

DEPARTMENT OF DEFENSE

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

SUBJECT: Impact of a Continuing Resolution and Sequestration on Acquisition and Modernization

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Chairman Turner, Ranking Member Sanchez, and distinguished members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the continuing resolution and sequestration impacts to the Department of the Air Force's acquisition programs, planning and programming activities, and to the industrial base.

Sequestration, combined with another continuing resolution, continues to inflict painful, palpable, and ultimately expensive disruptions throughout our Air Force. Although, we are making every effort to minimize the impact of it to our readiness and modernization. All of this comes at a time when our Air Force is long-overdue for vital reconstitution. Our fleets are aging, and our force is at its smallest since its inception. Therefore, we find ourselves in the untenable position of arbitrarily forcing additional risk into our Nation's ability to achieve its policy objectives through the use of airpower.

We are fully aware that the Air Force has a role in helping our Nation get its fiscal house in order. At this time, we are doing our best to balance near-term readiness with modernization while ensuring our ability to project Global Vigilance, Global Reach, and Global Power in the heavily defended environments of 2023. Fiscal Year 2014 (FY14) sequestration reductions force sharp declines in our readiness and modernization accounts. The blunt, indiscriminate mechanism of sequestration undermines the combat capability of your Air Force and the entire joint force, and it is unworthy of the servicemen and women who risk their lives in service to our great Nation. Recently civilians who were furloughed represent 72 percent of the acquisition workforce. Our Air Force acquisition workforce lost over 1.9 million man hours of productivity due the furloughs from this past summer and the initial days of the recent government shutdown. This resulted in a significant reduction in take home pay for our stalwart civilians, but it also disrupted severely planned work with our industry partners. These actions weaken the positive

strides we have made to revitalize our workforce and recapture acquisition excellence.

Furthermore, actions that discount the value of our workforce also damage our ability to attract and retain the best and brightest talent.

All of this uncertainty will have long-term impacts to the ability to leverage the technical advantage airpower offers our joint force. Our Airmen must be ready to meet the requirements outlined in the President's Defense Strategic Guidance. Providing some flexibility in spending allows us to mitigate the severe consequences of a continuing resolution and sequestration while properly providing our men and women with capable weapon systems to do their jobs.

### **Impacts on Acquisition**

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

Sequestration cuts deeply into Air Force investment accounts, which under the law must be applied equally at the program, project, and activity level; consequently, it impacts every one of the Air Force's acquisition programs. For example, a potential FY14 sequestration impact for the F-35A low rate initial production, relative to the request, could be the loss of four to five aircraft from the requested amount of 19. It could also require a reduction up to \$110M from the F-35A development program, forcing delays to dedicated development test and evaluation flights through 2014 which will cripple the planned initiation of important follow-on development activities. These potential reductions drive up unit costs resulting in production funding shortfalls, and they also delay follow-on software and flight testing. Moreover, the across the board cuts will likely remove funding for our program managers to address emerging technical

issues discovered during the development effort. This directly impacts our ability to achieve the original program baseline, and will undoubtedly escalate program costs. The Air Force would like to be granted the ability to move funds appropriations to mitigate, to the maximum extent possible, devastation to the highest priority programs may alleviate some issues. However, even with flexibility, the Air Force may not eliminate all risks associated with meeting Combatant Commander requirements.

Each of these long-term investment account disruptions negate thousands of man-hours spent on planning, implementing, and managing complex programs intended to balance the value of every taxpayer dollar with the weapon system effectiveness required to fulfill the President's Defense Strategic Guidance. Sequestration and another continuing resolution greatly harm that precious balance, and it undeniably hurts the planned execution of these programs. Taxpayer dollars will be wasted to address the inherent contract re-structures and time-delay inefficiencies that sequestration will induce, while delivery delays of validated capabilities infused with perishable technologies will only reduce our already-shrinking advantage over potential adversaries. Another unspoken effect of this current budget environment is that it renders pre-Milestone B programs unaffordable. And finally, it could result in the divestiture of entire programs. These are tough times, and these are the tough choices that have to be made.

### **Impacts on Modernization**

If the reduced caps under current law continue, our modernization forecasts are bleak. This funding level will impact all of our investment programs. Program disruptions will cost more taxpayer dollars to rectify contract breaches, raise unit costs, and delay delivery of critical equipment. In terms of investment and modernization, the Nation may not recognize the effects

of these reductions initially. If America expects its Air Force to dominate the skies in future conflicts, modernization and recapitalization are not optional.

Our top three acquisition priorities remain the KC-46, the F-35, and the Long Range Strike Bomber. Tankers are the lifeblood of our joint force's ability to respond to crisis and contingencies around the world, and bombers are essential to our Nation's ability to project power. The KC-46 will begin to replace our aging tanker fleet in 2017, but even when the program is complete in 2028, we will have replaced less than half of the current tanker fleet. The F-35 is essential to any future conflict with a high-end foe. A fourth generation fighter cannot successfully compete with a fifth generation fighter in combat, nor can it survive and operate inside the advanced, integrated air defenses that some countries have today, and many more will have in the future. To defeat those air defenses, we need the F-35's capabilities. For the past two years, the program has gained traction, meeting cost, schedule, and technical performance goals, and now it needs stability. Sequestration cuts will severely threaten each of our top priority programs, but we must also conduct crucial modifications to sustain legacy fleets. Space is also an important domain where we have to keep steady progress. The Space Fence contract was ready for award in early June; however, a DoD-level review driven by sequestration, delayed the decision to proceed into later in 2013. With an affirmative decision in November, initial capability will slip about one year and costs will increase by over \$70M. Modernization is not optional; it is required to execute core missions against future high-end threats. In short, we cannot afford to mortgage the future of our Air Force and the defense of our Nation.

## **Impacts on Programming**

The current fiscal environment compels the Air Force to consider difficult budgetary choices. The current law caps and the abrupt and arbitrary nature of sequestration drives the Air Force into a “ready force today” versus a “modern force tomorrow” dilemma. The indiscriminate application of these additional reductions drives us to eliminate significant capability and capacity and it does not provide the flexibility needed to maintain near-term readiness at levels to accomplish our assigned national security missions.

The deep cuts brought on by sequestration-level funding will force the Air Force to make profound cuts to readiness and investment in order to achieve the targeted reduction amounts in the first few years of the fiscal year defense plan. Combatant Commanders expect the Air Force to be ready to fight today and provide the full range of air, space, and cyberspace capabilities required for mission success. This requirement means the Air Force must be prepared to respond in “hours not days” with Global Vigilance—Global Reach—Global Power at a time and place of our choosing. As a result, we prioritized resources for readiness and full-spectrum training to including flying hours, training ranges, and exercises. However, under sequestration, we will still see significant erosion of our readiness in the near term. Degraded readiness means we may not get there in time, it may take the joint team longer to win, and, when we do respond, we will put Airmen at greater risk when they go into harm’s way. We will continue to stress that modernization is not optional, and we must invest in future capabilities to operate effectively against well-equipped adversaries and in the heavily defended environments of tomorrow. When forced to make tough decisions, we will favor new capabilities over upgrades to our legacy forces and our top three acquisition priorities remain the KC-46, the F-35, and the Long Range Strike Bomber (LRS-B).

To maintain minimum levels of readiness and sustain our highest investment programs, the Air Force will have to cut up to 25,000 Total Force Airmen and up to 550 aircraft. As we divest force structure, our priorities are to retain the global, long-range capabilities and multi-role platforms that are required to operate in highly contested environments. We will focus on divestiture of entire fleets of aging and costly platforms as well as those less capable and less survivable in heavily defended airspace. We will look to cut aircraft fleets because divesting an entire weapons system results in greater savings than cutting a portion of an aircraft fleet; because, every fleet has relatively fixed sustainment (overhead) costs.

Full implementation of the reduced caps through sequestration will mean a smaller Air Force that is less ready and less capable. This situation is avoidable. Through prudent cuts and an expectation that real savings will occur in the latter years of the FYDP, we can be both ready today and modern in the future. However, we need the Congress' support to better align our future force to the needs of the current defense strategy.

The Air Force needs stability and certainty restored to the budget process – but sequestration-level funding continues to put undue pressure on how we plan to meet our current obligations and future challenges. The full implementation of sequestration-level funding through FY 2021 will keep the Air Force from sustaining the trained, equipped, and ready force needed to operate at a time and place of our choosing; with the operational freedom, persistence and precision the nation and the joint and allied forces have come to expect from us.

### **Impacts on Industrial Base**

As the Air Force makes these difficult and drastic changes, we will drive corresponding changes in the nation's aerospace industrial base that produces our warfighting capabilities. Just as the combined impacts of continuing to operate under sequestration with another CR drives

uncertainty into Air Force planning, the impacts of this untimely pairing carry over into the plans of each and every company in the network of industrial base suppliers supporting the Air Force. While the disruptions to the detailed planning and execution of the Air Force's complex investment and modernization programs, such as the F-35 and KC-46, will be significant, the impacts to the industrial base grow in magnitude as the reductions cascade down through the network of companies that support each program.

When Air Force procurement is compared against the global market for commercial aircraft, engines and avionics, it becomes clear that the Air Force is a small customer. The prime contractors and the top tiers of subcontractors who provide complete systems to the Air Force, such as engines and avionics, have the financial capability and/or commercial demand for products to accommodate the lower levels of production and other adjustments, such as changes in workforce, that will result from the imposition of a sequestration-driven budget.

However, there is much more uncertainty associated with the capability of the smaller, more specialized companies in the lower tiers of the industrial base to successfully transition to sequestration levels of production. At these lower tiers, our ability to accurately forecast is hampered by our lack of visibility. Some may decide to just close their doors, while others may decide to exit the Air Force market and no longer maintain the technical expertise and status as qualified sources. In either case, the costs associated with finding and qualifying new sources will further complicate an already complex situation.

In addition to the impact on the industrial base supporting Air Force procurement, sequestration induces both immediate and long-term implications on the organic industrial base sustaining the current fleet. Sequestration will, in the near term, slow the flow of aircraft into our depots. Reduction in flying hours, cancellation of training exercises, delays in sending aircraft to



depot maintenance, and deferring installation maintenance and repair all have an immediate impact...the Air Force buys less today from the industrial base.

The lack of work will have longer term impacts: compounding an increasing backlog of vital maintenance and repair work with a commensurate reduction in the materiel readiness of broad sections of the Air Force fleet; and increasing the high likelihood of severe and negative effects on the productivity of the workforce. The reduction in depot work also has a hugely problematic business impact on the Air Force Capital Working Fund. Even with cost control measures, the reduced depot level of activity may not generate sufficient funds to sustain depot activity with a positive balance.

Due to FY13 sequestration cuts, the Air Force experienced a \$1.3B, or 19%, decline in small business obligations compared to FY12. These cuts masked the progress made in small business utilization and prevented the Air Force from meeting its Small Business goals. In our "Accessible Small Business Markets" the Air Force awarded 37% of its contracts to small businesses (33% of those Small Business (SB) awards were based on small businesses winning full and open competitions). During FY13, the Air Force awarded 172 Multiple Award Contract Indefinite Delivery Indefinite Quantity (IDIQ) Small Business Set Aside contracts with aggregate contract ceilings of \$5.7B and approved acquisition strategies on full or partial Small Business Set Aside contracts valued at \$10.3B. This created a total value of \$16B current and future SB opportunities. Bottom line: Our commitment to our SB Program remains strong.

The Air Force Science and Technology (S&T) program is another casualty. In FY13, the Air Force cut \$190M from this area due to sequestration. Recently, the Air Force sent notices to 150+ universities/contractors regarding grants/contracts that were terminated, delayed or re-scoped. The Air Force depends on this program to discover, develop, and demonstrate high-

payoff technologies needed to sustain air, space, and cyberspace superiority. We must stay on top of technology development to help maintain a strong defense industrial base and ensure we are not surprised by our adversaries. The success of the Air Force will depend on our continued innovation and technical excellence.

## **Conclusion**

The dire effect of sequestration coupled with another continuing resolution injects considerable instability into critical readiness and modernization programs for the world's greatest airpower team. In turn, this chaos and confusion cultivates inefficiency into our program execution that eventually escalates total acquisition costs. Additionally, this unpredictable situation has devalued our most precious resource – our military, civilian and contractor workforce. The United States Air Force is the best in the world, and it is a vital component of the best military in the world. It is imperative that we strive to return to a predictable and stable budgetary environment in order to ensure air, space, and cyberspace dominance for our nation and our allies.