

Statement

of

The Honorable Michael J. McCord  
Principal Deputy Under Secretary of Defense (Comptroller)

and

Mr. Richard Ginman  
Director, Defense Procurement and Acquisition Policy

Before the  
Committee on Small Business  
U.S. House of Representatives

September 20, 2012

Embargoed Until Released  
by the  
House Committee on Small Business

Chairman Graves ... Ranking Member Velazquez ... Members of the Committee. My name is Mike McCord. I am Principal Deputy Under Secretary of Defense (Comptroller).

Appearing with me today is my colleague Dick Ginman, Director of Defense Procurement and Acquisition Policy in the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (AT&L). He is a career Civil Servant, with more than 40 years' experience in government and commercial business in the fields of contracting, acquisition, and financial management. The Comptroller organization has the overall lead in dealing with sequestration matters, and AT&L is responsible for contracting and small business policy.

We are here this afternoon to speak about the Joint Committee sequestration and its potential impact on the Department of Defense and the industrial base, including the many small contractors that DoD relies on.

We would like to begin by thanking you for your support of the dedicated men and women who wear America's uniform. Your concern for their well-being is much appreciated, as is your commitment to the nation's security.

The leadership of DoD shares your concerns about the Joint Committee sequestration. Consequently, as you know, Secretary Panetta has been emphasizing for many months that sequestration would have devastating effects on the Department, on the Services, and virtually every other Federal agency. He urged Congress to avoid sequestration by approving a comprehensive and balanced deficit reduction package that the President can sign. He also reminded Congress that, back in February, the President's Budget for FY 2013 contained a proposal for just such a balanced reduction.

This message was delivered yet again this morning when Under Secretary Hale and the Vice Chiefs of the Armed Services testified before the House Armed Services Committee.

Their statement reiterated the fact that sequestration was designed to be an inflexible policy that would never be implemented. It was enacted as a way of encouraging Congress to pass a comprehensive package to reduce the federal deficit.

If Congress fails to act on a balanced deficit reduction plan to avoid sequestration, it could harm the management of many defense investment programs, introduce inefficiency into the defense industry that supports us -- including small business -- and cause long-term disruptions, even if the reductions only extend for one year. The Joint Committee sequestration would seriously disrupt our forces and programs and our workforce.

## Impacts of Sequestration

Last week, as required by the Sequestration Transparency Act of 2012, the Administration transmitted a report to the Congress showing the impact of sequestration on accounts across the Federal government, including in the Department of Defense.

Sequestration requires that the national defense function be reduced by almost \$55 billion in FY 2013. Based on the assumptions in the Sequestration Transparency Act report, this would lead to an estimated 9.4 percent reduction in non-exempt discretionary defense programs. If allowed to go into effect, the reductions in FY 2013 and the lowering of the discretionary caps in the out years (FY 2014 through FY 2021) could force us to modify and scale back the new defense strategy that the Administration introduced just a few months ago.

Moreover, sequester would apply to the bulk of the DoD budget, including additional amounts provided for Overseas Contingency Operations (OCO). The only major exception is for military personnel funding, which the President indicated would be exempt from any sequestration in FY 2013. This is the only optional exemption authorized under the 1985 Balanced Budget and Emergency Deficit Control Act (BBEDCA), as amended; all other exempt and non-exempt determinations are based on requirements in the law. However, the reduction in other defense budget accounts will have to be increased to make up the difference because the amount of sequester applied to the national defense function does not change with the exemption of military personnel funding.

In addition to the damage that making cuts of this magnitude necessarily implies, the law requires that the cuts be applied in an across-the-board manner to all non-exempt funding. To the extent we would have any flexibility, we would attempt to protect some high-priority projects from reductions. But our ability to moderate impacts under sequestration would be limited.

We have reviewed the law and identified some of the key impacts sequestration would have on the Department.

As noted earlier, OCO funding – which pays for the added costs of wartime activities – is subject to sequester. Supporting our warfighters in combat is DoD's highest priority. We would therefore endeavor to protect wartime operating budgets as much as possible, within the key operation and maintenance (O&M) accounts.

The O&M accounts contain OCO and base-budget funding, and these two categories of O&M funding merge together during execution of DoD budgets. We could reduce the base-budget portions of O&M disproportionately to reduce the impact on war activities funding through OCO. To some extent, we could take similar steps as needed in some other accounts that include OCO funding.

Protecting OCO funding would lead to larger cuts in base budget O&M, especially for the Army and the Marine Corps. As a result, while we would seek to minimize effects on training and readiness, we could probably not do so fully.

Training in the other military services would also be affected. Air Force flying hours for pilots could be reduced by several hours a month, and Navy steaming days could decline by several days a quarter. The result will be reduced training and lower readiness for some units.

Sequestration would also force us to reduce civilian personnel funding, possibly including a partial hiring freeze or unpaid furloughs, which would curtail important capabilities.

And military families and retirees would be affected, as we would face cuts to base support services, facility maintenance, and maintenance of government owned family housing. Commissary hours could be reduced. Funds for the Defense Health Program would be sequestered, resulting in delays in payments to service providers and, potentially, some denial of service for retirees and military dependents.

Inevitably, sequestration would also lead to disruption of DoD's investment programs. As estimated in OMB's report, there would be a 9.4 percent reduction in each of the non-exempt discretionary budget accounts that fund defense operations; procurement; research, development, test, and evaluation; and military construction projects. Those who manage these programs would be forced to join many other acquisition managers in non-defense agencies as they seek to accommodate the reduced funding for FY 2013, three months into the fiscal year.

We were asked to address the consequences of sequestration on the small business community specifically. DoD is committed to ensuring that these essential business partners have their fair share of contracting dollars. But when the pool of available contracting dollars is diminished, as it would be under sequestration, our ability to partner with small businesses is likewise diminished. It is important to recognize that prior-year funding already obligated on contracts would not be subject to sequestration. Nevertheless, sequestration would mandate cuts in discretionary funding that would disrupt small business funding for defense and non-defense programs alike.

The Secretary, Deputy Secretary, and the Under Secretary for Acquisition, Logistics, and Technology have voiced their commitment to small businesses. DoD has steadfastly worked to sustain, and where appropriate increase, the percentage of contracting dollars it provides to small businesses. We will maintain that commitment, with or without a sequestration, and will give small businesses a fair share of the contracting opportunities. But a sequestration, with its associated spending cuts, would reduce our overall budget, necessarily forcing cuts in buys from all businesses, large and small.

## Next Steps on Sequester

While we can foresee the many harmful impacts of sequester, we cannot devise a plan that would eliminate or even substantially mitigate them. Again, sequester defies rational planning, as was intended. Congress has time to enact a balanced deficit reduction plan that would avoid sequestration. In the unfortunate event that sequestration is actually triggered, we will work with OMB and – like all the federal agencies affected by this law – we will be ready to implement it.

At this point we have another undesirable possibility before us, which is that sequestration may not happen but we could end up triggering some of its bad effects anyway. For example, we do not want to unnecessarily alarm our employees by announcing adverse personnel actions or by suggesting that such actions are likely. We do not want to hold back on the obligation of funds – for weapon projects or operating programs. That would introduce inefficiency and waste. Nor do we want to cut back on training, which would harm military readiness in a period when we face a complex array of national security challenges. But in the charged budgetary environment today, this concern is very real.

Finally, we understand that the many private companies – large and small -- that serve the Department of Defense and constitute important members of our national security team will be making decisions on issues related to sequester. They face many of the same dilemmas we do, and a number of them have expressed alarm at the wasteful and disruptive way sequester would affect the management of taxpayer money and the talents of their employees.

## Conclusion

In short, sequester would be devastating to DoD and to every other Federal agency. The best outcome for the Department of Defense and for private companies -- large and small -- is for Congress to enact a balanced deficit reduction plan that halts implementation of this inflexible law. The men and women of DoD and their families need to know with certainty that we will meet our commitments to them. Our partners in the defense industry and their employees are likewise entitled to know that we are going to have the resources to procure the world class capabilities they can provide. Perhaps more importantly, allies and potential foes alike need to know that America has the political will to implement the defense strategy we have put forward.

Thank you very much. We welcome your questions.

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