blair, Admiral (ret) Natter, Lieutenant General (ret) Gregson, and Lieutenant General (ret) Leaf. They have all spent weeks mentoring senior Taiwan flag officers to include attending the Han Kuang exercises. We will continue to send our best and our brightest to assist Taiwan with its defense.

QUESTIONS SUBMITTED BY MRS. ROBY

Mrs. ROBY. In your written testimony you discussed how the Department of Defense's plan includes reducing our forces that "we must help our veterans find education opportunities, meaningful employment, and first class heath care." You also go and say that this not "exclusive responsibility of the Services or veterans organizations."

What is the plan of the Department both internally and across other Federal agencies to ensure that military personnel transitioning out of the military are equipped with the necessary training and education to obtain employment?

I am particularly concerned since the unemployment rate for young Iraq and Afghanistan veterans is 22% and for wounded veterans is 41%.

Secretary PANETTA. The Department of Defense, in collaboration with our partners from the Department of Labor, helped develop a TAP Employment Workshop Redesign to create experiential, effective and enduring solutions for successful tran-

sition from military to civilian life and employment. In August 2011, the President created a task force led by the DOD and VA and supported by agencies including the Department of Labor (DOL), Department of Education (DoEd), Small Business Administration, and the Office of Personnel Management (OPM) to develop proposals to maximize the career readiness of all Service members. In coordination with our partners, DOD's role involves implementing and sustaining a comprehensive plan to ensure all transitioning Service members have the support they need and deserve when they leave the military. The President also directed reforms to our transition assistance programs to ensure that every Service member receives the training, education, and credentials needed to successfully transition into the civilian workforce or to pursue higher education. We are working with our partners to develop program and services, fully aligned with the "VOW to Hire Heroes Act of 2011," to give Service members a comprehensive set of transitioning tools, skills, and support mechanisms as they complete their service to our Nation. We will deliver an implementation plan for these programs and services to the President in spring 2012.

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General DEMPSEY. In August 2011, the Department of Defense (DOD)/Veterans Affairs (VA) Employment Initiative Task Force was created, encompassing DOD, VA, the White House economic and domestic policy teams and other agencies, including the Department of Labor (DOL), to develop proposals to streamline current programs and maximize the career readiness of all Service members. This Task Force is reviewing transition programs that are currently being offered within DOD, VA and DOL and expects to implement a new training and services delivery model to help strengthen the transition of our Service members from military to civilian life in Spring of 2012.

The model will establish the framework for ensuring Service members (of both Active and Reserve Components) meet a set of career readiness standards prior to transition to civilian life. These standards will be sub-divided into employment, technical training, and education. They will ensure Service members depart the military career-ready with a meaningful set of "tools" that will position them to achieve desired transition outcomes.

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