

To: Chairman McKeon
From: HASC Republican Staff
Re: Assessment of Impacts of Budget Cuts
Date: September 22, 2011

Mr. Chairman-

BACKGROUND

Staff has conducted a preliminary assessment of the impacts of budget cuts that could occur beginning in FY 2013 if:

- (1) The recommendations of the Joint Select Committee on Deficit Reduction fail to be enacted and full sequestration occurs; or
- (2) The FY 2013 defense budget request is 10% below FY 2011 enacted levels, which is one scenario OMB has directed all departments, including DOD, to plan for.

These scenarios have similar consequences for defense through FY 2021 and are considered “worst case”. Future cuts of lesser amounts would have proportional impacts.

ASSUMPTIONS UNDERLYING ANALYSIS

The assessment rests on the following broad assumptions:

- This analysis applies cuts to DOD discretionary budget only (does not consider changes to military retirement or TRICARE for Life).
- Funding for national defense (budget function 050, \$ billion) would be:

FY13 Budget (as of 2/11)	“Worst Case” FY13 Funding	Reduction to FY13	Percentage Reduction	Reduction Over FY13 – FY21¹
\$596	\$491	-\$105	18%	-\$1,029 ²

- Such reductions would be made across the board - each military department takes an equivalent cut. This analysis assumes effective cuts of at least 18%, if no appropriations are exempt. However, the President has the authority to hold military pay and benefits exempt. If military personnel appropriations are exempted, which is permissible under sequestration, this analysis assumes that each military department would take an effective cut of 24% to all remaining appropriations.
- Overseas Contingency Operations accounts are not required to be sequestered.

¹ When compared to the Future Years Defense Plan (FYDP) accompanying the FY2012 President’s Budget Request.

² Includes \$465 billion in cuts already enacted and currently being implemented by DoD.

DEFICIT REDUCTION TO DATE

Figure 1 shows two funding scenarios. Each bar reflects the annual funding requested in the FY 2012 President's Budget Request, submitted in February 2011 (or appropriated for past years). Current funding, as a result of deficit reduction efforts, is shown as the sum of amounts in blue and red. The funding shown in red could be eliminated if sequestration occurs.

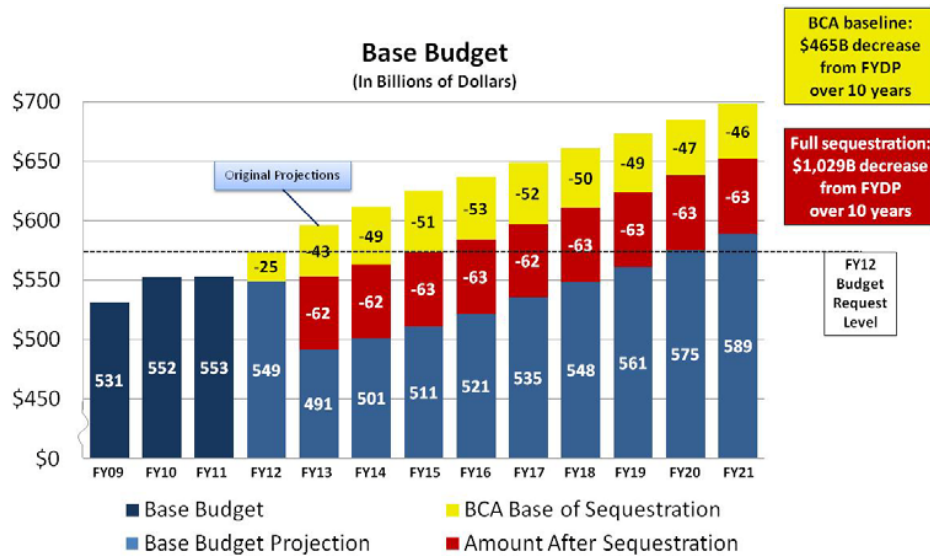


Figure 1 - Department of Defense Base Budget Topline FY 2009 – FY 2021 (\$B)

Figure 2 describes the effects of the Budget Control Act including sequestration in historic terms. Funding is expressed as a share of the total budget authority of the federal government.

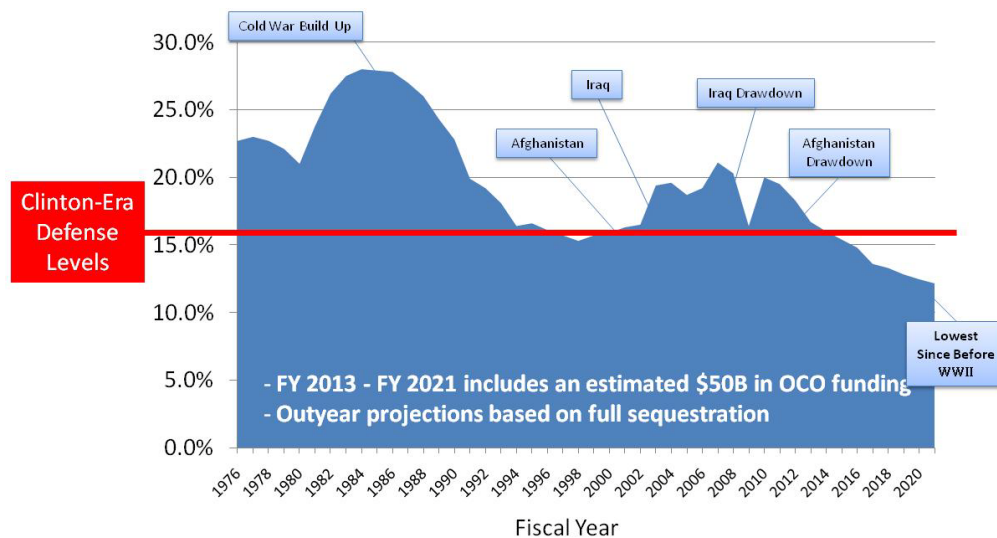


Figure 2 - Defense Department Funding as a Percentage of Total Budget Authority FY 1976 – FY 2021

MAJOR CONSEQUENCES OF SEQUESTRATION OR ADDITIONAL CUTS

End Strength

- Nearly 200,000 soldiers and Marines are separated (see figure 3), falling well below pre 9/11 levels that were insufficient to respond to current contingencies.
- Finding employment for these veterans will be difficult.
 - The national unemployment rate is 9%, but the unemployment rate for young Iraq and Afghanistan veterans is 22%. For wounded veterans it is 41%.
- The Navy and Air Force will not be spared. These services are already smaller than they were 10 years ago, but will likely be further reduced.
- Service members will have to worry about keeping their jobs, as they put their lives on the line for the nation.

Please note that savings as a result of reductions to end strength is minimal in the near term. For example, CBO estimates that returning to pre 9/11 levels yields only \$4.1B in FY 2013 (of which, only \$2.6B is in MILPERS). Savings increase in out-years, but the services' procurement and research and development accounts (modernization) would likely be reduced disproportionately to achieve desired savings in the near term.

	Today	Estimated Force Based on Current Funding	If Super-Committee Fails
Army	569,400	481,000	426,000
Marine Corps	202,000	173,000	145,000
Total	771,400	654,000	571,000

Figure 3 Cuts to Army and Marine Corps End Strength

Inability to Fulfill Current Security Commitments

- Resultant force structure is insufficient to decisively win an engagement in one theater while defending vital national interests in another.
 - Jeopardizes ability to respond to potential contingencies in North Korea or Iran, and adequately defend allies (including Israel and Taiwan) and deployed US forces.
 - Further degrades our ability to deter a rising China from challenging other allies.

- Today's combatant commander requirements for forward presence and daily missions would not be met.
- Reduction of at least 2 carrier battle groups diminishes United States ability to project power.

End strength and force structure changes portend a change in national strategy. We will abandon the lesson of last ten years that manpower funding needs to provide close to 100% manning in deployable units. Achieving a 1:3 dwell time will be problematic, even in steady-state, non-high optempo scenarios. Reductions will require significant, increased mobilization of the Reserve Component.

Force Structure

Cuts to investment accounts would significantly reduce operational capability, increase risk, and limit DOD's ability to support the National Military Strategy. Impacts would be felt in Army maneuver battalions, fighter wings, shipbuilding, long range strike, and air lift.

	1990	2000	Today	Estimate Based on Current Funding	If Super-Committee Fails
Army Maneuver Battalions	172	98	100	78	60 - 70
Navy Ships	546	316	288	263	238
USAF Fighters	4355	3602	1990	1739	1512
Strategic Bombers	282	153	135	118	101
Strategic and Tactical Air Lift	872	743	651	572	494

Figure 4 Declining Force Structure

United States Marine Corps at Risk

- The United States would no longer have the capability to fulfill combatant commander requirements to conduct an opposed amphibious landing with 2 Marine Expeditionary Brigades (MEB)³.
- Non-combatant evacuations (NEO), humanitarian and disaster assistance missions would likely occur only in a permissive security environment.

³ This is roughly the equivalent of putting 6 infantry battalions across the shore, plus enablers.

- Loss of Marine Expeditionary Units (MEU) afloat – the peacetime forward deployed force.
- Reductions to end strength would require a significant re-evaluation of the Marine Corps' missions:
 - Falling below an end strength of 186,800 Marines reduces combat effectiveness of Marine Air-Ground Task Forces (MAGTFs) and increases duration of deployments, while sacrificing training and time at home.
 - Due to challenges the United States faced in mounting a response to the Korean crisis, the Marine Corps has not fallen below 170,621 since 1960.

In order to meet the 2.0 MEB requirement for amphibious assault, the Marine Corps requirement for amphibious ships is 38.⁴ The current inventory is 29. Current funding will result in the decommissioning of at least 6 amphibious ships, reducing inventory to 23. Additional cuts could scrap an equivalent number of vessels, resulting in an inventory of 17 – less than half the Marine Corps requirement. Furthermore, a battle force inventory of only 17 is insufficient to support deployment of MEUs to Persian Gulf, Pacific, and Mediterranean using peacetime rotational models. These MEUs are the forward deployed Marines that Combatant Commanders rely upon for pop-up contingencies.

Other key modernization programs for the Marine Corps would be deferred (see below). In particular, without fighter aircraft with short take-off and vertical landing (STOVL) capability, the United States cannot forward base strike aircraft on amphibious shipping, or on austere airfields, increasing our reliance on aircraft carriers (whose numbers will also fall) and major air bases.

Residual capability would be insufficient to conduct an amphibious assault, NEO, or humanitarian relief in a non-permissive environment. Furthermore, reset of Marine Corps equipment would be indefinitely postponed and budgets for full spectrum training would be reduced. End strength would likely fall below 150,000, hindering the Marine Corps' ability to deploy and rotate forces with sufficient mass. These impacts reduce the ability of the service to be “the most ready when the Nation is least ready” and call into question the role of the service.

Deterrence – Please See Attachment A for More Details

- Significantly undermines nuclear triad, which defends the US and 31 allies.
- Missile defense for deployed forces and the homeland at risk.
- Increasing threat of nuclear proliferation.

Cuts to nuclear weapons inventories, homeland missile defense, and satellite space launch capabilities (creating critical communications and surveillance gaps). A threefold effect on our nuclear deterrent is anticipated – (1) we will have less early warning about a nuclear missile launch, (2) for the first time in seven decades, allies and adversaries will question our ability to provide a nuclear response to an attack, and (3) our ability to defend against incoming missile attack against the United States will be degraded.

⁴ The Navy and Marine Corps have mutually agreed to a requirement of 33.

Breaking Faith with the Military – Please See Attachment B for More Details

- No service member, military family, dependent or retiree will escape the impact of cuts to support programs upon which families depend.
- Requires breaking faith with service members during involuntary separations, unless Congress provides new mandatory spending authorities.

Cuts of this magnitude require a fundamental cultural shift in the commitment to DoD school systems, military commissaries and exchanges, and other morale, welfare, and recreation programs, significantly reducing support of military families and retirees. Family readiness will be degraded. There will be a shift away from military involvement in local communities. As well, these cuts will reduce investment in the Defense Health Program including in-house care, private sector care, education and health related information technology. Wounded warrior care and support will be dramatically reduced.

Shipbuilding

- A total of 50 – 60 (an additional 25 – 30) ships would likely come out of inventory, reducing the fleet to historic lows.
 - Significant degradation of ballistic missile defense, anti-submarine warfare, mine warfare, ISR, and strike capabilities.
 - Closure of shipyards, currently the largest manufacturers in 5 states.

Military Construction

- Sequestration would likely decrement military construction projects.
 - In FY 2013, 150 projects are proposed and many could be at risk.
- Sequestration over the full period likely results in an additional round of Base Realignment and Closure.

Innovation/Small Business Impacts

- 0.34% reduction to GDP
- US loses ground against emerging technology leaders
- Thousands fewer research positions for graduate students across the country
- Loss of over 10,000 awards to small businesses per year
- Loss of DoD civilian workforce funded through science and technology programs
- Defense must look beyond U.S. borders for military technologies and capabilities

The technological advantage of the future force will be compromised due to lack of sustained research and development.

Selected Modernization Programs at Risk

Army

- Ground Combat Vehicle
- Apache and Kiowa
- Tactical Wheeled Vehicles consumed in Iraq and Afghanistan

Navy

- Carrier variant (F-35C) of Joint Strike Fighter (JSF), in favor of more affordable but less capable F-18 E/F
- Shipbuilding (see above)
- Construction of aircraft carriers extended, ultimately reducing number of carriers
- Procurement of OHIO class replacement extended and quantity reduced.
 - Resultant cost increases consume most of shipbuilding budget

Air Force

- Reduction to the buy of the conventional take-off and landing variant (F-35A) of JSF.
- Next Generation Bomber
- Aerial Refueling Tanker

Marine Corps

- Likely elimination of the STOVL variant of the JSF (F-35B).
- Marine Personnel Carrier
- Limit production of V-22
- Indefinite postponement of replacement for Amphibious Assault Vehicle
- Reduction of amphibious ships

Significantly delay force modernization for a force structure of aging fighter aircraft and Army and Marine Corps ground vehicles that have experienced extended years of high operational tempo, by delaying fielding schedules — with associated increased operational risk and maintenance costs. Severely curtail research and development of advanced aircraft; ground vehicles; intelligence and electronic equipment for the brigade, air wing, and the individual soldier and Marine. Reduce individual soldier and Marine operational capability, individual mobility, and situational awareness by curtailing development of advanced personal communications equipment and light-weight body armor. It is not anticipated that special operations forces will be as impacted, although their reliance on conventional forces for mobility and other assets may increase. As a result, the ability of the United States soldier, sailor, airman, or Marine to maintain a technological advantage on the battlefield would be in jeopardy. National operational capability to meet traditional nation state 5th generation aviation, as well as asymmetric threats, would be limited. The military would witness increasing specialization at the expense of a general purpose force trained to respond to a full spectrum of missions.

Defense Workforce and Industrial Base

- Expect at least 25% of the civilian workforce to be furloughed, or a minimum of 200,000 jobs.
 - Large impacts likely in Virginia, Texas and California, where workforce is currently concentrated.
- According to Secretary Panetta, at least 1,000,000 jobs would be lost in a sequestration scenario. This includes military and defense civilians, but also includes hundreds of thousands of jobs within the defense industry.
- Anticipate additional contraction/consolidation within the defense industry, reducing competition, and eliminating entire sectors of the industrial base.
- Shuttering of U.S. shipyards.
- Inability to rapidly reconstitute critical skills in response to emergent threats.

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Deterrence - Strike

- ▶ Reduced modernization and sustainment of the current fleet of Minute Man III ICBMs
 - ▶ Cannot extend service life until 2030
 - ▶ Some squadrons may be eliminated
 - ▶ There are 450 ICBMs on alert today, cutting sustainment by almost a quarter could require cutting a quarter of the deployed missiles.
- ▶ Delay refurbishment of B61 tactical nuclear weapon
 - ▶ B61 becomes an ineffective part of the extended deterrent force
 - ▶ First weapons will be withdrawn from Europe
- ▶ Delays to reactor and ship design for the OHIO-class replacement SSBN
 - ▶ OHIO-class ages out before replacement enters service, resulting in fewer deployable SSBNs.
 - ▶ Endangers the most survivable leg of the nuclear triad by 2025.
 - ▶ Major disruption to U.S. Navy shipbuilding

Deterrence – Missile Defense

- ▶ Aegis Ballistic Missile Defense
 - ▶ Significantly delay the achievement of European Phased Adaptive Approach
 - ▶ Delays development of the SM3 Block IIB missile, which the Administration intends to eventually replace the GMD for National Missile Defense
 - ▶ Delays upgrades to USN ships for missile defense
 - ▶ Cuts procurement of SM3 interceptors needed by combatant commanders in EUCOM, CENTCOM and PACOM
- ▶ Delay the Ground Based Midcourse Defense return to flight program, as well as the resumption of production of Ground Based Interceptors, thus undermining the only missile defense system that provides defense to the United States.

Deterrence – Space Launch

- ▶ Disrupts procurement of Evolved Expendable Launch Vehicle – the only US heavy lift space launch capability, now that the shuttle program is cancelled.
 - ▶ Potentially impacts two NRO launches in FY13, two in FY14, and two in FY15, as well as more than a half dozen GPS satellites and several satcom satellites that could all wind up not getting launched.
- ▶ Devastating to the remaining solid rocket motor industrial base.

Breaking Faith with the Military

- ▶ Almost certainly will incur additional costs beyond those of involuntary separation pay in order to “keep faith” with a military that served during 10 years of war
- ▶ Increased unemployment compensation (Paid for by DOD and costing \$800M a year)
- ▶ Additional compensation, with mandatory and discretionary spending implications, could be required in order to minimize the involuntary separations.
- ▶ Expanded disability retirement pay (Mandatory Spending) needed to reduce the number of Army Wounded Warriors currently in the Disability Evaluation System. Needed to increase the deployable percentage of a smaller force.

Breaking Faith – Potential Impacts

- ▶ Department of Defense Education Activity (DODEA)
 - ▶ DOD overseas school system (120 schools, 64,000 students, 7,800 employees) required to reduce employees, potentially increase class sizes, and close some schools.
 - ▶ Parents potentially required to pay tuition: \$2,850 per student (15% of cost to DOD).
 - ▶ DOD CONUS-based system: (70 schools, 34,000 students, 4,600 employees). Same impact as on overseas school system.
 - ▶ Potential tuition: \$2,200 per student.
 - ▶ Eliminate DOD supplementary impact aid.
 - ▶ Prohibit appropriated funds from being spent on local educational agency schools on military bases.
 - ▶ Eliminate Troops to Teachers Program
 - ▶ Significantly reduce spouse tuition assistance.
- ▶ O&M Defense-Wide: Civil Military Programs (National Guard Youth Challenge, Starbase, Innovative Readiness Training)

Breaking Faith – Potential Impacts

- ▶ O&M, Defense Commissary Agency (DeCA) & Exchanges
 - ▶ Appropriated funds for commissaries and exchanges reduced in FY13 and eliminated in FY14
 - ▶ Grocery savings for families at the commissaries are decimated (30% savings perhaps reduced to 15% or even zero depending on store structure options).
 - ▶ Potential option—elimination of exchanges in favor of self-sustaining enhanced commissaries exclusively selling high profit exchange goods.
 - ▶ Exchanges go on life support except where they can still make a profit selling a limited range of goods and overseas where they will require some appropriated support.
 - ▶ Exchange support of morale, welfare, and recreation programs stops (\$300M each year).
- ▶ Reduce funding for morale, welfare, and recreation programs