

**DEPARTMENT OF DEFENSE EFFICIENCIES  
INITIATIVES**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON ARMED SERVICES**  
**UNITED STATES SENATE**  
ONE HUNDRED TWELFTH CONGRESS  
FIRST SESSION

—————  
MARCH 29, 2011  
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## DEPARTMENT OF DEFENSE EFFICIENCIES INITIATIVES

TUESDAY, MARCH 29, 2011

U.S. SENATE,  
SUBCOMMITTEE ON READINESS  
AND MANAGEMENT SUPPORT,  
COMMITTEE ON ARMED SERVICES,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 2:34 p.m. in room SR-232A, Russell Senate Office Building, Senator Claire McCaskill (chairwoman of the subcommittee) presiding.

Committee members present: Senators McCaskill, Begich, and Ayotte.

Majority staff members present: Peter K. Levine, general counsel; Jason W. Maroney, counsel; Roy F. Phillips, professional staff member; John H. Quirk V, professional staff member; and Russell L. Shaffer, counsel.

Minority staff members present: Pablo E. Carrillo, minority investigative counsel; and Lucian L. Niemeyer, professional staff member.

Staff assistants present: Hannah I. Lloyd and Breon N. Wells.

Committee members' assistants present: Gordon Peterson, assistant to Senator Webb; Tressa Guenov, assistant to Senator McCaskill; Lindsay Kavanaugh, assistant to Senator Begich; and Brad Bowman, assistant to Senator Ayotte.

### OPENING STATEMENT OF SENATOR CLAIRE McCASKILL, CHAIRWOMAN

Senator MCCASKILL. The Readiness and Management Support Subcommittee of the Senate Armed Services Committee will begin. Today we're going to have a hearing on the Department of Defense (DOD) Efficiencies Initiatives.

The Subcommittee on Readiness and Management Support meets this afternoon to hear testimony on the efficiencies initiatives—say that three times real fast—[Laughter] announced by the Secretary of Defense.

We're pleased to have the DOD Comptroller, Robert F. Hale, and the Chief Management Officers (CMO) of the three military departments—Under Secretary of the Army, Joseph Westphal, Under Secretary of the Navy, Robert Work, and Under Secretary of the Air Force, Erin Conaton—here today to address this important issue. I welcome you all, and I thank you not only for your testimony, but for your contributions to the Secretary's efforts at efficiencies.

I fully support the Secretary's objectives in reducing the duplication, overhead, and excess in the Defense enterprise and instilling a culture of savings and restraint across DOD. As I stated at our previous hearing, I do not believe there is anything DOD is doing that we cannot do better, and I do not believe there is any part of the budget that can be off limits as we look for savings.

I believe that the Secretary was on the right track when he announced a reduction in funding for service support contracts by 10 percent per year for 3 years, a freeze on the number of the Office of the Secretary of Defense (OSD), Defense agency, and combatant command (COCOM) positions, a freeze on the number of general officer, flag officer, and Senior Executive Service (SES) positions, a review and reduction of the number of reports, studies, and advisory boards, new limits on SES positions and support contractors for DOD intelligence functions, and the elimination or consolidation of several defense commands and agencies.

I'm also pleased that the military departments have followed up by proposing additional economies, including consolidations of functions and facilities, cuts to funding for recruiting and retention, increased use of flight simulators, reductions in inventories in pre-positioned stockpiles of materials, the deferral of military construction (MILCON), and the termination of lower-priority acquisition programs.

I also want to thank our witnesses today for the additional detail you have provided on DOD's efficiencies initiatives over the last few days. That information includes written rationales for specific elements of the effort and detailed funding tables showing the expected savings. It has seemed like pulling teeth to get the detailed information we need to understand exactly what you plan to do and why you think it's going to save money, but the information that you have now provided is a huge step in the right direction, and puts the entire effort on a much sounder footing. We really appreciate it.

Nonetheless, the proposed efficiencies initiatives raise some difficult questions, which I hope we will begin to answer in the course of today's hearing. For example, although the Secretary stated on August 9 that he intended to reverse the dramatic increase in DOD's use of service support contractors, DOD now proposes to cut spending on service contracts by just \$1.3 billion this year, less than a third of the \$4.5 billion it plans to cut from the much smaller amount spent on DOD's civilian workforce. Will these disproportionate cuts to the civilian workforce accelerate the outsourcing trend that the Secretary has promised to reverse?

In his August 9 speech, the Secretary of Defense announced that he would conduct a zero-based review of DOD's intelligence organizations, require a 10-percent freeze in reduction in funding for the advisory and assistance contractors, and freeze the number of senior executive positions in DOD intelligence positions. Yet, the budget calls for a savings in DOD intelligence budget of only \$41 million in fiscal year 2012 and \$372 million over the Future Years Defense Program (FYDP), which covers another additional 5 years. Is that really the best we can do?

In addition to the Defense-wide initiatives and the service-specific initiatives, we have a third set of initiatives, the "better buy-

ing power” acquisition reform initiatives announced by Secretary Ash Carter. The Defense-wide initiatives are expected to achieve \$78 billion in savings, and the service-specific initiatives are expected to save \$100 billion—however, no savings at all are credited to this acquisition reform initiative. Why not?

I understand that the CMOs of the three military departments, our witnesses here today, are responsible for the implementation of the service-specific initiatives in this efficiency effort. However, the CMO and Deputy Chief Management Officer (DCMO) of DOD appeared to have played little role in the Defense-wide effort to date. Who will be responsible for implementing the Defense-wide efficiencies initiatives? Who can we hold accountable?

Over the last decade, DOD’s budget has grown from just under \$300 billion in fiscal year 2001 to almost \$550 billion in fiscal year 2011, an increase of over \$250 billion on an annual basis. That’s the base budget. That is not counting the cost of Overseas Contingency Operations (OCO). I want to repeat that, make sure that we understand what the numbers are we’re working with. In less than a decade, we have gone from a base budget at the Pentagon of \$300 billion to a base budget of \$550 billion, not counting any of the costs that we have incurred in Iraq, Afghanistan, or the current international assistance operation that is ongoing in Libya.

Measured against that yardstick, the Secretary’s proposal to find savings of \$24 billion and reduce the top line of the Defense budget by about \$14 billion in fiscal year 2012 seems much more modest than draconian. In fact, I question whether, in this time of economic and fiscal duress, we can afford to allow the military departments to reinvest the \$10 billion they plan to save this year through cuts to excessive bureaucracy and underachieving programs. When we move forward with the National Defense Authorization Act (NDAA) for Fiscal Year 2012, I may offer an amendment to strike this added spending from the bill so that we can apply the full savings against our rising budget deficit.

I welcome all the witnesses today, again, and thank you.

Now, I will turn to the ranking member, it’s so great to have her on board, Senator Ayotte.

[The prepared statement of Senator McCaskill follows:]

PREPARED STATEMENT BY SENATOR CLAIRE MCCASKILL

The Subcommittee on Readiness and Management Support meets this afternoon to hear testimony on the efficiencies initiatives announced by the Secretary of Defense. We are pleased to have the Department of Defense (DOD) Comptroller Robert F. Hale and the Chief Management Officers of the three military departments—Under Secretary of the Army Joseph W. Westphal, Under Secretary of the Navy Robert O. Work, and Under Secretary of the Air Force Erin C. Conaton—here today to address this important issue. I welcome you all, and I thank you not only for your testimony, but for your contributions to the Secretary’s efficiencies initiatives.

I fully support the Secretary’s objectives of reducing “duplication, overhead, and excess in the defense enterprise” and instilling “a culture of savings and restraint” across DOD. As I stated at our previous hearing, I do not believe there is anything the Department is doing that we cannot do better, and I do not believe that there is any part of the budget that can be off limits as we look for savings.

I believe that the Secretary was on the right track when he announced a reduction in funding for service support contracts by 10 percent per year for 3 years; a freeze on the number of Office of Secretary of Defense, Defense agency, and combatant command positions; a freeze on the number of general officer, flag officer, and Senior Executive Service (SES) positions; a review and reduction of the number of

reports, studies, and advisory boards; new limits on SES positions and support contractors for DOD intelligence functions; and the elimination or consolidation of several defense commands and agencies.

I am also pleased that the military departments have followed up by proposing additional economies, including consolidations of functions and facilities, cuts to funding for recruiting and retention, increased use of light simulators, reductions in inventories and prepositioned stockpiles of materials, the deferral of military construction, and the termination of lower priority acquisition programs.

I also want to thank our witnesses today for the additional detail that you have provided on the Department's efficiencies initiatives in the last few days. That information includes written rationales for specific elements of the effort and detailed funding tables showing the expected savings. It has seemed like pulling teeth to get the detailed information we need to understand exactly what you plan to do and why you think it is going to save money—but the information that you have now provided is a huge step in the right direction and puts the entire effort on a much sounder footing. We really appreciate it.

Nonetheless, the proposed efficiencies initiatives raise some difficult questions, which I hope we will begin to answer in the course of today's hearing. For example:

- Although the Secretary stated on August 9 that he intended to reverse the dramatic increase in the Department's use of service support contractors, the Department now proposes to cut spending on service contracts by just \$1.3 billion this year—less than a third of the \$4.5 billion it plans to cut from the much smaller amount spent on the Department's civilian workforce. Will the disproportionate cuts to the civilian workforce accelerate the outsourcing trend that the Secretary promised to reverse?
- In his August 9 speech, the Secretary of Defense announced that he would conduct a "zero-based review" of the Department's intelligence organizations, require a 10 percent freeze in reduction in funding for intelligence advisory and assistance contractors, and freeze the number of senior executive positions in DOD intelligence positions. Yet, the budget calls for a savings in the DOD intelligence budget of only \$41 million in fiscal year 2012, and \$372 million over the Future Years Defense Program. Is that really the best we can do?
- In addition to the defense-wide initiatives and the service-specific initiatives, we have a third set of initiatives—the "better buying power" acquisition reform initiatives announced by Secretary Carter. While the DOD-wide initiatives are expected to achieve \$78 billion in savings and the service-specific initiatives are expected to save \$100 billion, however, no savings at all are credited to the acquisition reform initiatives. Why not?
- I understand that the Chief Management Officers of the three military departments—our witnesses here today—are responsible for the implementation of the service-specific efficiencies initiatives. However, the Chief Management Officer and Deputy Chief Management Officer of DOD appear to have played little role in the defense-wide effort to date. Who will be responsible for implementing the defense-wide efficiencies initiatives?

Over the last decade, the DOD budget has grown from just under \$300 billion in fiscal year 2001 to almost \$550 billion in fiscal year 2011, an increase of \$250 billion per year—and that is the base budget, not including the cost of overseas contingency operations. Measured against that yardstick, the Secretary's proposal to finding savings of \$24 billion and reduce the top-line of the defense budget by about \$14 billion in fiscal year 2012 seems more modest than draconian.

In fact, I question whether, in this time of economic and fiscal duress, we can afford to allow the military departments to "reinvest" the \$10 billion that they plan to save this year through cuts to excessive bureaucracy and underachieving programs. When we move forward with the National Defense Authorization Act for Fiscal Year 2012, I may offer an amendment to strike this added spending from the bill, so that we can apply the full savings against our rising budget deficit.

I look forward to the testimony of our witnesses, and I now turn to Senator Ayotte for any opening remarks that she may have.

#### **STATEMENT OF SENATOR KELLY AYOTTE**

Senator AYOTTE. Thank you very much, Madam Chairwoman.

I thank the witnesses for appearing before our subcommittee today, and for your service to our country during these difficult times.

This hearing really goes to the heart of the fiscal crisis that we face as a Nation. Certainly, I've heard from people in New Hampshire in sending me to Washington, that we need to address our Nation's fiscal crisis and reduce Federal spending. I certainly plan to honor that commitment. We cannot continue to spend what we don't have, and we must closely scrutinize every Federal agency, including DOD, to identify and eliminate wasteful or duplicative programs. As the National Commission on Fiscal Responsibility and Reform (Bowles-Simpson) stated in their final report, A Moment of Truth, "Every aspect of discretionary—the discretionary budget must be scrutinized. No agency can be off limits, and no program that spends too much or achieves too little can be spared."

I commend the Secretary of Defense for his commitment to review DOD's operations to find better ways to do business. The services now plan to fund new modernization initiatives from within the budgets that will remain steady, as adjusted for inflation, in the next few years. In addition, the Secretary's review of all DOD functions reduces overhead costs by \$78 billion over the next 5 years, starting with \$13 billion in fiscal year 2012, from the amount projected in last year's President's budget for DOD.

But, let's be clear: only in the current climate here in Washington, DC, can an agency propose a cut in the rate of growth of future budgets and call it a triumph. In a year when we are facing close to a \$1.6 trillion deficit accruing at over \$200 billion a month, cutting \$13 billion from projected \$566 billion requests hardly makes a dent. Local and State governments around the country are looking at their outlays today and cutting back now just to remain solvent. We need to instill that—this same mindset and same sense of urgency in DOD.

DOD funds provided for specific purposes, but no longer needed or in excess of that requirement, should be returned to the General Fund of the Treasury, as opposed to funding lower priorities. For example, our committee has challenged requests to use savings from the Base Realignment and Closure (BRAC) accounts to fund new MILCON projects, and will continue to do so. We should not fund additional projects that did not make the cut the first time.

I would also like to hear how the witnesses plan to change the widespread mindset in the Pentagon, which encourages program managers to spend all the money available in order to justify future budget requests. I ask the witnesses to consider an overarching efficiency initiative for DOD's budgeting system to provide incentives to program managers to be rewarded for spending less, as opposed to being penalized, in the future budgets, for not spending every dollar that's given to them.

In addition, DOD needs to stop carrying out earmarked programs that are not core DOD activities. Substantial savings will not be realized until DOD commits to spend only what is absolutely essential for the warfighter and critical DOD functions.

I'm also concerned that some of the efficiencies may actually defer expenditures critical to our military readiness, which increases risk to our military forces and to our national security. Reduced funding for facility maintenance, aircraft maintenance, MILCON, and flying hours are not savings or efficiencies. The negative consequences of the continuing resolution on our core readi-

ness functions, like ship availabilities, we're already seeing and are bad enough. We should not compound the damage of the continuing resolution on our military's readiness by pushing core readiness requirements to future years that will eventually have to be funded.

I ask our witnesses today, for the record, to delineate those spending cuts proposed in the budget request that defer requirements, assess the risk of each one, and propose a plan for their eventual payment. This committee needs to honestly and accurately assess this risk, on top of the years of accumulated risk, to the readiness and training of our forces. In a time of turmoil and uncertainty around the world, which we've certainly seen with the recent events in Libya and the Middle East, we must be clear about the true effects of reduced military spending in critical readiness areas proposed under the guise of efficiencies.

I also support the chairwoman's previous call for financial statements for DOD that can be audited. Given how defective DOD's financial processes and systems are, I have to wonder how the projected savings will actually be realized without having a strong system in place that can be audited. Without tracking and understanding current expenses, DOD has no way to establish a baseline to measure the performance of any efficiency initiative. I'm concerned that the Air Force, for example, does not have a plan to be audit-ready until the end of 2016. I think the average American would be surprised and disappointed to know that DOD does not currently have fully auditable statements, and does not expect to have them until 2017. This is too late. The Financial Improvement and Audit Readiness Initiative should be DOD's top efficiency priority.

Finally, Chairwoman McCaskill, I hope you will share my commitment to avoid, today—which I know you have said in previous hearings—to avoid using gimmicks to get around the ban on earmarks that Congress has adopted this year. Adding unspecified lump sums to certain DOD accounts without a vote by this committee or the full committee, and then allowing DOD to pick and choose the special-interest items to fund with the additional money, is not consistent with my definition of fiscal responsibility and accountability.

I look forward to a productive and open discussion with our witnesses today, and appreciate, again, your commitment to our country. This is a very important hearing, and I appreciate you all being here today.

[The prepared statement of Senator Ayotte follows:]

PREPARED STATEMENT BY SENATOR KELLY AYOTTE

Thank you Chairwoman McCaskill and I thank the witnesses for appearing before our subcommittee today. This hearing goes to the heart of the fiscal crisis we face as a Nation. During my campaign, I vowed to my constituents in New Hampshire that I would come to Washington, DC, to address our Nation's fiscal crisis and to reduce Federal spending. I plan to honor that commitment. We cannot continue to spend what we do not have. We must closely scrutinize every Federal agency—including the Department of Defense (DOD)—to identify and eliminate wasteful or duplicative programs. As the National Commission on Fiscal Responsibility and Reform stated in their final report, A Moment of Truth, "Every aspect of the discretionary budget must be scrutinized, no agency can be off limits, and no program that spends too much or achieves too little can be spared."

I commend the Secretary of Defense for his commitment to review the Department's operations to find better ways to do business. The Services now plan to fund

new modernization initiatives from within budgets that will remain steady as adjusted for inflation in the next few years. In addition, the Secretary's review of all Department functions reduces overhead costs by \$78 billion over the next 5 years, starting with \$13 billion in fiscal year 2012 from the amount projected in last year's President's budget for the Department.

But let's be clear. Only in the current climate here in Washington, DC, can an agency propose a cut in the rate of growth of future budgets and call it a triumph. In a year when we are facing a \$1.4 trillion deficit accruing at over \$200 billion a month, cutting \$13 billion from a projected \$566 billion request hardly makes a dent. Local and State governments around the country are looking at their outlays today, and cutting back now to remain solvent. We need to instill this same mindset and same sense of urgency in DOD. DOD funds provided for specific purposes, but no longer needed or in excess of the requirement, should be returned to the General Fund of the Treasury, as opposed to funding lower priorities. For example, our committee has challenged requests to use savings from the base realignment and closure accounts to fund new military construction projects, and will continue to do so. We should not fund additional projects that did not make the cut the first time.

I would also like to hear how the witnesses plan to change the widespread mindset in the Pentagon which encourages program managers to spend all money available in order to justify future budget requests. I ask the witnesses to consider an overarching efficiency initiative for the Department's budgeting system to provide incentives to program managers to be rewarded for spending less, as opposed to being penalized in future budgets for not spending every dollar given to them. In addition, the Department needs to stop carrying out earmarked programs that are not core DOD activities. Substantial savings will not be realized until the Department commits to spend only what is absolutely essential for the warfighter and critical Department functions.

I am also concerned that many efficiencies actually defer expenditures critical to our military readiness, which increases risk to our military forces and to our national security. Reduced funding for facility maintenance, aircraft maintenance, military construction, and flying hours are not savings or efficiencies. The negative consequences of the continuing resolution on core readiness functions like ship availabilities are bad enough. We should not compound the damage of the continuing resolution on our military's readiness by pushing core readiness requirements to future years that will eventually have to be funded. I ask our witnesses today for the record to delineate those spending cuts proposed in the budget requests that defer requirements, assess the risk for each one, and propose a plan for their eventual payment. This committee needs to honestly and accurately assess this risk, on top of years of accumulated risks, to the readiness and training of our forces. In a time of turmoil and uncertainty around the world, we must be clear about the true effects of reduced military spending in critical readiness areas proposed under the guise of efficiencies.

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Finally, Chairwoman McCaskill, I hope you will share my commitment today to avoid using gimmicks to get around the ban on earmarks that Congress has adopted this year. Adding unspecified lump sums to certain DOD accounts without a vote by this committee or the full committee, and then allowing the Department to pick and choose the special interest items to fund with the additional money, is not consistent with my definition of fiscal responsibility and accountability.

I look forward to a productive and open discussion with our witnesses today.

Senator McCaskill. Thank you all for being here.

I will go down the list in the order that I have them listed on the witness sheet, which means we will begin with Secretary Hale.

**STATEMENT OF HON. ROBERT F. HALE, UNDER SECRETARY  
OF DEFENSE, COMPTROLLER**

Mr. HALE. Thank you. Well, good afternoon, Chairwoman McCaskill, Senator Ayotte, Senator Begich. Thank you for the opportunity to discuss our efficiencies initiatives.

I'm joined today by the Under Secretary's CMOs. We've submitted a statement. I hope you'll include it in your record. In the interests of time, I'll summarize. I'll start. Then I'm going to ask each of the Service Secretaries to discuss issues for their service, and I'll end with a short summary about implementation.

At the outset, let me note that, like Congress, we're mindful of the fact that the United States is dealing with significant fiscal and economic pressures that affect our Nation and our Nation's defenses. As a result, our past budgets for fiscal years 2010 and 2011 included steps to curtail or eliminate weapons. The secretaries' reform agenda didn't begin with the budget we submitted to you. We've terminated seriously troubled programs. We've ended some where we thought we had bought enough. We terminated or restructured more than 20 weapons programs in the 2010 and 2011 budget.

But, the one that we just submitted in 2012, we shifted our focus to streamlining our business operations. There are some further terminations of weapons, but the focus is on the business side. We've created plans that will save \$178 billion in fiscal years 2012 to 2016. I'll say, I've been looking in and around Defense budgets for more than 30 years. I have never seen one with as far-reaching a set of business streamlining as this one.

The Under Secretaries will briefly describe how their plans are to save about \$100 billion of that amount, which they have retained and reinvested in high-priority warfighter capabilities.

I'll now speak to the \$78 billion in Defense-wide savings. These savings were used to accommodate a reduction in the top line in support of the administration's deficit reduction efforts. Now, note that this \$78 billion, as you pointed out, results in a reduction in the rate of growth in Defense spending, not a cut from the current level. Even with the \$78 billion, we'll go from \$553 billion request in 2012 to \$611 billion by 2016. There is some modest real growth there, and we can discuss this more later. But, I would say, we not only have a deficit problem, we also have some very significant national security challenges. We feel that we need this funding to handle, whether it's Afghanistan, getting—finishing the mission in Iraq, Libya, Japan, and many things that we are responsible for undertaking.

In order to protect the capability for the warfighter, most of our top-line savings, that \$78 billion, came from efficiencies and other changes in the portions of our budget less closely related to warfighter capability. About \$68 billion of the \$78 billion came from improving business practices, reducing personnel costs, and changing economic assumptions.

Let me cite a couple of examples to give you a flavor for what we did. We're proposing steps to slow the growth in military medical costs. While we continue to provide, and will continue to provide, the troops and the families and retirees with high-quality medical care, we're concerned that DOD's medical care costs are

skyrocketing. They've gone from \$19 billion in fiscal year 2000 to \$52 billion in fiscal year 2012. To slow that growth, we've proposed incentives to increase the use of generic drugs and mail-order delivery. We've proposed a modest increase in TRICARE enrollment fees for working-age retirees, the first since the mid-1990s, and we've indexed those fees to a medical deflator. We also propose to end some special subsidies for private-sector hospitals that currently receive premium claims rates. Expected savings will total \$340 million in fiscal year 2012 and \$7.9 billion through fiscal year 2016.

I ask Congress' help here. I know these are hard things to do, but we have to make some of these tough decisions if we're going to find ways to hold down the growth in Defense spending.

A second example of Department-wide cost-cutting involves personnel decisions. We've proposed a DOD-wide freeze on civilian billets, with some limited but important exceptions, such as the one for the acquisition workforce. That will save \$2.5 billion in fiscal year 2012 and \$13 billion over the FYDP.

We also proposed a 30-percent reduction in the number of contractor employees performing staff augmentation work. It's an important distinction. That is people that are essentially hired to do jobs that could be done by government employees. That'll save \$812 million next year, 5.7 percent over the FYDP.

Over the next 2 years, we plan to reduce or downgrade 140 general officer and flag billets, and more than 200 senior civilian billets. The savings there will be modest, but it does go toward Secretary Gates' goal of flattening DOD's organization.

Third, we're streamlining DOD's organizational structure. That includes disestablishing the Joint Forces Command, at a savings of \$2 billion over the FYDP, and the Business Transformation Agency, which will save another \$337 million.

All together, actions affecting the portion of the budget least directly related to warfighting account for about 87 percent of that top-line reduction. The remaining roughly \$10 billion involve decisions more directly related to combat capability: a \$4 billion restructuring of the Joint Strike Fighter—but, frankly, we would have done that anyway, because of slips in the program—and \$6 billion from proposed decreases in the end strength of the Army and the Marine Corps in fiscal 2015 and 2016, assuming that future security circumstances allow such reductions with minimal risk.

As I said earlier, in addition to the \$78 billion in Defense-wide savings, the Services have gone through their own cost-cutting exercises, which saved more than \$100 billion, or plan to, in fiscal 2012 through 2016. These are organizational improvements, changes in business practices, termination of underperforming or unneeded weapons. Of those savings, \$28 billion were reinvested to pay for higher operating costs or pay for readiness enhancements, essentially. I think that rather than hollowing out or decreasing readiness, this initiative is designed to improve it. Certainly in Secretary Gates' mind. It included depot maintenance. It included more flight hours and training. The remaining \$70 billion, they reinvested in other higher priorities.

So, now let me ask each Service Under Secretary to provide some details, beginning with Army Secretary—Under Secretary Joseph

Westphal. That will be followed by Under Secretary Robert Work and Under Secretary Erin Conaton.  
Joe?

**STATEMENT OF HON. JOSEPH W. WESTPHAL, UNDER  
SECRETARY OF THE ARMY**

Dr. WESTPHAL. Chairwoman McCaskill, thank you very much for having us here today. Senator Ayotte, thank you, and members of the subcommittee.

I will also have a little statement. Rather than read that, I'll just make a few summary points. I think you know everything that's on it already. So, not to belabor the subcommittee's time.

I will say that, from our perspective as CMOs, we actually welcome a dialogue with the committee about these issues. I think we're entering upon a very, very turbulent period of time, both in terms of the fiscal standing of our Nation's budgets, but also in terms of the nature of operations out there. As we try to draw down out of Iraq and gain momentum in Afghanistan, and do all the things that we need to do to support this Nation's security, I think these discussions are going to be very important.

In the Army, what we call the generating force—that is, all those elements of military and civilian that support our operational force—has been reduced, in significant ways, to support and to be part of the operating force. So, part of what we need to do as we move forward, in terms of efficiencies, is to ensure that we don't further undermine the generating force so that we always have ready and trained troops ready to go. So, a lot of the efficiencies that we identified, in our efforts to gain approximately \$28 billion to \$29 billion, were aimed at ensuring that we didn't undermine the generating force.

For example, we made sure that support for base operations was an important investment in ensuring the maintenance and growth and sustainability of the generating force, as opposed to simply moving all resources over to shifting resources from one side of procurement to another side of procurement. We did some of that, as well.

But, the gist of it is that we believe that the Secretary's efficiency initiative for the Army was the beginning—as I think Secretary Hale mentioned, the beginning of an effort to really become much more adept at addressing the very difficult issues of, how do we reduce and shift resources? Whether you're reducing the workforce or whether you're eliminating programs, or whether you are reducing or taking down structure, the processes that we have to follow to do that are complex and often difficult to maneuver through. So, we've had some valuable lessons learned in this process. I think we've employed some techniques that we could talk about during the question-and-answer that I think will help us address many of the concerns that both of you have mentioned in your opening statements.

I think you know what we did to gain that \$29 billion in savings on the procurement side, on the infrastructure side, on the personnel side. So, I won't detail that to you now. But, I'll be glad to answer any questions and address it as we go forward in the interview.

Thank you very much.  
Senator McCASKILL. Thank you, Mr. Secretary.

**STATEMENT OF HON. ROBERT O. WORK, UNDER SECRETARY  
OF THE NAVY**

Mr. WORK. Chairwoman McCaskill, Senator Ayotte, Senator Begich, I echo Joe and Robert's "thank you very much for having us here today." We are very, very interested in continuing a dialogue with both the committee and Congress, writ large.

I'd like to echo that this is something very different, this entire efficiencies effort, than anything that I've seen through my 27 years as an Active-Duty Marine and since my retirement. The breadth of the effort was quite striking. We had aggressive top-down targets. Each of the Departments were given \$30 billion to hit on their efficiencies targets. We were given very explicit types of targets. So, I think you know that one-third were supposed to come from what we referred to as "tooth" and two-thirds from "tail," or, pretty much, overhead.

We had vibrant debates within DOD on the type of codes that we should actually map the efficiencies. We had close interaction with all of the Under Secretaries. The Under Secretaries met, if not weekly, biweekly. You had a question with the DCMO. We met frequently with the DCMO. We also met with Bob Hale and Christine Fox from CAPE. It was a very iterative process. We were pushed very hard after the first \$30 billion rounds, for example, we were given another track II.

So, the way the Department of the Navy went about this is, we tried to have four kind of broad areas. One through reorganizations, which we've given several examples of what we might do, but we disestablished staffs, the Second Fleet, et cetera. We've reduced personnel ashore. We did that by going through each of the over 200 bases and stations, and went through and asked what we might be able to do with fewer people. We did better business practices. That included buying smarter. But, to answer Senator Ayotte's question, we actually looked at all of these input metrics like Facilities, Sustainment, Restoration, and Modernization (FSRM), which are really just models where you would just dial in 90 percent or 80 percent. You take a look at your flight hours and you dial in a certain percentage and you take a look at your ship depot maintenance. We tried to do everything from a percentage—from the perspective of, how could we do this better?

So, there would be a model that said you were supposed to do 90 percent of all of the different types of requirements. What we would do is try to go to each base and say, "Okay, what's really wrong on this base, the highest priority thing, is to replace this specific roof, because if this roof caves in, you would have a much harder problem. So, we have a much better idea of what the prioritization of all of these things are. We think we will be able to be far more efficient in this way. The same way on flight hours, for example. We went through each type and model series of aircraft and looked to see how that might work. We also looked at program eliminations, as Mr. Hale said, like the expeditionary fighting vehicle (EFV) and the Standard Missile-2 (SM-2).

We took all of this money. What really made this different is each of the Under Secretaries and the Service Chiefs and the Service Secretaries were told to reinvest this money into high-priority warfighting, since this was the initial goal of this effort. So, we were able to put more people to sea. We were able to accelerate programs like the next-generation jammer. We were able to buy and accelerate new capabilities, like the medium-range unmanned aerial system. We were able to fully pay for things that we had planned but had yet to put in the budget, like service life extension programs, on our aircraft. We were able to take all of the money from, for example, the EFV, and put it into Marine Corps ground combat equipment strategies, which made the force much more whole.

We also were able to convince DOD that energy should be considered “tooth.” So, we put an awful lot of investment into energy, because we expect that to save us a lot of money downstream.

I can’t overemphasize that one of the most important things on this efficiencies drill is to try to get the continuing resolution resolved. An efficiencies effort has to have a baseline, and with the baseline constantly changing, this really causes us a problem. So, the continuing resolution itself will allow us to be much more efficient than we are now. We are, quite frankly, doing things that are inefficient. I think any other businesswoman or businessman would say, “What in the heck are you doing this for?” So, we hope that the continuing resolution, in conjunction with this effort, will allow us to be much more efficient.

I look forward to your questions.

Senator McCASKILL. Secretary Conaton.

**STATEMENT OF HON. ERIN C. CONATON, UNDER SECRETARY  
OF THE AIR FORCE**

Ms. CONATON. Chairwoman McCaskill, Senator Ayotte, Senator Begich, members of the staff, thanks very much for having us here today. I join with my partners in appreciating the opportunity to continue the dialogue on where we go from here with efficiencies.

Like the rest of the services, the Air Force worked hard to meet the targets that Secretary Gates set out for us; in our case, about \$33 billion in efficiencies. As Bob was saying, to do this, we looked at all aspects of our work. We looked at all categories of support activities, from installations to sustainment to acquisition, overhead, and through those whole range of processes.

We also looked at how we do business. Secretary Work gave, I think, a good example with the facilities sustainment account, and we can talk more about that. But, there are other areas where we’ve changed our business process in order to become more efficient. Then, we also looked at industry best practices to see what folks in other parts of the country are doing that could lend lessons for us.

At least within the Air Force—and we can go into any number of these details, as you like—but, we had organizational and headquarters consolidations with some of our air and space operation centers and with numbered air forces. We had a number of logistic support efficiencies, everything from how we sustain our weapons

systems to over \$700 million in fuel savings from additional efficiencies there.

In the space arena, we've tried to improve our acquisition processes, and we're proposing, for your consideration, and would like to work with you as you get ready for the NDAA, on a new approach for how to buy two of our advanced extremely high frequency satellites in a way that we think will reduce costs and provide greater stability to the industrial base.

We were able to use the funds made available through these efficiencies in a range of enhancements that we believe enhance both warfighter capability and readiness. For the Air Force, we put a significant amount of money, about \$4 billion, into weapons systems sustainment, which has a direct bearing on our readiness rates. We've developed and are pursuing an affordable long-range penetrating bomber as part of DOD's long-range strike family of systems. We're procuring more evolved expendable launch vehicles, both to ensure access to space and to stabilize our industrial base. We're transitioning our MC-12 Intelligence, Surveillance, and Reconnaissance (ISR) aircraft, that's doing such amazing things over in Afghanistan, into our base budget to be an enduring capability.

We know that in order to achieve these goals we need to make individual senior leaders accountable for developing and executing detailed implementation plans. I'd be happy to talk about this more as we get into your questions.

The Air Force is using our existing corporate governance structure, including the Air Force Council, which is chaired—cochaired by myself and the Vice Chief of Staff, to regularly review the progress we're making on achieving these targets. We're particularly looking at the readiness impacts to make sure that there's no unintended consequences when it comes to the readiness of the force. But, from the Secretary and the Chief on down, we're committed to achieving these goals. We know that in order to do that, we have to work with our partners in DOD and with you all in order to be successful.

So, I think, with that, I'll turn back my time and just look forward to answering your questions.

Thank you very much.

Senator McCASKILL. Thank you very much.

Mr. HALE. Can I just finish up with—

Senator McCASKILL. Sure.

Mr. HALE.—a point on implementation, which is, the CMOs, as you said, will monitor for the services. I'll join with the OSD DCMO to look at the OSD-wide initiatives. All of us will report to the Department CMO, Deputy Secretary Lynn.

We will work with Congress. You asked, in the letter, about legislative requirements. Generally, these don't require that. But, there are a couple of cases that do; one in the medical care area, one that Erin referred to as the space efficiency. We need legislative authority there. I'm a little embarrassed to say we don't have the language to you yet, but I'm told it's coming soon.

Let me just say, lastly, we're talking a lot about efficiencies. Unfortunately, in fiscal year 2011, I think we're moving in the opposite direction with the continuing resolution. I know we are. I mean, it is causing inefficiencies. We are forcing our contracting of-

ficers to go to short-term contracts to preserve capability. We have several hundred MILCON projects on hold, as well as a number of procurement actions. I'm concerned that an already understaffed and under-experienced contracting workforce is going to have trouble catching up in a way that's efficient. So, anything that you can do—I know that there's difficult issues here—but to get us a budget for fiscal year 2011 would be very helpful.

Let me just end by thanking you for your support of the men and women in the military. We very much appreciate it. We can't maintain our national security without Congress, and we appreciate it.

With that, we'll stop and answer your question.

[The joint prepared statement of Mr. Hale, Mr. Westphal, Mr. Work, and Ms. Conaton follows:]

JOINT PREPARED STATEMENT BY HON. ROBERT F. HALE, HON. JOSEPH WESTPHAL,  
HON. ROBERT O. WORK, AND HON. ERIN C. CONATON

Good morning, Chairwoman McCaskill and members of the subcommittee. Thank you for this opportunity to discuss our efficiency actions at the Department of Defense.

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

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

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

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

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

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

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

\$78 BILLION USED TO REDUCE FEDERAL DEFICITS

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

It is also important to note that, in order to protect warfighter capability, most of this topline reduction was achieved through efficiencies and other changes in por-

tions of our budget less closely related to warfighter capability. To quote the Secretary of Defense: “As a result of the efficiencies and reforms undertaken over the past year, we have protected programs that support military people, readiness, and modernization.”

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

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

A second example of cost-cutting described in the attachment involved personnel decisions. They include—with limited exceptions—a freeze on civilian workforce levels that will save \$2.5 billion in fiscal year 2012 and \$13 billion over the FYDP. Also included is a 30 percent reduction in the number of contractor employees who have supplemented and supported our government staffs. These cuts in the number of contractors will save \$812 million next year and \$5.7 billion over the FYDP. In addition, over the next 2 years, we will reduce or downgrade 140 general and flag billets out of 900, and more than 200 senior civilian billets out of a total of 1,400. While the savings associated with these changes are modest, they will contribute to a flattening of the DOD structure.

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

Altogether, actions affecting the portions of our budget least directly related to warfighting capability account for \$68 billion—or more than 87 percent—of our topline savings. The remaining \$10 billion in 5-year topline savings involved decisions more directly related to military combat capability: \$4 billion from restructuring the Joint Strike Fighter Program and \$6 billion from a proposed decrease in end strength of the Army and Marine Corps.

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

#### MILITARY SERVICES SAVE AND REINVEST \$100 BILLION

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

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

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

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

#### ARMY

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

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

In the interest of both efficiency and effectiveness in its procurement programs, the Army has chosen to terminate the Surface-Launched Advanced Medium-Range Air-to-Air Missile surface-to-air missile in favor of higher-priority capabilities, saving \$103 million in fiscal year 2012 and \$1.1 billion over the FYDP. They are also terminating the Non-Line-of-Sight Launch System, which was originally a part of the Future Combat System. It is now considered redundant and not cost-effective. Its cancellation will save some \$605 million next year and \$3.2 billion over the FYDP.

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

#### NAVY AND MARINE CORPS

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

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

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

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

#### AIR FORCE

The Air Force achieved approximately \$33 billion in overhead savings across the Future Years Defense Program. The organizational changes include changes to manpower and personnel, consolidation of two Air Operations Centers in the United States and another two in Europe, and consolidation of three Numbered Air Force

staffs in areas where major commands can assume the workload. These moves will save \$516 million next year and \$4.2 billion over the FYDP.

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

- A 25 percent reduction in the cost of communications infrastructure, using enterprise-wide services and consolidated data centers that will save \$1.3 billion over the FYDP.
- Cuts to fuel and energy costs by Air Force Mobility Command through adoption of commercial best practices in flight planning and use of simulators that will require an investment of \$120 million but pay back \$715 million over 5 years.
- Adoption of a new method for acquiring satellites—emphasizing block buys, sustained funding for engineering, fixed price contracts, and full funding over multiple years through advance appropriations. The Air Force is expecting this new acquisition approach—which we refer to as Evolutionary Acquisition for Space Efficiency (EASE)—to create more stability in the industrial base and lower the costs of acquiring satellites.

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

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

#### SUMMARY

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

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

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

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

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

**Attachment A**  
**Defense-Wide Savings (\$78B)**

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

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

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

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

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

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

**Disestablish Joint Forces Command (\$2B).**

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

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

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

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

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

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

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

**Attachment B**  
**Military Department Efficiencies (\$100B)**

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

**Army (\$29.5 billion)**

Reorganizations (\$5.4 billion)

- Reduce infrastructure civilian and military manning as a result of restructuring (\$0.1 billion).
- Reduce recruiting and retention incentives (\$5.3 billion).

Better Business Practices (\$10.3 billion)

- Consolidate e-mail infrastructure and data centers (\$0.5 billion).
- Reduce contractor staff augmentation (\$3.5 billion).
- Streamline logistics sustainment processes (\$0.6 billion).
- Streamline the Installation Management Command (\$1.0 billion).
- Reduce support processes (\$3.6 billion).
- Streamline recruiting and training processes (\$1.1 billion).

Program Reductions/Terminations (\$11.0 billion)

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

Reduced Lower Priority Programs (\$2.8 billion)

- Save on military construction costs by sustaining existing facilities (\$1.5 billion).
- Reduce recruiting support and other manning initiatives (\$1.3 billion).

**Navy and Marine Corps (\$35.1 billion)**

Reorganizations (\$15.4 billion)

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

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

**Better Business Practices (\$14.1 billion)**

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

**Program Reductions/Terminations (\$5.5 billion)**

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

**Air Force (\$33.3 billion)**

**Reorganizations (\$4.2 billion)**

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

**Better Business Practices (\$20.6 billion)**

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

**Program Reductions/Terminations (\$3.7 billion)**

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

**Reduced Lower Priority Programs (\$4.8 billion)**

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

**SOCOM savings (\$2.3 billion)**

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

**Summary of Military Services Efficiencies**

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

(\$ in billions)

**Military Department Reinvestments**

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

- The **Army** intends to use its savings for the following:
  - Provide improved suicide prevention and substance abuse counseling for soldiers;
  - Modernize battle fleet of Abrams tanks, Bradley Fighting Vehicles, and Strykers
  - Accelerate fielding of Army's new tactical communications network to the soldier level;
  - Enhance Intelligence, Surveillance, and Reconnaissance assets;
  - More MC-12 recon aircraft;
  - Accelerate Grey Eagle UAVs (Army Predator variant – MQ-1C);
  - Develop new vertical unmanned air system.
- The **Navy**, as a result of the efficiency savings, is proposing the following:
  - Accelerate development of new generation of electronic jammers;
  - Focus Marine Corps investments on communication and electronic support equipment, as well as equipment modernization to enhance readiness of units in dwell and to modernize capabilities;
  - Develop a new generation of sea-borne unmanned strike and surveillance aircraft;
  - Buy more of the latest model of F/A-18E/Fs;
  - Extend service life of 150 F/A-18 aircraft;
  - Purchase additional ships including a destroyer, LCS, ocean surveillance vessel, fleet oilers;
  - Enhance afloat manning levels.

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

Senator MCCASKILL. Thank you very much. Thank all of you.

Let me start with the idea that the Secretary authorized the military departments to bring down \$100 billion and then spend \$100 billion. You probably can guess what my question's going to be. Last summer, none of this spending was in any of your budgets. So, you were ready to submit your budgets to the Secretary of Defense without this additional spending. You felt you could do without it, and now you're presenting to us a budget that includes this additional spending, at the exact moment that we can't get a continuing resolution passed because we can't agree on how much money to cut from the budget. Clearly, you see what's coming down the road. I mean, this is going to be an exercise in cutting the size and scope of the Federal Government for the foreseeable future.

So, how can I agree to allow you to spend the money that you find in efficiencies on something that you didn't even have in your budget before the Secretary announced the effort?

Mr. HALE. Well, let me start by saying that simple number cuts are math, not strategy; we need to consider what we won't do if we have to walk back through those cuts. I hear your point; they weren't there last year. But, many of them probably would have been. We would have looked at other programs, including, frankly, some readiness-related ones, and cut them in order to do the sorts of things we were able to achieve through these efficiencies: adding ships so that we could maintain a 300-ship force; starting a new bomber program, because we feel we need it for access interdiction in the future; upgrading some of the Army's older weapons, which we feel we need, because we're going to have to keep them out on the battlefield for many years.

So, we face some very significant national security challenges. Secretary Gates believes, and I certainly agree—I know all of us will, here—that we need these funds to invest in order to meet those challenges.

Let me ask my colleagues here. You want to—

Dr. WESTPHAL. Well, I'll—

Mr. HALE. You want to start, Joe?

Dr. WESTPHAL. Yes.

I think you bring up a good point. There certainly were things in the budget that we weren't possibly going to be able to fund. But, by finding these efficiencies and these savings, we were able to shift money. In the Army, for example, we knew we had a tremendous need to bring in more folks into the workforce to help us with counseling and substance abuse, suicides. We have a pretty

significant personnel need there. We were able to shift some of the resources from one end of the savings efficiency initiative to that. We were able to do the recap of some of these older systems as a result of also eliminating or terminating major weapons systems, as a result of our portfolio reviews.

The network, which is one of the most critical and most important priorities for the Army, something that is very costly, we're able to shift more resources to pushing the network further ahead, in the hopes of really making great progress in that particular area.

So, we moved resources to some things that we were funding that we needed to fund at higher levels and to things that we really needed, really needed to provide to the warfighter today.

Mr. WORK. Ma'am, I think Senator Ayotte said it very well. Having the incentive structure to do any type of effort like this is very important. So, Senator Ayotte mentioned trying to have incentives where contracting officers wouldn't be rewarded for spending all their money.

In this case, Secretary Gates, who said our rate of growth is going to slow down—and he anticipated this—he said we would have to find or free up resources within our expected top line, last summer. The incentive was that the Services would be able to keep the money.

Now, this was a significant effort. There have been other efficiency efforts that I've been into where the incentives, if you don't get to keep the money, then you don't get as many or as bold reorganizations or efficiencies as you might otherwise expect.

So, this year is kind of the third year of an extremely turbulent time. We went through the Quadrennial Defense Review, which was really trying to match our budget to the strategy. Last year, it was really trying to be more efficient within that expected budget. As you mentioned, this year is going to be trying to accommodate the new fiscal realities.

So, I see this as all part of a long 3-year effort. I'm certain that the Secretary of Defense did, and he anticipated us going out. But, having that incentive for us to look for efficiencies and being able to invest it into warfighting was, I think, the key thing that allowed us to do what I consider to be many, many innovative things.

Senator McCASKILL. Okay.

Quickly, if you would.

Ms. CONATON. I'll give you two quick examples. Before we got started in this effort, the Air Force was having to consider taking down major parts of its force structure just to balance the books. So, I would say that if we didn't have the ability to reinvest, we'd be looking at making adjustments to the size or capability of the force.

The other thing I'd say, on the readiness side, is that it was only because we had the ability to reinvest that we were able to sustain our readiness rates through weapon systems sustainment. The growth in cost there, because of the new ISR platforms and others coming into the fleet, have driven the costs up to a point where it would have been very difficult for us to maintain those rates that contribute to readiness.

Thank you, Chairwoman McCaskill.

Senator MCCASKILL. Thank you.

This will be my last question for this round, and then we'll all come back, after my colleagues have a chance to ask questions. Let me talk about the balance between contractors and civilian employees.

I mean, the announcement was welcome news to me, and it was, we have to wean ourselves off of this incredible explosion of contractors within DOD. I am very aware of the size and scope of that explosion. But, then I look, and in reality what's happened is, you've cut civilian workforce more than you've cut the contracting workforce. I thought the idea was, we were going to try to go the other way, because the contracting has not turned out to be the kind of cost saver that I think it was touted to be in the last decade.

So, how do we get a handle on this if, even after the Secretary says we're going to do this, we do the opposite?

Mr. HALE. Well, I need to look at the numbers. The concept was what you said, that we froze civilians, with exceptions for the acquisition workforce. They were actually cut below current numbers, at least in selected categories of contractors, namely the so-called staff augmentees.

The numbers are slippery. There was an article, a very confusing article, in Congressional Quarterly today, that suggested there was actually an increase in contractor spending. It was measured off the continuing resolution level in a rather arbitrary budget that we had to present in 2011, because we don't have an approved budget, so we don't have a baseline.

So, I'm not sure I can respond to your direct numbers. I'm going to have to look at them for the record.

[The information referred to follows:]

(A) During fiscal year 2010, the Department spent \$70.6 billion on civilian labor. The Department of Defense (DOD) implemented a civilian hiring cap on all the Military Services and Defense Agencies at the fiscal year 2010 authorized and funded levels for fiscal year 2011 to fiscal year 2013. The savings are included in the fiscal year 2012 budget request. Cumulative annual reductions/savings from the fiscal year 2011 budget request level to the fiscal year 2012 budget request level are estimated at:

- Fiscal Year 2011 - \$351 million
- Fiscal Year 2012 - \$2,510 million
- Fiscal Year 2013 - \$2,673 million

(B) During fiscal year 2010, the DOD spent nearly \$4 billion on service support contractors providing staff support augmentation for government employees. Using this basis, cumulative annual reductions/savings are estimated as:

- Fiscal Year 2011 - \$418 million
- Fiscal Year 2012 - \$812 million
- Fiscal Year 2013 - \$1,221 million

The savings are included in the fiscal year 2012 budget request. By fiscal year 2013, this subset of contracts is reduced by 30 percent (from that fiscal year 2010 basis).

Mr. HALE. But, the concept is, civilians stay about the same, or maybe up slightly for acquisition, and we estimate some cuts in the contractor workforce.

Senator MCCASKILL. Well, let me give you the numbers that we think are accurate. We think that you're cutting spending on service contracts by \$1.3 billion this year. That represents less than a third of the \$4.5 billion you plan to cut in the civilian workforce.

So, it looks like close to three times as much. We'd love to get to the bottom of that, also.

Mr. HALE. Let's do that for you.

Senator MCCASKILL. Senator Ayotte.

Senator AYOTTE. Thank you very much, Chairwoman McCaskill.

I wanted to ask a followup to what you just raised—and I believe Secretary Work, as well as Secretary Hale—the incentives for contractors and the incentives within the Department. Obviously, it's very important that we've undertaken this efficiency incentive to come up with these savings. But, how do we put that into the permanent mindset of DOD? What do you view, right now, as the way that we carry forward this process so that it is an ongoing process and that we're not left where—I see now, where the duty is—people feel like, at the end of the year, they have to spend everything they have, even if they don't need it?

Then, second, with our contractors, as the chairwoman has pointed out, where's the incentive for the contractors to find efficiencies and save money?

So, I view it in two veins, not only those that work in DOD, but also those that we contract with. How are we going to memorialize these efforts?

Mr. HALE. Well, let me offer a couple thoughts. One, the end-of-year problem is an endemic problem in government. I've watched it for 30 years. In a private business, you have profit. If you meet your customers' needs and cut costs, you're going to increase profit. You'll probably get a bonus. Unfortunately, in the government it's often the case that if you cut costs, the comptroller, the next year, takes your money. Then there is no profit. There's no bottom line in the same way there is.

We have tried a variety of approaches to that. I've never found one better than, frankly, just tightening up a bit on the money that is available and waiting to see what—or, watching the effects of that to be sure you don't have unintended consequences. But, we ought to continue to look for better incentives. I mean, I recognize it's a tough thing to do.

In terms of the contractor incentives, there I think the best thing we can do is pursue competition in contracting, especially services contracting. We haven't always been as good at that as we should be. That's one of Ash Carter's goals, is to get more competition. Because, if we say to a contractor, "Okay, here's what we want done. You bid. Several people bid. They will have incentives then to provide us efficient services, keep the dollars low so that they actually win. I think that's—there, it's harder—you can't have five navies competing with each other. You can't have five air forces. It's much harder to do for the Department as a whole. But, I think competition is the key, in terms of keeping down contractor costs.

You—anybody want to add to that?

Dr. WESTPHAL. I'll add—

Mr. HALE. All right.

Mr. WESTPHAL.—a couple of things.

What we did is, we immediately did—I directed a data call of all of our service contracts in the Army, across the Army, to look—first of all, to understand what the size and scope of the contracts were. Then, using the financial manager of the Army, that's the tool that

I will be using to direct commands to ensure that any future contracts, and as they move contracts through the process, that we will gain efficiencies from that. Then we want to balance it out with any insourcing that we do. We also have the directive to move jobs that are inherently governmental to the civil service. We want to be able to do that in a balanced and strategic and an efficient manner.

So, all of that is something that we've created, a new Deputy Assistant Secretary for Services, under our Assistant Secretary for Acquisition, to monitor all those contracts, to look at all of the workforce and give us some guidance as to how we balance out that work we have to do to sustain our soldiers in the current operations.

Senator AYOTTE. Thank you.

Secretary Hale, to follow up on what we were just talking about, there aren't any types of incentives in place, whether they be performance-based—any type of—because, I think that mindset has to come from the top down, in terms of, we're going to measure your performance, not only on how you perform the qualifications or your—but, one of your qualifications of your job would be that the more money that you are able to save and return to the Treasury, as opposed to finding something you need to spend it on—and I think—I agree with you, this is a challenge we have across government. But, obviously, with DOD's budget and some of the critical needs we need to use those funds for, given the challenges we face right now in the Middle East, and the challenges we face, obviously, in following through in Afghanistan—to me, making sure those dollars are—instead of just being spent for the sake of being spent.

Mr. HALE. There are incentives. I don't want to leave you—the broad ones are hard to come by. Certainly, all the Defense agencies, or many of them, are business-like organizations. They do have bottom lines of profit, if you will, or net operating result, as we call it in government. They can, to some extent at least, benchmark their activities against the private sector. So, there, I think there are good incentives.

We have some specific programs, fast payback capital incentives, where if you invest a certain amount of money and get fast payback, you can keep the savings, which provides an incentive to actually try it.

But, I still would conclude that it's much harder in government, without an overall bottom line, than it is in a private business, to get people not to do things like spend money at the end of the year. I know it happens, and we need to keep working on it.

Ms. CONATON. Can I give you one quick example in our area? It's not specifically on contracts, but it is on energy.

The Air Force is the largest consumer of energy in the Federal Government. Our mobility air forces is the largest consumer of energy within the Air Force. So, part of what we've been trying to do is incentivize our commands to be more fuel efficient. That means being willing to invest some upfront dollars in order to get the payback. But, we're also thinking about: Once they achieve those dollars, how do we help them see that we will then reinvest to get the next level of savings?—so that you're constantly providing the in-

vestment needed to get to the next level in the particular area of energy.

Mr. WORK. I would echo Under Secretary Conaton. We're doing the same thing in energy, looking everywhere from nonmonetary incentives, like establishing a battle leave for energy efficiency, things like that, which, in a military organization, can really lead to changes in behavior.

But, on the—what we're really starting to see—where we're really focusing our attention on incentives right now is in the acquisition side, at the program executive officer (PEO) level, where we're doing things with change-orders management, and we are purposely looking for innovative acquisition strategies, et cetera. We reward these PEOs for being able to free up money for the broader acquisition priorities of DOD. I can't speak to specific incentives, but that is where we're focused right now—energy and acquisition—on the incentives.

As far as the contractors and civilian side, we're now going in with our budget-submitting organizations and we're talking with them and saying, "Do we have the right balance of contractors and civilians and military in the budget-submitting organizations to do the business of DOD?" Over this whole—this next year, as part of POM-13, we hope to establish the incentives for those budget-submitting organizations to be able to work within their means and free up money for DOD.

Senator AYOTTE. Well, I certainly appreciate all of your comments on this issue. It's an issue I would very much like to work with you on, because I think that's something we not only face here, but across government.

I'd like to follow up with one other question. I obviously give, with the chair's latitude, the opportunity to the other Senator here, Senator Begich, to ask questions. But, I have a concern—wanted to get your view on—right now, we're obviously in a continuing resolution situation. Secretary Hale, you talked about inefficiencies. When you say "inefficiencies," are there ways where we're actually failing to save money and spending more money, because we haven't passed a budget resolution and the Defense appropriation for the rest of the year?

Mr. HALE. Yes, I think that, unfortunately, is true. One example, in order to preserve funding flexibility—I'm sure—it's hard to see this from Washington, but I'm sure that our bases are signing short-term contracts, because they don't know what funding they'll have in 2 months. Those are just inherently inefficient. We have had to pull back—the Navy, for example—a number of ships that were intended to go into the shipyards for repairs, because of limits on funds. It'll cost more when we do that again. Sometimes we won't be able to do the repair until some future point.

We have—I worry—again, this is a problem that—I can't quantify this, but I worry that we have a contracting workforce that's treading water out there, to at least some extent, because they can't move forward, because the continuing resolution limits new starts, and therefore, they'll have to try to catch up. When they do that, they won't have as much time to compete and do a good job of contracting. They will do their best. I'm not criticizing them. But, I think there are a variety of inefficiencies inherent in this

Continuing Resolution. As I said before, we very much need a budget.

Senator AYOTTE. I can tell you that certainly—I know, members of the Armed Services Committee appreciate that we are at war right now, and that—I would like to see us, even if it comes up as standalone Defense appropriations bill, come forward for the remainder-of-the-year funding.

Related to that is also, right now, with the conflict that we're now involved in Libya, and of course the Japanese relief effort—is the Department preparing a request to Congress for an—emergency supplemental funds to address both of those situations?

Mr. HALE. The answer is no. Actually, we couldn't submit a supplemental now. We don't have a budget.

Senator AYOTTE. Right.

Mr. HALE. We'd have to amend the budget, which—ironic—half-way through the year. But, the administration has said they don't plan to submit a supplemental request at this time. We are looking for a dedicated source of funding for the Libyan operations. If we can't arrange that in the fiscal 2011 budget, then we will have to use reprogramming to allow us to move the money around to cover those funds.

Senator AYOTTE. Has there been an—my time has expired—but, has there been an estimate prepared yet of what the cost of the Libyan conflict is?

Mr. HALE. Yes. Our estimate, we actually—just this morning, so, the added cost incurred to date, about \$550 million. About 60 percent of that is for munitions, primarily the Tomahawk Land Attack Missiles, that have been used widely. The future costs are very uncertain, because we don't know the duration or, frankly, the operating tempo. But, given the current plans, it looks like maybe \$40 million a month, if we stay. We're coming down sharply, in terms of the U.S. commitment, as NATO takes control. If we stay at that lower level, it would be around \$40 million a month in added costs.

Senator AYOTTE. \$40 million a month?

Mr. HALE. Yes.

Senator AYOTTE. Thank you very much. I appreciate your answers.

Thank you for the latitude, Chairwoman McCaskill.

Senator MCCASKILL. Sure.

Secretary—excuse me—Senator Begich.

Senator BEGICH. I don't know if that was a promotion, or what.

Senator MCCASKILL. I don't think, right now. [Laughter.]

Senator BEGICH. Right now, probably not.

Senator MCCASKILL. They have challenges right now.

Senator BEGICH. That's right. Thank you, Chairwoman McCaskill.

Thank you, all of you, for being here.

I have several areas of interest, and I'll try to be concise, here. But, I want you to know, I come from a State that's very strong in the area of military support. As a former mayor, that literally was right next door to Elmendorf and Fort Rich, an incredible partnership. I'm a hawk when it comes to these issues. But, I'm also frugal with the dollars. I want to walk through some of this with you. Because, I want to make sure that the resources we are spend-

ing are being utilized for the best interests of our fighting men and women on the front line, as well as the families that are necessary, obviously, back home. So, that's my intention here. I don't want you to assume, at the end of the day, that I'm not supportive of the military mission, whatever it may be, depending on the time and year and day we are engaged in. We have multiple conflicts right now.

But, let me walk through one, first, easy one. Secretary Conatan, I'd love to have you come up to Alaska on energy.

We would love to show why, strategically, Alaska is critical, not only for the Air Force and the resources there, but, also, we know aviation fuel and the connection with some of the work you're doing on gas-to-liquids and some other efforts you're doing in the military could benefit not only what's going on in Alaska, but throughout the country. So, I would love to—

Ms. CONATON. Be happy to.

Senator BEGICH. It's only because she mentioned energy; the rest of you didn't mention it, so you're not invited yet. They're coming in the winter. You can come in the summer. [Laughter.]

But, I think it's really a good point you made about the energy issue. That is, as I know, your energy budget's already \$1.2 billion, maybe \$2 billion over budget already for this fiscal year, for a lot of reasons. You are the largest producers of renewable and alternative energy. You're doing a lot of stuff in that arena. I've asked the chairman of the full committee to actually have a hearing on energy in the military, because I think it would be an incredible story, but also get us all focused on what's needed and the resources and the technology you're all developing that not only could help the military, from a national security perspective, but our economic security. So, I do mean to invite all of you. But, she mentioned energy, so I wanted to share that as a comment.

Second, on the continuing resolution, I want to add to what you said, Secretary Hale. That is, I know what it's doing to my State. That is, I know we have over \$400 million in MILCON projects—and no disrespect to the ranking member and the chairman—I like earmarks. I like a lot of earmarks. A lot of these MILCON projects are a mixture of earmarks, as well as program money. The problem is—and these are all needed projects, critically needed for our military families and our military strategic needs up in Alaska—440-plus million, 200-and-some million ready to go, right today. But, they cannot sign the contracts, for all the reasons you just said. This continuing resolution method that's going on here—and I'm new here—I'll tell you, is the worst thing you could ever do. It's the worst kind of business that—I mean, if—I just can't imagine how anyone in the private sector looks at this. I know how I would, I know how my wife does, who's in the private sector, running businesses. This is appalling, how we do the business.

I know contractors, right now—to your question, Senator Ayotte—and that is, I have contractors in Alaska who have maxed out their bonding capacity waiting for the contract to be signed. We have a seasonal construction season. We have an \$80 million hangar that was built in World War II. It has to be replaced or it will cave in and ruin multimillion dollars worth of equipment. So, when you talk about examples, I can give you a shopping list. It's appall-

ing that we can't do them. In a couple of months, by May 15, in our season, we'll be out of the business of constructing, especially in the northern sector of Alaska, where Fairbanks has missile defense system, Air Force, Army, Clear Air Force Base, needed for our military around the world.

So, I just wanted to echo what you said. One way or another, we have to get this done. It's appalling. It is a—and it's not hurting the military, in the sense of personnel, off by themselves. It is the private sector that is getting hit, all—in conjunction. Because, these are contractors that come and do the work. When the Corps of Engineers lets the contracts in Alaska, it's a private contractor who's going to do that construction, along with the military personnel. It's a combo. So, when I hear people say, "Well, it's just the government"—it's not just the government. It is private-sector contractors that do an enormous amount of work on behalf of the Federal Government. Is—am I off on that? Or—

Mr. HALE. Well, I think it's hurting military personnel.

Senator BEGICH. Oh no, I agree with that. No, no. I'm saying, in conjunction.

Mr. HALE. It is not issuing permanent change of station (PCS) orders with the right notice. We have a hiring freeze in civilians in the Army and—

Senator BEGICH. Yes.

Mr. HALE.—the Marine Corps, so we can't hire the people we need.

Senator BEGICH. Right. No, I agree with you. I think some people say it's just a bunch of government workers we're affecting. Not true. It's a combo. It's both private sector.

To some of my quick questions here, and that is on saving some money and trying to figure this out. I know, in the recent Government Accountability Office (GAO) report, they talked about the Joint Medical Command (MEDCOM). This seems to be a \$200 million to \$400 million potential savings. There seems to be a conflict of how to do it among the different service agencies. It seems a logical thing to save money. What are you doing to help make that happen?

Mr. HALE. Well, I think it is on the list to look at next year. We want to be sure we manage the medical capabilities of DOD carefully. I respect that there are probably different approaches to doing that in the Services. But, I know our CMO is interested in looking at that. I think we will do it. Whether we come forward with that proposal, I'll have—we'll have to wait a year. We haven't done so yet. But, we will look at it.

Senator BEGICH. Will you? Thank you very much.

Will you respond to the GAO report in saying, if you do not do it, why you won't do it? Because, it seems like we—again, I'm only here for a couple years, so far, but I see a lot of these reports that talk about all these savings. Then people say, "Well, maybe we'll look at it." Then they look at it. Nothing happens, 4 years later, 5 years later, a new report comes out, cites the old report. So, are you going to look at it and say, "This is why we can do it or can't do it," and then report back to—if it's this committee or somebody within armed services, so we at least have knowledge of—

Mr. HALE. My guess is, you'll give us a chance to do that next year if we don't recommend it. [Laughter.]

But I will say, this is a very far-reaching set of proposals that we have put forward. As I said in my opening remarks, having watched Defense budgets for 30 years, I've never seen one more far-reaching, in terms of business streamlining. There are a lot of things in here that people have been urging us to do that we are now proposing. We need help from Congress on some of them. I'll come back to the medical care initiatives. I know how hard they are, but many groups have urged that we do it. Now we need Congress to let us do it. In most cases, they don't require legislation. They require the absence of legislation.

Senator BEGICH. Does this require legislation?

Mr. HALE. One part of them. There are four proposals we've made. One does require legislation. That's the one where I discovered, yesterday, we haven't got the legislation here yet. But, it will be here soon. The others don't. But, they require the absence of legislation. Congress has, for example, prohibited us from increasing TRICARE fees for working-age retirees for a number of years. You have to not do that, and let us go forward—

Senator BEGICH. I understand. But—

Mr. HALE.—and let us go forward.

Senator BEGICH.—just specifically on this one, does it require legislation?

Mr. HALE. Which one, now? The Joint—

Senator BEGICH. Yes.

Mr. HALE.—MEDCOM?

Senator BEGICH. Yes.

Mr. HALE. Oh. I don't know. I'd have to check on that.

Senator BEGICH. Okay.

Mr. HALE. I'm not sure.

Senator BEGICH. I'd like to know if it does—

Mr. HALE. Okay.

Senator BEGICH.—because—

Mr. HALE. We'll find out.

[The information referred to follows:]

There is no legislation required at this time. The Secretary believes he currently has the authorities required for organizing the Department in the most effective and efficient manner required.

Senator BEGICH. I don't think it will. But, that's—

Dr. WESTPHAL. Yes, I think you bring up a really important type of issue that we need to be looking at. The three Under Secretaries—we've already started engaging, partly because of BRAC, where we're, for example, merging Walter Reed and Bethesda Naval.

Senator BEGICH. Right.

Dr. WESTPHAL. So, we've had lots of issues associated with that, partly because of our need to connect better with the VA and the medical records—

Senator BEGICH. Right.

Mr. WESTPHAL.—and all of the efforts to make that process easier. The three Under Secretaries—we've been engaged in those discussions and working with our surgeon generals to get them to work together better. I think we've achieved a lot of success in that

area. The military cultures are there that are going to block—naturally block an effort to do anything like a unified MEDCOM.

Senator BEGICH. I have faith—

Dr. WESTPHAL. But, we're going to look at that. We're going to look at it hard. We're going to bring folks into the room to talk about that. We need to engage you, in the Senate and this committee and others, to help us figure the best way to do that.

Senator BEGICH. Good. Let me, if I can—there—I have talked about it in a couple meetings, especially in the Budget Committee, on medium extended air defense systems (MEADS) and the termination and the process that that will go through, and the cost. I know what I've been told. I think the termination cost is around \$800 million—not “terminate,” I'm sorry—to bring it to concept. I forget the exact phrase, but it's the concept that we'll never use. But, it's—we're going to pay \$800 million to get there.

Mr. HALE. MEADS has had a troubled history.

Senator BEGICH. Yes.

Mr. HALE. Our choice was to continue it through fiscal year 2013, because, had we terminated it, our estimate was, we would have spent as much to—in termination liability as we would have to continue the program through 2013. We believe that there are some technologies we can use and that important allies can use. So, we think we will get something out of it. But, I would agree it is a program that's had a very troubled history.

Senator BEGICH. If I can—my time has expired. So, let me just try to summarize here on that one point. What's the guarantee, especially—it has had cost overruns—correct?—as part of the equation here. So, I've been told it's \$804 million to get to this concept of—I forget the exact phrase—but, concept of design versus termination, which is a capped number. So, that's what I understand, unless someone's misinformed me. But, I just want to make sure. I have no faith, to be very frank with you—this project has cost overruns, so why would I think that, when I'm told \$804 million will be the number to continue to design it through 2013—is there a way to say, “Okay, it's 804. That's the number.” That's what I've been told now, in the record, more than once—\$804 million. We're capping it. You won't get another dime, even though you have that money already, according to testimony received in the Budget Committee—that you won't receive another dime. How do—can you guarantee me, right now, that that's the cap?

Mr. HALE. Well, I suppose you could put that cap into law. I'd have to get—

Senator BEGICH. Let me ask you. Can you guarantee it will be \$804 million—versus the termination cost, which is a little bit more than that—can you guarantee that?

Mr. HALE. I can't sit here and tell you that. I need to get you a MEADS expert. I don't like making statements I can't back up. I'm not an expert in MEADS.

I can tell you that there were debates within DOD. The judgment that Ash Carter and others made were that we would pay more, at least as much, in termination costs and that, therefore, continuing the program through fiscal year 2013 and garnering some benefits, which he feels we will, in terms of technology that we

could use or allies could use, that was the better approach. That's the one we recommend.

Senator BEGICH. Let me end there, Chairwoman McCaskill, and just say that my faith is weak here on this. I would love to have, if you want to get something for the record back to me or the committee explaining MEADS—the developers of MEADS—and clearly making sure that they—how they come to this conclusion that number will be it, versus termination, which, today, we can be done with, and you have the money in your budget, according to what was testified. So, part of me says, “Cut our losses. Move on.” It's going to—and the last thing I'll say there is multiple terminations—you have two or three more terminations in your efficiency study—do those have clauses? You don't have to get that now. I guess—

[The information referred to follows:]

QUESTION. Explain the development of Medium Extended Air Defense System (MEADS).

ANSWER. The MEADS program was initiated upon the conclusion of the Memorandum of Understanding concerning Cooperation on Project Definition and Validation of a MEADS in 1996. With limited resources, one way to ensure that a program involving research, development, testing, and/or evaluation programs is most cost-effective is to share developmental costs of the program with one or more of our Allies. A program of cooperative development by the Department of Defense (DOD) with other North Atlantic Treaty Organization (NATO) nations enhances our interoperability with these nations, while building our collective missile defense capability. The MEADS program continued under the MEADS Design and Development Memorandum of Understanding (which is referred to below as the MOU) among the United States, Germany, and Italy in 2005. Based on standard DOD and international agreement practice, the MOU was written in a way that would make it difficult for any participating nation to drop out without paying any associated contract termination costs caused by premature withdrawal from the program. Programs (especially Engineering and Manufacturing Development programs) need stability, not an annual budget fight in the U.S. or in foreign governments. The prime contractor selected for the MEADS program is MEADS International, located in Orlando, FL. The MEADS is being developed according to the 2004 MEADS International Cooperative Requirements (ICOR) document. The requirements of the ICOR document focus on providing a highly mobile, tactically and strategically deployable system, providing both stationary and mobile defensive protection capability for critical maneuver force assets against short- and medium-range ballistic missiles, cruise missiles, and air breathing threats. The major MEADS development components included are the Surveillance Radar, Multifunction Fire Control Radar, Tactical Operations Center, Launcher, and Missile.

QUESTION. How the Department came to the conclusion that \$804 million will be the United States cost share, versus termination? Are the resources (\$804 million) in the fiscal year 2012 budget request?

ANSWER. Under the MEADS Design and Development Memorandum of Understanding (referred to as the MOU), the remaining DOD obligation to the MEADS program in fiscal year 2012 and fiscal year 2013 is \$804 million. If the DOD were to withdraw from the MOU (or if Congress were not to appropriate funding, causing the DOD to be unable to continue participating in the MEADS program under the MOU), the DOD would be responsible for contract cost impacts, up to our ceiling commitment under the MOU. Under the MOU, any participant may withdraw from the MOU upon 180 days written notification. As noted in the previous answer, under the MOU, if the DOD unilaterally withdraws from the program, with respect to contracts awarded on behalf of all participants, the DOD would be liable for “all contract modification or termination costs that would not otherwise have been incurred but for the decision to withdraw” up to its share of the cost ceiling for financial contributions.

The MOU cost ceiling is \$4 billion (equivalent 2004 U.S. dollars), and the MOU provides that each participant will contribute its share of the full financial contributions of the MEADS project. The DOD cost share of the program is 58 percent, for a ceiling of \$2.324 billion (2004 dollars). To date (including the fiscal year 2011 commitment through February 2011), the DOD has contributed \$1.478 billion (2004 U.S. dollars) under the MOU. As a result, in a “worst case” scenario, the DOD with-

drawal liability under the MOU would be capped at \$846 million (2004 U.S. dollars) (\$2.324 billion–\$1.478 billion).

Contract termination costs (and related government termination costs) would be driven by existing obligations like long lead item procurements and orders, targets, test and integration infrastructure, and other support costs (lease, support contractors, etc). Should the DOD withdraw from the MOU, the remaining participants would be forced to decide how to proceed, and if they decided to terminate the contract, they would have to request a termination proposal from the contractor. Because the other participants have not agreed to pursue termination, we can only estimate the maximum expected termination liability, which would be less than our MOU cost ceiling obligation.

On the other hand, if the DOD and its MOU partners pursue the proposed Proof of Concept effort using the remaining MEADS MOU funding, the DOD cost share would be limited to the current MOU commitment of \$804 million as reflected in the Department's fiscal year 2012 budget request. Essentially, for the cost associated with termination, the DOD and its MOU partners would derive substantial benefit in terms of hardware, software, or intellectual property deliverables from the MEADS prime contractor that would allow Germany and Italy to proceed into production, and would provide the DOD with an expanded array of future choices with regard to future Air and Missile Defense systems capability. At the most recent MEADS Board of Directors meeting, both Germany and Italy supported pursuing the Proof of Concept.

The DOD believes that implementation of a Proof of Concept Design and Development program, within the funding limits agreed in the MOU, is the best option for the DOD and its partners, Germany and Italy. If the DOD contributes the remainder of its costs under the terms of the MOU, the MEADS program would complete the prototypes that have already passed critical design review. In many cases, component parts have been ordered or delivered for these major end items, such as the radars. The program would complete limited system integration and demonstrate capability via ground and flight tests of these prototype systems. This would allow documentation of the tested design and the ability to assess the capabilities of the major system elements and the development of data packages for these elements. This decision would ensure that the DOD fulfills its obligations under the MOU, avoids a situation where the DOD may be viewed as walking away from its international obligations, and allows the DOD to avoid being required to pay termination costs that the DOD estimates would be more than the cost of completing the Proof of Concept effort under the MOU. Importantly, this course of action would facilitate the maturation of key technologies that would be useful to the DOD in other programs and to its MOU partners, Germany and Italy, in any follow-on effort.

If the MEADS program is terminated, which would require the consent of the German and Italian Ministries of Defense; it would effectively force the DOD and its German and Italian partners to devote significant funds to cover contract-termination costs—funds that could otherwise be used to bring the MEADS development to a useful level of maturity. It is our firm belief that developing and producing these key technology developments through the MEADS program would facilitate their use in other DOD programs; it would capture the engineering, design, and test documentation for the Proof of Concept effort; and it would support our Allies in their air defense capability development efforts. Therefore, we believe that these efforts are worthy of the continued funding for the remainder of the Design and Development effort.

QUESTION. What is the impact if the resources were not appropriated for MEADS?

ANSWER. Although the MEADS Design and Development Memorandum of Understanding (referred to below as the MOU) provides that the responsibilities of the DOD and the other participants are subject to the availability of funds, we believe that each participant under the MOU has an obligation to seek the funds necessary for it to provide its agreed-upon contributions. Thus, the DOD is seeking current and future-year funds, which are necessary to pay its agreed costs under the MOU, including any costs due as a result of contract modification and termination stemming from the DOD's withdrawal from the MOU. If Congress does not appropriate and authorize funding for the MOU for fiscal years 2012–2013, the DOD would be unable to provide its required contributions to the program under the MOU.

Under the MOU, a participant is required to notify the other participants promptly that available funds are not adequate to fulfill its responsibilities under the MOU. Thus, if the DOD becomes aware that it will not have adequate appropriated and authorized resources to fulfill its responsibilities in fiscal year 2012, and/or fiscal year 2013, the DOD would be required to inform its German and Italian counterparts promptly. In such circumstances, the MOU requires the participants to con-

sult immediately with a view toward continuing the MOU, but on a modified (i.e., restructured) basis.

Without any other viable solution in the absence of the DOD resources, the DOD would be forced to withdraw from the MOU. The MOU provides that the DOD (or any other participant) may withdraw from it upon 180 days written notification. However, if the DOD were to withdraw from the MOU, not only would it be responsible for its own project-related costs associated with its withdrawal, but also for costs associated with contracts awarded on behalf of all of the participants. As noted in the previous answer, per the MOU, the DOD (as the withdrawing participant) would be required to pay all contract modification or termination costs that would not otherwise have been incurred but for its decision to withdraw, up to its share of the cost ceiling for its financial contributions, as set forth in the financial provisions of the MOU.

If the DOD withdrew from the MOU, we estimate the withdrawal costs in fiscal years 2011 through 2013 would be as high as the MOU cost ceiling amount (\$846 million for the DOD) because the DOD (as the withdrawing participant) would be responsible for all contract modification or termination costs that otherwise would not have been incurred but for its withdrawal. However, if the DOD and the other participants continue pursuing the more limited and focused Proof of Concept effort to mature technology, obtaining data packages on such technology where possible, with the remaining already-agreed MEADS MOU funding, the DOD's costs would be limited to \$804 million. Importantly, there would be the added benefit of having funds applied to the maturing of key technologies to a point where they would be useful, not only for our partners in any follow-on effort, but also for the DOD for use in other programs.

Per contract provisions, valid contract termination costs would be determined either through negotiation or through arbitration under the North Atlantic Treaty Organization arbitration process. Without the necessary funding for fiscal year 2012–2013 being authorized and appropriated for the DOD to continue its participation under the MOU, it is likely that there would be inadequate funds available to pay the partner nations' share of contract termination costs. Thus, the DOD would be unable to provide funds to the North Atlantic Treaty Organization to cover valid contract termination costs owed to the MEADS contractors under contracts entered into "in good faith" on our behalf pursuant to the MOU. Although the MOU provides that the responsibilities of the DOD and the other participants are subject to the availability of funds, it is understood that each participant under the MOU has an obligation to seek the funds necessary for it to provide its agreed-upon contributions. Thus, the DOD would be required to seek current and future-year funds necessary to pay its agreed costs under the MOU, including any costs due as a result of contract modification and termination stemming from the DOD withdrawal from the MOU.

The effects of a DOD decision not to authorize and appropriate funding for MEADS might be even more serious since the DOD's ability or willingness to fund similar current or future cooperative program Memorandum of Understanding obligations—intergovernmental or contractual—could be called into question by our other partner nations. The DOD has entered into hundreds of international cooperative program agreements with allied and friendly nations that could be adversely affected if other nations or foreign contractors perceive the DOD's decision not to authorize and appropriate funding for MEADS, which results in the DOD's inability to cover contract modification or termination costs stemming from its withdrawal from the MOU, as a default on an obligation under the terms of an international cooperative program MOU. Finally, a perceived "failure" of the DOD to uphold its international cooperative program MOU funding obligations could result in other nations taking similar action in the future, potentially harming the interests of the DOD and other partner nations that, in good faith, entered into legally binding international cooperative program agreements.

The DOD urges Congress to consider these factors in its decisionmaking process regarding fiscal year 2012–2013 funding requirements for the MEADS Design and Development MOU, and to support the fulfillment of the DOD's commitment under the MOU by authorizing and appropriating the funds that the United States agreed to provide to the cooperative MEADS effort.

**QUESTION.** You have two or three more terminations in your efficiency study. How many other programs being terminated have contract termination clauses as the MEADS does?

**ANSWER.** In our search for efficiencies in the development of the fiscal year 2012 President's budget request, the DOD has not identified another program being terminated that invokes a termination clause similar to the MEADS program.

Senator BEGICH. Here's my thought, and I'll just leave on this, Chairwoman McCaskill. It drives me crazy. Every time—so, we get a project, we—let me finish—we contract, has cost overruns—it's a private contractor we're working with, along with our folks—has cost overruns, not working out like we thought, then we have to pay to get out of it. Now, if that's the case with these other ones, I'd like to know what those termination costs are. Then, the last thing I'd like to know how many other contracts do we have like this. Because, I'll tell you, as a mayor, when I had—and I had multimillion-dollar contracts—we never had termination deals like this. If you talk about the competitive nature, this is not one thing you put into it, because it's a guaranteed cashflow. If they screw it up, they still get paid. I don't—maybe I'm too simplistic on this, coming from the private sector, or just the mayor from Anchorage, but I'm telling you, it doesn't make sense to me and it doesn't make sense to taxpayers, when I talk to them. I've just—little bit of frustration—

Mr. HALE. Well, just briefly, we are required to fund termination liability for cost-plus contracts, which is the ones where these occur. Fixed-price contracts, generally you're not going to see this, because there's a certain requirement to perform, and a certain number of dollars. But, on cost-plus contracts, if we terminate for the convenience of the government, which—that's what we're doing in the case of MEADS—there is a termination liability, and it's usually negotiated. So, you don't know it upfront. But, we do budget for the most likely amount. We're required to do that under the full-funding concept.

Senator BEGICH. The simplest—

Mr. HALE. I don't know if that reassures you. It probably doesn't. But—

Senator BEGICH. The simplest thing we could do is just not appropriate it. Because all the contracts say, "subject to appropriation." I'd put money on that. Every contract has "subject to appropriation." So, all we have to do is say we're not going to appropriate money for that project. Guess what? It saves us \$800 million. So, I'll just leave it at that. Thought for discussion.

Senator MCCASKILL. Thank you, Senator Begich.

Let me just—before I go on to my questions, let me just talk a little bit about—I think the challenges you have in terms of the culture—there are real challenges. Cost-plus contracts is a good example. In my opinion, having looked at a lot of contracting work over the last 4 years since I've been here, way too often were we using cost-plus, much less noncompetitive cost-plus.

Second, performance awards for nonperformance. I mean, that is on my hit list, that we have contractors that perform terribly, but it's been the culture to pay them performance awards anyway, because we always pay performance awards. It's like—it's just an added cost of doing business, as opposed to any kind of alignment of incentives, like Senator Ayotte was talking about.

Let me just put out there, today, as we're talking about culture, there is also an entourage culture that is interesting. I mean, let me ask, How many people in the room work for DOD or one of the branches of the military?—if you'd raise your hands. That's a lot. I mean, I have hearings with a lot of different Federal agencies.

Typically, they don't bring as many people to meetings or to hearings. I'm trying to figure out why we need so many people to do this, and the culture behind that.

I remember how pleasantly surprised I was when Admiral Mullen came to see me one day and only had one person with him. I was going, "Now we're getting somewhere." I'm trying to figure out what all these people do and why they all need to be here at one time. It seems to me that there could be efficiencies if they would be doing other jobs right now besides sitting in this hearing room.

So, I mean, those are three good examples. I have a long hit list of things like that. I think that's part of the challenge of what you're trying to do. It's part of the challenge about the brass creep that the Secretary of Defense talked about. It's part of the challenge of trying to flatten the organization and reduce the number of flags and all of those things. I am so proud of our military. We do so many things well. But if you take out the medical expenses, which is part of the increase—but, I reduced the numbers I talked about earlier by what we paid for medical care 10 years ago and what we're paying now; it still went from \$280 billion to \$500 billion in a decade. That is an amazing increase in a relatively short period of time. So, I know we can do better. That's one of the reasons we're having this hearing today.

Let me ask about the Army business transformation cut. Now, I—this is where—I get a headache on this one, because—I have to be honest with you, I never really quite understood what the Army business transformation was. Now what, basically, you're saying is, you're going to reduce expenditures for transforming business operations through, now, something called the Enterprise Governance Approach. Enterprise Governance Approach sounds like gobbledygook to me. I mean, what is the Enterprise Governance Approach? Can we get more detail about what that really means? How do you come up with \$3.6 billion in—underneath this Enterprise Governance Approach in 5 years?

Dr. WESTPHAL. Well, Senator, we submitted, just recently, a report to Congress that details, in the form of about 26 to 27 projects, what we are doing to transform our business operations. That's not directly related to the efficiencies initiative; it's—there are parts of it in there. But, that's an overall transformation effort that deals with everything from logistics to our enterprise systems to our personnel management to our auditability to all of the issues that you, the GAO, and many others have raised about our business transformation.

One of the things that I have done, as the CMO, is to institute governance for all of those kinds of efforts to transform our business operations. That is, to really say that performance evaluations and performance measures will be—that people will be held accountable for transforming the kinds of—and the metrics that they have laid on the table for that—for those activities. The way we've done that is, we've formed what we call the Army Campaign Plan, which is a series of priorities across the gamut of activities of the Army. I've asked each assistant secretary and each command to develop the matrix by which we measure transformation in those business operations. Those metrics then—I have sat down with

those commanders and those assistant secretaries, reviewed the metrics, criticized some of them, sent them back to the drawing board to redo them.

It's a slow process. But, we are making progress. We have change in the culture. We're changing the attitudes. The Enterprise Approach really means that we are trying to do this in a more integrated fashion. We're trying to align better with OSD so that, as we transform our business operations, we're not only aligning with the transformation efforts at the DCMO level at OSD, but we're also aligned with our sister Services, as well.

So, it sounds like gobbledygook, but I tell you, that report is fairly detailed. I would be glad to come back and sit with you or your staff and—

Senator MCCASKILL. Well, I think it'd be helpful—if this is about performance metrics—I think it'd be helpful for us to get top-line performance metrics, for the various departments, that you've developed. I just want to make sure that we're not investing a lot of money in having a whole bunch of people work on PowerPoint presentations that have titles on them, and then we come back later, and what we're really trying to do, now we're going, call it something different and try to do it again. It feels like that sometimes. It feels like you're running uphill and you're not getting anywhere.

Dr. WESTPHAL. Right.

Senator MCCASKILL. Frankly, obviously, it's been a problem, writ large, because we can't even audit. I mean, for—how many years have we been trying to be able to audit, and we can't even audit DOD. So, I just am frustrated that we aren't getting to, kind of, the commonsense bottom line. But, maybe get another name that—

Dr. WESTPHAL. Can I give you one more—

Senator MCCASKILL. sounds good, but we're not really sure what it means.

Dr. WESTPHAL. Yes. I'm going to give you one more point on this. You mentioned the growth of the Federal budget. I was here in 2001, before September 11, as the acting Secretary of the Army, and I defended an approximately \$76 billion budget back then for the Army—base budget. That has more than doubled in recent years. So, I understand where you're—what you're getting at.

I will tell you that, in this effort, what's critically important for all of us is to be able to look at those metrics and actually make the folks that are applying them accountable for implementing and executing on those metrics.

Senator MCCASKILL. Right.

Dr. WESTPHAL. That is the hardest part that we have—

Senator MCCASKILL. That is the hardest part. There's no question about it.

The Navy energy efficiency cut, you have savings of \$566 million in 2012 and 2.3 over the FYDP by reducing energy consumption. But, these investments were already included in the budget prior to the efficiencies initiative. Are you double-counting them or are you just saying, "We already did the work, and here it is"?

Mr. WORK. I'm not exactly certain of the \$500 million.

What we did is, we added—we—it is true that what happened is, we were able, as part of the efficiencies drill, to include energy

investments and energy savings as part of the overall efficiencies drill. That is absolutely true. We have tried to add—Secretary Mabus has extremely ambitious goals, both to reduce energy at our bases and stations, to reduce the—also to have achieved, by 2020, 50-percent alternative energy sources for all of our fuels. That has been taken into account by our new Assistant Secretary of the Navy for Energy Installations and the Environment. This is the first time we have an assistant secretary that really focuses all the time on energy. They were able to put together a pretty broadbased plan on where we would get the biggest return on investment. So, in 2012, for example, there are three steam plants that we will have a return on investment in about 10 years. We—our average return on investment on our energy programs across the FYDP is about 7.1 years. So, some of them were probably in the program, but they are all included as part of the efficiency savings that we're reapplying back into our basic program.

[The information referred to follows:]

There are numerous energy efficient initiatives and renewable/alternative energy programs that the Navy and Marine Corps are pursuing. The reduced reliance on fossil fuels will achieve lower energy consumption, strategic security, avoided energy cost, and a more sustainable Fleet. Here are the major program areas along with examples of projects with estimated savings.

- Major Energy Program Areas
  - Shore
    - Steam plants decentralizations
    - Lighting systems upgrades
    - Renewable energy systems (solar & photovoltaic)
    - Solar thermal domestic water and pool heating projects
    - LED street lighting projects
    - Ground source heat pumps
    - Boiler heat recovery upgrades
    - Control system improvements
    - Alternative fuel vehicles
  - Tactical/Expeditionary
    - Hull coatings
    - Propeller coatings
    - Stern flaps
    - Allison 501K efficiency initiatives
    - Aviation simulators
    - Smart voyage planning decision aid software
    - USS *Truxtun* hybrid electric drive retrofit
    - Alternative fuels testing and certification program
    - Incentivized Energy Conservation Program (i-ENCON)
    - Expeditionary Forward Operating Base (Ex-FOB)
      - Solar Portable Alternative Communication Energy System
      - Light Emitting Diode (LED) lighting
      - Renewable battery charging systems
- Examples of Projects for Navy Tactical with Estimated Savings
  - Stern Flaps for Amphibious Ships
    - Shown to have an average payback period of less than 1 year on FFG/CG/DDG platforms
    - Currently undergoing testing on amphibious ships
    - Savings estimated at ~5,500 BBLs/ship/year for LHD
  - Hull/Propeller Coating
    - Easy release hull/propeller coating system allows Navy ships to shed bio-fouling once underway
    - Reduces costly periodic hull/propeller cleanings
    - Savings estimated at ~1,800 BBLs/ship/year
  - Solid State Lighting
    - Uses LEDs for platform illumination

- LED lights in commercial applications last almost 50 times longer than incandescent and 6 times longer than fluorescent lights; provides the same illumination with 25 percent of the energy
- Currently testing on DDG-108 and LSD-52
- Payback estimated at 3 years, depending on fixture (savings of ~335 BBLs/ship/year for DDG)

Navy also continues to develop technologies that will be implemented in future years; the implementation schedule for these initiatives is subject to impacts based on final fiscal year 2011 budget:

- Hybrid Electric Drive for DDG
  - Fuel savings by securing LM2500 propulsion turbines at low speed while loading gas turbine electric generators to more efficient operating condition (savings estimated at 8,500 BBLs/ship/year)
  - Land-based prototype scheduled for testing mid-2011
  - USS *Truxtun* (DDG-103) scheduled to be first operational installation in fiscal year 2012 as an afloat test platform
- Engine efficiency modifications for the F-35 Joint Strike Fighter
  - Improvement in F135 Block 5+ engine fuel economy and lifecycle cost through component upgrades and software cycle optimization
  - Estimated Fleet-wide savings of ~35,000 BBLs in 2023 (upon delivery of Block 5 aircraft), increasing to ~178,000 BBLs/yr by 2029

Senator MCCASKILL. Okay. Well, we will ask you to give us specifics—what was in, prior to the initiative, and what you then used as part of the initiative after the initiative was announced.

Mr. WORK. Yes, ma'am.

Senator MCCASKILL. Senator Ayotte.

Senator AYOTTE. Thank you very much, Chairwoman McCaskill.

I want to follow up on—first of all, just given that we can't—we don't have auditable financial statements, how are we going to know that we're actually achieving the savings and efficiencies that—if you don't have the way to measure it by the financial statements that you would in most organizations, how do we know we're even going to achieve the savings? I'm new to this, so—I'm a new Senator, and—so, why don't we?

Mr. HALE. That's two questions. Let me take the first one. [Laughter.]

Senator MCCASKILL. First of all, you need to get a sleeping bag and a pillow. [Laughter.]

Because, it is longer than one hearing. Trust me. I asked—

Mr. HALE. I'll complete the first.

Senator MCCASKILL. the same question 4 years ago, coming from—

Mr. HALE. We do—

Senator MCCASKILL. an auditor's office.

Mr. HALE. We do have financial systems. I might add, I think we have the best-trained financial managers in government. I'll go to the second question briefly in a moment. But, there are systems. They can't meet commercial audit standards, which means we can't—our systems are old—they can't track, as auditors require, information back to the transaction level. But, I think they do present the dollars that you give us reasonably accurately. If you want external collaboration, we have probably 2,000 auditors looking over our shoulders. The number of times we actually violate the Federal Antideficiency Act, kind of the major crime, is pretty small. It's 20 cents out of every \$1,000 that we spend—20 cents out of every \$1,000. That's 20 cents more than I'd like. We're trying to get

it to zero. But, I don't think it suggests we have no idea where we're spending the money you give us. I know it doesn't.

Incidentally, I might add that our rate of Antideficiency Act violations is a lot lower than the nondefense agencies, even though they have auditable statements.

That said, sometimes we can just take our financial statements and—or systems—and immediately tell what's saved. The civilian pay freeze would be a good example of that, the civilian billet freeze, because there are lines that govern that. More often, we have to have our analysts look through a variety of lines and make estimates. That takes some time. But, they can almost always give us a pretty good idea where the savings occur. So, yes, I think we can tell whether we saved the money.

Now, do you really want the answer about why we don't have auditable statements?

Senator AYOTTE. Given what the Chair—The Honorable—

Mr. HALE. I'll be glad to do it.

Senator AYOTTE.—Chairwoman just told me, I don't think so.

Mr. HALE. It hasn't been—

Senator AYOTTE. I will—

Mr. HALE.—as systematically—

Senator AYOTTE. I will find out.

Mr. HALE. Let me just say, I think we've done some things right, but it has not been systematically a high priority. I believe we have a streamlined and focused structure. With the help of these guys to my right and left, I think that we will—we are committed to meeting the goal in 2017. But, more importantly, we're trying to get somewhere in the next 2 years. Part of the problem is, we keep setting these goals way out in 2017. I'm not going to be the comptroller in 2017. Or, as I like to say, if I am, I will definitely have a new wife, because she's made it real clear that it ain't going to last that long. So, we need near—

Senator BEGICH. But, you have the legacy you could leave by putting this in place.

Mr. HALE. We need some near-term goals, and we have some. Maybe, if you'd like, I can come and explain them to you and not take the time now.

Senator BEGICH. Well, and I think, really, in all seriousness, this—having those—the auditable financial statements should be one of the top efficiency—

Mr. HALE. It is one of—

Senator BEGICH.—initiatives, because—

Mr. HALE.—of our nine—we have nine high-priority business goals, and that is one of them.

Senator BEGICH. Thank you. I appreciate that.

I wanted to ask you about some of the assumptions on the savings, just to make sure that, if those assumptions don't come to fruition, that we aren't in a place where the savings really don't come to fruition. A couple of them, for example, Secretary Work, that we're seeing a troubling rise in the price of oil right now as a result of—in part, because of the activities in the Middle East. How realistic do you think that the Navy's projected savings of \$566 million in fiscal year 2012 is for reduced energy consumption?

Mr. WORK. Well, our estimated energy savings across the FYDP, we track the number of millions of barrels of oil that we will save. So, if the price goes up, we are actually going to save more money. It would only, if the price goes down—if the price goes up for oil, we are going to save that—a certain number of barrels; we don't project a specific cost based on the oil. We also estimate that 70 trillion British thermal units (BTU) across the FYDP, for sure—we will save those as a result of the energy investments we are making. That's both in shore and tactical. So, we hope that we will achieve the 6 million barrels. If we don't achieve the 6 million barrels, that's where we will start to say we were really—we didn't make the right projection.

Senator AYOTTE. But—I mean, I'm trying to follow this, because if you don't track it by cost of barrel, and you just do it by barrel, and the—let's say the price of oil doubles, then even if you are able to achieve the number of barrels you want to save, it's really not going to result in the end savings. So, that's what I'm trying to understand.

Mr. WORK. I see. What—well, what will happen—what we did in the—as part of the entire efficiencies drill is, we had very high—what we consider to be very high-risk, medium-risk, and low-risk approaches to achieve efficiencies. That was worked out both at the Service level, then at the Department level, and then at the OSD level. If we—there are fact-of-life increases, like increases to fuel, inflation rates, that we make in our economic adjustments, and those will be accounted for through—we'll either have to find other efficiencies to offset those or we'll have to stop—reduce the amount of operations that we're doing. We'll have a wide variety of things. Once the efficiencies and our execution start to work together, we'll be making adjustments every year, as we always do.

Mr. HALE. Can I build on that and just say, with price at \$105, and now it's \$110 billion, there will be some substantial added cost; if it stays there, about \$1.5 billion over the rest of this fiscal year. It won't be quite as high, because we are able to reduce consumption. There are going to be net increases of costs when we see when fuel is up that much higher. It is of concern to all of us. We're going to have to reprogram funds from somewhere—I don't know where, for sure yet—in order to meet those.

Senator AYOTTE. How are we reaching the consumption reductions that you're proposing overall? Is it reduction in flying missions? A reduction in naval operations? Or, are we just receiving—purely through energy efficiencies?

Mr. WORK. A wide variety, ma'am. On shore, for example, we're doing—we're changing—we're having steam plants replaced. There's a wide variety of photovoltaic systems, solar energy, that we're putting on tops of roofs. On tactical sides, we're putting hull coatings on our ships. Marines who are deploying to Afghanistan are using portable solar cells. All of that takes fewer numbers of fuel trucks to bring fuel out to the forward operating bases. We're doing smart voyage planning software, so that we can get the most efficient uses. We expect to achieve these savings through true energy efficiencies, not by cutting operations.

Senator AYOTTE. Well, and I would add, also, with the public shipyards, for example, the one—the Portsmouth Naval Shipyard—

I know that there are many energy efficiency projects that will save—that you—the Secretary has approved. I want to say that I'm very supportive of those efforts.

I wanted to follow up, just on a couple other assumptions within the efficiencies, just to see where we're at. The assumption with regard to unemployment rates—Secretary Westphal, I think you've—in the Army's proposal, the unemployment rate, we assume, is going to stay at 9 percent. I'm sure that Senator McCaskill shares this with me. We, in Congress, hope that that is not the case. So—but, that is an assumption that is made, in terms of retention and recruitment throughout, in terms of savings. If our economy does pick up, are we going to see those savings disappear? Can you comment on that, and why that assumption was included over those years?

Dr. WESTPHAL. We were trying to model this based on what we thought were at least trends over the next—the current fiscal year and the next fiscal year. But, we knew that there was some danger in doing that, in terms of predicting fluctuations in the marketplace.

We don't think it's going to affect our models in a significant way. I think we'll still obtain the savings. But, we are watching that. I mean, all of these kinds of assumptions have to be based on things we cannot predict. If we can't—if we don't get them right, we'll have to adjust.

Senator AYOTTE. Well, thank you.

I also have some additional questions that I would submit to all of you for the record, and certainly appreciate your coming before the subcommittee today.

Dr. WESTPHAL. Thank you, Senator.

Senator MCCASKILL. I just have three things I'd like to cover, hopefully fairly quickly, and so we can let you all get back to work.

Can somebody explain why Ash Carter's Better Buying Power (BBP) Initiatives have not resulted in any savings?

Mr. HALE. Well, there are actually a number of items—and I'm going to ask Bob Work and Erin Conaton to comment—that are in here. Savings, in littoral combat ship, multiyear procurement savings, and the evolutionary acquisition for space efficiency.

Could you—maybe, Erin, you could—you want to start, Erin?

Ms. CONATON. Sure, I'd be happy to address the specific that Bob mentioned. But, I would say, at a more general level, a lot of the ideas that Dr. Carter's put forward, reducing overhead rates in acquisition programs, we've laid that into any number of our—

Senator MCCASKILL. I see.

Ms. CONATON.—acquisition programs. So, we can show you, we can show the staff, where we've—

Senator MCCASKILL. So, you have pollinated your various efficiency efforts with—

Ms. CONATON.—by program.

Senator MCCASKILL. the ideas, and they just aren't identified as part of Dr. Carter's program?

Ms. CONATON. Correct. We've laid them in by individual acquisition program. We can do that crosswalk for you to—

Senator MCCASKILL. Okay.

Ms. CONATON.—put them in.

Senator MCCASKILL. Okay.

It looks like we have 90-plus major defense acquisition programs that we currently have ongoing. Are—and this touches on some of the frustrations that Senator Begich has—do you think we're putting enough energy behind the notion of identifying, as quickly as possible, the ones that we're not going to be able to afford to carry forward, and doing everything we can, in terms of early termination? Is there anything about the continuing resolution that keeps you from being able to terminate? Because we've heard ruminations that they're saying, "We can't terminate things, because we're only under a continuing resolution." I'm thinking, "Well, the continuing resolution is a really good excuse to terminate things."

Mr. HALE. Well, there are a few specific provisions for items where Congress increased funding where we would be prohibited from. But, in general, for the major weapons, I don't think the continuing resolution is stopping us.

We haven't done as good a job—and I'll copy my boss' answer here—Secretary Gates's answer—as good a job as we probably should have of trying to identify, early on, programs that weren't promising. Some of that's a problem in the building. There's a can-do attitude. Everybody wants to make it work. Even though some people might start to realize it's not going to, there's a—strong tendencies. Some of it, quite frankly, is in Congress. It's very difficult to terminate major weapons; often run into a lot of opposition.

But, we need to do better. I think we've probably pruned out a number of the problems in the herd over the last couple of years. We need to be alert, realizing that times will be tight, and try to not let them go on as long. I think that's a fair point.

Senator MCCASKILL. I really think that that's a place where some incentives would be great, the early identification of programs that aren't going to work out. I know defense contractors do a good job of salting various States with parts of programs to keep them from being cut, because it's politically difficult, especially politically difficult in a recession, when everyone's really focused on jobs. But, having said that, I thought the Secretary of Defense's strong, strong leadership on the second engine made a difference. It really made a difference. I'm confident—even though, unfortunately, Secretary Gates won't be around for the long haul, I'm confident that anytime someone in your position, Secretary Hale, or any of your positions, or any of the leadership of the military, you are so revered—the leadership of our military in this country, for all the right reasons, is revered, and I think the stronger that you all lead on trying to shut down programs that, in the long run, are going to cost money that we don't have, I think, the more responsive that Congress will be. I thought it took a lot of courage for Secretary Gates to go out as far as he did on the second engine. Ultimately, I believe it is his leadership that made a difference. I really do.

Mr. HALE. You won't get any objection from me on that.

Senator MCCASKILL. Yes, I do.

Dr. WESTPHAL. Senator, can I add—

Senator MCCASKILL. Sure.

Mr. WESTPHAL.—can I add to what you were just saying?

What we did in the Army is, we did these portfolio reviews. So, we took weapons systems across a portfolio, and we looked at the

range of weapons we were using, the ones we were not using, the quantities and the effects. That was a lot of hard work. The Vice Chief of Staff, Pete Chiarelli, took on the front part of that. I came into that with him. We made recommendations for courses of actions. We terminated some of the major weapons systems as a result of that, and canceled some others—and made some decisions about where we should invest.

But, what we're doing now, that I think is significant for what you're trying to say here, is that we've taken that approach, which was just something that was ad hoc, we had never done before, because we knew that our requirements process was out of control; we just simply weren't managing the requirements the way we should. This was an attempt to validate longstanding, old requirements. So, what we are doing now—and I've been doing this work with the Chief—the current Chief of Staff for the Army—he and I have embarked on an effort to try to reform the planning, programming, budgeting, and execution process, so that we incorporate this kind of review process at the front end. We reform the requirements process, align it with the resourcing so that when we make requirements decisions, they are informed by the resourcing available to make those decisions.

Senator MCCASKILL. So, you're not doing it in a vacuum anymore.

Dr. WESTPHAL. Yes.

Senator MCCASKILL. That's great.

Dr. WESTPHAL. Now, that's—we're—I can't tell we're there. What we're doing is, we're going to have to—

Senator MCCASKILL. I assumed you weren't there yet.

Mr. WESTPHAL.—reorganize and train to the way we are—we do business. We're—

Senator MCCASKILL. Yes. It's hard.

Dr. WESTPHAL. It is.

Senator MCCASKILL. I think that you all are—the more quickly you adapt to some of these strategies, the less painful the next decade is going to be for DOD and for our military.

The senior-level positions, there was a system of—that the Secretary announced, at—announcing at least 50 general and flag officer positions, eliminating, and eliminating 150 senior civilian executive positions. Now, I—and I look, and 21 senior-level scientific positions were eliminated. I'm worried that the people that were deciding what to eliminate were not looking as closely at organizations that they were close to. I mean, you guys got rid of the senior research scientist for combat casualty care; the senior research scientist for nanomaterial science and engineering; the Navy's chief scientist for nonlinear science; and the senior scientist for rocket propulsion. Are—is that—I mean, when I hear 150 SES, I think of folks that are—I don't—that sounds sarcastic and flippant, and I don't mean to, but folks that are doing more PowerPoints, maybe, than the scientists. I'm trying to figure out if that's because the folks that were making the decisions didn't feel as close to the scientists as maybe to some of the other SES positions that need to be eliminated.

Mr. HALE. Well, let me tell you the process, at least—and each of the Services did their own process. But, each manager was re-

quired to rank all their SES positions from 1 to N, and we focused on the bottom third, and then, frankly, the bottom of that group. Then there was an across-the-board group that made tradeoffs among them. So, you weren't just—everybody didn't take the same proportional cut.

So, I can tell you, first off, I don't think we have any SES just doing PowerPoint. I mean, I hope not. They're well beyond that. They have others to help them, or are doing it only very small part of their time. They're supposed to be managers, and I think most of them are.

Senator MCCASKILL. That was kind of sarcastic—

Mr. HALE. All right.

Senator MCCASKILL. and inappropriate. Unfair to the hard-working SES staff, I should say.

Mr. HALE. I think—I'll accept that.

Senator MCCASKILL. I was trying to make a point, and—

Mr. HALE. I hear you.

Senator MCCASKILL. didn't do it very well.

Mr. HALE. But, there was a very systematic process. It was painful. I mean, I did it myself, for the Defense Contract Audit Agency, for Defense Financing and Accounting Services in my own staff. It's not easy to do. But, it's healthy, because, in the end, there are a few that you can say, "Hey, these probably are lower priority." The Secretary was adamant that he wanted us to stop doing things. That was hard, also. We did a little; not as much as he wanted, but we did do some. So, I think this was a systematic process.

Let me ask my colleagues—I know we're running short on time—but, if they might briefly comment on your process, because they did it for their organizations.

Dr. WESTPHAL. Yes, not be repetitive, yes, I think we followed a similar process. We—the numbers that I have are 10 SES—there's 28 Defense intelligence senior level folks, five—that's highly qualified experts—which are folks that are—can be in a range of different jobs. Then six of the science and technical folks. All this was done with a very rigorous process, because obviously we wanted to be very analytical and creative about making these decisions in the right fashion. Now, whether we hit it right or wrong, or not, or whether those numbers are significant or sufficient, we'll—I think we're going to continue looking at all that. Of course, we came down seven general officers in the Army.

Mr. WORK. The way we tried to keep it at a strategic level is, once the managers, as Mr. Hale said, ranked all of their SESs 1 to N, then it went into a departmental level that was actually managed by the CMOs, through the DCMOs, in the case of the Department of the Navy. You had a department—excuse me—a Chief of Naval Operations and Commandant of the Marine Corps representative. They tried to look across the Department of the Navy and say, strategically, did we make a bad choice? We did the same thing at the Secretary Stanley level.

In the end, there is a requirement process. So, for example, we had a testing and evaluation position that didn't make the cut. Mike Gilmore said, "Hey, what—why did this happen?" We were able to go back in and say, "You're probably right. We shouldn't have taken this cut. We might have taken another one." So, there

is a self-correcting method to try to get us the SESs that are the highest priority for the Navy.

Ms. CONATON. The only thing I'd add, Chairwoman McCaskill, is that within the Air Force, we asked our major commands to help us with that 1 to N list. Then what we did was, we took a functional look across. So, we looked at all the scientists, we looked at all the financial management folks, we looked at all the acquisition folks to make sure that we weren't taking individual cuts from different commands that, in the aggregate, had a severely negative impact on a particular career field. So, we did try to be conscious of the different functional specialties.

Senator MCCASKILL. I just realized there was one other area I wanted to cover. That was the zero-based review of the Department's intelligence organizations. That's what the Secretary indicated was going to happen. Yet, we only ended up with 41 million in cuts for 2012, and it looks like, from reviewing the documentation, that only the budget of Defense Intelligence Agency was cut. Did a zero-based review occur? If so, why are these results so de minimis?

Mr. HALE. Your staff is very good at picking out the areas where we didn't do too well. Secretary Gates has said he was disappointed in the review. It is ongoing. The major thing that has come out of it—but, I don't think it made it in time for the budget—is a significant change in the Joint Intelligence Operating Centers. These are groups in each COCOM that provide intelligence advice to the COCOM. We were essentially staffing these to go to war or for a significant operation—all of them. Yet, they don't—except for U.S. Central Command, they don't do—they only do it periodically. We're going to go to a different approach, which is have enough people at each COCOM—for the peacetime needs, and then, during the ramp-up period—but, have a group, probably at Defense intelligence agencies—kind of a roving group of people who will augment them. We think that they'll be—I can't give you the number; I'll have to do it for the record—but, a number of hundred of positions of reductions there.

[The information referred to follows:]

Two hundred twenty-eight positions will be reduced in fiscal year 2012, to include civilians, military, and contractors.

We expect to see increased efficiencies based on the intelligence review in the longer term. The zero-based review of Defense intelligence focused on eliminating unnecessary redundancy, not necessarily on savings. The review was an integrated effort between the Department of Defense (DOD) and Director of National Intelligence (DNI) and looked at baseline resources across the Intelligence Community (IC). The analysis team consisted of DOD and DNI members. The partnership was critical for success. They reviewed baseline resources across the IC, identifying areas of major investment and significant recent growth and focusing on analysis and production organizations.

The decisions made as a result of the review are to:

1. Resize the Geographic Combatant Command (COCOM) Joint Intelligence Operations Centers (JIOCs) commensurate with their peacetime missions.
2. Establish a rotational model for Defense Intelligence Agency (DIA) support to the COCOMs.
3. Disestablish the Defense Intelligence Operations Coordination Center and the Joint Functional Component Command for Intelligence, Surveillance, and Reconnaissance
4. Consolidate selected Department Counterterrorism (CT) functions under the Joint Intelligence Task Force for Combating Terrorism (JITF-CT).

5. Consolidate selected Department Counter Threat Finance (CTF) elements under a new Joint Intelligence Task Force for CTF (JITF-CTF).
6. Track emerging intelligence organizations and develop plans to harvest them as they redeploy from theater.

In conjunction with the JIOC resizing, the DIA will begin providing approximately 20-person rotational teams of subject matter experts to support analysis and collection at each of the JIOCs. If a conflict or crisis breaks out in any combatant commander's area of responsibility, DIA will surge personnel to the JIOC as appropriate for the region and type of crisis.

Several efforts are underway to identify Defense Intelligence efficiencies and evaluate the impact on intelligence support to combat operations, if efforts are reduced or eliminated. Ongoing efficiency efforts within the Department include a working group that is tracking and reviewing intelligence organizations formed to support operations in Afghanistan and Iraq and to identify which of these would be retained as combat operations draw down.

Last August, we were considering an immediate reduction in funding for intelligence advisory and assistance contracts, but have since conducted a DOD-wide review of our reliance on contractors. As the result of this review, DOD components' funding used to acquire service support contracts was reduced 10 percent per year over the next 3 years from their reported fiscal year 2010 level. Based on the DOD components' allocation of the efficiency, the Military Intelligence Program (MIP) was assessed a portion of this reduction. Contractor funding reductions in the MIP were absorbed by realizing process efficiencies and moving away from higher-priced contractor services. The MIP significantly reduced its reliance on contractor support. Compared to fiscal year 2010 actuals, MIP contractor reliance has declined approximately 19 percent.

There has been an increase in the number of Defense Intelligence organizations since 2001. In the Defense arena, large and well-staffed intelligence structures now exist in the Services, the Defense Agencies, the COCOMs, and in the war theaters. The Intelligence Review Study Group (IRSG) identified areas of major investment and focused on the analytic organizations within the IC. While the IRSG findings identified areas where efficiencies can be gained by consolidating select functions, such as in counterterrorism and counterthreat finance, we continue to look for areas to increase efficiency and eliminate redundancy.

The final report was presented to Secretary Gates and Director Clapper, but the bulk of efficiencies so far are in activities funded by the MIP. The DNI is separately implementing IC efficiencies funded by the National Intelligence Program. Several of the efficiency recommendations made to the Secretary, require the development of detailed implementation plans or continued review, before the Department can identify any resource savings.

Mr. HALE. We're looking at some others, but it has been difficult. Counterthreat finance and counterterrorism, we think there may be some consolidations that are possible.

But, we tried, and I don't think we've gotten as far as we'd hoped. I think it deserves some continued effort. I think if Secretary Gates were here, he'd probably state it even more forcefully.

Senator MCCASKILL. Well, I agree with him.

Mr. HALE. I'll tell him.

Senator MCCASKILL. As usual, I think he's correct. I think that this is probably not the kind of zero-based review that he had envisioned when he used that terminology. We'll look forward to hearing additional work in the area of a zero-based review, in terms of that work.

I don't have any other questions. We may have some more for the record.

Senator Ayotte, do you have any more?

Senator AYOTTE. No, I'm all set. I have some for the record, but that's it. Thank you.

Senator MCCASKILL. Okay.

I want to thank all of you for being here today. I thought it was very productive. We'll continue to work closely with you to figure

out ways we can continue to be the best military in the world with less money spent.

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR KELLY AYOTTE

RESPONSIBLE USE OF END OF YEAR FISCAL FUNDS

1. Senator AYOTTE. Secretary Hale, I'm interested in finding efficiencies now, as opposed to waiting for the out-years. Starting with spending what you have in order to justify future budget requests, what is your assessment of the current climate in the Department of Defense (DOD) for the preparation of the fiscal year 2013 budget?

Mr. HALE. The DOD effort to increase efficiencies will not wait for the out years. The efficiency initiatives reflected in the DOD fiscal year 2012 budget continue the reform agenda started in the fiscal year 2010 budget. The fiscal year 2010 budget focused on weapons programs, e.g., terminating the F-22 fighter production and the VH-71 Presidential helicopter. The fiscal year 2011 budget again focused on weapons programs, e.g., ending C-17 production and not funding of an extra engine for the Joint Strike Fighter (JSF), and initiated military health care efficiencies. The fiscal year 2012 budget focused on DOD business operations efficiencies in addition to further program terminations. The efficiencies gained in these budgets form the foundation for building the fiscal year 2013 budget. Further efficiencies will be proposed in the fiscal year 2013 budget.

2. Senator AYOTTE. Secretary Hale, assuming DOD can get a fiscal year 2011 appropriations bill soon, will you still condone a mad rush by the Services at this year's end to obligate all funds available on lower priorities?

Mr. HALE. There will be no mad rush to spend any funds. The fiscal year 2011 funds are needed to satisfy valid requirements. The Department will conduct a robust midyear review to ensure these valid requirements are properly funded. As a result of the review, any significant funding changes will be included in the Omnibus reprogramming request. The reprogramming request will be forwarded to the Defense Oversight Committees for their approval.

3. Senator AYOTTE. Secretary Hale, why not let unused funds expire as opposed to finding other requirements to spend money on?

Mr. HALE. We don't seek other requirements to spend money on; unfortunately, there are always new emergent requirements that arise that were unanticipated. In particular, in fighting a war there are urgent operational needs that are identified by the battlefield commander that need immediate attention and cannot wait until the next budget request. In recent years the challenge to find good solutions to the Improvised Explosive Device threat is the best example of this kind of unexpected unobligated need. Other adjustments result from economic conditions (fuel prices), unplanned humanitarian relief (Japan and Libya), and shifts in national security priorities. This year, the extended Continuing Resolution, decreases in fiscal year 2011 funding levels, and implementation of the Secretary's efficiencies demand a more critical midyear review of the accounts and an examination of potential impacts on readiness. Unanticipated negative impacts to readiness will be resolved within the reprogramming flexibility allowed by the statutes. As occurred in fiscal year 2010, funds will be allowed to expire if valid requirements don't exist.

4. Senator AYOTTE. Secretary Hale, does DOD currently have in place incentives to reward the timely completion of requirements in a fiscal year and the return of unused funds?

Mr. HALE. The Department utilizes various contract incentives to encourage the timely completion of requirements and the return of unused funds. The midyear review process ensures available funding is identified and either realigned to other valid requirements (fuel increases, Japan, Libya, urgent theater needs) or allowed to expire.

5. Senator AYOTTE. Secretary Hale, how can the process be changed to encourage program managers (PM) to spend only what is absolutely necessary and planned for that year?

Mr. HALE. Responsible funds stewardship begins with the budget plan. In preparation for the fiscal year 2012 budget submission, DOD launched a comprehensive effort to reduce its overhead expenditures. The goal was to sustain the U.S. military's size and strength over the long term by reinvesting those efficiency savings

in force structure and other key combat capabilities. The Military Departments and the U.S. Special Operations Command (SOCOM) were challenged to identify at least \$100 billion in savings that they could keep and shift to higher priority programs. In addition to the military departments and SOCOM reviews, Secretary Gates directed a number of initiatives with the goal of reducing overhead costs and improving efficiency across the Department as a whole, with special attention to the massive headquarters and support bureaucracies outside the Military Services and SOCOM. The Department will implement a process to monitor how it is doing in the implementation of the efficiency initiatives. Continued management oversight at all levels of the organization helps ensure efficient and effective use of resources.

6. Senator AYOTTE. Secretary Hale, what is DOD currently doing to institutionalize a mindset of not-spending versus spending?

Mr. HALE. The entire Department was brought into the comprehensive effort to increase efficiencies in the spring of 2010. Many of the cross-cutting initiatives included the DOD fiscal year 2012 budget were started in fiscal year 2011. Specifically, the reductions in service support contracts, reports, studies, boards and commissions began in fiscal year 2011. Other reductions to fiscal year 2011 include the civilian workforce freeze and the GS pay freeze. The Department is launching a process that will require every component touched by an efficiency to brief their plan for achieving the efficiency and their actual progress against the plan. The first of these briefings will occur in early summer to inform building the fiscal year 2013 budget.

#### ECONOMIC PROJECTIONS

7. Senator AYOTTE. Secretary Hale, in your written statement you state that of DOD's nearly \$78 billion reduction over the next 5 years, "much of the savings will come from reducing personnel costs and changing economic assumptions." I need to make sure that we are not relying on speculative economic assumptions in order to justify budget cuts. I am sure that the witnesses would agree projected savings must be supported with sound and consistent justification. What inflation rate was assumed for fiscal years 2012 through 2016?

Mr. HALE. DOD uses composite inflation rates that are comprised of rates from the Gross Domestic Product Price Index (with DOD outlay rates factored in), civilian pay raise rates, military pay raise rates, fuel rates, and CPI-U (Medical) rates. The DOD composite rates are as follows:

Fiscal Year 2012: 1.5 percent  
 Fiscal Year 2013: 2.0 percent  
 Fiscal Year 2014: 2.1 percent  
 Fiscal Year 2015: 2.1 percent  
 Fiscal Year 2016: 2.1 percent

8. Senator AYOTTE. Secretary Hale, do the top lines for each Service budget through 2016 assume the same inflation rates?

Mr. HALE. Yes, each Service assumes the same inflation rates; however there are many other non-inflationary factors that play into each Service's budget development. For example, mission requirements, programmatic priorities, and requirements of the acquisition process vary by Service and would impact their final budget requests.

9. Senator AYOTTE. Secretary Hale, the Army assumed an unemployment rate of over 9 percent through fiscal year 2015. Is that DOD's assessment as well?

Mr. HALE. While the individual Services may use unemployment rates for particular aspects of their budget development, such as forecasting the recruiting environment, the Department as a whole does not develop or forecast those rates.

10. Senator AYOTTE. Secretary Hale, what economic projections were used to justify this rate?

Mr. HALE. DOD as a whole does not develop or forecast unemployment rates.

11. Senator AYOTTE. Secretary Hale, can you provide your projection for annual military pay adjustments through fiscal year 2016 that contributed to your savings estimate?

Mr. HALE. The Department's efficiencies savings include military pay and allowances economic assumption adjustments totaling to a net savings of \$1.1 billion in fiscal year 2012 and \$2.8 billion from fiscal year 2012–fiscal year 2016. These ad-

justments are based on changes to economic assumptions projected during the previous budget cycle (fiscal year 2011 President’s budget request) to the fiscal year 2012 budget request. The following table provides a breakout of the adjustments.

[In billions of dollars]

	Fiscal Year 2012	Fiscal Year 2012–2016
Fiscal Year 2012 Military Pay Raise .....	\$0.5	\$3.1
Retired Pay Accrual Rate Increase .....	–0.9	–4.8
Medicare-Eligible Retiree Health Care Accrual Rates .....	0.9	0.9
Basic Allowance for Housing Rates .....	0.5	2.7
Basic Allowance for Subsistence Rates .....	0.1	0.9
Net MilPay Economic Assumption Changes .....	\$1.1	\$2.8

- Fiscal Year 2012 Military Pay Raise was programmed at 2.3 percent during the previous budget cycle but was adjusted to 1.6 percent based on the September 30, 2010, Employment Cost Index (ECI) as required under the by-law formula.
- Retired Pay Accrual Rates for full-time personnel increased from 32.7 percent to 34.3 percent in fiscal year 2012 and beyond based on annual determination by the DOD Board of Actuaries.
- Medicare-Eligible Retiree Health Care Accrual per capita rates for fiscal year 2012 decreased based on annual determination by the DOD Board of Actuaries.
- Basic Allowance for Housing Rates were budgeted to increase by 4.2 percent on-average in fiscal year 2011 while actual rates increased by only 1.6 percent on-average.
- Basic Allowance for Subsistence Rates were budgeted to increase by 3.4 percent in fiscal year 2011 while actual rates increased by only 0.4 percent based on the by-law formula.

RECRUITING AND RETENTION

12. Senator AYOTTE. Secretary Westphal, following up on a discussion from the hearing, the Army has proposed a reorganization of recruiting and retention incentives to cut \$764 million in fiscal year 2012 based on “current and projected economic environments.” In particular, the Army assumed that the unemployment rate will continue at 9 percent or higher. Is this assumption consistent with the administration’s projection?

Dr. WESTPHAL. The President’s fiscal year 2012 budget assumes an unemployment rate of 8.8 percent, slightly below the 9 percent assumption we used for planning purposes. However, it should be noted that there are many other factors involved in determining the level of incentives and programs needed to sustain the All-Volunteer Force. The propensity to recommend Military Service has increased with influencers such as mothers, fathers, guidance counselors, and coaches. Additional factors affecting our success in recruiting and retaining quality soldiers are: comparable pay to civilian salaries; comprehensive medical coverage; reduced deployments; and improved family support programs. The combination of all the above factors has positioned us for success in our 2012 recruitment and retention programs.

13. Senator AYOTTE. Secretary Westphal, the Army projects a savings of \$5.3 billion over the Future Years Defense Plan (FYDP). What happens if the economy picks up, as we all hope it will?

Dr. WESTPHAL. As the Army works to improve the Soldier deployment cycle, dwell time at home with family and quality of life, the desire to reenlist also increases. For recruiting, the Army continues to select the highest quality recruiters, and is always improving and exploring opportunities such as social media, community involvement, and coordinating with high schools to help students and parents determine whether the military is right for them. The Army stresses the total compensation and benefits available to soldiers and families in order to attract and retain quality soldiers. With the support of Congress, we have made substantial improvement in the quality of life of soldiers and their Families across the board. Increases in soldier and family programs, education benefits, housing, working conditions, and equipment all contribute to the successful maintenance of the All-Volunteer Force.

14. Senator AYOTTE. Secretary Westphal, will the Army restore recruiting and retention incentives? If so, how will this efficiency provide its projected savings?

Dr. WESTPHAL. Unless there is a dramatic improvement in the economy or the American public's perception of the Army sours, we do not see a need to place more funding in the recruiting and retention budget. We continuously analyze each military occupational skill based on the need for each capability. We use that in-depth analysis over time to make decisions concerning incentives. The bonus program is designed to incentivize soldiers in critical MOSs and ranks based on current and projected shortages. Particular career fields such as Explosive Ordnance Disposal, Military Intelligence, Engineers, Linguists, and Special Forces have highly marketable skills that are in demand and well compensated in the civilian economy. We have used incentives very effectively to remain competitive and retain the capabilities needed to execute our missions.

15. Senator AYOTTE. Secretary Westphal, how will the Army reorganize recruiting and retention incentives?

Dr. WESTPHAL. The Army has a highly analytical and flexible recruiting and retention incentive determination process that has proven successful over time. It concentrates on skill and grade requirements and their criticality to maintaining a ready Army. We will continue to access our process and make adjustments based on sustaining the All-Volunteer Force. To be sure incentives are not the only tool on which the Army relies to effect recruiting and retention. We stress the total compensation and benefits package available to soldiers and families to attract and retain quality soldiers. With the support of Congress, we have made substantial investments to improve quality of life programs for our soldiers and families. It is the combination of all of these elements that will enable us to successfully man the force.

16. Senator AYOTTE. Secretary Work, the Navy proposes the same reduction in recruiting and retention programs. What economic assumption did you use to make those decisions?

Mr. WORK. In general, the bonus programs considered that unemployment would decrease gradually but that the economic impact on recruiting and retention would be relatively unchanged. Navy has experienced increased retention and fewer recruiting challenges which have allowed reductions in recruiting and retention incentives.

#### LIKELIHOOD OF FURTHER DEFENSE CUTS

17. Senator AYOTTE. Secretary Hale, The Defense News reported on March 27, 2011, that DOD is preparing for up to \$100 billion more in cuts to defense over the next 5 years once the Pentagon's top line budget figures are released from the White House for the fiscal year 2013 budget. Acknowledging that speculation about future year budgets is a tricky thing, particularly in the press, can you share your opinion on what will happen to DOD's budget in fiscal year 2013 and beyond?

Mr. WORK. It is premature to provide an assessment of what will happen to DOD's budget in fiscal year 2013 and beyond.

18. Senator AYOTTE. Secretary Hale, do you anticipate having to make further top line cut through the FYDP beyond the \$78 billion that DOD has already absorbed?

Mr. WORK. It is premature to provide an assessment of what will happen to DOD's budget in fiscal year 2013 and beyond.

#### INDIVIDUAL SERVICE RISK ASSESSMENT

19. Senator AYOTTE. Secretary Hale, Secretary Westphal, Secretary Work, and Secretary Conaton, in your joint statement, you state "most of this top line reduction was achieved through efficiencies and other changes in portions of our budget less closely related to warfighter capability". With that said, The Defense News reported yesterday that DOD may be provided with guidance this week from the Office of Management and Budget (OMB) that will require DOD to cut an additional \$100 billion from the top lines over the next 5 years. Many of DOD's efficiencies propose spending cuts to flying hours, weapon system maintenance, training programs, facility repairs, as well as cancelling the acquisition of new systems that were intended to replace old equipment, such as the Expeditionary Fighting Vehicle (EFV). Please provide your assessment of the risk incurred by each Service for each efficiencies initiative proposed in the fiscal year 2012 budget request. Specifically,

I'm looking for an assessment of the operational risk assumed for reducing end strength, deferring requirements, eliminating programs, and scaling back training accounts.

Mr. HALE.

*Department of the Army:*

The Army's efficiency initiatives proposed in the fiscal year 2012 budget request are assessed as low operational risk. To achieve savings, the Army used comprehensive capability portfolio reviews to terminate or reduce weapons systems with declining relevance or unneeded redundancy. The Army ensured training programs and equipment programs terminated, reduced or deferred would not pose a threat to its ability to conduct the full range of military operations. Service and support contracts supporting HQ activities were reduced with low risk achieved. The Army also leveraged investments in existing infrastructure and information technology, which will provide efficiency and maintain or improve effectiveness in supporting the Operating Force.

*Department of the Navy (DON):*

Risk was inherently considered as the warfighters were involved from the ground floor in defining efficiencies. Lower echelon commands were asked to be bold in challenging current organizations, constructs, and structure focused on "Buying Smarter", "Streamlining Organizations and Operations", and "Energy Efficiencies". This resulted in numerous issues being vetted affecting over 1,000 budget lines.

To address the specific concerns noted, end strength changes are the result of eliminating duplicative staffs, streamlining organizations, eliminating unnecessary contractor support, and strident reviews of personnel policies and practices. Similarly, the DON identified several investment programs that were underperforming or less effective than envisioned and are now proposed to be revamped or terminated in order to pursue more appropriate materiel solutions given the changing landscape of the world. Finally, the scaling back of training accounts reflects the reality of technology that now permits more realistic and cost effective training using advanced simulators without overall loss of readiness and proficiency.

In summary, the DON believes the benefits achieved through reinvestments and restructuring far outweigh the near-term operational risks of not conducting "business as usual". Business as usual is in fact the greatest risk as inefficient business practices will continue to divert resources from the critical needs of the warfighters. To prevent this, the DON is aggressively developing processes and practices to monitor the implementation of the proposed efficiencies to ensure savings are realized along with corresponding enhancements, and that the DON does not slip back into a mindset of "business as usual".

*Department of the Air Force:*

The Air Force estimates that there is little operational risk in the current efficiency plans, and that in fact, the enhancements enabled by the efficiency efforts will increase operational capability.

First, efficiency work is aimed at reducing staff overhead structures and general support activities, and reallocating resources to direct operational improvements (e.g., modernized F-15E radars, long range bomber, increased funding to weapon system sustainment). The Air Force corporate structure will closely monitor progress on efficiency goals and, as importantly, mission performance.

Other than a limited number of senior executives and general officers, the Air Force is not reducing any Active, Reserve, and Air National Guard end strength and is still continuing to grow government civilian end strength. While the Air Force is reducing workforce in selected support activities, that workforce is being reallocated to more direct operational and operational support activities.

In regards to deferring requirements, the efficiency goals represent real savings/reductions versus deferring expenditures to future years. Regarding eliminating programs, the Air Force took a balanced approach considering the costs and savings associated with funding the programs vice termination. There are three program terminations within the Air Force reported efficiencies.

The efficiency goal for training is to reduce the cost to sustain current training levels and reduce the cost of flying hours while maintaining mission readiness at or above current standards. To achieve this, the Air Force must continue to invest in high fidelity simulators and mission training centers while continuing to focus on fuel management savings and improved planning.

The Air Force will monitor plans and progress to ensure efficiency outcomes are being delivered and will also review readiness and performance data to ensure Air Force efficiencies are not inadvertently impacting mission performance or the quality of life of airmen.

Dr. WESTPHAL. The Army's efficiency initiatives proposed in the fiscal year 2012 budget request are assessed as low to operational risk. To achieve savings, the Army used comprehensive capability portfolio reviews to terminate or reduce weapons systems with declining relevance or unneeded redundancy; we have ensured training programs and equipment programs terminated, reduced or deferred would not pose a threat to our ability to conduct the full range of military operations. No efficiencies resulted in end strength reductions; however, some service and support contracts at headquarters activities were reduced within the Army's Generating Force. Leveraging investments in existing infrastructure and consolidating information technology will provide efficiency and maintain or improve effectiveness in supporting the Operating Force.

Mr. WORK. The DON did not pursue a purely "top down" approach by imposing efficiencies, but rather directed lower echelon commands to be bold in challenging our current organization, constructs, and structure focused on "Buying Smarter", "Streamlining our Organizations and Operations", and "Energy Efficiencies". This resulted in numerous issues being vetted affecting over 1,000 budget lines. The CNO and CMC personally weighed the risks associated with every recommended efficiency, and they forwarded for approval only those efficiencies where they judged the benefits to outweigh operational risk. These were then reviewed by the Secretary of the Navy as well as OSD before booked as savings.

To address the specific concerns noted, end strength changes are the result of eliminating duplicative staffs, streamlining organizations, eliminating unnecessary contractor support, and strident reviews of personnel policies and practices. Similarly, the Department identified several investment programs that were underperforming or less effective than envisioned and are now proposed to be revamped or terminated in order to pursue more appropriate materiel solutions given the changing landscape of the world. Finally, the scaling back of training accounts reflects the reality of technology that now permits more realistic and cost effective training using advanced simulators without overall loss of readiness and proficiency.

In summary, DON believes the benefits achieved through reinvestments and restructuring far outweigh the near-term operational risks of not conducting "business as usual". Business as usual is in fact our greatest risk as inefficient business practices will continue to divert resources from the critical needs of our warfighters. To prevent this, the DON is aggressively developing processes and practices to monitor the implementation of our proposed efficiencies to ensure savings are realized along with corresponding enhancements, and that the DON does not slip back into a mindset of "business as usual".

Ms. CONATON. The Air Force assessment is that there is little operational risk in our current efficiency plans, and that in fact, the enhancements enabled by the efficiency efforts will increase operational capability.

First, our efficiency work is aimed at staff overhead structures and general support activities, and resources are reallocated to direct operational improvements (e.g., modernized F-15E radars, long-range bomber, increased funding to weapon system sustainment (WSS)). WSS was both an investment and an efficiency area; the Air Force increased funding in WSS to improve readiness, and in addition, imposed an efficiency equating to \$3 billion by setting the expectation of delivering 85 percent of requirements at an 80 percent funding level. The Air Force corporate structure will closely monitor progress on efficiency goals and mission performance.

Other than a limited number of senior executives and general officers, the Air Force is not reducing any Active, Reserve, and Air National Guard end strength, and is still continuing to grow government civilian end strength. While we are reducing workforce in selected support activities, that workforce is being reallocated to more direct operational and operational support activities. We are reallocating 5,600 active duty billets over the FYDP from lower priority support functions to higher priority growth areas, such as intelligence, surveillance and reconnaissance operations. In the areas where we are reducing staff (either government or contractors), the Air Force plan is to either modify the work itself to eliminate unnecessary and redundant tasks or to stop doing a job altogether that is no longer deemed essential. This approach is a means to keep from getting into the trap of "doing more with less" and reduces operational risk.

In regards to deferring requirements, our efficiency goals represent real savings/reductions versus deferring expenditures to future years. Approximately 1 percent of our \$33.3 billion in Air Force-identified efficiency initiatives are related to re-phasing of programs due to fact-of-life slips or program execution status. They include rephasing war reserve material stockpile and training munitions procurement; re-phasing Wide Area Airborne Surveillance procurement; re-phasing AFNet support; and Link 16 Crypto Modernization for B-1, B-2, F-15 and F-16 systems. Real savings generated by these and other Efficiencies, permitted funds to be realigned

to increase mission core capabilities including investments in B-1 modernization, F-35 simulator procurements and funding MC-12 in the baseline program. All of these investments contribute to decreased operational risk.

Regarding eliminating programs, we took a balanced approach considering the costs and savings associated with funding the programs vice termination. We have three program terminations within Air Force reported efficiencies: (1) Air Vehicle Survivability Facility at Arnold is terminated saving \$720,000 in Research Development Test & Evaluation (RDT&E) funds per year across fiscal year 2012–2016. The facility was not core to Air Force requirements and no additional costs are associated with this termination; (2) The Air Force Infrared Search and Track Program modification to the F-15 was terminated saving \$43.8 million in RDT&E funds across fiscal year 2012–2013 and \$301.6 million in Procurement funds across fiscal year 2013–2016; and, (3) Advanced Targeting Pods-Sensor Enhanced was terminated saving \$98.7 million in Procurement funds across fiscal year 2012–2016. Efficiency savings allow us to shift resources to modernization and readiness enhancements such as those covered above.

Our efficiency goal for training is to reduce the cost to sustain current training levels and reduce the cost of flying hours while maintaining mission readiness at or above current standards. To achieve this, the Air Force must continue to invest in high-fidelity simulators and mission training centers while continuing to focus on fuel management savings and improved planning. We are conducting several internal studies to help find the right balance of live flying hours and simulator trainings in order to provide the best trained airmen. We will closely monitor this initiative (as with the others) and explicitly measure mission readiness to preclude increased operational risk.

On a monthly basis, we will monitor plans and progress to ensure efficiency outcomes are being delivered and will also review readiness and performance data to ensure Air Force efficiencies are not inadvertently impacting mission performance or the quality of life of airmen.

#### PROPOSALS FOR END STRENGTH REDUCTIONS

20. Senator AYOTTE. Secretary Hale, reading your statement for this hearing, DOD has included a savings of \$6 billion in fiscal years 2015 and 2016 for a proposed decrease in end strength for the Army and Marine Corps. You go on to state “If our assumptions about Iraq or Afghanistan turn out to be overly optimistic, or if global conditions change for the worse, we would be able to adjust the size and schedule of this change or even reverse it altogether”. Given this significant caveat, why did DOD include this initiative as a savings contributing to the administration’s efforts to reduce the Federal deficit?

Mr. HALE. As I said in my remarks during the March 29th testimony, we have and will continue to have some significant national security challenges. Certainly, the assumptions for proposed force reductions may adjust based on future security circumstances, but such reductions were not made without first knowing the risk. In the end, these force reductions are achievable, but we also understand that in order to protect the capability of the warfighter, the plan must stay aligned with global conditions and balance such reductions with minimal risk. It is important to remember that even after the planned reductions, the active Army end strength would continue to be larger by nearly 40,000 soldiers compared to their end strength 4 years ago.

21. Senator AYOTTE. Secretary Hale, to what extent will global conditions have to change for the worse in order to trigger a reassessment of the proposed force structure reductions?

Mr. HALE. We will continuously assess global conditions and adjust as necessary in order to minimize risk. The current plan is based on the assumption that the number of troops in Afghanistan will be significantly reduced by the end of 2014 in accordance with the President’s and NATO’s strategy. If the assumptions prove incorrect, there is plenty of time to adjust the size and schedule of this change. As the Services resize their forces according to anticipated demand, we must ensure that any reductions avoid unnecessary increased risk or stress on our servicemembers.

22. Senator AYOTTE. Secretary Hale, the downward ramps for both the Marine Corps (20,000 in 2 years) and Army (47,000 in 4 years) are very steep. Lacking mandatory spending authority for early retirement authority, enhanced selective retire-

ment boards, and other legislative initiatives, how do you expect these Services to achieve these goals?

Mr. HALE. It is the Department's policy to offer voluntary programs prior to taking involuntary separation action. Maintaining readiness while responsibly reducing our force structure will be a major challenge in the years ahead and the Department needs additional authorities to achieve these goals. The Department is working to submit a legislative proposal for force shaping tools to achieve the necessary force drawdown. The Department is currently reviewing a package of authorities, which includes the following proposals—(1) Reinstatement of authority for enhanced Selective Early Retirement Boards and Early Discharges; (2) Extension of Voluntary Separation Pay; (3) Reinstatement of Temporary Early Retirement Authority; (4) Voluntary Retirement Incentive; and (5) Authority to reduce years of service for mandatory retirement for certain officers in pay grades O-5 and O-6.

23. Senator AYOTTE. Secretary Hale, if DOD decides to reverse the proposal, would you expect to get the \$6 billion back in the top line in fiscal year 2015?

Mr. HALE. Every year, we perform a program and budget review of all DOD programs and prioritize requirements based on the current and projected economic, political, and national security environments. Starting with the fiscal year 2013 program and budget review, we will reassess these programs for the budget year and 5 years out. Given this schedule, fiscal year 2015 will be readdressed during the next three program and budget reviews before submitting the fiscal year 2015 President's budget. We will work the details of any top line funding adjustments necessary to meet DOD requirements through the Office of Management and Budget, as we do on an annual basis.

24. Senator AYOTTE. Secretary Hale, what other Department-wide efficiency initiatives are subject to the uncertainty of world events?

Mr. HALE. The Department believes that most of the efficiencies included in the fiscal year 2012 budget request are achievable with minimal risk to warfighting capability. The efficiencies in the fiscal year 2012 budget were primarily focused on business process and overhead expenditures. Of course, with any plan, there is a possibility that implementation may not happen as originally planned for various reasons. To ensure implementation risks are mitigated, there will be a recurring review of component plans and actual execution against those plans.

#### AUDIT OF SAVINGS

25. Senator AYOTTE. Secretary Hale, given all the shortcomings in DOD's financial management systems, I question whether the efficiencies identified in the fiscal year 2012 budget request are reliable, realistic, and achievable without a set of auditable financial statements. How confident are you that the efficiencies proposed will actually realize the projected savings without having a decent set of financial statements that can be audited to track performance?

Mr. WORK. The Department records and reports expenditures associated with budgeted amounts. While not sufficient to meet audit standards, this longstanding approach has proven to be an effective means to responsibly manage the public funds entrusted to the Department. We have thousands of well-trained financial management professionals in the Department dedicated to and motivated by their role in providing to warfighters the resources necessary to meet the National security mission of the country. These financial managers know DOD missions cannot be executed without timely and sufficient resources, and so are able to track expenditures and report to managers with an accurate status. Because of this capability, Secretary Gates and I feel we can demand and track savings from the specific operations targeted by the efficiencies initiative.

This does not mean that we do not take the financial statement audit requirement seriously. Financial statement audits are also a key indicator to the public that we have reliable financial management information and can show reliable results of the efficiencies implemented. While this is not the intent of financial statement audits, they are a signal to the public that we manage funds legally, effectively, and efficiently. We are dedicated to having fully auditable financial statements by 2017, the deadline established by Congress.

26. Senator AYOTTE. Secretary Hale, why is the achievement of a DOD financial audit not Secretary Gates' top efficiency initiative?

Mr. HALE. The highest priority for the Department's business enterprise is to meet the needs of the warfighters executing our national security mission. Due to

budgetary constraints for the United States as a whole, and DOD in particular, Secretary Gates has directed the Department to eliminate or reduce overhead tasks and transfer the related resources to meet urgent warfighter needs. In other words, transfer resources from tail to tooth. This initiative to improve financial management and achieve a financial audit is part of that effort. Improved financial management information will help the Department better identify overhead costs and ensure reductions are realized.

27. Senator AYOTTE. Secretary Hale, Secretary Westphal, Secretary Work, and Secretary Conaton, which savings or efficiencies proposed by your departments are the riskiest, in terms of not being achievable? Please explain your answer.

Mr. HALE. Experience tells us that some of these initiatives may not proceed entirely according to plan. The Department has no choice but to strictly monitor and enforce these efficiencies and make adjustments as needed with the understanding that we cannot afford to return to past behavior. At this point, there are no elements that we believe are especially risky.

Dr. WESTPHAL. Of the proposed Army efficiencies, realizing savings from organizational streamlining and the implementation of better business processes represent the greatest challenge. Many of those organizational changes were driven by the need to address the cumulative effects of over a decade of war on the Army, its soldiers and their families. The Army is mitigating the risk of such challenges by prudently planning to save only 20 percent in these difficult areas during the first 3 years of the FYDP (i.e., \$2 billion fiscal year 2012–2014 of the projected \$9 billion total over fiscal years 2012–2016). The Army phased its approach to provide the time needed to implement future initiatives successfully.

We are confident we can achieve the necessary savings in fiscal year 2012 through fiscal year 2014 by leveraging other types of efficiency savings such as:

- Terminating or reducing weapons systems with declining relevance or unnecessary redundancy through comprehensive capability portfolio reviews.
- Leveraging investments in existing infrastructure and implementing a balanced facilities investment strategy to save \$1.4 billion in military construction (MILCON).

Mr. WORK. An area of particular challenge pertains to assorted efficiencies that have a cumulative effect on the DON Total Force. In an effort to maximize the preservation of ‘tooth,’ aggressive measures were taken to ensure that overhead investments (‘tail’), such as those devoted to manpower, were streamlined. Sample issues include reductions in the number and size of staffs, cuts to Senior Executives and General Officers, and significant reductions in contractor support. Although not easy, taking these steps was necessary to preserve core warfighting capability.

There are several factors that add to the complexity of realizing efficiencies in the workforce. For starters, it is critical to adopt a total force perspective and fully understand the combined impact of adjustments made to military, civilian, and contractor personnel. Obtaining this viewpoint is difficult given the fact that cuts span appropriations, organizations, and contracts and are accompanied by varying degrees of specificity in terms of intent. For example, some reductions are defined by billet(s) while others are exclusively represented by fiscal adjustments that must be translated into billets in order for the savings to be realized. While these efficiencies may be achievable in the near term, they may be more difficult to sustain over the long term, due in part to circumstances beyond our control (e.g. force reset or surge requirements).

Because the savings have already been recouped in the 2012 budget submission, the DON is committed to ensuring that these savings are realized and not inadvertently or unintentionally applied to critical programs or missions. Meeting this objective will require application of oversight and ardent planning on an Enterprise level. As Under Secretary Hale testified to Congress (on 29 March 2011 before the Senate Armed Services Committee Subcommittee on Readiness), “... if we fail to achieve our efficiency plans, we will be forced to scale back programs that contribute to our core mission. That prospect will motivate us to translate planned efficiencies into actual efficiencies.” Although execution of these savings won’t commence until October 2011, efforts are already underway to plan for implementation and ensure that necessary risk mitigation measures are in place. In fact, the DON is already working across the DON Enterprise and closely with OSD to ensure that all 2012 efficiencies, not just those related to the workforce, are being monitored and tracked in a manner that will minimize risk and keep leadership informed of emergent challenges.

Ms. CONATON. First, we have mitigated risk in our efficiency plans through a variety of strategies including ramping up expected efficiencies further out in the FYDP

allowing additional time for planning and execution of the plans; selecting by-name owners of our initiatives to ensure responsibility remains at a personal level of accountability; and, by weaving efficiency planning and execution process into existing Air Force Corporate Structure to ensure efficiency plans are aligned with Air Force strategy and get reviewed on a regular basis. However, we are unable to eliminate risk due to a variety of factors.

The majority of risk we currently assess in our efficiencies comes from external sources and is generally a product of assumptions made in the planning process. Commodity prices, for example, represent great risk to energy efficiencies in both the aviation and facility areas. Rising fuel prices could completely eliminate all dollar savings from efficiencies. Our business process efficiencies are based on a projected level of demand for service. Real-world contingencies could significantly challenge those projections and drive additional manpower requirements to meet those needs in spite of the process efficiencies we were able to garner. The same contingencies would also use our equipment at greater rates than currently projected which would require adjustments to acquisition strategies and replacement profiles.

We monitor risk on a monthly basis, and therefore the type of risk and amount associated with that risk varies as we actually execute the efficiency plans. Currently, the Air Force assesses risk in the following areas that translate to \$1.2 billion across the FYDP in efficiency plan shortfalls, and an additional amount of approximately \$1 billion based on actual cost of fuel:

- Installation Support/Communication Issues: Current restructure plans for installation support result in efficiency estimates that are less than originally anticipated. The Air Force is developing alternative approaches to mission support that will allow us to make up the difference.
- Logistics and Installation Efficiencies and MAF Fuel Efficiencies: We can take actions through smart investments and standard operating policies to reduce energy consumption, but we cannot control the price of energy. Recent increases in oil prices highlight the inherent risk in achieving financial savings based on fuel and energy efficiencies. We expect to reduce energy consumption and reduce gallons/energy consumed. However, as price of fuel varies, it will impact our ability to achieve financial savings.
- Weapon System Sustainment: Our aging platforms and equipment create upward pressure on costs—obsolescence is a continuing management challenge
- The Defense Weather Satellite System (DWSS): Decisions were made to enhance funding to this program in finalizing the fiscal year 2012 President's budget submission which impacts projected savings associated with this program across the FYDP. We are doing assessments within this program, our space portfolio, and broader acquisition efficiencies as a means to fill this efficiency target gap

The process for managing efficiencies has considered that fact of life issues are inevitable. The ability to fill gaps quickly when they arise is essential and is part of the ongoing management process. The Air Force will be proposing additional efficiencies to fill any shortfalls in executing fiscal year 2012 and in building the fiscal year 2013 budget.

#### RELOCATION OF MARINE CORPS FORCE FROM OKINAWA TO GUAM

28. Senator AYOTTE. Secretary Work, the current agreement between the United States and Japan to realign forces on Okinawa, and to relocate 8,000 marines and their families from Okinawa to Guam is planned to cost over \$25 billion between the two countries. Given the recent tragic events in Japan, is DOD currently reassessing the terms of the agreement? If so, can you provide details?

Mr. WORK. A "2+2" meeting between the Secretary of Defense, Secretary of State, Japanese Minister of Defense, and Japanese Minister of Foreign Affairs will be scheduled for late May or early June in Tokyo. In the preliminary discussions, the Government of Japan has assured the U.S. Government that since the natural and nuclear disaster events of March 11, 2011 it remains committed to the Roadmap Agreement, both for the Futenma Replacement Facility and Okinawa as well as the Guam realignment. We are working with the Japanese to determine what effect the events of March 11, 2011 may have on the near term bilateral agenda.

29. Senator AYOTTE. Secretary Work, in your opinion, is the closure of Marine Corps Air Station Futenma and the relocation of Marine Air activities to Camp Schwab still a legitimate option?

Mr. WORK. We continue to work with the Government of Japan to develop the way forward to construct the Futenma Replacement Facility (FRF) at Camp Schwab. Per the 2006 Roadmap Agreement, we will continue to use MCAS Futenma until a fully operational FRF is completed.

30. Senator AYOTTE. Secretary Work, what are currently the planned investments on Guam and on Okinawa by each country?

Mr. WORK. Regarding Guam, per the Realignment Roadmap, the Government of Japan will contribute up to \$6.09 billion in funding towards the relocation of marines from Okinawa to the U.S. territory. The funding contribution is comprised of a direct cash contribution of \$2.8 billion, plus up to \$3.29 billion in financial instruments for utilities and family housing to support the relocation of marines. The United States will bear the balance of the costs associated with the realignment.

The Government of Japan has transferred \$834 million to the United States to fund the following projects (awards pending): (note Japanese fiscal year (JFY) runs from April 1–March 31):

- JFY09:
  - Utilities & Site Improvements I: \$321 million
- JFY 2010:
  - Apra Harbor Medical Clinic: \$96 million
  - Apra Harbor Waterfront HQ: \$25 million
  - Utilities & Site Improvements II: \$309 million
  - Finegayan Fire Station: \$25 million
- JFY 2011:
  - MLG Admin Building: \$59 million
  - Base Admin Building: \$70 million

In JFY 2011, the Government of Japan also approved \$415 million in financing for water and wastewater projects on Guam.

Guam projects funded by the U.S. Government thus far are:

- Fiscal Year 2010:
  - AAFB North Ramp Utilities I: \$22 million (awarded in April 2011)
  - AAFB North Ramp Parking I: \$89 million (awarded in April 2011)
  - Apra Harbor Wharf Improvements I: \$127 million (awarded in Sept. 2010)
  - Military Working Dog Facility Relocation: \$14 million (awarded in Sept. 2010)
  - Defense Access Road Improvements: \$49 million
- Fiscal Year 2011
  - Apra Harbor Wharf Improvements II: \$40 million
  - Defense Access Road Improvements: \$67 million

Additionally, the President's budget for fiscal year 2012 includes a request for \$181 million for two MILCON projects (AAFB North Ramp Utilities II, Finegayan Water Utilities) and planning and design. We have developed an updated cost estimate and notional timeline for the Guam realignment and have offered to brief committee staff regarding these issues.

31. Senator AYOTTE. Secretary Work, are the planned investments still affordable?

Mr. WORK. Given the significance of the realignment of Marine forces in the Pacific, we continue to work to identify opportunities to reduce the costs while at the same time implementing the best possible strategic laydown of forces in the Pacific.

#### TERMINATION OF WEAPONS SYSTEMS

32. Senator AYOTTE. Secretary Hale, over \$21 billion of the projected savings in the next 5 years will be achieved through program terminations and reductions. Assuming the requirements still exist, say for example amphibious assault, do these savings take into account the additional costs the Services will incur in other programs to compensate for the terminations? If not, why not?

Mr. HALE. The Army terminated three programs including Non-Line of Sight Launch System (NLOS-LS), Surface Launched Advanced Medium Range Air-to-Air Missile (SLAMRAAM) and Scorpion. The Army believes existing systems and capabilities are sufficient and do not believe that additional procurement funds will be required for other programs. Army also determined that Scorpion was not a cost ef-

fective program and has elected to pursue other anti-vehicular capabilities under the Spider Increment II program which is currently funded in fiscal year 2012.

The Navy termination efficiencies encompassed three programs which include the Expeditionary Fighting Vehicle (EFV), restructure of the Joint Light Tactical Vehicle (JLTV), and termination of the Standard Missile 2 Block IIIB Upgrade. DON accounted for additional costs through reinvestment of these savings where required within other Navy programs.

The Air Force corporate structure took into account the costs associated with funding the programs vice terminating. The Air Force reported \$3.7 billion for program reductions and termination across fiscal years 2012–2016) including three terminated programs representing 12 percent of that total figure. Operations and maintenance funding adjustments to implement fiscal year 2011 costing factors comprised 35 percent, program adjustments, from fact of life changes to adjusting requirements to highest priority needs, comprised 47 percent of the total. The remaining 6 percent is associated with retiring assets as a preferred economic alternative to repair and continued operations.

The Joint Multi-Mission Submersible (JMMS) program is Special Operations Forces (SOF) unique and its termination incurred no additional costs.

33. Senator AYOTTE. Secretary Hale, if so, for each program termination, please provide details of the programs in which funding increased to meet the underlying requirement.

Mr. HALE.

*Navy - Two Program Terminations / One Program Restructure.*

The Navy terminated two programs and restructured one saving \$5.5 billion including termination of Expeditionary Fighting Vehicle (EFV), restructure of the JLTV, and termination of the Standard Missile 2 Block IIIB Upgrade. Navy reinvested EFV funding into upgrades for the current Amphibious Assault Vehicle (AAV) fleet, RDT&E for the proposed Amphibious Combat Vehicle (ACV), accelerated procurement of the Marine Personnel Carrier (MPC), and sustainment of legacy ground tactical vehicles to bridge the capabilities gap associated with EFV cancellation.

Since JLTV is a program struggling with changing capability requirements and slow development, the restructure removes procurement funding from fiscal year 2013 to fiscal year 2016. There is no current impact as the Marine Corps studies how this capability ties to its future Ground Combat Tactical Vehicles requirements.

The SM-2 Block IIIB termination did not require additional investments in other programs. The Department will procure SM-6 missiles instead of SM-2 Block IIIB. The SM-6 program was already resourced before the SM-2 termination, and as such, required no additional funds to meet the Department's requirements.

*Air Force - Three program terminations.*

1. The Air Vehicle Survivability Facility is terminated saving \$3.4 million in Research Development, Test & Evaluation (RDT&E) funds across fiscal years (fiscal year) 2012–2016. The facility was deemed as non-essential at the completion of the post-BRAC 05 Memorandum of Agreement was signed by the Air Force and Navy. All subsequent Air Force live-fire test and evaluation workload has been moved to the Navy facility at China Lake. A near term fiscal year 2012 closure bill of \$250,000 was provided in the offset option. Any potential environmental cleanup cost is pending completion of the environmental assessment.
2. The Air Force Infrared Search and Track (IRST) Program modification to the F-15 was terminated saving \$43.8 million in RDT&E funds across fiscal year 2012–2013 and \$301.6 million in procurement funds across fiscal year 2013–2016.
3. Advanced Targeting Pods-Sensor Enhanced (ATP-SE) was terminated saving \$98.7 million in procurement funds across fiscal year 2012–2016. We have associated support funding reductions from this termination which are included in our program reduction accounting.

*U.S. Special Operations Command-One program termination.*

JMMS was terminated saving \$800 million from fiscal year 2013 to fiscal year 2016. The \$800 million was realigned to fund the SOCOM Undersea Mobility Way Ahead. Longstanding capability gaps persist in SOCOM's requirement to operate in denied maritime areas from strategic distances. The JMMS program resources were realigned to the following program requirements:

- Sea, Air, and Land (SEAL) Delivery Vehicle (SDV) Mk 8 technology refresh

- SDV upgrades
- Shallow Water Combat Submersible Block I Program of Record
- Development of a family of dry combat submersibles
  - Dry Combat Submersible Light
  - Dry Combat Submersible Medium
- Dry Deck Shelters (DDS) Modifications/Extension
- Analysis of Alternatives for the Next-Generation Submarine Shelter

*Army—Three programs terminated.*

The Army terminated three programs saving \$4.5 billion including Non-Line of Sight Launch System (NLOS-LS), SLAMRAAM, and Scorpion.

The NLOS-LS program was terminated when senior leadership determined that NLOS-LS was not cost effective compared to other precision fire capabilities. The Army believes existing systems and capabilities are sufficient to attack intended target sets and do not believe that additional procurement funds will be required for other programs.

SLAMRAAM procurement was cancelled when senior leadership determined it was not cost effective compared to other air and missile defense capabilities. Sufficient capability currently exists within other programs, e.g., Patriot, to attack lower tier targets such as cruise missiles, although funding was added to upgrade Stinger.

Senior leadership also determined that Scorpion was not a cost effective program and has elected to pursue other anti-vehicular capabilities under the Spider Increment II program which is currently funded in fiscal year 2012.

CUTS TO SERVICE CONTRACTS

34. Senator AYOTTE. Secretary Hale, does DOD have a baseline accounting of the funds spent on service contracts annually?

Mr. HALE. The Department utilizes the Office of Management and Budget directed object class categories to identify the amount of funding spent on contract services annually. Object classes are categories in a classification system that present obligations by the type of items or services purchased by the Federal Government, for example, supplies, rent, contract services. These amounts include both base budget funding and Overseas Contingency Operations (OCO) funding.

35. Senator AYOTTE. Secretary Hale, if there is a baseline accounting of these funds, can you provide details on the amounts spent annually by type of service contract?

Mr. HALE. The actual amount spent in fiscal year 2010 on Contract Services from base budget and Overseas Contingency Operations funding was:

(In millions of dollars)

Object Class	Object Class Title	Fiscal Year 2010 Actual
25.1 .....	Advisory and Assistance Services .....	\$19,368
25.2 .....	Other Services .....	20,895
25.4 .....	Operation and Maintenance of Facilities .....	24,923
25.5 .....	Research and Development Contracts .....	3,188
25.6 .....	Medical Care .....	13,985
25.7 .....	Operation and Maintenance of Equipment .....	30,608
25.8 .....	Subsistence and Support of Persons .....	347
Total		\$113,314

36. Senator AYOTTE. Secretary Hale, if there isn't a baseline accounting of these funds, how will you be able to assess the performance of DOD's goal to cut service contracts by 10 percent in each of the next 3 years, resulting in a savings of \$5.7 billion?

Mr. HALE. The Department plans to monitor compliance with the service support contract funding reductions through a data call that will require each component to provide an implementation plan that lists actions taken and planned during fiscal year 2011. Components will be required to provide an update twice annually.

## CUTS TO FACILITY ACCOUNTS

37. Senator AYOTTE. Secretary Hale, since maintenance of DOD facilities requires a minimally adequate level of annual funding, why does DOD consider cuts to those accounts as an efficiency savings?

Mr. HALE. Two Military Services believe they can identify facility sustainment efficiencies. Given the stress on DOD's budgets now and in the near future, we believe it is important to explore opportunities to save resources. The Department will monitor the Navy and Air Force sustainment execution to identify whether they were able to maintain or improve delivery of services or just defer them.

38. Senator AYOTTE. Secretary Hale, does the long-term underfunding facility maintenance and repairs have a detrimental impact on readiness?

Mr. HALE. While the long-term effect of underfunding maintenance and repairs results in an increase to the deferred maintenance backlog, the Department prioritizes critical facility maintenance and repairs to eliminate significant detrimental impacts to readiness.

39. Senator AYOTTE. Secretary Hale, will the accompanying reduction of funds for MILCON increase the need for maintenance and repair funds, thereby accelerating the detrimental impact on readiness?

Mr. HALE. The fiscal year 2012 MILCON reductions are a result of completing BRAC and changes in other initiatives like Grow-the-Force. Because these efforts were not recapitalization efforts, these reductions do not correlate to requirements for additional restoration and modernization funds. Further, regardless of any reduction of funds for MILCON investments, the necessary annual investments for sustainment of existing infrastructure remain. The DOD has processes to determine and fund priority critical facility maintenance and repairs to eliminate significant detrimental impacts to readiness.

40. Senator AYOTTE. Secretary Westphal, the Army proposes to save \$1.5 billion on MILCON costs by sustaining existing facilities, but does not propose a corresponding increase to the facility sustainment account. How will the Army fund the increased sustainment load?

Dr. WESTPHAL. The Army is now focusing on using Operations and Maintenance (O&M) funded restoration and modernization as a more cost effective way to meet current mission requirements as opposed to replacing facilities through MILCON. This approach has been successful in modernizing certain types of permanent party barracks and we plan to expand this approach by continuing with training barracks modernization using both MILCON and O&M. The fiscal year 2012 budget includes \$202 million for restoration and modernization, an increase over prior year requests.

## ARMY REDUCTIONS

41. Senator AYOTTE. Secretary Westphal, in reviewing the testimony and supporting documentation, I was struck by the vague descriptions of some of the Army initiatives. Please provide more details on the "adoption of an Enterprise Governance Approach to transforming business operations and obtaining the best possible outcomes for the entire Army rather than individual portions of the force".

Dr. WESTPHAL. The Army's enterprise governance approach supports transforming business operations and obtaining best possible outcomes by using broad collaboration and finding innovative Army-wide solutions. We created four functional forums called "Core Enterprises" centered on manning, readiness, equipping and services to help us better align and integrate our business operations. These Core Enterprises are focused on improving Army business processes through collaboration within and between the Core Enterprises. This creates a holistic team approach towards transforming business operations. Problems are now exposed in the full light of a multifaceted forum that brings together a broad range and depth of experiences to improve the Army. Some examples of the Army's enterprise governance approach include the recent stand up of the Business Systems Information Technologies Executive Steering Group and defining 27 Business Initiatives. The Business Systems Information Technologies Executive Steering Group is chaired by the Army Chief Management Officer and works in close coordination with the DOD Deputy Chief Management Officer to synchronize, integrate, and prioritize resources. The Army Chief Management Officer has designated Enterprise Business Initiatives which are broad enough in scope to affect the Army in several ways. We use a horizontal integration approach to prevent secondary and tertiary unintended consequences as we move toward implementation. The enterprise governance approach for business ini-

tiatives reduces risk of failure and wasted resources as a mechanism for continuous process improvement.

42. Senator AYOTTE. Secretary Westphal, where can we find the savings of \$75 million in the current budget request?

Dr. WESTPHAL. Assuming that the referenced \$75 million reduction is in Base Operations Support, the Army will realize these savings by taking the following actions:

- Installation Management Command (IMCOM) restructuring initiatives.
  - IMCOM will generate manpower savings by restructuring the Command's operations staff sections to reduce civilian pay requirements.
  - Family Morale, Welfare, Recreation Command (FMWRC) Inactivation/Integration. The Army is inactivating the two-Star FMWRC Command and integrating its mission into the General Staff. This reduces the command's structure and leverages existing capabilities already performed by the IMCOM Headquarters staff.
  - Elimination of Staff Augmentation Contracts. Leveraging the Headquarters' Base Realignment and Closure (BRAC) move from Washington, DC to Fort Sam Houston, TX, IMCOM eliminated its dependence on contractor personnel and is staffing the Headquarters with a pure Department of the Army Civilian (DAC) workforce in Texas.
- Consolidation of IMCOM Regions. Midway through fiscal year 2011, IMCOM operated with six regional commands. By the end of fiscal year 2011, IMCOM will be operating with only four Regions: Pacific, Central, Atlantic and European. As we restructure and rebalance the personnel and subsequently document this restructure, the command will be able to reduce its Regional Headquarters authorized strength from its current level of 1,160 to 945, a savings of 215 positions.
- Garrison Reductions: IMCOM conducted a thorough Force Restructure Review that identified approximately 3,000 Department of the Army civilians and Contractor Manpower Equivalent (CME) reductions across the Army's garrisons.

43. Senator AYOTTE. Secretary Westphal, can I get the same explanation for your goal to "refine and optimize full spectrum training requirements" and exactly how \$1.1 billion will be saved?

Dr. WESTPHAL. The Army goal is to train forces for a more balanced readiness posture, not just for counterinsurgency, nor exclusively for major combat operations as was done in the past. Instead, the Army will prepare contingency forces to conduct offense, defense, and stability operations in a complex 21st century operational environment against an adaptive hybrid threat. The \$1.1 billion fiscal year 2012–2016 savings in training requirements is primarily due to reduced training activity in the Reset phase of the Army Force Generation (ARFORGEN) model and the shift from major combat operations to full spectrum operations training. The key adjustments for full spectrum operations training include reducing the number of Combat Training Center rotations that Brigade Combat Teams (BCTs) execute during an ARFORGEN cycle from two to one; reducing the frequency of BCT-level training and integrating stability operations into all training events. These changes reduce resource requirements, without short-changing the readiness of our forces.

44. Senator AYOTTE. Secretary Westphal, if we are cutting training requirements for our soldiers, will this refinement be accompanied by reduction of the roles and tasks currently considered mission essential?

Dr. WESTPHAL. There will be no reduction in roles or tasks. Moreover, stability tasks have been added and are now recognized as "mission essential" to Army operations as part of a joint/interagency/multinational team during contemporary campaigns. The intent of full spectrum operations training is to prepare forces not just for major combat operations or counterinsurgency operations, but to prepare leaders and forces to conduct offense, defense, and stability operations (or civil support operations within the contiguous United States) simultaneously for assigned missions at any point along the spectrum of conflict from stable peace to general war. Full spectrum operations training enables the Army to effectively respond to a broad range of contingencies at any point along the spectrum of conflict against hybrid threats. We are not cutting requirements or short-changing the readiness of our soldiers; rather we are more efficiently allocating training resources to better match planned and expected training activity levels.

CONTROLLING MILITARY HEALTH CARE COSTS

45. Senator AYOTTE. Secretary Hale, in your written statement, you state that “DOD’s medical costs have skyrocketed in recent years—from \$19 billion in fiscal year 2001, to more than \$52 billion anticipated in fiscal year 2012.” In response, the President’s budget request for fiscal year 2012 assumes savings as a result of increased enrollment fees for working age retirees, adjustment of pharmacy copayments for all beneficiaries, and other health care payment reforms as well. Expected savings from the health care reforms will total \$340 million in fiscal year 2012 and \$7.9 billion through fiscal year 2016. Is this an efficiency or just passing rising costs onto retirees?

Mr. HALE. The health care reform proposal is an efficiency with the goal of maintaining high-quality care while also slowing the growth in costs. For some time, the Department has taken a number of internal actions, as recommended by beneficiary organizations to achieve greater internal efficiency. The four benefit changes propose a shared responsibility for managing costs while introducing further efficiencies. We consider the proposal for the fiscal year 2012 budget to be fair and equitable.

46. Senator AYOTTE. Secretary Hale, in each health care cost saving initiatives, is there any internal belt tightening by DOD itself that would yield a real efficiency savings?

Mr. HALE. The Department proposed initiatives include \$1.3 billion worth of internal Defense Health Program efficiencies across the FYDP. The initiatives include:

[In millions of dollars]

	Fiscal Years 2012–2016
Patient Centered Medical Home (PCMH) Staffing .....	\$112
Consolidation of Initial Outfitting and Transition (IO&T) .....	191
Medical Supply Chain Sourcing Optimization .....	129
Service Support Contractor Reduction .....	478
Baseline Review (DHP/TMA) .....	262
Reports, Studies, Boards & Commissions Review .....	124
<b>Total Potential Savings .....</b>	<b>\$1,296</b>

- The PCMH concept has been adopted as the foundation for refocusing the primary health care delivery model with the Military Health System (MHS). PCMH will generate savings by reducing the utilization of specialty, critical care, and inherent staffing for implementation.
- Through consolidated IO&T management of medical/non-medical equipment, technology systems, and furniture for MILCON initiatives efficiency savings can be achieved.
- The Department determined opportunities for supply chain optimization through medical materiel sourcing strategies. The reduction is less than 1 percent of total supply purchases and should be easily achieved primarily through efforts of the Defense Logistics Agency (DLA).
- The Department is currently conducting a complete bottom-up review of Programs within the TRICARE Management Activity which rely heavily on Contractor Support. Programs will be reviewed based on strategic importance, performance, and affordability.
- As part of a baseline review, the TRICARE Management Activity will reduce staff and streamline its headquarters management. Significant efficiencies will be realized with no reduction in mission effectiveness.
- The entire Department, to include Health Affairs, will implement guidance to reduce expenditures on Reports, Studies, Boards and Commissions. The cost of producing future initiatives will also be reported for transparency.

47. Senator AYOTTE. Secretary Hale, how many of the proposed DOD efficiency initiatives actually transfer or increase costs to military members or other beneficiaries?

Mr. HALE. Three of the reform initiatives modestly increase beneficiary’s out-of-pocket costs.

*Increase TRICARE Prime Fees for <65 Retirees*

- This proposal would increase Prime enrollment fees in fiscal year 2012 for working age retirees by \$5/month for families or \$2.50/month for individuals, but would exclude Survivors, medically retired members, and their beneficiaries. In addition, it is recommended that starting in fiscal year 2013 enrollment fees be indexed to a medical index to keep pace with health care inflation. Given that fees have not increased since the inception of TRICARE in the mid-1990s, and it protects our most vulnerable populations from additional financial burden, this proposal is viewed as a very modest increase, which continues to recognize the sacrifices made by our military.

*Pharmacy Co-Pay*

- This proposal will change co-pays for pharmaceuticals to provide incentives for beneficiaries to choose the most cost-effective options for prescriptions, namely use of generic drugs and delivery of prescriptions by mail. Co-pays are eliminated altogether for generic drugs ordered through the mail order program, which will mean a savings to beneficiaries of \$3 per prescription. Most non-generic drugs are available via mail order with no increase in co-pays. For retail pharmacies, co-pays are increased by \$2 to \$3 per prescription. These changes will help Department to contain medical care costs while still meeting the medical needs of our beneficiaries.

*U.S. Family Health Plan (USFHP)*

- This proposal will provide equitable treatment for all Medicare-eligible retirees by offering a single program design across the country. Under current law, Medicare-eligible enrollees are allowed to remain in the USFHP, whether they enroll in Medicare Part B or not. They are the only military retirees using the health benefits who do not have to enroll in Medicare when they become eligible. We seek legislative authority that will require those who are part of the USFHP to join Medicare upon reaching age 65. Our plan will fully grandfather all of those who are already in USFHP, but would require future USFHP enrollees to transition to Medicare and TRICARE for Life once they become Medicare-eligible. Future retirees covered by the proposal would still be able to obtain services from providers associated with USFHP as long as the providers accept Medicare.

48. Senator AYOTTE. Secretary Westphal, Secretary Work, and Secretary Conaton, as you know, the committee has received a letter signed by Admiral Mullen and each of the uniformed Service Chiefs supporting the President's proposal to increase TRICARE fees. However, some beneficiary organizations have a different perspective. Are you aware of the concerns expressed by these beneficiary organizations on the proposed TRICARE increases, in particular linking fee increases for working age retirees to medical inflation rates?

Dr. WESTPHAL. Yes, we are aware of the concerns expressed by some beneficiary organization over the proposed TRICARE rate increases.

Mr. WORK. We understand that some beneficiary groups have expressed concerns about the use of the health care inflation index for deriving future TRICARE Prime enrollment fee increases for working age retirees.

Nevertheless, DON supports the Secretary of Defense's health care reform initiatives and I believe these proposals are consistent with our efforts over the last several years, which have focused on finding internal efficiencies, incentivizing healthy behaviors by our service men and women, and ensuring all of our beneficiaries are treated equitably. These proposals are modest and provide an opportunity for all participants—the government, providers of health care, and beneficiaries—to share in the responsibility to better manage our health care costs.

Ms. CONATON. Yes, I am aware of the beneficiary organizations concerns with regard to the proposed TRICARE increases.

The TRICARE Prime enrollment fee was established in 1995 and set at \$230/\$460 for individuals/families. This fee has not changed in 16 years. Enrollees who pay this fee subsequently pay no TRICARE deductible (reducing the effective cost of enrollment to \$80/\$160 per year). The expectation had been to raise the enrollment fee on a periodic basis, but this has never happened. In 2005, DOD attempted to increase the TRICARE enrollment fee by approximately 300 percent over three years to again have some parity with civilian health premiums. This proposal was met by significant resistance from beneficiary organizations, and Congress ultimately decided the increase was too severe and prohibited any increase in TRICARE Prime enrollment fees.

Having learned lessons from the previous attempts at increasing TRICARE enrollment fees, and out of genuine concern not to introduce unexpected and steep hikes in out-of-pocket costs, the Department has put forward a significantly more modest fee increase (\$2.50 or \$5/month for individuals/families). The proposal indexes any future enrollment fees to a medical inflation rate, thereby moving to a regular and gradual increase from year-to-year, and also excludes from fee increase the following special populations of retirees: survivors (regardless of when or how the servicemember died), and medically retired military members and their families.

We believe this proposal represents a fair and responsible increase in TRICARE Prime enrollment fees, and provides a balanced approach to managing the escalating healthcare costs of our MHS while ensuring we continue to provide the best healthcare in the world for our warriors and their families.

49. Senator AYOTTE. Secretary Westphal, Secretary Work, and Secretary Conaton, how do you respond to these concerns?

Dr. WESTPHAL. We acknowledge that these proposed changes have created some concern among our beneficiaries and various organizations that represent them. However, we believe the proposal to raise some TRICARE fees for working age retirees will be modest, gradual, and responsible. We support DOD efforts to work with Congress to find ways to help control escalating healthcare costs. The Army, in partnership with DOD, is committed to preserving this healthcare benefit while recognizing that continued increases in costs are not sustainable. Even with proposed fee changes, TRICARE would remain one of the Nation's very best health benefits and beneficiaries would continue to have less out of pocket costs than Federal, State, and private health plans. These proposals balance our commitment to preserve the healthcare benefit while slowing future growth in healthcare costs. We continue to support modest fee increases as proposed.

Mr. WORK. DON supports the Secretary of Defense's health care reform initiatives. TRICARE Prime enrollment fees have not changed since the mid-1990s and aligning future increases to an established index will help us continue to deliver superb benefits while more responsibly managing cost. I believe this and other proposals are consistent with our efforts over the last several years, which have focused on finding internal efficiencies, incentivizing healthy behaviors by our service men and women ensuring all of our beneficiaries are treated equitably. These proposals are modest and provide an opportunity for all participants—the government, providers of health care, and beneficiaries—to share in the responsibility to better manage our health care costs.

Ms. CONATON. As stated in the aforementioned letter dated 7 Feb 11, I strongly support these modest changes to the military healthcare program in the fiscal year 2012 budget.

I believe we have included the appropriate safeguards to ensure a careful and measured approach to protect our most vulnerable beneficiaries, while continuing to provide free healthcare to our active duty personnel. Additionally, all Services and the TRICARE Management Activity have looked internally to identify efficiencies and incorporate those into the system before the decision to pursue these changes.

Our commitment to our beneficiaries remains unchanged, with continued investment in wounded warrior care and enhanced access to superior health services to all our beneficiaries. I believe these changes to the MHS are critical to our continuing to provide the finest healthcare benefit in the world while also slowing the cost growth in the healthcare system.

50. Senator AYOTTE. Secretary Westphal, Secretary Work, and Secretary Conaton, are you concerned about the effect of such increases on recruitment or retention of military personnel?

Dr. WESTPHAL. With the projected economy growing at a slow rate, the Army is experiencing a favorable recruiting and retention environment. We acknowledge that health care benefits are part of the overall package that recruits consider in joining the Army and in staying in the Army; however we do not anticipate any shortfalls in recruitment or retention at this time.

Mr. WORK. Navy anticipates that a fee increase would have little, if any, impact on recruiting and retention. TRICARE is a robust health plan with broad coverage at costs well below comparable civilian health insurance plans. While the proposed modest fee adjustment would increase out-of-pocket expenses for working-age retirees, their total health care expenditure would remain well below comparable commercial plans. It is also unlikely that a modest change in the cost of a retirement benefit, to which most potential recruits would never become eligible, and to which those who remain until retirement eligibility would not become eligible until at least

20 years later, would influence an applicant's decision on whether or not to enlist in the Navy.

Ms. CONATON. While there are many dynamics that impact military recruiting and retention, we do not believe the proposed change to TRICARE fees for retirees will adversely impact our recruiting and retention. Without these adjustments, we will need to reduce funding in other areas such as those programs supporting Airmen and their families. The latter funding reductions would more adversely impact recruiting and retention.

#### EVOLUTIONARY ACQUISITION FOR SPACE EFFICIENCY

51. Senator AYOTTE. Secretary Hale, the Air Force has proposed an efficiency initiative to adopt a new method for acquiring satellites called Evolutionary Acquisition for Space Efficiency (EASE). The Air Force is expecting this new acquisition approach to save up to \$1.7 billion to help launch development of a new long-range bomber program. We have recently heard that the Assistant Secretary of Defense for Acquisition, Technology and Logistics (AT&L) may have some serious concerns about the use of a multiyear program authority for the EASE program, putting its authorization into doubt. What is DOD's position on the use of multiyear procurement authority for the Air Force initiative?

Mr. HALE. The DOD has discussed the Multi-Year Procurement provisions at length with the White House and Congressional staffs in reference to the Advanced Extremely High Frequency (AEHF) and Space-Based InfraRed System (SBIRS) programs. As a result of these discussions, we have determined that Multi-Year procurement authorization is not required for these space systems. Therefore, the model we are implementing is not Multi-Year Procurement. In both of these cases, the Air Force is procuring two satellites, in a block buy, in a single year. However, funding both satellites, in a single year, is not practically achievable in today's budget environment. In order to finance EASE, in conjunction with OMB, the DOD has developed a model that achieves full funding of block buys through Advance Appropriations.

Savings realized through the AEHF and SBIRS block buys will be reinvested in research and development for technology enhancement to advance the SATCOM and Overhead Persistent Infrared (OPIR) mission area capabilities.

52. Senator AYOTTE. Secretary Hale, what is DOD's view on using multiyear contracts to buy military satellites?

Mr. HALE. The DOD is not using multiyear procurement contracts to purchase military satellites at this time. However, future satellite procurements, such as the Global Positioning System (GPS), or future launch vehicle procurements could gain significant savings through multiyear procurement contracts. The DOD will evaluate each procurement on a case-by-case basis to determine if the system fulfills all United States Code Title 10 requirements for multiyear procurement contracts.

53. Senator AYOTTE. Secretary Hale, from your perspective, isn't there a danger that using multiyear contracts to buy major systems too aggressively across the enterprise could restrict DOD's ability to terminate or otherwise effect reductions in problem programs?

Mr. HALE. Thank you for this question, I have a two part response.

#### *EASE*

The DOD evaluated but decided not to use multiyear contracts to purchase military satellites in the development of the fiscal year 2012 budget. Instead the Department's PB12 budget employs EASE on AEHF with block buys fully funded through Advance Appropriations. The principles that should govern a decision for satellite block buys are stable requirements, a stable design, completed development, and readiness for steady state production.

#### *MYP*

Multiyear Procurement (MYP) can be an effective tool to reduce unit cost in continuous stable production runs. When we buy a certain number of items each year for a set amount of years, MYP is one tool available to generate savings. Through large lot, sometimes referred to as Economic Order Quantity (EOQ), material buys can generate significant savings on purchased material costs. These large procurements also incentivize contractors to be more efficient in their operations as the government has committed to a long-term procurement run. The government can also use MYP as a negotiating lever by increasing our buying power, which can encour-

age companies to commit to lower fee levels in exchange for a longer-term commitment.

We understand that MYP commits both the Department and Congress, and we will analyze each MYP proposal on a case-by-case basis and propose only those that meet the principles referred to above.

54. Senator AYOTTE. Secretary Hale, are DOD efficiencies initiatives inhibited by policies in the OMB that prefer multiyear procurements over incremental funding for the acquisition of major weapon systems?

Mr. HALE. The DOD and OMB have collaborated well on identifying potential efficiencies and acquisition initiatives such as EASE. OMB policies do not inhibit DOD efficiency initiatives.

55. Senator AYOTTE. Secretary Hale, if the savings proposed through EASE are not realized, how will that affect the long-range bomber program?

Mr. HALE. Savings realized through the AEHF and SBIRS block buys will not be applied to the long-range bomber program. Rather, these savings will be reinvested in research and development for technology enhancement to advance the SATCOM and Overhead Persistent Infrared (OPIR) mission area capabilities.

56. Senator AYOTTE. Secretary Conaton, has the Air Force received any recent guidance from DOD about EASE? If so, can you share that guidance?

Ms. CONATON. The Air Force has been working with DOD Office of the Secretary of Defense (OSD) the last several months on the EASE construct. The Air Force envisions implementing the EASE concept to drive down costs, improve stability in the fragile space industrial base, invest in technology that will lower risk for future programs, and achieve efficiencies through block buys of satellites. EASE achieves these benefits through four basic elements: block buys of satellites; stable research and development funding; fixed price contracts; and full funding over multiple years via advanced appropriations. The Air Force is working closely with the Office of Management and Budget (OMB), OSD Acquisition, Technology, and Logistics (AT&L), and OSD Cost Assessment and Program Evaluation Office (CAPE) to establish EASE guidelines and achieve these objectives in the event that Congress approves this approach.

#### METHODOLOGIES FOR SELECTION OF EFFICIENCIES INITIATIVES

57. Senator AYOTTE. Secretary Hale, I have concerns the due diligence and methodologies used to quantify the spending cuts and benefits, specifically whether those methodologies are reliable, traceable, repeatable, and defensible. For example, on the closure of U.S. Joint Forces Command (JFCOM), how did you determine the potential savings that would be realized from the closure?

Mr. HALE. A Transition Planning Team was organized comprised of members from the Joint Staff and U.S. Joint Forces Command (JFCOM) to analyze and assess the functional construct of the command and tighten focus on core joint capabilities. The analysis of the JFCOM 6 specified responsibilities assigned in the draft 2010 Unified Command Plan (UCP) identified 24 of 77 functions that should be eliminated, with the remaining functions scaled for efficiency.

The Transition Planning Team performed a cost-benefit-analysis of every JFCOM function using three major factors to evaluate the cost versus benefit of retaining or eliminating each function. Each function was evaluated on the merits of its authoritative requirement; its uniqueness and essentiality; and the risk to joint force readiness if the function was eliminated.

58. Senator AYOTTE. Secretary Hale, please share the methods you used to quantify and, more importantly, validate this savings.

Mr. HALE. All of the cross-cutting efficiency initiatives were quantified in dollars and many were also quantified in manpower or other quantitative measures. The specific approach for quantifying the savings varied across initiative. For example, the service support contract reduction was estimated using the actual inventory of contracts for each component. The actual contract values were used to calculate the percentage reduction. Actual progress will be monitored by each Component reporting the specific contracts that have been reduced or terminated. Another example is the senior executive position reduction which used the actual position eliminated to calculate the savings. All of the initiatives had a specific approach for quantifying the savings that will be monitored in actual execution.

59. Senator AYOTTE. Secretary Hale, presumably, the departments and organizations within the DOD have provided you with a Plan of Action and Milestones (POAM) document to pursue an effective plan that would identify, eliminate, and capture cost savings for reinvestment. Was this completed for JFCOM and all other efficiency initiatives? If so, can you describe the process to develop the POAMs?

Mr. HALE. The Department is implementing a process to collect the component plans for the efficiency initiatives. The plans will include the milestones associated with the initiative, the financial and nonfinancial metrics for measuring the initiative implementation, and the areas of risk and risk mitigation strategies. The initial plans will be collected and briefed to senior Department leadership in early summer. This will ensure the baselines are clear before execution begins in fiscal year 2012 and will also provide information to inform the summer fiscal year 2013 budget review.

60. Senator AYOTTE. Secretary Hale, please discuss how you plan to manage these execution plans so dates don't slip and savings are not minimized.

Mr. HALE. The component initial plans will be collected and briefed to senior Department leadership in early summer. This will ensure the baselines are clear before execution begins in fiscal year 2012 and will also provide information to inform the summer fiscal year 2013 budget review. The components will brief senior Department leadership again in early fall with actual results from the first 2 months of fiscal year 2012. These briefings will be used to ensure actions are taken to mitigate schedule and savings risks.

61. Senator AYOTTE. Secretary Conaton, the Air Force's Deputy Chief Management Officer was recently quoted as saying that if the Service does not meet those efficiency goals, it could be pressed to remove money from areas it had not planned to cut, making DOD both less efficient and less capable. Do you agree with that assessment?

Ms. CONATON. Yes, I agree. The Air Force gave careful consideration to the development of efficiency initiatives and the application of savings to support mission and force structure requirements. Continuing our longstanding commitment to fiscal responsibility and operational efficiency, the Air Force is committed to a deliberate process to enhance capabilities by reducing expenses allocated to overhead and support functions while shifting resources to the modernization and readiness programs. If we find any portion of the efficiencies cannot be achieved in execution, we will find and execute another form of efficiency to ensure we preserve the critical warfighting enhancements included in the fiscal year 2012 President's budget request.

62. Senator AYOTTE. Secretary Conaton, exactly how will you ensure that the Air Force actually holds those lines, so that money doesn't migrate back into those accounts where it intended to spend less?

Ms. CONATON. The Air Force comptroller is assisting with the means to track actual expenditures and ensure resources are not migrated back into efficiency areas. Efficiency initiatives that cannot be readily reported through Air Force financial systems or other sources will be reported to the comptroller through senior leadership assigned to those respective priority areas. The Air Force Audit Agency will be assessing the adequacy of financial controls to assure accurate financial data on the results of efficiency initiatives beginning in fiscal year 2012.

The Air Force will use its existing corporate governance structure, the Air Force Board and Council, to regularly review status towards achieving identified efficiencies by measuring specific progress against the implementation plans. The Air Force Deputy Chief Management Officer is leading the Air Force Board, attended by flag officers/senior executives from across Headquarters Air Force and Major Commands, in monthly reviews of the execution status of efficiency efforts.

On a quarterly basis, the Air Force Council, co-chaired by myself and the Vice Chief of Staff, will monitor plans and progress to ensure efficiency outcomes are being delivered and will also review readiness and performance data to ensure Air Force efficiencies are not inadvertently impacting mission performance or the quality of life of airmen.

63. Senator AYOTTE. Secretary Conaton, to what extent did the Air Force put together a POAM which would help ensure that the savings that the Air Force has identified will be realized and will eliminate and capture cost-savings for reinvestment?

Ms. CONATON. The Air Force has established detailed implementation plans, which are the responsibility of senior leadership, to ensure results against pro-

grammed efficiencies. We are compiling and will track updates to plans through an Integrated Master Schedule. We have also established fiscal tracking through the Air Force comptroller to ensure we allocate and expend funds consistent with efficiency plans.

64. Senator AYOTTE. Secretary Conaton, can you provide these document(s)?

Ms. CONATON. The Air Force has established detailed implementation plans, which are the responsibility of senior leadership, to ensure results against programmed efficiencies. We are compiling and will track updates to plans through an Integrated Master Schedule (IMS). We have also established fiscal tracking through the Air Force comptroller to ensure we allocate and expend funds consistent with efficiency plans.

The Air Force has provided to the Senate Armed Services Readiness and Management Support Subcommittee staff, for each of our efficiency initiatives, documents that detail what the Air Force is seeking to achieve, why it was selected, and how we are going about implementing the initiative. The papers provided addressed: (1) organization and headquarters consolidations to include our AOC and NAF consolidation as well as above wing level installation support; (2) manpower and personnel efficiencies to include reducing planned growth in civilian manpower and realigning military manpower into force structure and readiness; (3) facility sustainment savings targeting 10 percent savings to facility sustainment and reducing non-utility Facility Operations (FO) costs by 3 percent without impact to mission; (4) acquisition management efficiencies which included overhead and indirect program cost reductions; (5) logistics support savings which addresses performance improvement and efficiencies in logistics and installations, weapon system sustainment, Mobility Air Force aviation fuel use, converting product support activities from contracted logistics support to organic, reductions in vehicle fleet size and facility demolition and consolidation; (6) space acquisition efficiencies to include achieving a 10 percent reduction in EELV procurement costs without degrading launch capability; (7) MAJCOM support efficiencies which targets movement of operation and maintenance funding from support to direct readiness and mission activities; (8) training efficiencies related to sustaining Air Force mission readiness at or above current standards while reducing the cost to sustain current training levels; and (9) improving information technology (IT) efficiencies and operations across all Air Force IT while maintaining Air Force operational cyberspace capabilities. We can readily discuss and review the plans outlined in papers already provided with our staff and provide additional detail and discuss our plans if desired by you or your staff.

#### UNIFIED MEDICAL COMMAND

65. Senator AYOTTE. Secretary Hale, in its March 1, 2011, report titled, Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue," the Government Accountability Office (GAO) found that realigning DOD's military medical command (MEDCOM) structures and consolidating common functions could increase efficiency and result in savings ranging from \$281 million to \$460 million annually. Although incremental steps have been taken toward reducing duplicative layers of MEDCOM where possible, three separate service medical departments and structures remain essentially unchanged. Please provide DOD's position on each efficiency proposal contained in the GAO report that relates to DOD.

Mr. HALE. Attached is a letter sent by the Director of Cost Assessment and Program Evaluation to Senator Pryor which outlines the Department's position on the efficiency proposals contained in the GAO report.



COST ASSESSMENT AND  
PROGRAM EVALUATION

OFFICE OF THE SECRETARY OF DEFENSE  
1800 DEFENSE PENTAGON  
WASHINGTON, D.C. 20301-1800

SEP 10 2011

The Honorable Mark Pryor  
United States Senate  
Washington, D.C. 20510

Dear Senator Pryor:

Thank you for your letter regarding the Government Accountability Office (GAO) report on potential savings as a result of duplicative programs. The GAO's recommendations are consistent with the Secretary's guidance and generally aligned with Department of Defense (DoD) ongoing initiatives.

We have actively considered many of these proposals and, in many cases, have similar efforts underway. Additionally, the Department is planning and working to implement a number of the GAO report recommendations. Some examples include:

- Maximize response to warfighter urgent needs
- Improve counter-improvised explosive device efforts
- Improve joint oversight of tactical wheeled vehicles
- Optimize business system modernization
- Save money on weapon system acquisitions

In some cases the proposed initiatives have been partially implemented and may be further considered for the next budget cycle. In one case, the GAO is conducting a formal review of the current implementation process. A few examples include:

- Realign DoD's medical command
- Improve information sharing in Afghanistan
- Assess overseas military presence options

Note that a number of these proposed initiatives are large projects with significant challenges that will take time to implement. These proposals will require congressional support to complete. A few examples include:

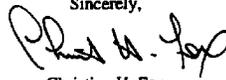
- Develop electronic health records
- Disposal of unneeded federal real estate property

You asked about other duplicative or unnecessary programs not cited by the GAO report. As part of the Department's efficiencies effort, the Secretary directed cross cutting initiatives designed to reduce duplication, overhead, and excess, and instill a culture of savings and cost accountability across the Department. Some examples include:

- Reduce or downgrade the number of general/flag officers and civilian senior executives.
- Reduce reports, studies, boards, and commissions
- Consolidate intelligence support to combatant commands
- Restructure or consolidate DoD organizations to include Joint Forces Command and Business Transformation Agency
- Reduce reliance on DoD service support contractors
- Implement better buying power initiatives to instill a culture of savings and cost accountability

The Secretary is actively engaged in continuing to look for efficiencies to help strengthen the Department as we move forward.

Sincerely,



Christine H. Fox  
Director

Cost Assessment and Program Evaluation

66. Senator AYOTTE. Secretary Hale, was further consolidation of MEDCOM functions, including establishment of a unified MEDCOM, considered during the development of the Secretary's efficiency initiatives? If not, is further consolidation an option that is on the table for future consideration?

Mr. HALE. We did look at the organizational structure of the MHS as part of the Secretary's efficiency initiatives. We did not consider either a Unified MEDCOM or a Defense Health Agency as options to consider for this particular effort.

The Secretary and the OSD Team, however, did study organizational options that streamlined certain functions within the MHS. For example, optimization of the medical supply chain is one area in which savings can be achieved through both leaner organizational structures and more leveraged purchasing strategies.

With the physical relocation of the OSD and Service medical headquarters in one location as required by BRAC, we will continue to pursue the consolidation of certain functions that may be better delivered as a single entity. BRAC also has allowed us to geographically consolidate our medical education and training functions in one location.

Finally, we also plan to assess the various health governance structures that have been introduced in several of the multi-service market areas over the past several

years, and develop a coherent, consistent and integrated governance approach for the long-term management of health care services.

67. Senator AYOTTE. Secretary Hale, what are the benefits that you believe could be achieved by establishment of a unified MEDCOM, and would legislation be required?

Mr. HALE. Secretary Gates has not proposed a Unified MEDCOM for the MHS. Although some efficiencies might be achieved through a single command, there are policy, force management and other command issues that might offset these efficiencies. The Secretary believes he currently has the authorities required for organizing the Department in the most effective and efficient manner required.

68. Senator AYOTTE. Secretary Westphal, Secretary Work, and Secretary Conaton, the GAO report acknowledges the difficulty in the past in achieving consensus among the military departments on changes to governance of medical programs. I would like to ask each of you to comment on whether or not your Service agrees that realignment of medical programs in a unified MEDCOM would be in the best interests of DOD. If so, why? If not, why not?

Dr. WESTPHAL. We are waiting on DOD to review the desirability of establishing a Unified MEDCOM. There are many complex factors that must be carefully taken into consideration before moving forward with such a monumental change in managing our health care system.

Mr. WORK. DON fully supports an integrated health care system that maintains the highest standard of medical training, research, and operational support while simultaneously delivering world class health care around the world. The MHS is one of the most complex programs within DOD; and one of the most important with regard to force readiness, recruitment and retention of military personnel. Ideally, the effective operation of the MHS with military and civilian components working at maximum efficiency is critical to controlling costs while maintaining force and medical readiness.

Assessment of existing joint arrangements should be evaluated for the Services' experiences and successes with improvements and enhancements to the delivery of care in support of the operational commanders and to the MHS' worldwide beneficiaries. We fully support the Secretary's defense health care reform initiatives and believe the Services are working collaboratively to implement systemic efficiencies and specific initiatives to strategically improve quality and satisfaction while managing costs more responsibly. We can continue to leverage our successful joint efforts such as integrated healthcare in Germany at Landstuhl Regional Medical Center. As many as 300 Navy Medicine and 300 Air Force medical professionals are working collaboratively in an Army hospital alongside 1,000 Army medical staff to provide stabilization and enroute care for over 76,000 patients since the initiation of Operations Enduring Freedom and Iraqi Freedom.

Ms. CONATON. The Air Force does not favor the establishment of a unified military MEDCOM.

The Air Force Medical Service is fully integrated with the Line of the Air Force, and medical personnel are key members of the wing commander's team to accomplish the wing mission. When Air Force units deploy, their medics deploy with them. The Unified MEDCOM would sever that close relationship at the expense of our existing effective organizational structure. We can drive unity of effort within current authorities without the expense of establishing a Unified MEDCOM and disrupting the effective alignment of medics to Service oversight. The synergy created by close alignment of Air Force medics to our operational mission should not be put at risk in a new unified command structure.

We believe a more effective and efficient Joint medical solution can be attained without the expense of establishing a Unified MEDCOM. Changes to doctrine can be made within current authorities and do not require a new Unified MEDCOM. Service-specific and joint medical doctrine must be improved to assure Service capabilities are fully interoperable and interdependent to bolster unity of effort. The Services should continue integrating common medical platforms to reduce redundancy and lower costs.

A Unified MEDCOM may not achieve the intended synergy or unity of effort. All models of the Unified MEDCOM to date do not include medical forces intrinsic (line funded vs. DHP funded manpower authorizations) to Service line units. A Unified MEDCOM would not oversee medical forces serving in these line units. Air Force line funded medics represent 5 percent of Air Force medical personnel; Navy shipboard assets represent 25 percent of medical personnel; and Army line Tables of Organization and Equipment (TOE) funded medics represent 48 percent of Army Ac-

tive Duty medics. The Air Force ability to meet operational medical requirements would be disproportionately compromised in current models for Unified MEDCOM.

Any new Unified MEDCOM will require new systems and structure to oversee component headquarters and assigned forces. This will drive even higher costs. If a Unified MEDCOM follows the example of the current Joint Task Force, National Capitol Region Medical, it is highly unlikely there will be cost savings. There is no need for a fourth military Service and the establishment of such in the form of a Unified MEDCOM, without the discipline and historical rule sets that govern existing Services, will likely drive costs much higher. Even more critical, a Unified MEDCOM may not be as responsive to the needs of Service warfighters as is the current oversight by the Services.

BRAC 2005 created many opportunities for joint oversight of medics. Given time to mature, these initiatives along with the Service Surgeon Generals' efforts to consolidate oversight of common support functions (information management, contracting, military health facility construction and financial management) in the new collocated medical headquarters will reduce redundancies. Adoption of a single Service accounting system to allocate Defense Health Program dollars and improve accountability would do more to reduce costs than a Unified MEDCOM.

#### SAVINGS THROUGH A REDUCTION OF OVERSEAS U.S. FORCE POSTURE

69. Senator AYOTTE. Secretary Hale, the GAO report noted that DOD spends billions of dollars annually on military installations around the world. For example, according to data provided by the Military Services, between fiscal years 2006 and 2009 the Military Services obligated \$17.2 billion for the installations they manage in Europe. Further, the Military Services estimated a requirement of \$24 billion through fiscal year 2015 to build, operate, and maintain these installations. Currently, plans to reduce forces in Europe are being reconsidered. GAO estimated that leaving two brigades in Europe could cost DOD between \$1 billion and \$2 billion over 10 years compared to bringing the forces back to the United States. Has DOD assessed potential saving to be realized from consolidating bases overseas and returning U.S. forces to the United States?

Mr. HALE. U.S. overseas defense posture sustains capacity for global reach and power projection and supports not only defense but also foreign policy objectives. In this dynamic and evolving geo-strategic environment, the Department continuously reviews overseas presence and posture requirements. In 2004, the Department initiated major consolidation efforts in both Korea and Europe, returning approximately 30,000 military personnel to the continental United States (CONUS)—the associated base consolidation efforts are still underway. In consideration of all potential force posture decisions, the Department views potential savings from consolidation and return of forces to CONUS as a key decisionmaking criterion. Regarding the Europe brigades, the U.S. Army is conducting an analysis to determine the most efficient and effective method to meet planned end strength requirements.

70. Senator AYOTTE. Secretary Hale, given the current search for savings, can DOD afford to spend additional billions to support the stationing of families of U.S. personnel in Korea?

Mr. HALE. A working group has been established to develop options to achieve full tour normalization in Korea, and to assess each option's affordability. The group's work is still ongoing.

#### WEAPONS SYSTEM SUSTAINMENT

71. Senator AYOTTE. Secretary Hale, Secretary Westphal, Secretary Work, and Secretary Conaton, GAO just released a report titled, "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue." In the report, GAO noted that DOD spends billions of dollars each year to sustain weapon systems through the operating and support (O&S) phase of its life cycle. O&S costs can account for 70 percent or more of the total ownership costs over a system's lifetime. It included the direct and indirect costs for spare parts, fuel, maintenance, personnel, support facilities, and training. Weapon systems experience O&S cost growth after they are acquired due to various factors such as lower than expected reliability, obsolete replacement parts, and increased usage. Please provide examples where competition has been used to lower lifecycle costs.

Mr. HALE. Many components of cost in the operating and support phase of the lifecycle aren't amenable to competition, including fuel, manning, and usage, among others. Where there are elements of operating and support costs that could be af-

ected by competition, the Department is committed to utilizing competition to the greatest extent possible to maximize savings for the taxpayer.

For example, in restarting the DDG-51 shipbuilding program, DON has pursued competitive strategies for major components of the ship to reduce life cycle cost and continues pursuing open architecture initiatives to achieve design stability, mature technologies and affordable solutions. Specifically, the DON has implemented a commercial off-the-shelf (COTS) based Advanced Capability Build (ACB) computer program to update and stabilize the ships' combat system baselines, driving down design costs, achieving greater commonality and allowing for more readily available replacement parts. The ACB computer program replaces legacy combat system computing programs in new construction ships and is being back fit into the Fleet through the Cruiser and Destroyer Modernization Programs. The DON competed the main reduction gear production for the ships in a breakout strategy, thereby avoiding pass-through costs to the shipbuilders and establishing future competitive opportunities for this major component. DON is considering other component breakout strategies, which reflect our commitment to affordability.

Another example where the Department is leveraging competition in the operating and support phase is in the Air Force's Advanced Targeting Pods-Sensor Enhancement (ATP-SE) program. A program life cycle cost analysis is currently underway, so the overall savings impact is not yet known; however, to date, the cost avoidance through competition is estimated to be \$363 million. This includes approximately \$174 million for pod production, approximately \$4 million for ATP-SE support contracts, and approximately \$185 million for depot activation data. The competition in production also results in a lower spare parts cost, which will likely result in a lower sustainment cost for the life of the system.

Dr. WESTPHAL. I can think of three examples totaling approximately \$1.1 billion over 5 years and across the complete lifecycle costs of the product lines.

1. Family of Medium Tactical Vehicles Competition. The Army awarded a competitive 5-year requirements contract to Oshkosh that resulted in an average cost savings of 28 percent over the previous sole source contract. This was due in part to the fact that the government owned the Technical Data Package (TDP) and an extremely competitive environment in the market place. The end result is a cost savings of an estimated \$578M over the contract period of performance.
2. Leveraging Real Competition. Joint Tactical Radio System, or JTRS, Enterprise Business Model: The JTRS Enterprise Business Model (EBM) is predicated upon fostering and leveraging competition in production. For the Multifunctional Distribution Information System-Low Volume Terminal (MIDS-LVT) radio program initial radios started at \$426,000 per unit. Since then, through competition between the two approved vendor production sources, the radios have decreased steadily to a cost of only \$181,000 per unit, a savings of nearly 60 percent on each radio. With over 2,600 MIDS units purchased by DOD, the total savings is almost \$500 million thus far.
3. Joint Service General Purpose Mask (JSGPM) Filter Canister Additional Source. On behalf of the Joint Program Executive Office (PEO) for Chem-Bio Defense, the Research, Development, and Engineering Command Contracting Center released a request for proposal for additional source(s) for spare M-61 filter canisters for the M-50 JSGPM which is now sole sourced. Qualification of an additional source will introduce competition and increase surge capability. Up to 3 million filter pairs could be produced, with an estimated \$12 cost reduction per pair, for a total savings of \$36 million, over 5 years.

Mr. WORK. For the DON, the most visible example is the Littoral Combat Ship (LCS) competition where Lockheed Martin and Austal USA were each awarded a fixed-price incentive contract for the design and construction of a 10 ship block-buy, for a total of 20 LCS from fiscal year 2010 through 2015. This strategy resulted in effective competition and reflects the DON's commitment to affordability. The benefits of competition, serial production, employment of mature technologies, design stability, fixed-price contracting, commonality, and economies of scale will provide a highly affordable ship construction program. Additionally, both shipbuilders will also deliver a TDP that allows the DON to establish a foundation for effective future competition throughout the ships' life cycle.

In restarting the DDG-51 shipbuilding program, the DON has pursued competitive strategies for major components of the ship to reduce life cycle cost and continues pursuing open architecture initiatives to achieve design stability, mature technologies and affordable solutions. Specifically, the DON has implemented a commercial off-the-shelf (COTS) based Advanced Capability Build (ACB) computer program to update and stabilize the ships' combat system baselines, driving down de-

sign costs, achieving greater commonality and allowing for more readily available replacement parts. The ACB computer program replaces legacy combat system computing programs in new construction ships and is being back fit into the Fleet through the Cruiser and Destroyer Modernization Programs. The DON competed the main reduction gear production for the ships in a breakout strategy, thereby avoiding pass-through costs to the shipbuilders and establishing future competitive opportunities for this major component. We are considering other component breakout strategies, which reflect our commitment to affordability.

Ms. CONATON. The Air Force uses competition to the maximum extent practical. The DOD 5000 mandates that PMs plan for competition in their Acquisition Strategy at the initiation of the program, and at every milestone decision throughout the acquisition. The Federal Acquisition Regulation prescribes policies and procedures to be used to promote full and open competition. 10 U.S.C. 2304 and 41 U.S.C. 253 require, with certain limited exceptions, that contracting officers shall promote and provide for full and open competition in soliciting offers and awarding Government contracts. FAR 6.302 lists exceptions permitting other than full and open competitions. Within these Federal regulation parameters, Air Force Contracting looks at each procurement on a case-by-case basis to determine the best business decision for our warfighters and our taxpayers. Competitive sourcing has proven effective in many programs, but it's not the right solution for all acquisitions.

One example where competition has lowered life cycle costs is found in Advanced Targeting Pods-Sensor Enhancement (ATP-SE). A program life cycle cost analysis is currently underway, so the overall savings impact is not yet known; however, to date, the cost avoidance through competition is estimated to be \$363 million. This includes ~\$174 million for pod production, ~\$4 million for ATP-SE support contracts, and ~\$185 million for depot activation data. The competition in production also results in a lower spare parts cost, which will likely result in a lower sustainment cost for the life of the system.

The B-1 Laptop Controlled Targeting Pod program provides another example of lower lifecycle costs where the B-1 team used an existing multiple-award Indefinite Delivery/Indefinite Quantity (ID/IQ) contract to promote efficiency. Under multiple-award ID/IQ contracts, the government must provide each awardee a fair opportunity to be considered for each order. As a result, the B-1 team solicited proposals from the ID/IQ awardees and received three proposals, including a proposal from the B-1 prime contractor. Award was made to a contractor other than the prime contractor for approximately \$1.1 million, which was \$250,000 less than the prime contractor's proposed price. In addition to this \$250,000 delta, we expect that the prime contractor's price would have been higher if the government had gone sole source to the prime. It is difficult to estimate what the prime contractor's proposal would have been in a sole source environment, but we roughly estimate the price would have been \$200,000 higher, resulting in total cost avoidance of \$450,000.

72. Senator AYOTTE. Secretary Hale, Secretary Westphal, Secretary Work, and Secretary Conaton, how do your department's efficiency initiatives increase the use of competition as a means to lower lifecycle costs?

Mr. HALE. The Under Secretary of Defense for Acquisition Technology and Logistics (USD(AT&L)) November 3, 2010 memo to the military departments and Defense agencies directed immediate action to increase competition. The acquisition community is addressing this in the development of Weapon System Acquisition Strategies. Specifically, the Secretaries of the Military Departments and Defense Agency Directors were directed to implement the following:

- Present a competitive acquisition strategy at each program milestone: Provide a one-page competitive strategy for each Acquisition Category (ACAT) ID program at each milestone as part of the overall acquisition strategy.
- Report to USD(AT&L) in fiscal year 2011 on how their military department or agency intends to reduce single-bid competitions. At a minimum, the report will address market research, restricted specifications, and adequate time for proposal preparation.
- Achieve a 2 percent reduction in single-bid competitive contracts in fiscal year 2011, with continuing reductions thereafter.
- Remove obstacles to competition: ensure contracting officers conduct negotiations with all single-bid offerors, unless this requirement is specifically waived by the Head of Contracting Activity or Military Department Secretary. The basis of these negotiations will be cost or price analysis, as the case may be, using either certified or non-certified cost or pricing data, as appropriate.
- Have their component or agency competition advocate develop a plan to improve both the overall rate of competition and the rate of effective competition. These plans will establish an improvement rate of at least 2 percent per year

for overall competition and an improvement rate of at least 10 percent per year for effective competition.

- Require open systems architectures and set rules for acquisition of technical data rights:

- PMs will conduct a business case analysis in concert with the engineering tradeoff analysis that will be presented at Milestone B. The business case analysis will outline the open systems architecture approach, combined with technical data rights the Government will pursue in order to ensure a lifetime consideration of competition in the acquisition of weapon systems.
  - The results of this analysis will be reported in the Acquisition Strategy Report and in the competition strategy.

- Increase the dynamic small business role in the defense marketplace competition: All competitive and non-competitive procurement actions will seek to increase small business participation through weighting factors in past performance and fee construct.

These actions apply to all contracts, including MRO, CLS, and PBL contracts. The result will be PEOs and PMs developing a competitive strategy early in acquisition that spans the program's life and improves the ability to compete MRO, CLS, and PBL contracts in sustainment. For example, the Department of Navy has undertaken a specific initiative to engage each PEO, PM, and Product Support Manager (PSM) to emphasize real competition at every stage of acquisition and sustainment. They directed the PEOs/PMs/PSMs to establish a competitive environment throughout the life cycle of their programs, and to enable better competitive opportunities in the sustainment phase. Additionally, PEOs and PMs are reviewing their existing portfolios in pursuit of increased competitive opportunities, including consideration of breakout opportunities, and expanding open architecture solutions and small business opportunities that fosters additional competition. The Army is emphasizing the conduct of logistics analyses early to baseline costs and develop technical data requirements that facilitate competition in sustainment contracts. The Air Force is also taking proactive steps to ensure PMs and PSMs correctly identify and pursue data rights in their contract negotiations to facilitate competition in sustainment. The outcome will be required warfighting capability at a reduced cost to the Government.

Dr. WESTPHAL. The Army's Better Buying Power Initiative includes the requirement to "Promote Real Competition." Army PMs of all acquisition categories are required to present, and have approved by their Milestone Decision Authority, a competitive strategy at each milestone decision. In addition, at the Milestone B review, the point of formal program initiation, we require a business case analysis in concert with an engineering trade analysis. The engineering trade analysis defines the approach for using open systems architectures and acquiring technical data rights to ensure sustained consideration of competition, thus lowering the overall costs throughout the acquisition lifecycle.

Mr. WORK. The DON undertook several initiatives to increase competition, which includes a specific initiative to engage each PEO and Project Manager (PM) to lead the way for their programs and emphasize real competition at every stage of our acquisitions. In addition to initiatives to establish a solid foundation for a competitive environment throughout the life cycle of our programs, we have asked our PEOs and PMs to also review their existing portfolios in pursuit of increased competitive opportunities, including consideration of breakout opportunities at the subsystem and component levels to reduce lifecycle costs.

In addition, Navy has been working with OSD researching how performance based initiatives (i.e. PBLs (Performance Based Logistics)) work within the Services and industry and identifying impediments and best practices. Research efforts include the Product Support Assessment Team Industrial Integration Product Support Database analysis and the DOD PBL Proof Point analysis. Both efforts are identifying best practices and blueprints for a successful performance based product support strategy that leads to lower lifecycle costs.

Ms. CONATON. The Air Force requires the use of a competitive strategy prior to each milestone for each Acquisition Categories (ACAT) program. Each competitive strategy is included in the Life Cycle Management Plan and addresses how the program will obtain technical data, computer software and documentation, and associated intellectual property rights necessary for operation, maintenance, long-term sustainment and competition. In order to reduce lifecycle cost the Air Force conducts should-cost analyses and continues to pursue open architecture initiatives to achieve design stability, mature technologies, and affordable solutions. The Air Force is also requiring more frequent recompetes of knowledge-based services, and service contracts valued at more than \$1 billion are required to include productivity improve-

ment and cost efficiency objectives. The Air Force is committed to utilizing competition to the greatest extent practical to maximize savings for the taxpayer. Competitive sourcing has proven effective in many programs, but it's not the right solution for all acquisitions.

73. Senator AYOTTE. Secretary Hale, Secretary Westphal, Secretary Work, and Secretary Conaton, in what areas do you think competition and commercial investments in technology can be leveraged to achieve further cost reductions?

Mr. HALE. Achieving cost reductions through competition and commercial investments in technology are two complementary aspects of the USD(AT&L)'s "Better Buying Power" initiative.

As the Department continues to seek efficiencies as outlined in the November 3, 2010 implementation directive for Better Buying Power, titled "Obtaining Greater Efficiency and Productivity in Defense Spending," the entire Department is striving to improve cost effectiveness through increased use of commercial technology investment. Specifically, in that directive, the Director, Defense Research and Engineering (now the Assistant Secretary of Defense for Research and Engineering) was tasked to reinvigorate the Independent Research and Development (IRAD) program. The process is ongoing, with a plan to increase the visibility of IRAD as a fundamental element of the broader DOD R&D program. Application of IRAD to DOD projects should provide guests cost efficiency for the DOD.

On November 24, 2010 the Director of Defense Procurement and Acquisition Policy issued guidance on improving competition in Defense procurement. Promoting real competition is an essential focus area within the "Better Buying Power" initiative that requires the Military Departments and Defense Agencies to develop plans to improve overall and effective competition by: reducing the number of single-bid contracts; negotiating better prices on single-bid contracts and task and delivery orders; and reducing the dollar value of sole-source contracts and task and delivery orders.

Dr. WESTPHAL. We have found that we can leverage commercial technology in many areas. That is one reason why in the DOD Directive 5000.01, the procurement or modification of commercially available products, services, and technologies is the first order of preference in satisfying a user's requirement. In this same policy, we have directed that PMs maximize the use of competition as a method for providing major incentives to industry and Government organizations to innovate, reduce cost, and increase quality. Further, that same policy calls for the use of Performance-Based Logistics wherein we can take advantage of sustainment strategies that include the best use of public and private sector capabilities. Through government and industry partnering initiatives, we optimize total system availability while minimizing cost and our logistics footprint.

Mr. WORK. The DON undertook several initiatives to increase competition, including green energy initiatives. We also issued specific challenges to program managers to increase competitive opportunities through obtaining technical data rights, considering the merits of component breakout, and expanding open architecture solutions and small business opportunities. We believe continued investment in these areas will allow achievement of further cost reductions throughout the life cycle of our weapon systems.

Regarding energy initiatives, we have already flown the F/A-18 "Green Hornet" using biofuel and have begun a large scale expansion of solar power. We are partnering with the Department of Agriculture on research and development of a variety of alternative fuel resources. One example of savings was the launch of our first hybrid ship, the amphibious big-deck USS *Makin Island*. On its first voyage from Pascagoula, MS, to San Diego, CA, *Makin Island* saved around \$2 million in fuel costs. In addition, Marines in Helmand province have demonstrated their ability to reduce use of fossil fuels through renewable energy devices. The DON will continue investing in energy initiatives.

An example of the successful and strategic use of open architecture and obtaining appropriate technical data rights is the *Virginia* class SSN program. The *Virginia* class program uses a modular open systems architecture and selective subcomponent technical data rights that promote robust competition at the sub-component supplier level, while still supporting continual and effective block upgrades to the existing systems that reduces the overall life cycle cost of the system. The DON continues expanding these open architecture initiatives to other systems and developing capabilities examples include: Advanced Capability Build (ACB) 12 for the AEGIS Weapon System, to Consolidated Afloat Networks and Enterprise Services, Next Generation Enterprise Network, and Strategic Systems Programs.

Ms. CONATON. The Air Force fully recognizes and acts on the basic principle that there is no one source of good ideas. We continually look to find places, both large

and small, where we can leverage competition or commercial innovation across all our domains—air, space, and cyber.

We have a strong technology transfer program, to include leveraging the “spin in” of commercial technologies; noise cancelling ear protection modified for pilots is one recent example. It is important to point out that the demands of the battlefield often require modification to commercial technology before it can be used by our Airmen—we must ensure that the end article both works under operational conditions and can be supported. The domestic technology transfer program also leverages Cooperative Research and Development Agreements, Commercial Technology Agreements, and other cooperative agreements where commercial companies can leverage our Air Force laboratory resources and expertise, thereby helping us leverage their technology advances. The Air Force Commercialization Pilot Program also promotes the transition of technology developed as part of the Small Business Innovation Research (SBIR)/Small Business Technology Transfer (STTR) Program.

As an organization with needs in the areas of administration, financial management, human resources, education and training, facilities and installation operation/upkeep, and materiel handling and storage, the Air Force can more readily directly benefit from commercial innovation. Most Air Force facilities have some kind of commercial environmental control and monitoring system to help increase energy efficiency. We keep better track of our investment in parts and supplies by tagging them with radio frequency identification devices. In the space domain, using commercial satellites to host military payloads enables the Air Force to leverage these commercial technology investments. We have adopted energy efficient lighting. New facilities, such as the Air Force Institute of Technology’s academic building at Wright Patterson Air Force Base, are designed and constructed to meet Leadership in Energy and Environmental Design (LEED) standards—nationally accepted benchmarks for facility design, construction, and operation. The efficiencies we gain on our organizational side free up resources we can apply to our operational side.

#### PROPOSED NAVY SAVINGS

74. Senator AYOTTE. Secretary Work, given the current troubling rise in the price of oil with no relief in sight, how realistic is the Navy’s projected savings of \$566 million in fiscal year 2012 for reduced energy consumption?

Mr. WORK. In order to save energy and money, all of our programs within our energy strategy need to be in sync and operating at full capacity. Energy savings are also based on prior year programs and projects that are now coming to fruition.

DON has set two priorities that illustrate the Department’s role in investing in alternative sources of energy: energy security and energy independence. The Navy will achieve energy security by utilizing sustainable sources that meet force sustainment functions and fulfill tactical, expeditionary, and shore operational requirements. This allows the ability to protect and deliver sufficient energy to meet operational needs. Second, energy independence is achieved when Naval forces rely only on energy resources that are not subject to intentional or accidental supply disruptions. As a priority, energy independence increases operational effectiveness by making Naval forces more energy self-sufficient and less dependent on vulnerable energy production and supply lines.

The DON uses many different types of alternative energy on our naval installations such as solar, wind, and waste to energy. We have over 100 MW of solar planned to be installed in the next few years, and we have 22 anemometer (wind) studies ongoing. On the operational energy front, we have flown an F/A-18 Hornet, operated a Riverine Command Boat (RCB-X), and flown a Seahawk helicopter on a 50/50 blend of biofuels. The DON has also commissioned the USS *Makin Island* which is designed with a gas turbine engine and electric auxiliary propulsion system. We also consider our nuclear fleet of aircraft carriers and submarines as part of our alternative energy program. In our expeditionary forward operating bases, we are using flexible solar panels to recharge batteries and light the inside of the tents with LED lighting. These are just a few examples of the different types of alternative energy sources that the Department of Navy is currently using.

Much of our success is in the technologies that are tried and true—solar, wind, and geothermal. We are continuing to explore geothermal resources on our installations in the Southwest. We are making great strides in helping stand up a biofuels industry that will supply biofuels to the fleet. This effort will be a key factor in our overall success of the 50 percent alternative energy goal. We have to continue to institute energy efficiency into our processes and programs. We are currently designing and constructing all of our new buildings to LEED Silver criteria. The bottom line is that the least expensive BTU or KW-hr is the one that is not used.

There are numerous energy efficient initiatives and renewable/alternative energy programs that the Navy and Marine Corps are pursuing. The reduced reliance on fossil fuels will achieve lower energy consumption, strategic security, avoided energy cost, and a more sustainable Fleet. Here are examples of projects with estimated savings.

*Examples of Navy Tactical Projects with Estimated Savings*

- Stern Flaps for Amphibious Ships
  - Shown to have an average payback period of less than 1 year on FFG/CG/DDG platforms
  - Currently undergoing testing on amphibious ships
  - Savings estimated at ~5,500 BBLs/ship/year for LHD
- Hull/Propeller Coating
  - Easy release hull/propeller coating system allows Navy ships to shed bio-fouling once underway
  - Reduces costly periodic hull/propeller cleanings
  - Savings estimated at ~1,800 BBLs/ship/year
- Solid State Lighting
  - Uses LEDs for platform illumination
  - LED lights in commercial applications last almost 50 times longer than incandescent and 6 times longer than fluorescent lights; provides the same illumination with 25 percent of the energy
  - Currently testing on DDG-108 and LSD-52
  - Payback estimated at 3 years, depending on fixture (savings of ~335 BBLs/ship/year for DDG)

Navy also continues to develop technologies that will be implemented in future years; the implementation schedule for these initiatives is subject to impacts based on the budget:

- Hybrid Electric Drive for DDG
  - Fuel savings by securing LM2500 propulsion turbines at low speed while loading gas turbine electric generators to more efficient operating condition (savings estimated at 8,500 BBLs/ship/year)
  - Land-based prototype scheduled for testing mid-2011
  - USS *Truxtun* (DDG-103) scheduled to be first operational installation in fiscal year 2012 as an afloat test platform
- Engine efficiency modifications for the F-35 JSF
  - Improvement in F135 Block 5+ engine fuel economy and lifecycle cost through component upgrades and software cycle optimization
  - Estimated Fleet-wide savings of ~35,000 BBLs in 2023 (upon delivery of Block 5 aircraft), increasing to ~178,000 BBLs/yr by 2029

75. Senator AYOTTE. Secretary Work, how does the Navy propose to achieve this significant reduction of energy consumption?

Mr. WORK. There are numerous energy efficient initiatives and renewable/alternative energy programs that the Navy and Marine Corps are pursuing. The reduced reliance on fossil fuels will achieve lower energy consumption, strategic security, avoided energy cost, and a more sustainable Fleet. Here are the major program areas along with examples of projects with estimated savings.

- Major Energy Program areas
  - Shore
    - Steam plants decentralizations
    - Lighting systems upgrades
    - Renewable energy systems (solar & photovoltaic)
    - Solar thermal domestic water and pool heating projects
    - LED street lighting projects
    - Ground source heat pumps
    - Boiler heat recovery upgrades
    - Control system improvements
    - Alternative Fuel Vehicles
  - Tactical/Expeditionary
    - Hull coatings
    - Propeller coatings
    - Stern Flaps
    - Allison 501K Efficiency Initiatives

- Aviation Simulators
- Smart voyage planning decision aid software
- USS *Truxtun* hybrid electric drive retrofit
- Alternative fuels testing and certification program
- Incentivized Energy Conservation Program (i-ENCON)
- Expeditionary Forward Operating Base (Ex-FOB)
  - Solar Portable Alternative Communications Energy System portable solar systems
  - Light Emitting Diode (LED) Lighting
  - Renewable battery charging systems

*Examples of Projects for Navy Tactical with estimated savings*

- Stern Flaps for Amphibious Ships
  - Shown to have an average payback period of less than 1 year on FFG/CG/DDG platforms
  - Currently undergoing testing on amphibious ships
  - Savings estimated at ~5,500 BBLs/ship/year for LHD
- Hull/Propeller Coating
  - Easy release hull/propeller coating system allows Navy ships to shed bio-fouling once underway
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- Solid State Lighting
  - Uses LEDs for platform illumination
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  - Currently testing on DDG-108 and LSD-52
  - Payback estimated at 3 years, depending on fixture (savings of ~335 BBLs/ship/year for DDG)

Navy also continues to develop technologies that will be implemented in future years; the implementation schedule for these initiatives is subject to impacts based on final fiscal year 2011 budget:

- Hybrid Electric Drive for DDG
  - Fuel savings by securing LM2500 propulsion turbines at low speed while loading gas turbine electric generators to more efficient operating condition (savings estimated at 8,500 BBLs/ship/year)
  - Land-based prototype scheduled for testing mid-2011
  - USS *Truxtun* (DDG-103) scheduled to be first operational installation in fiscal year 2012 as an afloat test platform
- Engine efficiency modifications for the F-35 JSF
  - Improvement in F135 Block 5+ engine fuel economy and lifecycle cost through component upgrades and software cycle optimization
  - Estimated Fleet-wide savings of ~35,000 BBLs in 2023 (upon delivery of Block 5 aircraft), increasing to ~178,000 BBLs/year by 2029

76. Senator AYOTTE. Secretary Work, the data provided by the Navy in support of the savings for fuel consumption details a series of initiatives ranging from lighting systems upgrades to ship hull/propeller coatings and stern flaps. Are the investments for these initiatives included in the budget request?

Mr. WORK. The investments for DON's energy initiatives are included in the budget request. The specific energy programs where these investments are being made support the five Secretary of the Navy (SECNAV) Energy Goals.

The SECNAV Energy Goals are listed here.

1. Acquisition Process Reform

Evaluation factors used when awarding contracts for platforms, weapon systems, and facilities will include lifecycle energy costs, fully-burdened cost of fuel, and contractor energy footprint.

2. Sail the "Great Green Fleet"

DON will demonstrate a Green Strike Group in local operations by 2012, and sail it by 2016. The strike group will be made up of nuclear vessels, surface combatants using biofuels with hybrid electric power systems, and aircraft flying on biofuels.

3. Reduce Petroleum Use in Non-Tactical Vehicles

By 2015, DON will reduce petroleum use in the commercial fleet by 50 percent, through the use of flex fuel vehicles, hybrid electric vehicles, and neighborhood electric vehicles.

4. Increase Alternative Energy Ashore

By 2020, DON will produce at least 50 percent of shore-based energy requirements from alternative sources, and 50 percent of all naval installations will be Net Zero energy consumers.

5. Increase Alternative Energy Use Department-wide

By 2020, 50 percent of total DON energy consumption will come from alternative sources.

The bulk of the Navy's energy efforts are focused to improve efficiency of both legacy and future platforms. Initiatives such as those mentioned above and others in the Navy's Energy investment portfolio are a strong start not only to meet the stated SECNAV Goals but also to provide DON greater combat capability, reduced operational risk, and reduced overall cost for supplying and maintaining forward deployed forces.

**PB2012 Investment:** The following funding and initiatives are listed with the respective goals that they support. Note that all MILCON projects meet Leadership in Energy and Environmental Design (LEED) certification and sustainable design criteria, which support goals 4 and 5.

**APN**

- **Aviation Simulator Upgrades** – Simulator fidelity improvements (self funded through initial FHP savings along with NASMP/FAST funds) to facilitate significant improvements in tactical training / combat effectiveness. Significant reduction in Naval Aviation fuel consumption with the Fleet's optimization of simulator contribution to training and readiness, in particular following the integration of simulator fidelity upgrades where warranted. This energy efficiency effort supports goals 2 and 5.

**RD TEN**

- **Aviation S&T** – Naval Variable Cycle Engine for aircraft engine efficiency. Long-endurance power systems and efficient designs for unmanned air vehicles. This energy efficiency effort supports goals 2 and 5.
- **Air Energy Conservation Program** – Develop, implement and sustain Aircraft Energy Conservation Program Office to identify, validate, disseminate and incentivize energy conservation best practices within the Naval Aviation community. Targets include: Culture, Fueling practices, Mission planning, Simulation, Maintenance, Drag reduction. Benefits: Reduce Naval Aviation operational fuel consumption up to 4%. This program supports goals 2 and 5.
- **Aviation Energy Conservation RDT&E** – Develop, implement and sustain Aircraft Energy Conservation Program Office to identify Program evaluates commercial / academic / government energy conservation efforts to identify potential technologies to optimize fuel consumption in fielded Naval aviation systems. Promising technology candidates are analyzed, developed and demonstrated to quantify potential energy savings before transitioning to program offices for implementation. Projects include: Engine efficiency upgrades; Air vehicle efficiency technologies; Mission planning optimization. This program supports goals 2 and 5.
- **Expeditionary S&T** – Alternative/renewable energy power sources (photovoltaics and fuel cells) for USMC. Energy efficient potable water purification systems. Alternative energy research outreach programs (STEM). Integrated power and propulsion and fuel efficient tactical vehicle technologies. This program supports goal 5.
- **LCAC Efficiency Initiatives** – Reduce LCAC fuel consumption by providing LCAC Craftmasters engine torque levels that more efficiently utilize the engines, reducing fuel consumption by 2-5%. Active balancing systems will reduce vibration of the rotating shafts more efficiently using the mechanical energy generated by the engines. This will reduce fuel consumption by up to 5% per year. This program supports goal 5.

- **Fuels S&T** – Alternative fuels research to accelerate and enhance test and certification process for alternative fuels. Biofuels research partnership with U.S. Department of Agriculture supporting DON-USDA MOU. Collaborative alternative energy partnership with U.S. Department of Energy and other Services. This program supports goals 2 and 5.
- **Alternative Fuels Program** – Navy is working to test and certify fuels produced from renewable sources for aircraft and ship use. Initial aircraft testing will be conducted on a 50% petroleum/50% renewable (produced from the camelina plant) blend. Component and engine testing will be conducted: F/A-18 flight test completed Apr 2010 and MH-60S in Nov 2010. Initial ship testing will be conducted on a 50%petroleum/50% renewable (produced from Algae) blend. Engine testing is scheduled for 2011 with a ship demo planned for late 2011/early 2012. This program supports goals 2 and 5.
- **Maritime S&T** – Advanced turbine engine materials for improved efficiency. Advanced, energy efficient ship power system architectures – Next Generation Integrated Power System, thermal management systems, fuel cells. Shipboard energy storage systems. Shipboard technologies that provide efficiencies and reduce maintenance cost. High temperature superconducting degaussing systems. Advanced material, energy efficient propellers and waterjets. Ship drag reduction and corrosion resistant surface treatment. Affordable electronically scanned array technology and affordable common radar architecture. Long-endurance power systems and efficient designs for unmanned undersea vehicles. This program supports goals 2 and 5.
- **Fleet Readiness R&D Program** – FRR&DP focuses on research & development and test & evaluation of technologies that can be quickly transitioned to the Fleet to increase energy efficiency and reduce maintenance costs. Includes testing and evaluation of: Stern flaps for amphibious ships; Combustion trim loop for amphibious ships; Online water wash for surface combatants; Hull and propeller coatings; Solid state lighting. Benefits: In addition to reducing ship fuel consumption, these new technologies will significantly reduce costly and time-consuming maintenance and result in an increase in material readiness. This program supports goals 2 and 5.
- **Fleet Readiness R&D Program (Increase)** – Funding to support additional FRR&DP initiatives, including Smart Voyage Planning Decision Aid and Energy Dashboard. SVPDA is a computer software application that uses local weather (wave height, wave period, and wind), ocean current, ship hull form hydrodynamic data, and ship propulsion plant performance to plan most fuel efficient voyage routes. Proposed installation at Naval Maritime Forecast Centers (NMFC) in Norfolk and Pearl Harbor. The NMFCs will push fuel efficient voyage routes to all Navy ships. SVPDA tools currently being used extensively in commercial shipping for fuel efficiency. Energy Dashboard is a ship-wide monitoring system that would convey the power usage and operating conditions of the numerous systems on the ship underway and in-port. Installed in various locations on the ship, including the bridge, for the ship's command to use as a means of managing the ship's power usage. Alert the crew to a system that is being overloaded, or show when power consumption is too high compared to an established baseline. Similar to the instantaneous energy monitoring software and data loggers used in commercial buildings and new cars. Developed in phases that would initially

monitor large system loads, but upon each new evolution, increase the detail and amount of information measured and collected. Eventually integrate throughout the entire Navy.  
 Benefits: Make it easier to diagnose and address issues with systems on-board the ship.  
 Reduce fuel consumption by awareness. Enable energy-conscious culture on-board ship that would transition to home. This program supports goals 2 and 5.

- **Fleet Readiness R&D Program** – ESO assumes responsibility for developing Next Generation Integrated Power System (NGIPS) technology aboard Navy Ships to provide smaller, simpler, more affordable, and more capable power systems for all Navy platforms by defining common open architectures and developing common components. Employs common elements such as zonal electrical distribution, power conversion modules, power generation modules, energy storage modules, and electric power control modules as enablers along an evolutionary development path. Initiatives targeted at energy efficiency include:

  - 4MW Ship Service Turbine Generator (SSTG) - Advanced gas turbine with high speed generator. Provide additional 1MW per generator to DDG 51 class ships. GTG with high speed generator has same footprint as existing DDG 51 AG9140 GTG.
  - Propulsion Derived Ship Service (PDSS) - Electric drive R&D. Bi-directional power converters and controls allow operation of hybrid electric drive (HED) motors as generators to increase available power.
  - Energy storage - Enables ride-through capability for Singer Engine Cruise shipboard operating condition by providing continuous power to loads until standby GTGs can be started.

Benefits: The technology improves mission capability for current and future ships, and ultimately leads to increased mission power and more fuel efficient ships. These initiatives provide fuel savings while enabling the incorporation of more capable and energy-intensive combat systems.  
 Challenges: Transition from R&D to implementation. Platform acquisition cost vs. fuel efficiency vs. commonality. This program supports goals 2 and 5.
- **Hybrid-Electric Drive RDT&E** – Electric motor attached to main reduction gear allows for electric propulsion mode resulting in improved fuel economy. R&D supported by congressional add and stimulus funds. Original design by General Atomics. Expanded industry participation funded to develop additional component and system designs. Current maturity is TRL 5. TRL 6 will be achieved at completion of demonstration at Land Based Engineering Site (LBES) beginning in FY11. USS Truxtun (DDG 103) Sea Trial Demo in FY12. To be installed on port shaft only. Provides operational environment for mechanical, electrical, and machinery control systems.  
 Benefits: The overall objective of this project is to improve operating efficiency of DDG 51 Class ships. Fuel savings from the hybrid electric drive project will be achieved by shutting down main propulsion gas turbines and powering shafts via an electric motor receiving power from ship's electric distribution system. This enables more fuel efficient loading of on-line ship service gas turbine generators. Reduces DDG 51 fuel consumption by greater than 10%; anticipated savings of 8,000 barrels of fuel per ship per year. Sea Trial Demo to be featured for Great Green Fleet. This program supports goals 2 and 5.

- **Nuclear Studies** – CG(X) studies indicated that while the life cycle costs of nuclear powered surface ships are projected to be lower than their fossil fueled counterparts, the acquisition costs of nuclear powered surface ships were higher than the acquisition costs of fossil fueled surface ships due to the initial cost of reactor fuel and increased weight and volume. Initiatives to improve the power and energy density of the nuclear propulsion plant could be identified to reduce ship weight and volume impacts and reduce nuclear powered ship acquisition costs. Additionally, major strides have been made in submarine and CVN designs to significantly reduce maintenance and manpower requirements. Little effort to date has been directed at surface ship specific improvements in these areas. To this end, a steady low level of effort in the following 3 areas has large potential to identify concepts to reduce nuclear propulsion plant weight and volume impacts and reduce manpower and maintenance costs. In the event that the Navy identifies warfighting capability needs uniquely suited to a nuclear powered surface ship concept or chooses to further reduce its dependence on fossil fuel for surface ship propulsion needs in the future, these efforts would best position the Navy to quickly capitalize on available technologies at reduced cost and ship impact. This program supports goals 2 and 5.

**OPN**

- **Improved Environmental Control Unit** – Installation of energy efficiency modifications to Environmental Control Units (ECUs) that incorporate variable speed fan drives and multi-frequency drive components. Allows worldwide power usage. Non-chlorofluorocarbons (CFC) refrigerant. Benefits: More energy efficient through technology advancement. Improves ECU energy efficiency up to 23% and reduces electrical power requirements by 10-25%. Fuel savings of about 775,000 gallons of fuel per year. Satisfies EPA hydro chlorofluorocarbons (HCFCs) restrictions to be implemented in 2010. This program supports goal 5.
- **Integrated Generator and ECU** – Development / testing of a more energy efficient Integrated Trailer-ECU-Generator (ITEG), an integrated HMMWV towable unit that supports highly mobile command and control systems and other forward-deployed operations centers and activities. Benefits: More energy efficient through technology advancement. Fuel savings of 20%. Greater heating and cooling capacity. Provides full 30 kW of electrical power output in all environments (compared to 7 kW in old units). This program supports goal 5.
- **Onboard Vehicle Power** – For small electrical loads, e.g. platoon-sized command posts, a few berthing tents, or CREW system, NECC units will transport a generator either as a mobile load or on a trailer. This program will use the existing internal combustion engine that typically powers the prime mover, i.e. HMMWV, as a generator when the vehicle is not moving. Test innovative on-board (or under-hood) vehicle power systems that use vehicles' internal combustion engine to provide power for comm and CREW systems, situational awareness devices, environmental control, and other electric powered accessories. Will replace portion of man-portable and trailer-mounted generators (mission dependent). Benefits: More efficient use of current technology. Improves tactical wheeled vehicle fuel economy while providing exportable electric power. Increases electric power by 5-10 fold. Up to 40% fuel savings. This program supports goal 5.

- **Solid State Lighting (Amphibs)** – Replacement of existing incandescent lighting fixtures on amphibious ships with LED lights that will operate for a much longer service life. This program supports goals 2 and 5.
- **Directional Stability** – Hull appendage to eliminate directional stability and steering issues on LHA 1 & LHD 1 classes. Similar solution already installed on T-AGS 65 with successful results. Demonstration planned for LHD 6 in FY11. Benefits: Significantly reduce excessive rudder movement required for ships to maintain course, which will reduce fuel consumption. Average fuel savings of 4%. This program supports goals 2 and 5.
- **Gas turbine online waterwash** – System for cleaning gas turbine engines without going off-line. “Hot water” water wash system for CG 47 and DDG 51 class ships. Prototype installed USS PREBLE (DDG 88). GTG report issued July 2010, showed 0.3% fuel savings. GTM report due 4Q FY11. Benefits: Improved fuel economy. Minimize number of necessary crank washes, improve starter life expectancy, minimize engine degradation due to fouling. Featured initiative of the Great Green Fleet. This program supports goals 2 and 5.
- **Allison 501K Efficiency Initiatives** – The 501K34 and 501K17 SSGTG improvement program will leverage the Air Force T56 Series 3.5 upgrade for the C130H fleet of aircraft gas turbines. 501K 3.5 upgrades will be procured in FY 11 for demonstrating fuel savings for the Green Fleet exercise. Lessons learned and marinization will be applied to subsequent procurements of 3.5 upgrades in FY12. Procurement and installations of 12 engines per year is planned for the FYDP. This program supports goals 2 and 5.
- **Digital Fuel Controls** – Fuel fill and transfer control system that will provide improved control during refueling and fuel transfers at high fill rates. Allows for shorter alongside times during UNREPs and increases maintainability and reliability of the fuel system. This program supports goals 2 and 5.
- **Solid State Lighting (CRUDES)** – Replacement of existing incandescent lighting fixtures on CRUDES ships with LED lights that will operate for a much longer service life. This program supports goals 2 and 5.

#### OMN

- **Great Green Fleet Fuels (Aviation)** – Navy will demonstrate a Green Strike Group in 2012 and sail it as the "Great Green Fleet" in 2016. This funding would support procurement of renewable jet fuel for these demonstrations. This program supports goals 2 and 5.
- **Great Green Fleet Fuels (Maritime)** – Navy will demonstrate a Green Strike Group in 2012 and sail it as the "Great Green Fleet" in 2016. This funding would support procurement of renewable diesel fuel for these demonstrations. This program supports goals 2 and 5.
- **Hull Coatings** – Easy-release hull coating system that allows Navy ships with long pier-side periods to shed hull bio-fouling once underway. Technology currently achieving fuel savings for MSC ships and commercial shipping industry. Coatings installed on USS PORT ROYAL

and USS COLE for evaluation. Benefits: Reduce hull resistance resulting in improved fuel economy. Decreased frequency of manpower-intensive and costly periodic hull cleanings. Featured initiative of the Great Green Fleet. This program supports goals 2 and 5.

- **Shipboard Incentivized Energy Conservation Program** – The Incentivized Energy Conservation Program (i-ENCON) provides ships operational strategies/techniques to reduce fuel consumption. NAVSEA provides ships the necessary i-ENCON training, tools and guidance. This helps to increase ships' underway operating hours for improved fleet readiness. Additionally, i-ENCON reduces maintenance/repair through efficient operations and less redundant equipment operation, resulting in reduced wear/tear. In FY10, the incentive-based i-ENCON provided the Navy with 1.35M barrels (\$146M) of additional fuel to offset overburners' requirements and helped PACFLT do more maintenance/repairs to maintain higher fleet readiness. This program supports goals 2 and 5.
  - **Combustion Trim Loop** – Fully digital Forced Draft Blower (FDB) monitoring and control system replacing obsolete SGA and manual damper controls for air fuel mixture for main propulsion boilers on LHA 1 and LHD 1 ship classes. Demonstration on LHA 5 in FY 2010. Report issued 29 July validating 2.1% fuel savings. Benefits: Replaces obsolete system. Reduces air pollution (black smoke). This program supports goals 2 and 5.
  - **Propeller Coatings** – Easy-release coatings that remove biological growth on propellers while underway. Currently achieving fuel savings for Military Sealift Command ships and commercial shipping industry. Business case demonstrated through Fleet Readiness R&D Program. Benefits: Reduced fuel consumption. Decreased frequency of manpower-intensive and costly periodic propeller cleanings. Featured initiative of the Great Green Fleet. This program supports goals 2 and 5.
  - **Stern Flaps (Amphibs)** – Develop and install stern flaps on LHD 1 and LSD 41/49 class ships. A stern flap was previously modeled and designed for LHD 8 and is directly applicable to LHD 1 class ships. LSD 41/49 would utilize same basic design as LHD 1. Technology currently employed for all Surface Combatants, LHD 8, and LPD 17. Benefits: Drag and fuel efficiency can be improved by the addition of a stern flap. Fuel Savings estimated at 5% for LHD 1 and 5.6% for LSD 41/49. This program supports goals 2 and 5.
  - **Shore Efficiency** - Facility energy audits, Advanced Metering Infrastructure, renovate HVAC system to increase efficiency, and facility energy efficiency upgrades. This program supports goals 4 and 5.
- OMMC**
- **Expeditionary Power Systems** – Advance Power Sources. Environmental control equipment. Mobile electric power. This program supports goals 4 and 5.
  - **Shore Efficiency** - Facility energy audits, Advanced Metering Infrastructure, renovate HVAC system to increase efficiency, and facility energy efficiency upgrades. This program supports goals 4 and 5.

**NDSF**

- **Cargo / Bunker Flow Monitoring** – Historical data indicates a routine 2-3% fuel inventory loss due to recording error, with greater losses of between 3-4% being incurred from Spot Market or DLA-Energy bunker contract barge deliveries. This effort will install coriolis mass flow meters on MSC ships which correct for density, temperature, and air entrainment, and measure flow to an accuracy of around 0.01% error. Benefits: Reduces fuel costs up to 4% from inaccurate recording. Provides ability to accurately monitoring fleet fuel usage. This program supports goals 2, 4, and 5.
- **Energy Auditing and Energy Management Planning** – The objective of shipboard energy auditing is to analyze energy usage onboard ships, facilitate and optimize energy reduction methods, and analyze the alternatives to reduce energy costs. Manage and conduct energy audits on the US Navy and MSC ships. Benefits: Clearly identify types on costs of energy use. Understand how energy is being used and where the focus reduction efforts. Analyze cost-effective ways of using energy through improved operational techniques. This program supports goals 2, 4, and 5.
- **Energy Conservation BAA** – The Energy Conservation (ENCON) Broad Agency Announcement (BAA) is intended to solicit industry, academia, and government agencies for new and innovative ENCON technologies for R&D investment. The 2009 BAA produced 128 industry proposals resulting ROIs of less than 2 years and between \$2 - \$5 M in savings per proposal. Benefits: discover new, cost-effective, and innovative ways of using energy through new equipment or technology. Maintain awareness of maritime ENCON technology development. This program supports goals 2, 4, and 5.
- **Hull Performance Monitoring** – The Hull Performance Monitoring System measures shaft torque and horsepower, speed over ground and speed through the water, wind speed and direction, ship course, trim and draft, and sea state to assess hull performance and provide maintenance and operational decision support. Benefits: Potential Fuel Savings – Up to 3%. Ability to Determine the Extent of Fouling & Compare Hull Coatings. Accurately Determine Hull Cleaning Intervals. This program supports goals 2 and 5.
- **LMSR Alternative ROS Shore Steam Heating/Hotel Service** – When in a reduced operating status, LMSRs are required to use shore steam when in port. The steam is provided from a boiler system on the pier. The installation of an electrical vertical package boiler would eliminate this need. At present, Bob Hope class LMSRs use shore steam when in port which is very costly when there is minimum for demand for steam and a boiler is required to run on the dock. When LMSRs are berthed in port, the ship's hot water is supplied by steam normally generated from an auxiliary boiler onboard the ships. The shore side boiler could be secured for most of the year. When extreme cold weather is present, the shore side boiler could be placed in operation to provide heat to ships berthed in Baltimore. This program supports goals 2, 4, and 5.
- **LMSR Lighting Upgrade** – This energy initiative is to replace sodium and mercury vapor lighting to both reduce energy and minimize hazardous material generation. In port, the ship has reduced cargo hold lighting to a minimum as an energy cost saving measure. The Cargo

decks onboard the Watson Class are lighted by sodium and mercury vapor lighting fixtures. These fixtures are high energy consumers and high maintenance. Benefits: Potential to save up to 40% in energy per year. Reduces maintenance cost up to 25%. Energy savings are estimated at \$37K in port and \$63K underway with energy costs at \$0.095 KWH ashore and \$0.26 KWH at sea. The estimated reduction is \$126K per year per ship including hazardous material disposal cost.. This program supports goals 2, 4, and 5.

- **Magnet Coupled Variable Speed Drives** – Magnet Coupled Variable Speed Drives can be used onboard LMSRs in ROS to reduce energy consumption in port and increase overall efficiency of the Chill Water and Central Cooling Water System when underway. Magnet Coupled Variable Speed Drives (MCVSD) offer a unique technology that will allow reduced output or air from a fan or fluid from a pump by varying the speed of the motor. Benefits: The saltwater cooling, chill water, and central cooling water pumps are 3 of the 4 top energy users onboard the Watson Class LMSRs during ROS. Additionally, when the ship is activated and placed in the FOS status, the MCVSD will augment the other units in operation to increase their overall efficiency. This program supports goals 2, 4, and 5.
- **Navy Energy Utilization Reporting Service (NEURS) Plus** – NEURS Plus is an updated version of NEURS to include all power data. It is an interactive database that will provide shore power information. The NEURS Plus shore side personnel will be able to evaluate the shore power usage and further enforce the importance of shore power. Benefits: Better accuracy and accountability of NEURS data. Ease of Reporting. This program supports goals 2, 4, and 5.
- **Operations Route Planning Optimization Tool** – The Operations Route Planning Optimization Tool (ORPOT) is a Fleet shore-based system that integrates US Navy and MSC ship movement with helicopter interfaces to optimize ship and aircraft logistical route planning. ORPOT improves decision making and provides the ability to track operations in real time. Benefits: Potential fuel savings of 20%-30%. Provides real-time interactive weather routing, current surface information, and fuel management to enhance operational efficiency. This program supports goals 2, 4, and 5.
- **Plant Flow Monitoring** – MSC and Navy ships have limited ability to accurately meter the fuel usage of diesel engines, restricting any efforts to implement or quantify fuel savings strategies. This fuel metering technology corrects for density, technology, and air entrainment and can thereby measure flow to an accuracy of around 0.01% error. Benefits: Provide ability to accurately monitor fleet fuel usage. Analyze fuel and speed performance and optimize throttle settings for best efficiency. This program supports goals 2, 4, and 5.
- **Ship's Engine Automation Upgrade** – Existing engine automation is obsolete and unsupported late 1980's technology. The existing engine automation, on the seven Bob Hope Class LMSRs, is out of date and unsupported. Replacement technology will optimize engine performance by correcting the MPDE/PPP load profile to eliminate cavitations and improve engine efficiency, reduce slip, and provide a far more fuel efficient system. Benefits: The Bob Hope LMSR is the third largest consumer of fuel within the MSC's Fleet. When fuel is

at \$4.00 a gallon, a ship of this class can consume in excess of 3 million gallons of fuel round trip from the US to the Persian Gulf. This program supports goals 2, 4, and 5.

- **Shore Power Management/Monitoring System** – A Shore Power Monitor integrates with the ship’s MCCS measures and stores energy and power quality data including cumulative kWh, peaks, and several power quality metrics. The compiled data enables MSC to monitor and manage Shore Power usage and implement appropriate energy conservation measures. Benefits: Accurately determines kWh consumed while plugged into the grid. Monitors shore power and ship power efficiency in-port. This program supports goals 2, 4, and 5.
- **T-AKE ENCON Calibrated Functional Baseline Model** – The T-AKE ENCON Calibrated Function Baseline is a model of the ship’s energy usage. Once calibrated through audit data input, the model serves as an accurate and flexible tool to generate baseline energy usage profiles for various missions, load-outs, area or operations, and operating conditions. The profiles are in turn used throughout the Energy Management process to direct fuel savings and energy reduction activities across the class. Benefits: Potential fuel savings up to 3%. Ability to accurately establish the T-AKE’s energy profile baseline. This program supports goals 2, 4, and 5.
- **T-AKE Intelligent HVAC** – T-AKE HVAC&R plants consume ~36% of the total ship’s power generated but lack the ability to be optimized to variable demands preventing the plants from consuming less energy when the demands on HVAC&R plants are reduced. The system typically operates at 60% power to deliver around 20% capacity. By automating plant control systems, matching plant generation to demand, and using Variable Air Volume design, the current system can be made efficient through a range of conditions and still retain the full maximum capacity. Benefits: Improve HVAC and Refrigeration systems efficiency by 30%-40%. Reduced system wear and maintenance associated with over-production. Reduces or eliminates the need to run generators in-port. This program supports goals 2, 4, and 5.
- **T-AKE Propeller Upgrade** – Initial operational data collected for the T-AKE class indicates the potential for propeller efficiency improvement. A study is being conducted to identify low-cost modifications that result in improved open water propeller performance. Modifications, such as boss-caps and reduced blade cross-sectional area are anticipated to improve efficiency up to 3%. Benefits: Potential for 3% improvement in open water efficiency. Reduced fuel consumption associated with propulsion. This program supports goals 2 and 5.

#### **MCN**

- **Steam Decentralization Projects** – Three projects to decentralize steam systems at NAVSTA Norfolk, NAVSTA Great Lakes, and NSF Indian Head. This program supports goals 4 and 5.
- **New Construction** – Projects scoped and priced to meet minimum of LEED Silver. This program supports goals 4 and 5.

#### **PMC**

- **GREENS** – Portable energy systems for FOBs. Improved ECUs. This program supports goals 4 and 5.

77. Senator AYOTTE. Secretary Work, will this energy consumption goal include a reduction in flying hours or steam hours?

Mr. WORK. No, the Navy’s energy consumption goal does not include a reduction in flying hours or steaming days. Efforts to achieve reductions in fuel consumption are focused on increasing the fuel efficiency of legacy platforms through technology upgrades and behavior changes.

78. Senator AYOTTE. Secretary Work, regarding flight operations, how will the Navy be able to determine whether the increased reliance on simulators has either

a detrimental or positive impact on the training and currency of naval and marine aviators?

Mr. WORK. The planned simulator upgrades were developed in concert with Fleet Aviators and Instructional Systems Developers to ensure that the enhanced simulator capabilities would advance training and readiness without sacrificing safety or tactical excellence. Simulators will be used to replace live training to the extent that technology and opportunities will allow where training effectiveness and operational readiness are not compromised. Commander, Naval Air Forces conducts an annual training & readiness conference for each type, model, and series aircraft to align simulator enhancements with the capabilities-based training and readiness matrix within fidelity and safety limits. Ultimately, Navy aviators' training and readiness is evaluated through a number of means: the individual Unit Commander's assessment of their personnel, Type Wing Weapons Schools' implementation of the Air Combat Training Continuum Program and pre-deployment training/certification periods.

79. Senator AYOTTE. Secretary Work, on another issue, how does the Navy propose to develop housing allowance efficiencies without increasing the amounts sailors and marines will have to pay out-of-pocket for housing?

Mr. WORK. The Secretary of Defense, through the Defense Travel Management Office (DTMO) within the Office of the Under Secretary of Defense (Personnel and Readiness), is responsible for setting the housing allowance rates for all eligible personnel. DOD sets housing allowance rates annually based on market costs of rent, utilities and renter's insurance with input from each of the Services. Prior to 2001, the DOD housing allowance program was structured so that the average military member paid at least 15 percent of their housing costs. In January 2000, the Secretary of Defense announced a quality-of-life initiative to increase housing allowances gradually over a 5 year period to eliminate a servicemember's average out-of-pocket housing costs.

DON's ability to adjust housing allowance rates is limited. However, one planned efficiency is the Marine Corps' initiative to enforce stricter rules that require unmarried Marines without dependents to live in Government-furnished bachelor quarters instead of drawing BAH.

The DON will continue to work with DTMO via the Per Diem Travel and Transportation Allowance Committee to validate the processes and data used in setting housing allowance rates. We want to ensure that we are not paying amounts in excess of prevailing housing market rates; however, there is no intent on the part of DON to increase out of pocket housing expenses for servicemembers.

#### CBO REDUCTION OPTIONS

80. Senator AYOTTE. Secretary Hale, the Congressional Budget Office (CBO) released a report last week, titled: "Reducing the Deficit: Spending and Revenue Options." The report provided 14 options for DOD to reduce both mandatory and discretionary spending. What is your position on each of the 14 options?

Mr. HALE.

*Option 1: Reduce the growth in appropriations for the Department of Defense.*

The Department's annual budget requests will continue to be driven by the requirements necessary to complete its mission. That is the reason DOD and OMB perform a thorough, joint budget review each fall—evaluating funding for each program as it relates to the Department's mission. Reducing the growth in DOD's appropriations by the arbitrary amounts mentioned in the CBO report could hamper the Department's ability to carry out the administration's directives. To the extent that Administration modifies DOD's mission, we will adjust our funding requests accordingly.

*Option 2: Cap increases in military pay.*

We must ensure that military compensation remains highly competitive and recognizes the sacrifices our servicemembers endure. However, in light of the current fiscal crisis facing the Nation, the CBO proposal of adjusting the military pay raise to 0.5 percent below the ECI for fiscal year 2012–fiscal year 2015 is not an unreasonable idea given the significant improvements in the military compensation package that have been made over the last decade. As the Department wrestles with a shrinking top line, some adjustments to military compensation will likely need to be considered.

*Option 3: Increase medical cost sharing for military retirees who are not yet eligible for Medicare*

Increased enrollment fees for TRICARE Prime from \$230/\$460 per individual/family to \$550/\$1,100 annually and established \$30 co-pay for visits to civilian network. Additionally, the proposal imposes a fee for enrollment in TRICARE standard of \$50/\$100 and indexes PRIME and Standard enrollment fees to per capita growth in health care expenditures.

The Department generally agrees with the savings estimates for option 3, but has no specific comments on these proposals other than to indicate that the proposals currently in the bill—submitted by the Department—represent the Department and administrations current position on these issues.

*Option 4: Limit the TRICARE benefit for military retirees and their dependents.*

Retirees would not have the option of enrolling in TRICARE Prime. TRICARE Standard would require enrollment and payment of a fee equal to 28 percent of the cost of providing coverage. Catastrophic cap would increase from \$3,500 to \$7,500 per family and would be indexed to growth in health care expenditures.

The Department generally agrees with the savings estimates for option 4, but has no specific comments on these proposals other than to indicate that the proposals currently in the bill—submitted by the Department—represent the Department and administrations current position on these issues.

*Option 5: Increase cost sharing for pharmaceuticals under TRICARE.*

Increased co-pay for pharmaceuticals for all except active duty servicemembers. From no cost in military medical facilities and \$3/\$9/\$22 in retail/mail order networks (for 30/90 day fill) for generic/formulary/non-formulary to \$4/\$9 in military medical facilities and \$15/\$25/\$45 in retail network (for 30 day fill) and \$9/\$27/\$45 in mail order (for a 90 day fill).

The first two options are not additive—the third option can be added to either the first or second option. The Department generally agrees with the savings estimates for option 5, but has no specific comments on these proposals other than to indicate that the proposals currently in the bill—submitted by the Department—represent the Department and administrations current position on these issues.

*Option 6: Consolidate DOD's retail activities and provide a grocery allowance to servicemembers.*

The Department has studied the effects of consolidating the systems or providing benefits to military members via alternate methods and rejected the alternatives for the following reasons:

1. Exchanges mark up products to benefit morale, welfare, and recreation (MWR) activities. A recent Defense Commissary Agency (DeCA) study reported that if the Government made a profit, however slight, on the goods sold through commissaries, manufacturers would not support the pricing level they now offer, so a consolidated retail system would have the adverse effect of eliminating savings. The Department estimates a \$990 annual price increase to the average commissary shopper, a much larger cost than supported by CBO's proposed \$400 annual grocery allowance. Further, the proposal does not address the cost-of-living allowance (COLA) implications for servicemembers, and additional costs borne by the Military Personnel accounts, given the new, higher proposed retail prices that would be used in COLA surveys.
2. The proposed grocery allowance (paid to only active-duty members) disregards 80 percent of the eligible commissary shopping population (4,500,000 retirees, 846,000 Guard and Reserve members, and 14,800 overseas civilians). Further, during the 5-year phase-in period, the administrative burden of starting and stopping a grocery allowance as active duty members move from a base that has already consolidated to one that is pending consolidation, and vice versa, would be onerous.
3. In fiscal year 2010, the exchanges distributed \$365 million to MWR programs. Without this exchange dividend, the Department would have to increase its appropriation requests for Category A programs (libraries, fitness centers, etc.) and virtually all Category B facilities (childcare centers and youth programs, recreational equipment checkout, etc.).
4. All personnel in a consolidated retail system would be classified as non-appropriated fund (NAF) personnel. A study of the feasibility of using the NAF personnel system in DeCA found that significant implementation risks, including labor and congressional opposition, outweighed potential savings. Further,

without legislation to allow benefits to transfer from the General Schedule and Wage Grade systems to the NAF pay system, the Department would have to pay benefits and leave balances (\$173.3 million) to all DeCA employees and DeCA employees' employment records would restart with zero days of accrued annual leave and sick leave upon conversion.

5. Finally, the CBO's estimated savings is overstated. Current appropriations for commissary and exchange operations are \$1.5 billion. If the Department pays a total grocery allowance of \$560 million each year, the Budget Authority savings line could not be \$1.3 billion per year for fiscal years 2017 through fiscal year 2021 unless an exaggerated inflation factor were applied to the appropriation and the grocery allowance amount were frozen.

*Option 7: Replace the JSF program with F-16s and F/A-18s; and,*

*Option 8: Cancel the Navy and Marine Corps' JSFs and replace those aircraft with F/A-18E/Fs.*

During recent Nunn-McCurdy certification for the JSF, the Department assessed whether or not there were alternative aircraft to the JSF could provide acceptable capability to meet the joint military requirement at lower cost. Those deliberations included an assessment of the F-22, F-15E, F-16 Block 52/60 and the F-18E/F aircraft. The analysis compared the options on the basis of survivability, basing, lethality, and networking as well as including potential upgrades to alternative aircraft airframes, weapons, sensors, and communications networks. Rough order of magnitude data was obtained on the cost of the basic and upgraded alternative aircraft, scaled to a JSF-size inventory quantity.

The assessments concluded the following. None of the alternatives were found to provide the basing capability needed from conventional and austere land bases and from sea bases. There are no upgrades to mitigate the basing capability shortfall. The F-15E, F-16, and FA-18E/F also lack the stealth features to be survivable in higher threat environments. The F-22 is the strongest alternative in terms of survivability and lethality in the air-to-air arena, but it lacks the sensors and weapons to meet required lethality against targets. With extensive upgrades, the F-22's capability against ground targets could be improved, but potential design limitations, technical risk, lack of basing flexibility, and high cost eliminated this alternative. Based on this analysis, the Department concluded that there is no alternative to the JSF that provides acceptable capability to meet the joint military requirement at less cost.

*Option 9: Cut the number of aircraft carriers to ten and the number of Navy air wings to nine.*

Reducing the number of deployable nuclear powered aircraft carrier from 11 to 10, would inhibit the Navy's ability to respond to national security requirements as mandated by the President of the United States. Given that approximately one ship is unavailable due to Refueling and Complex Overhaul, and two or more ships are also unavailable because of recurring maintenance activities, training support missions, or transiting from or to the Area of Responsibility, a reduction to 10 ships would lead to regional coverage gaps, which would possibly impact the ability of the Navy to respond to worldwide situations. Furthermore, such a reduction would force the early retirement of a *Nimitz* class (CVN 68) aircraft carrier, years ahead of the end of its service life. The elimination of the 10th Navy Air Wing would be inconsistent with 11 fleet aircraft carrier battle force.

*Option 10: Cancel the Expeditionary Fighting Vehicle*

The Department cancelled the Expeditionary Fighting Vehicle (EFV) in fiscal year 2011 because future fiscal constraints made the program and subsequent sustainment of the vehicle in the inventory unaffordable. Based on Marine Corps cost projections, the EFV would have consumed on average 49 percent of the Marine Corps total procurement account during the years 2018 through 2025. The EFV would also consume over 100 percent of what is projected to be available for all procurement of ground vehicles during the years 2018 through 2025. Once fully fielded the EFV would consume 91 percent of the Marine Corps' vehicle-related operations and maintenance account when fully fielded. The Marine Corps invested in a new, more affordable, amphibious vehicle starting in fiscal year 2012.

*Option 11: Delay funding of the Army's Ground Combat Vehicle.*

The Department cancelled the Future Combat Systems including the Manned Ground Vehicle in fiscal year 2010 but continued the development of the combat vehicle now called Ground Combat Vehicle as a stand-alone program. The Department is currently assessing the Army's Analysis of Alternative (AoA) submission which

outlines a variety of materiel solutions to satisfy the capability need documented in the approved Initial Capabilities Document (ICD). It is premature at this point to delay initial fielding to 2025 for this effort since the Defense Acquisition Board (DAB) has not convened to review all acquisition documents and establish planned milestones and fielding dates. A better decision point to make schedule changes will be at the Milestone B when the program baseline is established and approved.

*Option 12: Terminate the Medium Extended Air Defense System Program.*

DOD has terminated the MEADS program in the fiscal year 2012 Budget request. The Department has reduced MEADS to \$804 million to execute the program through fiscal year 2013 for design and development and complete the prototypes that have already passed critical design review, such as the radars. The program would complete limited system integration and demonstrate capability via ground and flight tests of these prototype systems. This would further allow documentation of the tested design and the ability to assess the capabilities of the major system elements and the development of data packages for these elements. The Department is in a commitment with its allies, Germany and Italy and if DOD broke the Memorandum of Agreement with our allies it is estimated the withdrawal liability would be \$846 million dollars. It is in the best interest of DOD to complete its agreement through fiscal year 2013 for a cost of \$804 million.

*Option 13: Terminate the Precision Tracking Space System Program.*

The Precision Tracking Space System (PTSS) provides a space-based missile defense sensor which assists the Ballistic Missile Defense System (BMDS) in successfully overcome an adversaries' future ballistic missile capabilities. Additionally, space-based sensors offer on-demand, geographically independent, persistent coverage with no need for Indications and Warning, enabling earlier intercept opportunities. Based on modeling and simulation studies, the greatest hedge against missile defense threats of greatest concern, regional medium-range ballistic missiles and intermediate-range ballistic missiles, remains a highly available early missile tracking capability from space based sensors. The Precision Tracking Space System prototype will demonstrate early, precise, real-time tracking of ballistic missiles. This capability significantly improves BMDS performance and the associated functionalities, when approved, will be captured in future BMDS Integrated Build documentation.

81. Senator AYOTTE. Secretary Hale, one option caught my attention regarding the consolidation of four retail systems, also known as commissaries and exchanges operated by DOD as a benefit to military members and their families. The commissaries receive about \$1.3 billion in annual appropriated subsidies, while the exchanges rely on military logistics to reduce their overhead costs. The exchanges also serve as a revenue source for non-appropriated MWR programs. Has DOD considered an efficiency initiative to consolidate the systems or reduce the annual appropriated subsidy in lieu of a grocery credit provided to military members?

Mr. HALE. Yes, the Department has studied the effects of consolidating the systems or providing benefits to military members via alternate methods and rejected the alternatives for the following reasons:

Exchanges mark up products to benefit MWR activities. A recent DeCA study reported that if the Government made a profit, however slight, on the goods sold through commissaries, manufacturers would not support the pricing level they now offer, so a consolidated retail system would have the adverse effect of eliminating savings. The Department estimates a \$990 annual price increase to the average commissary shopper, a much larger cost than supported by CBO's proposed \$400 annual grocery allowance. Further, the proposal does not address the COLA implications for servicemembers, and additional costs borne by the military personnel accounts, given the new, higher proposed retail prices that would be used in COLA surveys.

The proposed grocery allowance (paid to only Active-Duty members) disregards 80 percent of the eligible commissary shopping population (4,500,000 retirees, 846,000 Guard and Reserve members, and 14,800 overseas civilians). Further, during the 5-year phase-in period, the administrative burden of starting and stopping a grocery allowance as active duty members move from a base that has already consolidated to one that is pending consolidation, and vice versa, would be onerous.

In fiscal year 2010, the exchanges distributed \$365 million to MWR programs. Without this exchange dividend, the Department would have to increase its appropriation requests for Category A programs (libraries, fitness centers, et cetera) and virtually all Category B facilities (childcare centers and youth programs, recreational equipment checkout, et cetera).

All personnel in a consolidated retail system would be classified as NAF personnel. A study of the feasibility of using the NAF personnel system in DeCA found that significant implementation risks, including labor and congressional opposition, outweighed potential savings. Further, without legislation to allow benefits to transfer from the General Schedule and Wage Grade systems to the NAF pay system, the Department would have to pay benefits and leave balances (\$173.3 million) to all DeCA employees and DeCA employees' employment records would restart with zero days of accrued annual leave and sick leave upon conversion.

Finally, the CBO's estimated savings is overstated. Current appropriations for commissary and exchange operations are \$1.5 billion. If the Department pays a total grocery allowance of \$560 million each year, the Budget Authority savings line could not be \$1.3 billion per year for fiscal years 2017 through fiscal year 2021 unless an exaggerated inflation factor were applied to the appropriation and the grocery allowance amount were frozen.

82. Senator AYOTTE. Secretary Hale, in this day and age of warehouse retail outlets and specialty grocery chains, has a business cases assessment been accomplished to compare the competitiveness and efficiency of exchanges and commissaries run by DOD to commercial counterparts? If so, what were the results?

Mr. HALE. No, the Department has not compared its retail operations to their commercial counterparts. However, consulting firms have conducted several studies, and the DeCA and the exchanges routinely conduct internal studies. For instance, each year, the DeCA publishes their return on investment; for fiscal year 2010 that figure was 208 percent, as military members saved \$2.7 billion compared to the annual appropriation of \$1.3 billion. The DeCA also monitors Commissary Customer Satisfaction. In fiscal year 2010, they recorded an overall score of 4.68 (on a scale of 1 to 5), the highest mark in the Agency's history. In order to apply statistics to the efficiency of the DeCA and the exchanges, we would have to determine the monetary value these benefits have on the safety, health, quality-of-life, and security of the military communities, especially in overseas locations. Equally difficult to quantify is the readiness, recruitment, and retention these non-pay benefits provide to the Military Services. We do not have statistical proof of the payback the retail activities inherently provide, but we know they exist.

#### CIVILIAN PAY AND HIRING FREEZE

83. Senator AYOTTE. Secretary Hale, DOD proposes to freeze the hiring of civilian personnel through fiscal year 2013 and to freeze civilian pay freeze through fiscal year 2012 for a savings of \$25 billion over the next 5 years. The combined effect of these two initiatives will be, in most cases, to ask our DOD workforce to do more work with less pay once inflation is factored in. It seems from DOD's data that civilian hiring freezes will save over \$2.5 billion each year over the next 5 years. How specifically will the savings be derived?

Mr. HALE. There are two separate issues:

- (1) The Civilian Workforce Freeze for fiscal year 2012 and fiscal year 2013 is based on freezing the full-time equivalent (FTE) level of the civilian workforce at the fiscal year 2010 level. This means, that the Components are not allowed to increase their civilian personnel FTEs over the fiscal year 2010 levels for fiscal year 2012 and fiscal year 2013 with limited exceptions. The previously planned increases over the fiscal year 2010 levels were taken as cost savings.
- (2) The Civilian Pay Raise Freeze for fiscal year 2011 and fiscal year 2012 is a Federal wide pay raise freeze as directed by the President. The approximate \$12 billion cost savings is derived by reducing the civilian pay budgeted amounts by the previously anticipated pay raise of 2.3 percent in both fiscal year 2011 and fiscal year 2012. The civilian pay raise resumes in fiscal year 2013 but based on a lower pay rate. The amounts previously included in the out year budget were taken as cost savings.

84. Senator AYOTTE. Secretary Hale, do the savings assume that once the freeze is lifted in 2014, hiring actions will not resume to fill the empty slots?

Mr. HALE. Yes.

85. Senator AYOTTE. Secretary Hale, will civilian position authorizations that go vacant eventually be eliminated? In other words, does the Department plan a civilian workforce reduction?

Mr. HALE. The components will not have the ability to increase positions, but they will have the ability to maintain fiscal year 2010 staffing levels by filling positions

that go vacant. The components will need to review all civilian manpower to determine which functions are a priority and must continue to be performed. Any workforce changes will be reviewed on a case-by-case basis.

86. Senator AYOTTE. Secretary Hale, as for the civilian pay freeze, do the savings assume that pay will not be adjusted for the accumulated inflation?

Mr. HALE. The civilian pay raise (inflation) factor is not included in fiscal year 2011 and fiscal year 2012. It does however, resume in fiscal year 2013–2015.

87. Senator AYOTTE. Secretary Hale, please provide a projection over the next 5 years of civilian pay increases that was used to estimate the cost savings.

Mr. HALE. The savings associated with the civilian workforce freeze were estimated using the fiscal year 2010 funding levels. The savings by year are:

Fiscal Year 2012 - \$2.5 billion  
 Fiscal Year 2013 - \$2.7 billion  
 Fiscal Year 2014 - \$2.9 billion  
 Fiscal Year 2015 - \$2.6 billion  
 Fiscal Year 2016 - \$2.6 billion

88. Senator AYOTTE. Secretary Hale, in your opinion, how will the combined freezes affect the morale and productivity of the DOD civilian workforce?

Mr. HALE. DOD civilians are extremely dedicated workforce that understand the fiscal challenges facing the Nation. The Department anticipates minimal impact to morale and productivity.

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QUESTIONS SUBMITTED BY SENATOR JAMES M. INHOFE

DEPOTS

89. Senator INHOFE. Secretary Hale and Secretary Conaton, how is the efficiencies strategy affecting parts availability?

Mr. HALE. The efficiency strategy for depot maintenance is planned to have virtually no impact on parts availability. Direct labor and material costs are assumed to be constant throughout the FYDP and unchanged as a result of efficiencies.

Ms. CONATON. Air Force Efficiencies Strategy is not intended to affect current parts availability, but is intended to implement improvements in the supply chain that have long-lasting impacts. Desired effects from efficiencies include improving sourcing decisions, leveraging Air Force funds for more favorable pricing and terms, optimizing productivity of limited manpower, improving supplier relationships, generating savings and accelerating the delivery of materiel (parts availability).

90. Senator INHOFE. Secretary Hale and Secretary Conaton, is a comprehensive strategy involving the DLA, depots, the Global Logistics Support Center (GLSC), U.S. Transportation Command (TRANSCOM), and other stakeholders being worked concurrently with the implementation of efficiencies measures? If so, when will this plan be available?

Mr. HALE. The efficiency strategy for depot maintenance is planned to have virtually no impact on parts availability. Direct labor and material costs are assumed to be constant throughout the FYDP and unchanged as a result of efficiencies.

Ms. CONATON. OSD along with TRANSCOM has taken the lead in developing a Joint comprehensive strategy to implement supply chain based efficiency measures. In support of OSD, the Air Force's Global Logistics Support Center and Air Force Air Logistics Centers have been participating in the development of the plan and will continue to do so. Since this is a Joint strategy, the Air Force must defer the question on availability of the plan to OSD and TRANSCOM.

91. Senator INHOFE. Secretary Hale and Secretary Conaton, are reinvestment dollars available to fuel innovation in this area?

Mr. HALE. Efforts to improve Depot Maintenance processes are continuing within the Department. Funding requirements to implement these improvements have been re-aligned within existing resources. Although future proposals may require additional resources, additional funding requirements are not known at this time. Any proposed funding realignments will be evaluated through cost benefit analysis to ensure the most effective measures are implemented.

Ms. CONATON. OSD with TRANSCOM has taken the lead in developing a joint comprehensive strategy to implement supply chain based efficiency measures. As

this plan is developed by OSD and TRANSCOM, the resources will be identified and programmed appropriately by the Services.

#### U.S. INDUSTRIAL BASE

92. Senator INHOFE. Secretary Hale, Secretary Westphal, Secretary Work, and Secretary Conaton, how are we balancing efficiencies and immediate budget concerns with the long-term need to maintain a robust defense industrial base and niche skills/specialties that disappear if not consistently cultivated?

Mr. HALE. DOD is pursuing efficiencies and immediate budget savings, while at the same time working to maintain a robust defense industrial base and critical niche skills/specialties. In many cases, the efforts underway will both create savings and enhance the long-term health of the defense industry. For instance, under the Better Buying Power initiative the Department is addressing affordability right at the outset of program initiation, which will reduce the amount of changes that are made to programs once they are in progress. For example, the *Ohio* class replacement missile submarine was unaffordable as originally conceived, so it was redesigned to drive down the cost substantially. By making necessary changes at the beginning, the Department will avoid the problems of breaking or canceling programs later on, which negatively impacts industry. We are also going to reduce costs and drive better industry performance by promoting real competition across the board in our programs. The recent competition for the LCS is a good example where the bidders were incentivized to substantially improve their offers because of the head-to-head nature of the competition. In addition, the Department is reviewing technology investment policies to encourage greater collaboration with industry. Finally, we are launching a DOD-wide Superior Supplier Incentive Program to reward contractors who control their costs and demonstrate superior performance. Taken together, these and other efforts will create savings and drive the defense industry to be more efficient and innovative, which is the key to its long-term health and ability to compete globally.

Dr. WESTPHAL. We are vigilant in ensuring that the disciplines found in our population of industrial base specialties are minimally affected and in fact are being bolstered by reinvesting some realized saving with contractors and other Service providers found exclusively in our industrial base. We are limiting solicitations to the National Technology Industrial Base, thus ensuring the niche skills they provide are funded and facilitated.

Mr. WORK. The fiscal year 2012 President's budget is a product of a comprehensive examination of the Department's business operations which has enabled the Navy and Marine Corps to refocus on our critical warfighting capabilities. Efficiencies were found across three categories: buying "smarter", streamlining organizations and operations, and energy initiatives. DON identified nearly \$35 billion in efficiencies over 5 years, and when combined with Defense Department level initiatives, the DON fiscal year 2012 FYDP incorporates over \$42 billion in savings. Inherent in buying smarter is taking into account industrial base implications as acquisition strategies and contracting strategies are developed. For example, the LCS competition where Lockheed Martin and Austal USA were each awarded a fixed-price incentive contract for the design and construction of a 10 ship block buy from fiscal year 2010 through 2015 reflects our commitment to affordability while minding the industrial base. This LCS strategy supports the industrial base for shipbuilding by keeping workers employed at two shipyards along with workers at their various subcontractors and vendors. Additionally, the Navy has looked to multiyear procurements in aviation and shipbuilding programs to bring stability to the industrial base which is reflected in savings achieved by such procurements.

Ms. CONATON. The Air Force recognizes the benefits of a robust national industrial base. One step we are taking is to work with OSD and other Defense components on a sector-by-sector, tier-by-tier review of the network of firms that support the Department. The knowledge expected to be gained by this review will enable Air Force decision makers to better evaluate the potential impact of investment alternatives and make decisions accordingly.

Beyond this analysis the Air Force also recognizes that as we implement the efficiencies we have identified, we must also ensure that we take steps to promote a robust defense industrial base, including preservation of key skills and capabilities on which we depend. In the area of space acquisition, for example, in keeping with Secretary Gates' Efficiencies Initiative, the Air Force is developing specific strategies that we believe will result in cost savings and a more efficient approach, while also helping to strengthen the industrial base. Two important efforts in this area

are the “EASE” proposal for satellite acquisition and our developing strategy for acquiring launch capability.

EASE is designed to drive down costs, improve space industrial base stability, and allow for investments in technology that will lower risk for future programs. It has four basic tenets: block buys of satellites; stable research and development investment; fixed price contracting; and full funding over multiple years through advance appropriations.

The first tenet—block buys of satellites—will allow us to purchase economic order quantities of critical parts, run production lines more efficiently, and reduce non-recurring engineering costs. The resulting savings can be reinvested in research and development to further improve the performance and lower the cost of follow-on systems. This reinvestment—what we call the Capability and Affordability Insertion Program—is an essential component of EASE. Together, these first two tenets will provide much-needed stability and predictability for a fragile space industrial base.

Another area where the Air Force has devoted significant effort to developing a more cost-effective acquisition strategy while aiding the industrial base is space launch. Along with our partners at the National Reconnaissance Office (NRO), we deliver assured access to space through the Evolved Expendable Launch Vehicle (EELV) program. Several studies have independently recommended an acquisition strategy that procures a minimum eight cores per year, both to help control costs and to help solidify the industrial base. Consistent with our commitment to deliver assured access to space, the Air Force has partnered with the NRO to ensure this level of baseline annual production. The NRO will buy three per year, and the DOD will buy five per year, with the Navy picking up one core in each of fiscal year 2012 and fiscal year 2013. Thereafter, the Air Force has pledged to buy five EELVs per year for the remainder of the FYDP. This will have the effect of lowering the cost per booster and contributing to a more stable market for our industrial base.

In addition to taking these steps, the Air Force also recently signed a joint Memorandum of Agreement with the NRO and NASA designed to ensure a consistent position on opportunities, certification, and requirements for potential new entrants to space launch. We expect to release new entrant criteria by late this summer, and we expect to allow new entrants to compete for near-term launch missions. These steps should also promote a healthy industrial base.

93. Senator INHOFE. Secretary Hale, Secretary Westphal, Secretary Work, and Secretary Conaton, have reinvestment opportunities been identified in the areas of small business development, research and development, DARPA, etc . . . to ensure that leaning/cutting of processes are not followed by loss of expertise and erosion of our competitive edge?

Mr. HALE. The efficiency initiatives instituted by the Under Secretary of Defense for Acquisition, Technology and Logistics under his memorandum titled “Better Buying Power” are directed at increasing productivity in DOD. Of the 23 specific initiatives, 2 are related specifically to providing greater opportunities to small businesses. This action reflects the Department’s understanding that efficiencies can be gained through the use of small businesses, which are often more cost effective than larger businesses.

Another way the Department provides protection of its research and development investments is under the SBIR program. This program protects small business by allowing them to retain rights to intellectual property generated under the program for a period of 5 years after contract award (DFARS 227.71 Rights In Technical Data). New contract awards during this protection period have the effect of renewing or extending the protection period.

With respect to preserving our investments in the industrial base, Title III of the Defense Production Act contains a unique set of authorities, found nowhere else in law, that enables the Federal Government to incentivize the creation, expansion or preservation of domestic manufacturing capabilities to support national security needs. Title III authorities provide domestic industry with a variety of incentives that reduce the risks associated with the capitalization and investments required to establish the needed production capacity. The authorities provide a bridge from the R&D arena and accelerate the transition of technologies to affordable production and deployment. Additionally, Title III investments mitigate domestic industrial base capability gaps and strengthen the economic and technological competitiveness of the U.S. industrial base.

Dr. WESTPHAL. As we explore possible efficiencies and opportunities to meet the Department’s Better Buying Power initiatives, we remain committed to realizing the advantages that competition and small business innovations bring to the table. We have several ongoing programs to modernize major weapons systems, and these are excellent opportunities to introduce new technologies. The Paladin Integrated Man-

agement program is incorporating technologies initially developed for the Non-Line of Sight-Cannon (NLOS-C). This effort helps preserve the skills and technologies that might otherwise have been lost due to a program termination. The Army's near-term plans for modernizing the Bradley fleet sustains both government and contractor System Engineering capability. We have other reset programs that incorporate new technologies where feasible. We understand that these investments will not provide the same level of production workload at depots and final assembly facilities, but they do allow us to preserve some level of the expertise in many areas.

Mr. WORK. The DON worked with the Small Business Administration in launching the website Green Biz Ops to connect contractors and, especially, small businesses with opportunities to participate in contracts for our energy initiatives. The Office of Naval Research (ONR) is constantly looking for innovative scientific and technological solutions to address current and future Navy and Marine Corps requirements and maintains Broad Agency Announcements to ensure continuing investment in research ideas. Additionally, the DON's SBIR Program gives small businesses the opportunity to address naval needs in more than 30 science and technology areas to provide the Navy and Marine Corps with innovative advances in technology developed by small firms. The DON Office of Small Business Programs maintains a presence at each of our buying commands to foster small business opportunities where possible.

A recent leadership development is the establishment of a Deputy Assistant Secretary of the Navy for Research, Development, Test, and Evaluation to ensure our investment in research maintains our competitive edge.

Ms. CONATON. The Air Force focus on lean and continuous process improvement is intended to improve our expertise and sharpen our competitive edge. The Air Force is looking at reinvestment opportunities in many areas, including research and development. Within its Science and Technology Program, the Air Force plans to reinvest savings realized from efficiencies back into basic research, applied research, and advanced technology development efforts supporting Flagship Capability Concepts, Technology Horizons, and other high priorities in order to maintain our competitive edge. With regards to SBIR, reinvestment opportunities may help identify and promote advanced technologies, translate scientific discoveries into technological innovations, and accelerate transformational technology aiding in the creation of jobs and sustaining expertise in areas such as energy and manufacturing.

#### QUESTIONS SUBMITTED BY SENATOR ROB PORTMAN

##### DOD EFFICIENCIES PARTNERSHIPS WITH INDUSTRY

94. Senator PORTMAN. Secretary Westphal, Secretary Work, and Secretary Conaton, DOD has been partnering with the aluminum industry on some cost-shared initiatives to improve performance while lowering weight and costs. Some of these initiatives include transitioning to new alloys, joining techniques, and commercial best practices to defense programs. Please provide a summary of what your Service has done to date on these efforts and outline the results in terms of cost reductions, weight reductions, and performance improvements.

Dr. WESTPHAL. The U.S. Army Tank Automotive Research, Development and Engineering Center (TARDEC) and Alcoa have partnered on a program called the Army Lightweight Structures Initiative. This program will integrate Alcoa's proven capabilities particularly into the design of new but also into older military ground vehicles. The goal of the program is weight reduction and performance improvement by substituting new alloys for older heavier metals.

Examples of weight reductions to date are as follows:

- EVCH (Expanded Capacity Vehicle II) floor
  - Drop in to existing aluminum design saved 91 pounds (32 percent).
  - Prototyped in 2 months; 20,000 miles of testing.
- EVCH Frame
  - Cross members saved 106 pounds (36 percent) over existing Al design.
- Lower Mission Module (LMM)
  - 330 pound savings (31 percent).
- HEMTT (Heavy Expanded Mobility Tactical Truck) - A3 - Space frame
  - Design reduced weight by 840 pounds (50 percent).
- HEMTT-A3 - Blast Shield
  - 440 pound savings (35 percent).
- FMTV (Family of Medium Tactical Vehicles) Spare Tire Carrier

- 64 pound weight savings (43 percent).

Mr. WORK. Naval Surface Warfare Center Carderock Division contracted with Alcoa to provide engineering services supporting research and development of lighter weight aluminum structures with improved fabrication methods for the LCS and other high speed, shallow draft vessels. Components for improvement have included flight deck tie downs, trimaran side hull tips, passageway radius extrusions, corrugated panels, bolted and bonded splice components, and MK 110 Navy gun mount system.

For the General Dynamics (GD)-Austal LCS) design, flight deck tie downs and side hull tips have been redesigned for improved manufacturability, cost savings, and weight reduction. The redesigned flight deck tie downs have also been approved for use on the Joint High Speed Vessel (JHSV). The tie downs were redesigned from a completely welded component to a welded and bolted component comprised of fewer parts. The tie downs provide a 50 percent weight reduction over the baseline tie down currently being used by the Navy resulting in a weight savings of 2.6 tons for the GD-Austal variant of LCS and 1.5 tons for JHSV. The side hull tip was redesigned from a structure comprised of numerous welded plates with difficult geometry to a single piece side hull tip. The redesigned side hull tip provides the potential for an approximate 70 percent cost reduction or approximately 800 labor hours per ship over the baseline due to significant reductions in fit-up time, welding, inspection, and rework and has been installed on LCS 4.

On the Lockheed Martin LCS design, passageway radius extrusions, single sided corrugated panels, and bolted and bonded longitudinal splices were redesigned for cost and weight reductions. The redesigned passageway extrusions have already been installed on LCS 3 and were redesigned to simplify production of radiused bulkhead corners eliminating multiple piece-parts and subcomponent welding. The shipbuilder has reported a 40 to 80 hour labor reduction per corner with additional savings associated with manufacturing, assembly, and rework. Single sided corrugated panels are being developed as a replacement for candidate stiffened panels. The corrugated panels are anticipated to provide estimated weight reductions of 10 to 20 percent where used and a potential for cost savings of 5 to 10 percent. Bolted and bonded splices were designed to replace approximately 1,500 welded splices done on the LCS 1 and are anticipated to reduce labor cost by approximately 50 percent when implemented on LCS 3.

The MK 110 Navy gun mount system was redesigned for improved manufacturability. The baseline component was comprised of 320 welded parts that was redesigned to 78 parts providing a 75 percent part reduction in the structure. The parts consolidation results in reductions in labor costs, welding, and rework.

In addition to the efforts discussed above, the Alcoa contract involves research and development to improve aluminum joining technologies. Alcoa is currently developing improved tool designs for friction stir welding (FSW) of 6XXX series aluminum extrusions and is being evaluated as a potential technique for joining extruded decking panels on the GD-Austal LCS. The use of FSW is anticipated to improve weld quality over the baseline decking panels currently being joined by conventional arc welding. Alcoa is also developing a new temper for aluminum 5456 designated as 5456-HX anticipated to have improved resistance to aluminum sensitization. The Navy will be funding the certification of 5456-HX. Successful certification and implementation of 5456-HX on the CG 47 Class would potentially result in reduction in life cycle costs.

Other industry efforts include the development of an aluminum-scandium alloy designated as 7XA by Surface Treatment Technologies. Alloy 7XA is a 7XXX aluminum alloy with scandium additions for improved strength and extrudability. The alloy was developed with the ONR funding and is being implemented on CVN 78 for flexible infrastructure to enable improved weight savings. A co-cast aluminum alloy designated as 5005/5456 was developed by Novelis. This co-cast material is anticipated to have improved corrosion resistance over conventional 5456. This alloy was not developed under a cost-share initiative with the Navy. Both alloy 7XA and Novelis 5005/5456 are undergoing certification testing that is being funded by the Navy.

Ms. CONATON. The Advanced Aluminum Aerostructures Initiative (A<sup>3</sup>I) is a congressionally-directed advanced development program managed by the Air Force and aimed at reducing the installed cost of aluminum aerospace structures, while lowering maintenance requirements, improving performance, and reducing life cycle costs. Several vehicle components have been studied as part of this program including the Boeing C-17 crew emergency escape door, the Lockheed Martin F-22 nose landing gear door, and the Lockheed Martin C-130 cargo ramp extension.

The C-17 crew emergency escape door is a forged and high-speed, machined one-piece frame with a separate aluminum skin. The door design uses 81 percent fewer

parts and offers a 30 percent overall cost reduction. The redesigned door has been successfully transitioned to the customer and was put into production in July 2004. Installation of the door on the C-17 fleet began in spring 2005 with aircraft #134.

The F-22 nose landing gear door is a unitized structure that utilizes innovative snap-fit fastenerless technology, meaning no holes need to be drilled. The new door design will reduce maintenance time, offers better impact damage tolerance, and is expected to save a significant amount of funding over the life of the F/A-22. The redesigned F-22 nose landing gear door has been successfully transitioned to the customer for production and has been installed on the F-22 aircraft beginning with aircraft #4112.

At 30 pounds, the C-130 cargo ramp extension offers a 40 percent weight savings over the previous design and uses fewer parts and no fasteners, which makes it easier and less expensive to manufacture. Additionally, the new design is safer and easier for the loadmaster to use. The ramp has ergonomic hand holds along its length and at the end to facilitate stowage and removal from a tight fitting storage slot without danger of personnel injury.

95. Senator PORTMAN. Secretary Westphal, Secretary Work, and Secretary Conaton, in your opinion, have these collaborations increased the purchasing power of our defense dollars?

Dr. WESTPHAL. Yes. The U.S. Army TARDEC and the aluminum industry have successfully formed a partnership together for the Army Lightweight Structures Initiative. This initiative has integrated proven capabilities into the design of new and legacy military ground vehicles. The goal of the program is to partner with military ground vehicle Original Equipment Manufacturers (OEM) to provide the Army with cost-effective weight reduction through the implementation of industry and OEM solutions. The technology has shown the potential to reduce life cycle cost. The aluminum industry has applied their materials and joining techniques to certain vehicle platforms demonstrating weight reduction and improved vehicle performance in certain areas.

Mr. WORK. When cost reductions from ongoing Navy-Industry initiatives are realized as cost savings on Navy contracts, the collaborations will have a positive impact on defense purchasing power. The Navy is pleased that such savings have been realized and is optimistic that additional savings will result from ongoing efforts.

Ms. CONATON. Yes; these A<sup>3</sup>I products offer an advantage to Air Force and DOD aerospace systems, as they reduce the overall part count and number of fasteners required in the manufacturing process. This reduces labor costs and overall component weight, which offers fuel efficient performance benefits for the life of the system.

96. Senator PORTMAN. Secretary Westphal, Secretary Work, and Secretary Conaton, would you support expanding these cost-shared initiatives, as resources permit, to other platforms and components?

Dr. WESTPHAL. Yes. The U.S. Army would support expanding these activities if the necessary resources were available.

Mr. WORK. Although the efforts under the Alcoa contract have resulted in direct cost savings for the shipbuilder, the weight reductions and performance improvements are a direct benefit to the Navy.

Outside of the USN-Alcoa contract, Alcoa is continuing to invest in aluminum research and development for marine applications. Alcoa is currently developing a new temper for aluminum 5456 to provide improved resistance to aluminum sensitization. While the new temper is not being developed under a contract that includes cost-share agreements between the Navy and Alcoa, the certification of the new alloy will be funded by the Navy. Alcoa is also pursuing an ONR Manufacturing Technology (ManTech) project to develop and demonstrate a High-Deposition Gas Metal Arc (HDGMA) aluminum welding system and procedures. Transition of the HDGMA process is intended for both the Austal and Lockheed Martin variants of the LCS as well as Austal's Joint High Speed Vessel (JHSV) platform after vetting through the Acquisition Governance process. The successful implementation of HDGMA is anticipated to result in significant labor and cost savings. In addition to aluminum Research and Development (R&D) efforts, Alcoa has participated on the CG 47 Class Integrated Product Team (IPT) and has worked with BAE Systems Ship Repair, the prime contractor for maintenance and modernization on CG 47 Class, to optimize and develop improved aluminum welding processes and workmanship.

Based on the above benefits to the Navy continued collaboration should be supported.

Ms. CONATON. The A<sup>3</sup>I concepts could be applied to all platforms. When implemented on the aging aircraft fleet, these improvements help to keep older aircraft in service longer, resulting in a decreased need for new aircraft. As resources permit, these concepts will be reviewed for possible application on other platforms.

READINESS OF ARMY HELICOPTER FLEET

97. Senator PORTMAN. Secretary Westphal, with our missions in Afghanistan and Iraq, our helicopters are seeing more flight hours and more combat hours than in the past. Increased use of our helicopters are decreasing their lifespans and increasing the need to refurbish or upgrade them. With this in mind, please provide an overview of the overall readiness of the Army's helicopters supporting our efforts in Iraq and Afghanistan.

Dr. WESTPHAL. Deployed aircraft fleets generally meet or exceed the Army fully mission capable (FMC) readiness rate standard of 75 percent. Specifically, over the last year:

AH-64D Apache: average FMC readiness rates of 75–80 percent (Deployed fleet is 24 percent of the total deployable fleet).

CH-47D/F Chinook: average FMC readiness rate of 70 percent (Deployed fleet is 32 percent of the total deployable fleet).

OH-58D Kiowa: average FMC readiness rates of 80–85 percent (Deployed fleet is 41 percent of the total deployable fleet).

UH-60A/L/M Blackhawk: average FMC readiness rate of 80 percent (Deployed fleet is 31 percent of the total deployable fleet).

Averages are based upon the 12 month period from April 2010 through March 2011.

98. Senator PORTMAN. Secretary Westphal, what are the average flight hours between reset for the Apache, Kiowa, and Blackhawk platforms?

Dr. WESTPHAL. The average flight hours between Reset is:

AH-64D Apache .....	1,521 hours (ranges from 981 to 2,061 hours)
CH-47D/F Chinook .....	902 hours (ranges from 569 to 1,235 hours)
OH-58D Kiowa Warrior .....	1,400 hours (ranges from 983 to 1,817 hours)
UH-60A Blackhawk .....	684 hours (ranges from 456 to 912 hours)
UH-60L Blackhawk .....	992 hours (ranges from 678 to 1,306 hours)
HH-60L Blackhawk .....	734 hours (ranges from 524 to 940 hours)

These hours are primarily attributed to operational tempo while deployed. However, there is minimal flight time post deployment before and after Reset, and during a unit's deployment preparation training.

The current policy objective for aircraft is to remain in the area of operations for two complete deployment rotations. Active duty units are 12 month deployments, and Army National Guard and Army Reserves units are 9 month deployments. This allows for 24 months and 18 months, respectively, of operational time for each component.

While deployed, the typical operational tempo for each aircraft mission/design/series is:

AH-64D Apache .....	~59 hours per month
CH-47D/F Chinook .....	~40 hours per month
OH-58D Kiowa Warrior .....	~75 hours per month
UH-60A/L/M Blackhawk .....	~48 hours per month

99. Senator PORTMAN. Secretary Westphal, how long does the average helicopter serve before it needs to be reset?

Dr. WESTPHAL. The current policy objective for aircraft is to remain in the area of operations for two complete deployment rotations. Active duty units are 12 month deployments, and U.S. Army National Guard and U.S. Army Reserve units are 9 month deployments. This allows for 24 months and 18 months, respectively, of operational time for each component.

100. Senator PORTMAN. Secretary Westphal, how many months average spent in depots receiving reset work and at what cost per rotorcraft?

Dr. WESTPHAL. Aircraft Reset is Field Level Maintenance performed at several installation activities within the continental United States. Major Aircraft Crash or Battle Damage work is performed at the Corpus Christi Army Aviation depot.

As of the fiscal year 2009 Reset program, average days in work and cost for the completed aircraft, by mission/design/series:

[In millions of dollars]

AH-64D Apache: .....	average of 82 days at \$1.194
CH-47D Chinook: .....	average of 125 days at \$1.934
CH-47F Chinook: .....	average of 87 days at \$1.004
OH-58D Kiowa Warrior: .....	average of 82 days at \$0.49
UH-60A Blackhawk: .....	average of 87 days at \$1.20
UH-60L Blackhawk: .....	average of 83 days at \$1.19
UH-60M Blackhawk: .....	(no UH-60Ms were part of the fiscal year 2009 program)

101. Senator PORTMAN. Secretary Westphal, is the Army leveraging commercial best practices and new aluminum alloys and joining techniques within reset activities to enhance performance and affordability?

Dr. WESTPHAL. Yes. The Army leverages commercial best practices to include advanced aluminum material and design solutions within new production. Airframe and engineering modifications, to include engineering enhancements, are applied during airframe modernization recapitalization processes.

The Army Aviation Reset program has Reset over 4,000 aircraft since inception in 2003. The Army conducts periodic reviews of the program to improve Reset operations, specifically identifying and implementing efficiencies in cost and production, monitoring and ensuring quality of work, and reviewing scope of work. Aircraft inducted in Reset capitalize on the insertion of developing technologies such as the Common Missile Warning System and the Advanced Threat Infrared Countermeasures, utilizing rapid fielding initiatives to reduce aircraft non-available time.

102. Senator PORTMAN. Secretary Westphal, please discuss possible opportunities to achieve cost and weight reduction on the rotorcraft structure through the application of commercial best practices and advanced aluminum material and design solutions.

Dr. WESTPHAL. There are many opportunities to achieve cost and weight reduction on the rotorcraft structure of the Apache, Kiowa Warrior, and Chinook through the application of commercial best practices and advanced aluminum material and design solutions. One example is the aluminum alloy which comprises a major part of the Apache airframe structure. As loads have increased on the frame over time, consideration is given to implementing improvements, with priority made to both increasing strength and lowering weight, utilizing both best commercial practices and methods. In this process, airframe structural and historical data obtained during RESET teardown is sought and evaluated for use in the redesign of key airframe components. Working with the OEM, optimal design solutions and material redistribution, which exhibit lower stress patterns, are analyzed and employed. In addition to service life extensions of certain components, reducing component weight is achievable.

We have utilized state of the art lighter base materials, precision machining, composite material, fastener, and bonding technologies, and best production and assembly processes during our aircraft modernization and development programs. Select redesigns and structural upgrades were incorporated to address fatigue cracking in the field. While production costs and weight have improved as a result of this modernization, further improvement is needed as weight and cost are critical elements to improving equipment for the Warfighter. We have incrementally used better alloys and joining techniques in our airframes, but our airframe manufacturers must address qualifications for air worthiness, corrosion resistance, and material properties. There is opportunity for improvement in our older airframes, such as the OH-58 helicopter, which are not yet significantly modernized.

We have addressed a potential area for weight savings in the airframe structures for the Chinook CH47-F. The current airframe design technique utilize built-up structures; however, modern manufacturing techniques have proven to reduce the cost of legacy airframe structures by replacing labor-intensive built-up structures with monolithic machined structures. Monolithic machined structures are also ideal candidates for weight reduction with typical topology optimized structure weight savings of between 15 percent to 20 percent. The National Center for Defense Manufacturing and Machining has proven they can manufacture a monolithic topology optimized structure using aluminum to replace the legacy built-up structures. The results show that machining costs were comparative to traditional structure designs, resulting in no increase to recurring costs. Additionally, billet sizes for the traditional and the optimized designs were identical. Once developed and manufactured, the topology optimized structures were subjected to static and fatigue testing to determine if the components met the strength criteria for airframe structures. Testing confirmed that these designs met or exceeded the requirements established for these

airframe structures. Fifty pounds of weight savings is achievable (if implemented) when extrapolating the 15 percent weight savings to all of the under floor structures in the Chinook helicopter. The benefits of topology optimization include: load path visualization, weight savings, systems design space, ballistic protection, and improved fatigue resistance. These benefits offer a compelling incentive to employ this technology into the current design process in order to increase the overall performance of the airframe structures.

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QUESTIONS SUBMITTED BY SENATOR JOHN CORNYN

JOINT BASING

103. Senator CORNYN. Secretary Hale, the 2005 Defense BRAC Commission recommended DOD establish 12 joint bases by consolidating the management and support of 26 separate installations, potentially saving \$2.3 billion over 20 years. One of the 12 joint bases mandated in 2005 is Joint Base San Antonio. The residents of San Antonio, known as Military City USA, have long been proud that several military installations, including Lackland and Randolph Air Force Bases and Fort Sam Houston, call their city home. To date, what cost savings has DOD seen from joint basing? If none, what savings do you expect to see in the coming years as joint base leaders gain experience with consolidation and common standards?

Mr. HALE. The consolidation of 26 installations into 12 joint bases represents a fundamental change in our approach to installation management. Predictably, we are beginning to realize efficiencies from this initiative, many of them the result of economies of scale. For example, consolidating all recycling operations at Joint Base McGuire-Dix-Lakehurst saved \$1 million in facility and equipment requirements and reduced overall contract costs by \$200,000 annually. Far more important, however, is that our joint base commanders—faced with parallel and often-conflicting Service rules and requirements—are successfully implementing new, cross-cutting business processes. This ability to transcend traditional practices and develop innovative solutions to longstanding inefficiencies is key to positioning ourselves for future, Department-wide reforms.

104. Senator CORNYN. Secretary Hale, what are your plans to achieve the efficiencies originally expected from the joint basing initiative?

Mr. HALE. Our joint base commanders—faced with parallel and often-conflicting Service rules and requirements—are successfully implementing new, cross-cutting business processes. This ability to transcend traditional practices and develop innovative solutions to longstanding inefficiencies is key to positioning ourselves for future, Department-wide reforms. As one joint base commander put it joint bases are “incubators for innovation”. The Joint Base Commands continue to display a can-do attitude and dedication to providing the highest quality service, not only in support of the military missions on their sites, but to servicemembers and their families as well.

REDUCING LIFECYCLE COSTS

105. Senator CORNYN. Secretary Hale, both the Weapon System Acquisition Reform Act (WSARA) of 2009 and the policies related to DOD’s efficiency initiatives call for increasing the use of competition as a means to lower lifecycle costs. What are some examples of where competition has been used to lower lifecycle costs?

Mr. HALE. The USD(AT&L) November 3, 2010 memo to the Military Departments and Defense Agencies directed immediate action to increase competition. The acquisition community is addressing this in the development of Weapon System Acquisition Strategies. Specifically, the Secretaries of the Military Departments and Defense Agency Directors were directed to implement the following:

- Present a competitive acquisition strategy at each program milestone. Provide a one-page competitive strategy for each ACAT 1D program at each milestone as part of the overall acquisition strategy.
- Report to USD(AT&L) in fiscal year 2011 on how their military department or agency intends to reduce single-bid competitions. At a minimum, the report will address market research, restricted specifications, and adequate time for proposal preparation.
- Achieve a 2 percent reduction in single-bid competitive contracts in fiscal year 2011, with continuing reductions thereafter.
- Remove obstacles to competition, ensure contracting officers conduct negotiations with all single-bid offerors, unless this requirement is specifically waived

by the Head of Contracting Activity or Military Department Secretary. The basis of these negotiations will be cost or price analysis, as the case may be, using either certified or non-certified cost or pricing data, as appropriate.

- Have their component or agency competition advocate develop a plan to improve both the overall rate of competition and the rate of effective competition. These plans will establish an improvement rate of at least 2 percent per year for overall competition and an improvement rate of at least 10 percent per year for effective competition.
- Require open systems architectures and set rules for acquisition of technical data rights:
  - PMs will conduct a business case analysis in concert with the engineering tradeoff analysis that will be presented at Milestone B. The business case analysis will outline the open systems architecture approach, combined with technical data rights the Government will pursue in order to ensure a lifetime consideration of competition in the acquisition of weapon systems.
  - The results of this analysis will be reported in the Acquisition Strategy Report and in the competition strategy.
  - Increase the dynamic small business role in the defense marketplace competition. All competitive and non-competitive procurement actions will seek to increase small business participation through weighting factors in past performance and fee construct.

These actions apply to all contracts, including MRO, CLS, and PBL contracts. The result will be PEOs and PMs developing a competitive strategy early in acquisition that spans the program's life and improves the ability to compete MRO, CLS, and PBL contracts in sustainment. For example, the Department of Navy has undertaken a specific initiative to engage each PEO, PM, and Product Support Manager (PSM) to emphasize real competition at every stage of acquisition and sustainment. They directed the PEOs/PMs/PSMs to establish a competitive environment throughout the life cycle of their programs, and to enable better competitive opportunities in the sustainment phase. Additionally, PEOs and PMs are reviewing their existing portfolios in pursuit of increased competitive opportunities, including consideration of breakout opportunities, and expanding open architecture solutions and small business opportunities that fosters additional competition. The Army is emphasizing the conduct of logistics analyses early to baseline costs and develop technical data requirements that facilitate competition in sustainment contracts. The Air Force is also taking proactive steps to ensure PMs and PSMs correctly identify and pursue data rights in their contract negotiations to facilitate competition in sustainment. The outcome will be required warfighting capability at a reduced cost to the Government.

106. Senator CORNYN. Secretary Hale, what other programs will this effort be expanded to in the near future?

Mr. HALE. The Department continues to promote and pursue a competitive acquisition environment. For example, Directive-Type Memorandum (DTM) 10-015—Requirements for Life Cycle Management and Product Support establishes the requirement for a mandatory Product Support Manager (PSM) position for each ACAT I and II program. One of the PSM's duties is, "Promote opportunities to maximize competition while meeting the objective of best-value long-term outcomes to the warfighter". The Services recently completed PSM identification March 30, 2011. Additionally, the military departments are undertaking a variety of initiatives to increase competition. For example:

- The Department of Navy has engaged each PEO and PM to establish a solid foundation for a competitive environment throughout a program's life cycle. Therefore, the PEOs and PMs are reviewing their existing portfolios in pursuit of increased competition opportunities, including consideration of breakout opportunities at the subsystem and component levels to reduce lifecycle costs.
- The Department of Air Force has published regulations and guidebooks that detail the importance of competition. The Air Force is specifically focusing on sole-source contracts for software maintenance, as well as engine repairs and parts, to increase competition.
- The Department of Army, over the course of the next year, plans to review and refine internal practices and processes that empower the PSM to promote competitive opportunities.

Beyond DTM 10-015, the USDAT&L, November 3, 2010 memorandum Implementation Directive for Better Buying Power—Obtaining Greater Efficiency and Productivity in Defense Spending directs the Department to "Promote Real Competition"

across all acquisition programs. At milestone decision briefs, each program is required to provide a one-page competitive strategy for each ACAT ID program at each milestone as part of the overall acquisition strategy. Beginning December 1, 2010, each program is required to include competition in its acquisition strategy prior to each milestone for ACAT IC, II, III and IV programs.

107. Senator CORNYN. Secretary Hale, in what areas do you think competition and commercial investments in technology can be leveraged to achieve further cost reductions?

Mr. HALE. Achieving cost reductions through competition and commercial investments in technology are two complementary aspects of the USD(AT&L)'s "Better Buying Power" initiative.

As the Department continues to seek efficiencies as outlined in the November 3, 2010 implementation directive for Better Buying Power, titled "Obtaining Greater Efficiency and Productivity in Defense Spending," the entire Department is striving to improve cost effectiveness through increased use of commercial technology investment. Specifically, in that directive, the Director, Defense Research and Engineering (now the Assistant Secretary of Defense for Research and Engineering) was tasked to reinvigorate the Independent Research and Development (IRAD) program. The process is ongoing, with a plan to increase the visibility of IRAD as a fundamental element of the broader DOD R&D program. Application of IRAD to DOD projects should provide guests cost efficiency for the DOD.

On November 24, 2010 the Director of Defense Procurement and Acquisition Policy issued guidance on improving competition in Defense procurement. Promoting real competition is an essential focus area within the "Better Buying Power" initiative that requires the Military Departments and Defense Agencies to develop plans to improve overall and effective competition by: reducing the number of single-bid contracts; negotiating better prices on single-bid contracts and task and delivery orders; and reducing the dollar value of sole-source contracts and task and delivery orders.

108. Senator CORNYN. Secretary Hale, Section 805 of the National Defense Authorization Act (NDAA) for Fiscal Year 2010 deals with lifecycle management, calling for product support managers to maximize competition and make the best possible use of available DOD and industry resources at the system, subsystem, and component levels. This provision was implemented through DOD's Directive-Type Memorandum on October 6, 2010. Please provide examples of where DOD has pursued competition at subsystem and component levels to reduce lifecycle costs.

Mr. HALE. Since the issuance of the DTM, the military departments continue to implement section 805 and have made significant progress identifying Product Support Managers (PSMs) for ACAT I and II programs and issuing the guidance. One of the PSM's major duties is to promote opportunities to maximize competition while meeting the objective of best-value, long-term outcomes for the warfighter.

To this end, DOD Life Cycle Management and PSM Rapid Deployment training, which specifically addresses increased competition, has been developed and fielded by the Defense Acquisition University, with strong attendance across the DOD and the industry acquisition community.

Additionally, the military departments are undertaking a variety of initiatives to increase competition. For example:

- The Department of Navy has engaged each PEO and PM to establish a solid foundation for a competitive environment throughout the life cycle. Therefore, the PEOs and PMs are reviewing their existing portfolios in pursuit of increased competition opportunities, including consideration of breakout opportunities at the subsystem and component levels to reduce lifecycle costs.
- The Department of Air Force has published regulations and guidebooks that detail the importance of competition. The Air Force is specifically focusing on sole-source contracts for software maintenance, as well as engine repairs and parts, to increase competition.

The Department of Army, over the course of the next year, plans to review and refine internal practices and processes that empower the PSM to promote competitive opportunities.

#### ARMY ACQUISITION PROGRAMS

109. Senator CORNYN. Secretary Westphal, an Inside the Army article on February 11, 2011, states that the Army "has an abysmal record of pumping billions

of dollars into weapon systems that will never be deployed, with a trend of sunk costs pointing upward during the past decade.” The article cites briefing slides marked for presentation by Secretary McHugh which highlight that the Army’s canceled programs have eaten up between \$3.3 billion and \$3.8 billion per year since 2004, representing an average of 35 to 45 percent of the Army’s annual budget for development, testing, and engineering. This is very disappointing, and it represents poor stewardship of taxpayers’ dollars. Your prepared testimony highlights that the Army has identified \$29.5 billion in savings over the fiscal year 2012 to fiscal year 2016 period that will be invested in modernization and acquisition programs. What steps is the Army taking to overcome its shocking trend of wasting billions of dollars on cancelled acquisition programs?

Dr. WESTPHAL. The Army Acquisition Review Panel submitted its report in February 2011, which includes 76 recommendations in four broad areas that extend across various Army organizations. Those broad areas address requirements generation, risk management, organizational alignment, and resources. The Secretary of the Army has directed the Assistant Secretary of the Army for Acquisition, Logistics and Technology (ASA(ALT)) to assess those recommendations. The ASA(ALT) will provide specific recommendations for implementation of those portions of the report which are judged to improve the efficiency and effectiveness of the Army’s Acquisition process. That initial assessment is due to the Secretary in April. Following that, the Army will determine the path forward on implementation of the recommendations.

110. Senator CORNYN. Secretary Westphal, how do you plan to ensure that the \$29.5 billion identified in savings for reinvestment in the Army’s budget will actually go towards the modernization and acquisition of weapons and systems that are in high demand by combatant commanders?

Dr. WESTPHAL. During the preparation of the fiscal year 2012 budget request, the Army re-invested \$17.1 billion in equipment acquisition and modernization programs that are high priority to the warfighter. By taking a holistic look at requirements, priorities, and acquisition timelines, we were able to focus our investments in areas that will deliver current capability to the Warfighter quicker or provide future capabilities to fill critical gaps. Recognizing that our greatest asset is the soldier, the Army also re-invested \$9 billion in force structure, readiness, and quality of life programs that continue to ensure we have not only the best equipped, but also the best trained and supported soldiers in the world.

#### AIR FORCE EFFICIENCIES

111. Senator CORNYN. Secretary Conaton, it is my understanding that the Air Force estimates that it has been saving over \$1 million per KC-10 engine overhaul by competitively awarding this contract for work which is being done at Port San Antonio, TX. Do you believe that the cost savings realized through competition of the KC-10 engine overhaul can be effectively applied to other airframes and engines?

Ms. CONATON. Yes, the KC-10 engine overhaul is an example where competition realized cost savings. The KC-10 engine program was able to do so because of two key conditions. First, the KC-10 engine is a commercial derivative. This condition typically ensures a robust industrial base with several vendors capable of performing the overhaul work. The second is that the U.S. Air Force owned the data rights to necessary maintenance overhaul manuals. Government ownership of this data enabled the Air Force to broadly compete the overhaul work. The combination of a robust industrial base and government ownership of the maintenance data created the opportunity to realize cost savings. The Air Force is committed to competition, and in cases where these conditions exist, the Air Force actively pursues this strategy and the opportunity to achieve cost savings.

112. Senator CORNYN. Secretary Conaton, what else is the Air Force doing to help facilitate competition in the sustainment of major weapon systems?

Ms. CONATON. The Air Force is more conscientious given reduced budgets and long-term sustainment of weapons system platforms. As such, the Air Force is taking a comprehensive approach that looks at both our legacy platforms and our new platforms in terms of data rights and ownership. Where our legacy platforms have not included full ownership of data rights, thus limiting competition, the Air Force has initiated business case analyses. The analyses determine the level of data rights most affordable over the life cycle to the government to organically support the sustainment of our legacy major weapons systems. Where new platforms are estab-

lished, the Air Force is taking a proactive planning approach by determining what type of data rights are required for both acquisition and sustainment. This approach will lend itself to greater competition at various milestones through the acquisition and sustainment lifecycles.

113. Senator CORNYN. Secretary Conaton, on January 27, 2011, the Air Force released a request for information (RFI) for the procurement of 150 C-17 engines, bringing the total number of C-17 engines procured by the Air Force to over 960. Given the WSARA of 2009, section 805 of the NDAA for Fiscal Year 2010, and the DOD's efficiency initiatives, why did the RFI not include a requirement to purchase the technical data rights in order to facilitate competition in sustainment?

Ms. CONATON. The request for information was only issued as a market research tool to determine the availability and adequacy of potential sources for C-17 engines and to determine whether any competitive sources existed.

The C-17 engine was designed and developed by Pratt & Whitney (P&W) at their expense and has been sustained under Contractor Logistics Support. The original sustainment approach for the F117 engine did not include provisions for purchasing technical data. However, in the future, the Air Force will consider obtaining data rights in a separate follow-on sustainment effort. OEM willingness to propose and the cost thereof will drive the decision on purchasing technical data and the potential for competition in the future. To date, P&W has indicated little to no interest in providing such data.

114. Senator CORNYN. Secretary Conaton, given that the C-17 engine is a derivative of a commercial 757 engine, with over 91 percent commonality, why is the Air Force not seeking competition in the supplier base as the commercial industry does?

Ms. CONATON. Although there is engine commonality, the nine percent difference between F117 (Air Force engine) and Pratt and Whitney (PW) 2000 (commercial engine) is significant and prevents a campaign for sustainment in the commercial supplier base. Furthermore, the PW2000 (on Boeing 757 aircraft) commercial engine manuals are not sufficient for F117 overhaul and maintenance. The significant differences in the engines include: the low pressure compressor (LPC) group, LPC drive shaft group, fan case group, main gearbox assembly group, engine fuel and control group, engine oil group, and engine indicating system group. These differences are due to operational profiles required for military flight (i.e., wartime, max-power take offs causing high engine exhaust temperatures). Additionally, the F117 supply chain usage data is different from PW2000. The usage data and the repair manuals for the F117 are P&W proprietary, and they own the pipeline spares. Using commercial usage information without pipeline spares would cause immediate parts shortages and reduction in wartime readiness engines. The U.S. Air Force intends to pursue these manuals and ownership of pipeline spares for future sustainment efforts.

#### RED RIVER ARMY DEPOT

115. Senator CORNYN. Secretary Westphal, in 2002, Red River Army Depot (RRAD) was designated by the Secretary of the Army as a Center for Industrial and Technical Excellence (CITE) for all Tactical Wheeled Vehicles (TWV), which include the High Mobility Multipurpose Wheeled Vehicle (HMMWV). RRAD has the capability to produce an average of 32 HMMWVs per day on a single shift, with the capability and capacity to handle all Army, National Guard, Army Reserve, and Marine Corps HMMWV reset and recapitalization requirements in a surge environment. However, Letterkenny Army Depot (LEAD), which is not a CITE for TWV, has been designated as the source of repair for SOCOM'S HMMWVs. How can the Army justify overhead and administrative costs for two separate contracts for supply chain management when Red River could efficiently conduct all HMMWV recap efforts, resulting in a reduction of overall HMMWV recap program costs?

Dr. WESTPHAL. As the CITE for TWVs, RRAD will eventually perform the entire HMMWV RECAP mission, given the projected decrease in workload beyond fiscal year 2012. LEAD has been used as a second repair source during the surge to meet increased warfighter needs for HMMWVs. With regard to the SOCOM'S HMMWVs, although there is repair part commonality for HMMWVs; the SOCOM HMMWVs are significantly different from typical HMMWVs and LEAD has been instrumental in the design and in maintaining the TDP with SOCOM additions. LEAD was selected by SOCOM as the only depot able to meet their cost, quality, and schedule requirements for their Ground Mobility Vehicle (GMV) sustainment. LEAD has developed the engineering staff and has built the necessary infrastructure to perform

the GMV repair mission; reducing significantly investment in administrative requirements, overhead costs and supply chain support.

116. Senator CORNYN. Secretary Westphal, as a CITE for all TWV, RRAD has also been designated as the Army's Depot Source of Repair (DSOR) for the Mine Resistant Ambush Protected (MRAP) family of vehicles. RRAD demonstrated successful completion of a pilot program for the rest of 54 MRAP that was completed below cost estimate, validating RRAD's capability to reset and repair MRAP. However, LEAD was assigned as the DSOR for the Route Clearance Vehicle (RCV), an MRAP derivative with near identical reset and repair processes to the MRAP. Why did the Army require a separate DSOR decision for the RCV?

Dr. WESTPHAL. Designating LEAD as the DSOR for RCVs provides the Army flexibility to focus on MRAP repair/MRAP Egress Trainer manufacturing at RRAD, and RCV repair at LEAD. Continuous upgrades are being applied to RCVs, and LEAD has extensive knowledge of these highly specialized vehicles because of their depot-forward operation in Kuwait. LEAD has also developed an excellent partnership with the OEM which saves us money and establishes core skill sets as changes are applied to the RCVs at the organic facility.

117. Senator CORNYN. Secretary Westphal, how can the Army justify Letterkenny's designation as a separate DSOR for the RCV, duplicating the Army's capabilities and investments at RRAD, at a time when the defense budget is under critical review and the Nation is facing a financial crisis?

Dr. WESTPHAL. The investment in capabilities at LEAD for RCV repair was made in close coordination with the OEM in support of Operation Iraqi Freedom. LEAD gained considerable expertise in repair and new production, and has gained extensive knowledge of the highly specialized RCVs through its depot-forward operation in Kuwait (having repaired hundreds of RCVs in theater). LEAD has continued to build on this great partnering arrangement with the OEM and has continued to gain efficiencies while meeting warfighter needs.

[Whereupon, at 4:13 p.m., the subcommittee adjourned.]

