



SECRETARY OF DEFENSE
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FEB 11 2013

The Honorable Barbara A. Mikulski
Chairwoman
Committee on Appropriations
United States Senate
Washington, DC 20510

Dear Madam Chairwoman:

On January 22, 2013, you wrote to me asking for information about the effects of sequestration on national security. I want to provide you with our most current information.

For the next several months, and perhaps for the rest of Fiscal Year (FY) 2013, the Department of Defense (DoD) faces some extraordinary and serious budgetary challenges, the most serious of which is the sequester scheduled to begin on March 1, 2013. This sequester would cut nine percent from all parts of the DoD budget except for military personnel. Although wartime or Overseas Contingency Operations (OCO) funding is subject to sequestration, we must and will protect wartime operations funding for our troops in harm's way. This will inevitably mean larger cuts in the base-budget funding for the Operation and Maintenance (O&M) accounts.

The current Continuing Resolution (CR) poses an additional challenge because funding is in the wrong appropriations – there is too much in the investment accounts and not enough in the O&M accounts. If the CR as currently structured remains in effect throughout the year, we would be significantly short of the base-budget dollars needed to meet FY 2013 needs for O&M. Adding to our problems are OCO shortfalls that are occurring, among other reasons, because of higher-than-expected operating tempos and the sluggish pace associated with the reopening of the ground lines of communication in Pakistan.

All of these problems together yield shortfalls in the O&M accounts of our Military Departments of about \$35 billion, leaving us more than 20 percent below the levels requested for FY 2013. Percentage shortfalls for the Department of the Army, especially, are significantly higher. Moreover, if the sequester takes place, we would have as few as seven months to accommodate these large shortfalls.

Given this enormous budgetary uncertainty, we have begun taking near-term actions to slow spending, especially in our operating accounts, and we are planning more far-reaching changes should sequestration and the CR remain in effect throughout FY 2013.



Near-Term Actions

On January 10, the Deputy Secretary of Defense issued guidance permitting all DoD Components to take actions to slow spending. To the extent feasible, these actions are designed to be reversible if the budgetary situation improves, and they should minimize effects on military readiness. We are just now getting reports about the specific nature of the changes; so I do not yet have complete details. But I can provide examples of likely changes.

- Most Components will institute civilian hiring freezes, with exceptions for mission-critical activities. Because DoD hires 1,500 to 2,000 people a week, this will quickly lead to personnel shortfalls, skill imbalances, and declines in capability – not to mention fewer available jobs. Unfortunately, the adverse effects are likely to be felt most heavily by veterans, because they make up 44 percent of the DoD civilian workforce. Effects will be felt nationwide – 86 percent of our civilians work outside the Washington, D.C. metropolitan area.
- Most Components will begin laying off temporary and term employees, again with exceptions for mission-critical activities. As many as 46,000 jobs could be affected.
- Most Components will curtail facilities maintenance and renovation. More than \$10 billion in funding – mostly to contractors – could be affected.
- As of February 15, some Components will begin cancelling ship and aircraft maintenance work for the third and fourth quarters of FY 2013. Unless we can reverse these actions, the result will eventually be fewer weapons available for deployment in future contingencies.
- We will also take many other steps, including further curtailing travel and conferences, restructuring contracts to reduce their scope and cost, reviewing studies for cancellation or postponement, and sharp cutting back on base operating support.

Under Year-Long Sequester / CR

Although significant, these near-term actions will not be nearly enough to accommodate a year-long CR and sequestration. If these unfortunate events occur, we will have to take more drastic and irreversible actions. We do not have comprehensive, detailed information at this time, but I can provide examples. Together these actions will lead to a readiness crisis, a crisis in health care funding, and widespread disruption in our investment programs. Examples of actions include:

- All Components will have to take the steps necessary, including congressional notification, to furlough civilians for up to 22 days. This action will have devastating effects on both productivity (these people fix our weapons, staff our hospitals, and much more) and morale (pay cuts of up to 20 percent for almost six months).
- The Army will reduce training and maintenance for later deploying units. By year's end, the Army expects that about two-thirds of its active brigade combat teams (other than those in Afghanistan) will be at reduced readiness levels.
- The Navy will be forced to cut back on operations in critical areas such as the Pacific. Cutbacks of one-third could occur in Pacific naval presence.

- The Air Force will be forced to cut flying hours and weapon system maintenance. Most Air Force flying units (especially later deploying units) will be below acceptable readiness standards by the end of FY 2013.
- TRICARE could be short up to \$3 billion in needed funds, which could lead to denials of elective services for active-duty dependents and retirees. We are investigating ways to reduce this problem.
- DoD will have to make cuts of roughly nine percent in each of more than 2,500 investment line items – actions that will lead to delays in weapon programs and increases in unit costs.

Since October 2011 – almost 18 months ago – DoD officials have stated repeatedly that sequestration and a year-long CR would have devastating effects. Indeed we have testified several times before Congress to the very effects that are identified in this letter. Now, regrettably, these consequences are upon us.

But there is time to act. We still very much hope that Congress can reach an agreement on a balanced package of deficit reductions that the President can sign and that leads to de-triggering of sequestration and enactment of regular appropriation bills. If necessary, we hope that Congress delays sequestration long enough to permit it to reach a budget agreement. These actions must of course occur very soon if we are to avoid inflicting serious damage on our military and our national defense.



cc:
The Honorable Richard C. Shelby
Vice Chairman