

**DEPARTMENT OF DEFENSE AUTHORIZATION
OF APPROPRIATIONS FOR FISCAL YEAR
2015 AND THE FUTURE YEARS DEFENSE
PROGRAM**

THURSDAY, APRIL 10, 2014

U.S. SENATE,
SUBCOMMITTEE ON SEAPOWER,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

NAVY SHIPBUILDING PROGRAMS

The subcommittee met, pursuant to notice, at 2:33 p.m. in room SR-222, Russell Senate Office Building, Senator Jack Reed (chairman of the subcommittee) presiding.

Committee members present: Senators Reed, Shaheen, Blumenthal, Kaine, King, McCain, Sessions, and Wicker.

Committee staff member present: Mary J. Kyle, legislative clerk.

Majority staff member present: Creighton Greene, professional staff member.

Minority staff member present: John D. Cewe, professional staff member.

Staff assistant present: Robert T. Waisanen.

Committee members' assistants present: Carolyn A. Chuhta, assistant to Senator Reed; Patrick T. Day, assistant to Senator Shaheen; Karen E. Courington, assistant to Senator Kaine; Stephen M. Smith, assistant to Senator King; Lenwood A. Landrum, assistant to Senator Sessions; and Joseph G. Lai, assistant to Senator Wicker.

OPENING STATEMENT OF SENATOR JACK REED, CHAIRMAN

Senator REED. The hearing will come to order. Let me welcome the witnesses this afternoon and my colleagues. We're honored to have the Honorable Sean Stackley, Assistant Secretary of the Navy for Research, Development, and Acquisition; Vice Admiral William H. Hilarides, U.S. Navy, Commander, Navy Sea Systems Command, Admiral; and Admiral Joseph P. Mulloy, Deputy Chief of Naval Operations, Integration of Capabilities and Resources. Thank you, gentlemen.

We are grateful to each of you for your service to the Nation and your truly professional service to our Navy and to our Nation, but also we're grateful for the professional service of the men and women under your command. Please thank them for us. We also pay tribute to their families because, obviously, they serve as well.

I especially want to welcome Admiral Hilarides this afternoon because I believe this is your first opportunity to appear before the committee as Commander of the Naval Sea Systems Command. Welcome, Admiral.

Today our witnesses face huge challenges as they strive to balance the need to support ongoing operations and sustain readiness with the need to modernize and keep the technological advantage that is so critical to military success. These challenges have been made particularly difficult by the spending caps imposed by the Budget Control Act, caps that were modestly relieved for fiscal year 2015 in the Bipartisan Budget Act that we enacted in December. However, these caps are scheduled to resume in fiscal year 2016 and beyond.

These caps already seriously challenge our ability to meet our national security needs and have already forced all of the military departments to make painful tradeoffs. Unless modified for the years after fiscal year 2015, they will threaten our long-term national security interests.

The Navy continues to face a number of critical issues as it tries to balance its modernization and procurement needs against the cost of current operations. Principally complicating these efforts this year to support current operations throughout the world is the specter of sequestration. The shipbuilding budget remains at a level where it will be difficult, if not impossible, to field the Navy that we believe we need. Sequestration in fiscal year 2016 and later will only exacerbate the shortfall that we anticipate.

We need to understand how sequestration may complicate the Navy's job of maintaining current readiness while building the fleet of the future. With that in mind, a continuing focus of this subcommittee has been to see that we improve our acquisition stewardship and thereby ensure that we are getting good value for every shipbuilding dollar that we spend.

We're pleased at the overall stability and performance and the *Virginia*-class submarine production level of two ships a year. I would note that in a former life Admiral Hilarides was the program executive officer in charge, of the *Virginia*-class procurement. Thank you, sir. We also support the Navy's current efforts and continuing efforts to drive cost out of the *Ohio* replacement program. The strategic submarines will remain a vital leg of the nuclear triad for the foreseeable future. Establishing and achieving cost reduction goals on these *Ohio*-class and *Virginia*-class programs will yield significant stability to our Navy's submarine industrial base.

There is one concern, among many, and that is that cuts in the National Nuclear Security Administration, which is outside the scope of this committee, in the Department of Energy, may have consequences for the *Ohio* replacement schedule. We need to hear about that this afternoon in terms of the impacts of the DOE budget on your operations.

The aircraft carrier programs are another important area for discussion as well. We need to hear about the progress the Navy and the contractors are making to deliver CVN-78 within the cost cap we modified last year, what progress is being made on reducing the production costs of the CVN-79 and later carriers.

In addition, the Navy budget and the Future Years Defense Program will retire the USS *George Washington* rather than execute the refueling overhaul as planned last year. This would lead to a permanent reduction of the carrier force structure to 10 carriers and 9 air wings.

Another topic that we have to address is the Littoral Combat Ship. Senator McCain delivered a very thoughtful, very eloquent speech last evening. I was particularly struck by one point he made was that we designed many of our shipbuilding programs, not just LCS, with the notion of a permissive environment at sea and that is rapidly changing. I think in every shipbuilding program we have to factor that in, and he made that point very thoughtfully last evening.

Last, we really have to assess where the Navy and the contractors stand on improving the overall cost, quality, and schedule performance of Navy shipbuilding programs, every shipbuilding program. We can always do better.

When the subcommittee has met in the last few years, we've focused primarily on these programs, particularly programs with quality control and cost problems. It's never a pleasant situation. We received testimony from the Navy that you're aware of the problems, you're dealing with the problems, but we want to hear today the progress you've made and the progress you have to make in the future, because every dollar we're able to save through efficiencies in shipbuilding is a dollar we can use for operations, maintaining, and maintaining not only the fleet, but to maintain our national security.

Thank you very much for what you've done. I don't have to remind everyone or anyone in this room that the fiscal environment is very difficult as we look forward to try to build the Navy that the Nation needs. We have to manage these programs in a way that we have the dollars necessary to build that fleet.

So I look forward to your testimony, and at this point I'd like to recognize Senator McCain. Senator.

Senator MCCAIN. Well, thank you, Mr. Chairman. Thank you for holding this hearing on the Navy's shipbuilding program and the President's budget request. I look forward to working with you to ensure that the committee and our Nation have a clear understanding of the needs of our naval forces. I want to thank our witnesses and the men and women in the Navy and Marine Corps for their dedicated public service. I just will highlight a few issues that I look forward to discussing with the panel.

At a time when the United States and our allies are being challenged by emerging powers and old rivals alike, insufficient resources and wasteful procurement policies threaten to put our Navy in a state of decline. Within the shipbuilding program, critical issues like quality control, cost containment, and survivability remain elusive. Even identifying operational requirements and validating ship designs before production, a commonsense practice, seems beyond the reach of the procurement system.

I trust that our witnesses are prepared to address these issues today with the committee and outline specific steps under way to ensure the Navy's shipbuilding programs are on the right course, particularly on the issue of cost containment.

I'll skip a couple of paragraphs here in my statement and ask that my full statement be made part of the record.

Recently, Admiral Greenert pointed out the Navy would need a 450-ship fleet in order to meet the needs of combatant commanders. Just to sustain a 300-ship fleet, the Navy will need to buy 10 ships per year with an average service life of 30 years. Last year's budget bought eight ships. This year's budget buys only seven. The Navy shipbuilding plan does not include enough annual funding to sustain its goal of a 306-ship fleet.

Because of sequestration, as well as a lack of budget discipline, the Navy is having to resort to a gimmick under which it is laying up ships in a reduced operating status for up to 10 years and calling it a phased maintenance plan.

Finally, regarding the Littoral Combat Ship, last week the GAO released its annual weapons assessment, yet again raising concerns about this troubled program. I've spoken at length about the LCS, most recently on the Senate floor just yesterday. I'm glad to see that the program appears to be getting the level of attention it needs all the way up to the Secretary of Defense. The Secretary is now proposing to cap LCS production at 32 ships. But, as outlined in last year's NDAA, unless the Navy meets required performance parameters by 2016 the procurement will end at 24 ships. I take great interest in this important project and look forward to your update on the status of the program.

Thank you, Mr. Chairman.

Senator REED. Thank you, Senator McCain.

Does any of my colleagues want to make a brief statement? [No response.]

Senator REED. If not, we'll go to the witnesses. Thank you very much. Secretary Stackley, please.

STATEMENT OF HON. SEAN J. STACKLEY, ASSISTANT SECRETARY OF THE NAVY FOR RESEARCH, DEVELOPMENT, AND ACQUISITION; ACCOMPANIED BY VADM WILLIAM H. HILARIDES, USN, COMMANDER, NAVAL SEA SYSTEMS COMMAND; AND VADM JOSEPH P. MULLOY, USN, DEPUTY CHIEF OF NAVAL OPERATIONS, INTEGRATION OF CAPABILITIES AND RESOURCES [N8]

Mr. STACKLEY. Yes, sir. Thank you, Mr. Chairman. Chairman Reed, Ranking Member McCain, distinguished members of the subcommittee: Thank you for the opportunity to appear before you today to address Navy shipbuilding. Joining me today are the Deputy Chief of Naval Operations for Capabilities and Resources, Vice Admiral Mulloy, and COMNAVSEA Vice Admiral Willy Hilarides.

With the permission of the subcommittee, I propose to provide brief opening remarks and submit a separate formal statement for the record.

Senator REED. All statements will be made part of the record, my colleagues' and of the witnesses.

Mr. STACKLEY. Thank you, sir.

Two years ago in testimony before this subcommittee, the Navy described how we had reshaped our shipbuilding, aviation, weapons, and tactical vehicle plans to reflect the priorities of the new defense strategy, and Congress strongly supported that year's 2013

budget request. In fact, funding was increased for additional ships and aircraft. However, sequestration more than offset those gains and the Department of the Navy ended up about \$11 billion out of balance across operations, maintenance, and investment.

Last year we again submitted a budget sized and shaped to provide the capability, capacity, and readiness required by the defense strategy. While this committee was particularly supportive of our request, at the end of the day at the bottom line the Bipartisan Budget Act reduced the Navy-Marine Corps budget by \$6 billion in 2014 and another \$15 billion in 2015.

This year's budget submission is anchored by the BBA in 2015 and, though we exceed the Budget Control Act caps across the Future Years Defense Plan, the Navy-Marine Corps request falls \$38 billion below the level planned just 1 year ago.

To minimize the impact of this reduced top line, we've leveraged every tool available to drive down cost. We've tightened requirements, maximized competition, and capitalized on multi-year procurements for major weapons systems, and we've attacked our cost of doing business from headquarters billets to service contracts, so that more of our resources can be dedicated to making warfighting capability.

In balancing resources and requirements, we've placed a priority on forward presence, near-term readiness, stability in our shipbuilding program, and investment in those future capabilities critical to our long-term technical superiority. With particular regard to Navy shipbuilding, we've kept on track towards our objective of the 300-ship Navy. Seven first-of-class ships met major milestones. *Gerald Ford*, the first new designed carrier since *Nimitz*, *Zumwalt*, the first new designed destroyer since *Arleigh Burke*, both launched this past year, just one week apart.

Amphibious Assault Ship *America*, the Joint High Speed Vessel *Spearhead*, and Mobile Landing Platform *Montford Point*, delivered to the fleet. The Littoral Combat Ship *Freedom* completed her 10-month maiden deployment. Finally, we laid the keel for the first Afloat Forward Staging Base, the *Puller*.

We're on schedule in the accomplishment of design and development of the *Ohio* replacement program, the LHA-8 Amphibious Assault Ship, the Flight 3 DDG-51 destroyer, and its air and missile defense radar.

In total, 43 ships are under construction in shipyards and weapons factories stretching across the country. Most have been competitively awarded and, with the exception of the lead ships of the *Zumwalt* and *Gerald Ford* class, all are fixed price, and program by program cost and quality are demonstrating steady improvement ship over ship.

Yet, this critical industrial base is fragile and we will need to work closely with Congress and industry and ultimately rely upon Congress' support to keep it whole as we navigate the budget beyond the BBA. However, if we are required to return our budget to BCA levels in 2016, then, even with the priority placed on shipbuilding across the board, with the loan exception of our highest priority program, the *Ohio* replacement, every ship program will suffer reductions.

I would like to briefly describe three critical issues posed by our budget request. First, the refueling complex overhaul of *George Washington*, CVN-73. The Navy has a requirement for 11 aircraft carriers and Title 10 requires the Navy to retain 11 aircraft carriers, and the 2014 President's budget included funding to commence the CVN-73 RCOH in September 2016. In formulating the 2015 budget, concurrent with conducting the strategic choices management review, the Department determined that if we are required to budget to BCA levels we would be compelled to inactivate two or three aircraft carriers.

The Navy rebalanced the rest of its program, leveraged across-the-board efficiencies, and accepted risk in other areas in order to reduce the impact of BCA-level funding to the potential loss of one carrier only. Yet undetermined is whether we will be required to budget to BCA levels in 2016 and beyond.

There is sufficient schedule margin at Newport News to delay the start of the CVN-73 RCOH a full year or more without impacting the start of the following carrier, CVN-74, in her refueling overhaul. Therefore, the Navy is proceeding under POM-16 guidance to program the CVN-73 refueling complex overhaul, albeit delayed, pending a final determination, presumably following Congress' action on the 2015 budget, regarding out-year budget assumptions.

In all scenarios we have to be mindful of the cost to refuel CVN-73 plus maintain its air wing manpower and support, approximately \$7 billion across the years 2015 to 2019.

Second, cruiser and LSD modernization. The oldest 11 cruisers, CG-52 through 62, have been modernized and will deploy with carrier battle groups until their end of service, commencing in 2019. The Navy plans to modernize and extend the service life of the remaining 11 cruisers, CG-63 through 73, through an extended phases modernization program. The elements of the program are that we will commence in 2015 the planning and material procurement for repair and modernization of hull, mechanical, and electrical systems for all 11 cruisers. The work will be scheduled to ensure efficient execution and to the extent practical to provide stability to the industrial base. Once complete the hull, mechanical, and electrical phase, these cruisers will be maintained in the modernization program until completion of their subsequent combat systems modernization, which will be aligned with the retirement of the first 11 cruisers.

A similar yet simpler approach is planned for three of the LSD-41 class ships. This Navy plan is made affordable by drawing down ship manpower and operating costs during the extended modernization period, a cost avoidance in excess of \$6 billion. It ensures we are able to sustain the 12-ship LSD-41/49 class for its full service life and the critical air defense commander capabilities of the cruiser force beyond its current service life into the 2040s.

It also retains flexibility, if needed, to accelerate completion of the modernization pending availability of added funding and training of additional crews.

Third, the Littoral Combat Ship program. The CNO's requirement for 52 small surface combatants remains solid. The LCS ship-building program is demonstrating significant cost improvement as

a result of the block buy. The most recently awarded ship contracts are less than half the cost of the lead ship in constant year dollars. Requirements are stable and contract changes since the lead ships have tracked on the order of 1 percent of the ship's cost, significantly less than other surface combatant ships.

Mission packages are executing in accordance with their approved test plans, with operational testing of the first increment surface warfare mission package completing this month; operational testing of the mine countermeasures and ASW, antisubmarine warfare, mission packages on track for 2015 and 2016 respectively.

USS *Freedom* performed her required missions plus supported humanitarian assistance, disaster relief efforts following Super Typhoon Haiyan during her 10-month deployment and valuable lessons from her deployment are being used to shape support strategies for future LCS deployments.

Separately, we are conducting a thorough review of LCS requirements, capabilities, and concepts of operation to determine, in accordance with the Secretary of Defense's direction, how to increase the lethality and capabilities of the Navy's small surface combatants. We will consider a new design, alternative existing designs, and a modified LCS in this study, and the results are intended to inform our 2016 budget submission.

In total, as a result of the cumulative impact of the sequestration in 2013, the Bipartisan Budget Act-level funding in 2014 and 2015, and the reductions across 2015 through 2019, the Department has been judicious in controlling costs, reducing procurements, stretching developments, and delaying modernization. However, these actions necessarily add cost to our programs, add risk to our industrial base, and add risk to our ability to meet the defense strategic guidance.

If we are forced to execute at BCA levels in fiscal years 2016 and beyond, these cuts will go deeper and we fundamentally change our Navy and Marine Corps and the industrial base we rely upon.

Mr. Chairman, thank you for the opportunity to appear before you today. We look forward to answering your questions.

[The prepared joint statement of Mr. Stackley, Admiral Hilarides, and Admiral Mulloy follows:]

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

I've just been informed that there's a possible procedural vote at 3 p.m., so we will try to work around that in terms of getting our questions to you and your responses.

Let me begin. We've looked over the last several years at a number of shipbuilding programs, obviously those that have cost overrun problems or quality problems. One program, not the only one, but one that we've paid attention to, is the LPD-17. Last year, Secretary Stackley, you indicated that you saw some real progress in terms of cost control and quality increases in that program. Could you elaborate on that, and are we continuing in that direction?

Mr. STACKLEY. Yes, sir. I'll start this answer and I'll turn it over the back half to Admiral Hilarides, who is responsible for the Supervisor of Shipbuilding.

The LPD-17 has remained very stable in terms of cost performance as we complete the last handful of ships. The last two ships

delivered to the Navy, LPD-25 and 26, very high quality, very stable, predictable cost performance. In fact, LPD-26 delivered without starred card deficiencies, where a starred card is the highest level deficiency, and to achieve a zero starred card level at acceptance is extraordinary.

The additional challenge that we've been able to control is completing the class. So as we complete production, we've been able to keep costs under control and not see a tail-up at the end of production, which is fairly typical of any long-term production run. So stable, mature designs, fixed price contracts, close collaboration between the Navy and the shipbuilder to keep costs under control, quality at delivery.

I think Admiral Hilarides, I'd like him to expand on the efforts that NAVSEA with the Supervisor have put in place to ensure we stay on top of the quality of ships.

Senator REED. Admiral.

Admiral HILARIDES. Yes, sir. Senator, as Secretary Stackley said, the finish quality of the late LPD-17s has been as good as we've seen across the shipbuilding portfolio. A lot of hard work by the shipbuilder. My supervisor is fully integrated into that shipbuilding team to go help them over the initial quality problems we had with those ships, and are bringing to bear the engineering and contract oversight resources to go make that program perform well, on cost, as the quality has improved.

That quality performance, which has continued to improve across the LPD-17 class, has actually begun to show on the LHA class as well. *America's* in-serve also very, very successful, fit and finish of that ship extremely good and better than any of the previous ones we've seen in the last 10 or 15 years. So the commitment of the supervisor, working closely with the shipyard, has borne fruit and quality performance is dramatically better.

Senator REED. May I ask you a related question. In our previous hearings one of the areas of attention, particularly Admiral McCoy's attention, was increasing the skill and the ability of the supervisor and his staff, SUPSHIPS, because they are literally your people on the docks and in the construction areas. Can you talk about, are we making continued progress to raise the quality and the training and the effectiveness of the SUPSHIPS personnel?

Admiral HILARIDES. Yes, Senator. We had made a modest increase in the size of that staff and that increase, although it was slowed by the events, the hiring freeze and other things that occurred in 2013, that supervisor is now approaching being fully manned.

Our commitment to train the engineering resources, that is to push the engineering decisions down to the waterfront, has borne fruit. That requires that training that you talked about and the full engagement of my technical staff in Washington with the technical folks on the deckplate. That training program is going well. Still plenty of work to do, but the teamwork that has been established, the improvements in quality and the improvements in schedule adherence are really showing that that investment has turned out very well. Admiral McCoy is on the right track.

Senator REED. So just quickly, you're satisfied you have the sufficient number of personnel and that they are adequately trained

and they also have the cooperation and collaboration with the contractors to get the job done?

Admiral HILARIDES. Yes, sir, I am.

Senator REED. Secretary—

Mr. STACKLEY. I'm going to just expand on that a bit.

Senator REED. Please.

Mr. STACKLEY. That's been a long-term effort to get that work force in place. All of our manpower accounts are under great pressure right now. In all the budget deliberations in terms of the impacts of budget drawdowns, we are having to hold our ground to not go in reverse in terms of what we knew we had to do and did to get the eyes on site at the supervisors of shipbuilding.

Senator REED. One of my impressions is that this, the value of these individuals, wasn't truly appreciated until we had the overruns and the inefficiencies and the problems, and then we recognized we've got to have these people on the waterfront with the ability and training. And the pressure between putting people on the waterfront supervising contracts and putting people in the air flying aircraft or undersea driving ships is acute when they're building; is that fair?

Admiral HILARIDES. That's very fair, sir.

Senator REED. Quickly, the *Ohio*-class replacement. There is an implication from the fallout of both sequestration and the Budget Control Act on the National Nuclear Security Administration, which plays a role in the development of the nuclear power plant. There's the suggestion that there could be as much as a six-month delay because of issues involving the nuclear power plant. Can you provide us any insights into this potential delay, any way we can resolve it, and does this require attention—it does require attention of the Navy, but also from the NNSA?

Mr. STACKLEY. Yes, sir. The total shortfall that we are struggling with right now is about \$150 million associated with NNSA. The six-month impact—that's Admiral Richardson's assessment in terms of what that shortfall as it hits his requirements for development the reactor plant for the *Ohio* replacement, that's up front. And a six-month delay up front you cannot recover downstream.

So we're trying to draw the line here on this issue, working with NNSA, making Congress aware. Inside the Pentagon, it's got the high-level attention from the Nuclear Council inside of DOD. But we don't have a solution today. So today we're staring at this coming our way. We do not have a solution. Our ability to try to mitigate that 6-month potential impact if the funding doesn't arrive is going to be very limited, and what that places at risk is the follow-on schedule for the *Ohio* replacement.

Frankly, we're sitting here in 2014 deliberating on the 2015 budget for a boat that is required to be on patrol in 2031. This is simply the first stage of what will be a year upon year effort to try to keep that program's funding whole.

Senator REED. And this is a key factor in keeping the cost of the program well within the envelope you've laid out?

Mr. STACKLEY. Yes, sir.

Senator REED. Thank you very much.

Senator McCain.

Senator MCCAIN. Thank you, Mr. Chairman.

I thank the witnesses. Secretary Stackley, the cost of the *Gerald R. Ford* was \$12 billion, is that correct?

Mr. STACKLEY. Actually, sir, the cost cap and the budget and the estimate at completion are all \$12.8 billion.

Senator MCCAIN. 12.8. And that's—is that a \$2.8 billion cost overrun?

Mr. STACKLEY. The cost cap that was established in 2006 for the *Gerald R. Ford* was \$10.5 billion in 2006 dollars.

Senator MCCAIN. So it's a \$2.3 billion cost overrun?

Mr. STACKLEY. Yes, sir.

Senator MCCAIN. Have we ever figured out what caused all of that?

Mr. STACKLEY. Yes, sir, we can give you a very detailed breakdown, starting—

Senator MCCAIN. Maybe for the record you could provide us with a readout as to what caused that.

[The information referred to follows:]

[SUBCOMMITTEE INSERT]

Senator MCCAIN. Now, what's going to be the cost of the *Kennedy*?

Mr. STACKLEY. The *Kennedy*'s budget and cost cap are set at \$11.498 billion.

Senator MCCAIN. Are we going to make that number?

Mr. STACKLEY. Yes, sir. We are totally committed to doing better than that number.

Senator MCCAIN. And the *Enterprise*?

Mr. STACKLEY. The *Enterprise*, she's not—she's just starting to show in the budget, so right now all we have is the cost cap associated with the *Enterprise*, which is equal to the *John F. Kennedy*'s plus inflation.

Senator MCCAIN. I'd appreciate very much in writing exactly what took place that caused this horrendous overrun—

Mr. STACKLEY. We'll give you a detailed breakout, Senator.

Senator MCCAIN.—of the *Gerald R. Ford*. We just can't have that. It's not acceptable. Also, how, when it's the only game in town, how we are able to keep costs under control when there is clearly no competition nor any prospect of it.

The General Accountability Office—Secretary Stackley, are you familiar with the GAO report released yesterday or just recently? The title of it is “Additional Testing and Improved Weight Management Needed Prior to Further Investments.” According to the GAO: “Several Seventh Fleet officials told us they thought the LCS in general might be better suited to operations in the smaller Persian Gulf. The Pacific Commander, Admiral Locklear, said that the LCS is only ‘partially effective’ in fulfilling his operational requirements.”

Have you seen that GAO report?

Mr. STACKLEY. Yes, I have, sir.

Senator MCCAIN. Have you had a chance to examine it and have a response to it?

Mr. STACKLEY. Yes, sir. I've gone through it in fairly good detail and each issue that they've brought up we've gotten down to the base of to determine is it correct, is it incomplete information they're working with, is it an issue that we're already working on.

In specific, you mentioned two items in particular. Referring to Seventh Fleet officials and whether the LCS is better suited to the Gulf or to the Pacific, I can't trace that down because I don't know who the Seventh Fleet officials were. My dialogue has been with COMNAVSURFOR in terms of the Commander, Naval Surface Forces, in terms of the LCS and its applicability to all regions where it should be called upon to operate in, and there has been no reluctance, no concern in that regard.

Now, that said—

Senator MCCAIN. Could I just interrupt—

Mr. STACKLEY. Yes, sir.

Senator MCCAIN.—if you don't mind. Admiral Locklear told the committee that the LCS is only partially effective in fulfilling his operational requirements. So that wasn't an anonymous official.

Mr. STACKLEY. In terms of Admiral Locklear's testimony, I watched and reviewed that and, frankly, his comments I will say are very similar to Commander, U.S. Fleet Forces Command. When they look at our naval force structure and they consider the fact that we are below 300 ships today, they are concerned with the balance between small surface combatants, large surface combatants, and submarines. They have not addressed a shortfall in terms of the LCS requirements. Their concern has been with the overall force structure.

Senator MCCAIN. Why do you think, then, that the Secretary of Defense directed the Secretary of the Navy to reduce the buy of LCS?

Mr. STACKLEY. The specific direction that we got was to not put any additional ships on contract beyond 32 until we have completed a study to take a look at increasing the lethality of our small surface combatants and basically return with the results of testing on the program. We've been directed to look at three different alternatives: new ship design, existing alternative ships, and potentially modifying the LCS.

Senator MCCAIN. Modifying the LCS, after 12 years.

By the way, I read the Secretary of Defense's full statement. I think you left out a couple of phrases in there. Maybe my staff has his full statement, but he said a lot more than that in ordering the reduction in the acquisition, the numbers acquisition.

The GAO report basically says we haven't got the mission modules completed and a couple of them won't be done for several years; is that correct?

Mr. STACKLEY. We have three mission packages that are in testing right now. The surface warfare mission package, the first increment completes her testing this month and it's in very solid shape. The second mission package is mine countermeasures mission package, which starts her developmental testing this year, going into operational testing next year. The elements of the mine countermeasure mission—

Senator MCCAIN. Operational that next year—

Mr. STACKLEY. Yes, sir.

Senator McCain.—with completion of that testing when?

Mr. STACKLEY. August 2015.

So the individual elements of the mine—

Senator MCCAIN. And the third?

Mr. STACKLEY. I'm sorry. The third mission package is the anti-submarine warfare mission package, which goes into operational testing in June 2016.

Senator MCCAIN. To be completed?

Mr. STACKLEY. It's about a 1-month period for operational testing. So it would be the summer of 2016.

Senator MCCAIN. It was I believe 2002 when we embarked on the effort to acquire a Littoral Combat Ship?

Mr. STACKLEY. 2005 is when the first two ships were awarded. 2002 would have been when the design and developments were started.

Senator MCCAIN. I see, so now we're looking at 2016 or 2017 by the time the ship is operationally capable?

Mr. STACKLEY. The first ships are going to be deploying with the surface warfare mission package. The *Freedom* went with the surface warfare mission package. *Fort Worth* deploys later this year with a surface warfare mission package. Frankly, I will tell you that the priority is placed on the mine countermeasures mission package because that's where we have the greatest warfighting capability gap, and so we're doing everything we can to ensure that that operational testing stays on track.

Senator MCCAIN. Well, again, Secretary, I appreciate your testimony, but I would like to quote you what the Secretary of Defense said: "The LCS was designed to perform certain missions, such as minesweeping and antisubmarine warfare, in a relatively permissive environment. But we need to closely examine whether the LCS has the independent protection and firepower to operate and survive against a more advanced military adversary and emerging new technologies, especially in the Asia Pacific."

I think that puts a little bit different slant on, frankly, on why the Secretary decided to reduce the buy of the LCS, because we still don't know if it is capable in a nonpermissive environment, relatively permissive environment. That's what the Secretary of Defense says.

So I think your answer, frankly, was a little incomplete to my question.

Mr. STACKLEY. Can I provide a more complete response, sir?

Senator MCCAIN. Please.

Mr. STACKLEY. Yes, sir. The LCS is designed to what's referred to as level 1 survivability, and it has a self-defense capability that gives it the ability to defend against certain air threats. The Secretary of Defense's concern is that when you look at the increasing threat environment in the Pacific, we need to take a look at raising that level of lethality on that platform. That's exactly what we're going about doing.

Senator MCCAIN. Again, I say with respect, he says "We must direct future shipbuilding resources toward platforms that can operate in every region and along the full spectrum of conflict"—again bringing into question whether the LCS is capable of performing all of those missions.

But my time has long expired. I thank you, Mr. Chairman.

Senator REED. Thank you, Senator McCain.

We have a vote pending now. We're more than halfway through it. There's two basic options, a short recess where we all vote or

I could recognize Senator King and then Senator Sessions could follow. Do you have any preference? Senator King?

Senator KING. I suggest we have a brief recess and we all go.

Senator REED. A recess and then we will—with the wisdom of the panel, we will recess briefly and return, and ask you gentlemen to stay. The committee stands in recess until the call of the Chair.

[Recess from 3:08 p.m. to 3:22 p.m.]

Senator REED. I'd like to call the hearing to order again and recognize Senator Wicker. Senator Wicker.

Senator WICKER. Thank you, Mr. Chairman.

Secretary Stackley, let me ask you about the LPD-26. The subcommittee has had numerous hearings in the past on the performance and quality of ships entering our Navy fleet. As the USS *John P. Murtha* nears completion and delivery, what is your assessment today of the quality and performance of the LPD-17 class ship?

Mr. STACKLEY. Yes, sir. Thanks for the question. It's consistent with my earlier response with Senator Reed that the quality on the LPD's has steadily improved to the point that the recently delivered ships are of the highest quality. The focus right now is pushing that quality control upstream in the process, because the delivered quality is good, the practices are there; the more we can push that upstream the better the cost will improve along with that.

Senator WICKER. Well, that's good to hear.

Let me then ask you about requirements. Are you aware of the letter regarding amphibious ship shortfalls that was signed by a group of 20 retired Marine Corps generals, including former Commandant General Conway and former Commander of the Central Command General Mattis?

Mr. STACKLEY. Yes, sir, I am.

Senator WICKER. Consistent with that letter from our retired Marine Corps generals, General Amos, Commandant Amos, and Admiral Greenert testified last month that they would need 50-plus amphibious ships to meet the current needs of the combatant commanders. Now, the LPD-17 program was originally planned for 12 warships, but was reduced to 11 vessels due to budget constraints.

Do we need that twelfth LPD to support your mission?

Mr. STACKLEY. Let me walk you through this, sir. The total lift requirement for the amphibious force is a total of 38 amphibs. About four years ago the CNO and Commandant agreed that they would accept a shortfall to the 38 amphibs, based on budget constraints, and the risk that's associated with it, and that we would build to a 33-ship amphibious force, 11 big decks, 11 LPD-17s, and 11 LSD-41/49 or their replacement.

So call it the unconstrained requirement for two marine expeditionary brigade lift is 38 ships. The budget-constrained requirement is 33. Today we're at 30, and we get back up to 33 total in about the 2018 timeframe, although we don't get to the mix of 11-11 until 2024.

Senator WICKER. Okay. And so what risk are we accepting based on those numbers?

Mr. STACKLEY. The risk between the 38 and the 33-ship number, what that means is that in a major combat operation that's involving the amphibious force some amount of its gear—and it would be prioritized—would have to be delivered in a follow-on echelon. It

would not be there with the immediate assault force. So that would become a matter of prioritizing which gear is in the assault echelon and which gear comes behind in the follow-on echelon.

Senator WICKER. And how serious is that?

Mr. STACKLEY. I can't speak for the Commandant. I would say that if it was very serious he wouldn't have agreed to the 33-ship substitute for the 38-ship requirement. It's of concern, but the Commandant would not have signed up for something that he couldn't ultimately accept. I think it was a matter of just recognizing where we are with the budget and drawing a hard line so that it doesn't continue to erode regarding the total amphibious force.

Senator WICKER. What do you say to these 20 distinguished Marine Corps generals who signed the letter concerning the amphibious ship shortfalls?

Mr. STACKLEY. Sir, I have to point towards a letter that was co-signed by the Commandant and the CNO in terms of the requirement that's handed to the Department to fulfil. So we have a long-standing requirement for a total Marine Corps lift. We're short on that. The Commandant and the CNO agreed to a lesser number with acceptable risk. We're building to that.

I'll go back to the comments that the CNO and the Commandant both made: We need more ships. The CNO's comment about a 450-ship force, that would be the total number of ships to answer all the demands by the combatant commanders. The notion of a 50-ship amphibious ship force, I think that's less about the requirement to support major combat operations and it's more in recognition of the fact that the versatility of those amphibs makes them a workhorse in the fleet. So there's always going to be high demand for that type of capability.

Senator WICKER. Thank you.

Thank you, Mr. Chairman.

Senator REED. Thank you, Senator Wicker.

I will take my second round now until my colleagues rejoin us.

Admiral Mulloy—and this was alluded to in Senator McCain's comments—for years the goal in ship size for the fleet, 313 ships, last year adjusted down to 306 ships. This year the Navy has changed the definition of a "ship" which will be included in the goal. So can you briefly describe what you're counting, what you're not counting, and how does this affect the 306-ship goal?

Admiral MULLOY. Yes, sir. Really there are 2 separate items here, is that the 306 goal is based upon what's called a force structure assessment, which is actually made of 9 separate parts, which we total to 906. That requires when we do a study on that, and I'll talk about it in a minute, it is 11 aircraft carriers, 48 fast attack submarines, 88 large combatants, 52 small combatants, and you work your way down to auxiliaries.

That total is 306, but it's actually nine separate adds of types of ships. That is done by analysis of what was the build and then they actually take what's called the global employment of the force, joint force states, and COCOM demands. We actually go visit the combatant commanders and ask them what ships for the various missions. You have COM plans, you have theater security cooperation plans, you have low-intensity conflict, a wide variety of items.

After you get that combatant commanders, you go back, pull that together, and that then becomes that force structure assessment.

The ship counting rules were merely a change, a change to look at what do we have now and what are they fulfilling. We don't have 52 small surface combatants. We are building the Littoral Combat Ship for that. What we have now are minesweepers, many of them in the Middle East. We have put 10 patrol combatant ships, PCs, in the Middle East, 10 of the 13.

So the effort was we have ships that—historically it was if you couldn't what we call self-deploy, you had to be lifted on a ship there, if you're in the United States of America you didn't count; when you were forward you did. So that's why the minesweepers counted, but the PC's were left off that calculus.

So we went back and said: Okay, 3 minesweepers in San Diego don't count, but the 10 PC's forward do. So we said those are not equivalents to, they don't affect the 52 count, they're all going to decommission by 2020, which the 306 was a 2020 number.

The other ones that were added was the high-speed ferry that we have purchased from MARAD and we're going out with to be able to move Marines around the Pacific. It completes a theater security cooperation goal, not a warfighting goal, and the two hospital ships.

The CNO and SECNAV met and said, the hospital ships have a wartime mission, they're rated, they're on what's called the time-phased deployment plan, TPDP, they should flow to support combat, but they also deploy routinely now each year to support missions around the world, once again under the defense strategy.

So it was made up of counting deployed ships that don't deploy, so you have the MCMs and the PCs, you have the hospital ships, and you have the one ferry, and that made up the new counting rules. We looked at changing the counting rules last year. It's a SECNAV instruction. It was merely to allocate. But it really has nothing to do with the 306.

Senator REED. Well, thank you, but I must say that when you count deployed ships that don't deploy you get into something; you have to really work your mind around to appreciate that. Also, when you mentioned accounting it opens up a vast array of complex rules that sometimes reflect reality.

I appreciate your answer, but I think we're going to continue to draw some attention to these issues. Thank you very much.

Secretary Stackley, going back to the LCS, it is a block buy. You have favorable pricing fiscal year 2011 through 2015 based upon two ships from each yard. Yet, as I see the budget only three ships are going to be acquired this year in your proposed budget. How do you do that and still get the affordable pricing?

Mr. STACKLEY. Yes, sir. Losing the last ship of the block buy in 2015 and moving it into 2016 was another one of the casualties of the drop in the budget. What we are going to do—we have not engaged industry yet—is we're going to sit down with the two shipbuilders associated with the LCS program and we're going to look at production schedules, the vendor base, and performance on the program, and effectively look to extend the pricing, the pricing validation date for that last ship, between the two shipbuilders.

In terms of what we anticipate as impact, I see zero impact in the shipyard based on the production schedules. The concern is regarding the vendor base. So we have to take a hard look at the sequence in which they're ordering material for that last ship and try to ensure that we don't incur—there will be some cost impact. This isn't going to go to zero. But to minimize any cost impact associated with delays to ordering material.

Senator REED. Thank you.

Let me ask a final question for the record, and that is that—we've talked about specific shipbuilding programs, the carrier program, the LCS program. For the record, could you give us sort of a status report on all the shipbuilding, major shipbuilding programs, in terms of how well they're performing, in terms of both cost and quality and delivery time, which I think are the three key variables? If you can think of more helpful information, please include that also. But that's something I think would be terribly useful to the committee as we go forward, sort of a status report.

Mr. STACKLEY. Yes, sir. I'll watch my time on this. I'm just going to start at the top of the list and work my way—

Senator REED. No, no. If you want to take this for the record.

Mr. STACKLEY. Oh, okay.

Senator REED. Because I—

Mr. STACKLEY. Why don't I send a letter to the committee just giving you a walk-through.

Senator REED. Exactly.

Mr. STACKLEY. Yes, sir.

Senator REED. And you can spend the time. You can have consistent measures program by program, so that you can give us sort of red, yellow—green, yellow, red. We've got green programs, we've got yellow programs, and we've got some red ones. We want to know what the red ones are and the green ones.

Mr. STACKLEY. Yes, sir.

Senator REED. And everybody can't be yellow.

[The information referred to follows:]

[SUBCOMMITTEE INSERT]

Mr. STACKLEY. We've got some green ones, sir.

Senator REED. Senator Sessions.

Senator SESSIONS. Thank you, Mr. Chairman. Thank you for the leadership of this committee and the leadership you're providing in the Senate. You do a great job and it's an honor to work with you.

Senator McCain made some criticisms and analyzed areas of concern that he had with the Littoral Combat Ship. Let me ask you a few questions. Secretary Hagel's decision basically affirmed the production of 32 ships, and then he said we've got to have an evaluation after that. The program will stop, which I wish he hadn't said, but he said it will stop, but there would be an evaluation after that as to where we would go and whether or not this ship is proving itself and what capabilities could be added to it or whether we needed a new ship, something of that.

Wasn't that the essence of what Secretary Hagel said?

Mr. STACKLEY. Sir, the only thing I have to work with here is the memo that he signed out to the Secretary of the Navy, which did not say that the program will stop. He said the program will not contract beyond 32 ships.

Senator SESSIONS. You're correct, that's right.

Mr. STACKLEY. And conduct a study, small surface combatant study, to inform the 2016 budget, budget build, and to look at a new design and an existing alternative design or a modified LCS to address his concerns regarding lethality and survivability of our small surface combatants.

Senator SESSIONS. Well, that Rear Admiral Thomas Rowden, Director of Naval Surface Warfare, said recently: "Today LCS is the most cost effective solution to address the enduring littoral capability gaps. We remain under the congressionally-mandated cost cap."

We have a chart. I'll just show it to you. But let's follow this and examine the cost. This represents our analysis, really CRS, Mr. Ron O'Rourke's, numbers on the ship. These are fiscal year 2014 numbers, which make fiscal year 2005, the first year, look worse than it was. That's more money than we actually spent at the time. But it's gone from 650 to 750 and then commenced a downward trend since that time.

It seems to me, having been in the shipyard in Alabama, that this ship, it almost looks like an automobile plant in the sense that the ship moves through in one of the most modern, maybe the most modern, shipyard in the world. By the time it hits the water, it's completely outfitted, with little work needing to be done while the ship's out on the water. And the costs continue to fall.

Would you explain to us how you see the production capability and comment on the fact that at 32 ships it seems to me that the cost would be about as low as we would ever see it and the errors should be all worked out of the system by then and we are really receiving a very fine ship with little error and at the lowest possible price.

Mr. STACKLEY. Yes, sir. Well, the key factors were, first, design stability. You see all the costs on the front end of the program. That was largely attributed to the fact that there were significant design changes on each lead ship right out of the blocks, driven by our demand for increased survivability. We changed the specifications to increase the survivability of the LCS class right about the time that we awarded those first ships.

Senator SESSIONS. Mr. Chairman, Secretary Stackley, as I recall the initial estimate was about \$290 million or something a ship, the base ship, almost as a commercial ship.

Mr. STACKLEY. Yes, sir.

Senator SESSIONS. And then when the Navy added to that it went up to about 350. It went up from there. But is that the kind of thing you have to work your way through every time you start a new class of ships?

Mr. STACKLEY. That's the kind of thing we did work our way through here. A change to the requirement—effectively, a change to the design and the specifications at the same time we started construction on the lead ships, which by itself has significant challenges, and that drove the cost on the first of class.

We locked down the requirements. We stabilized the design. At the same time, both shipbuilders invested heavily in their facilities. Then we provided through the block buy a long period of stable procurement, so then they could also work with their vendor base

and then come up with a hiring plan to provide the skilled workforce that they need, so that you can see the type of learning and cost improvement that you've got on your curve there right now.

Senator SESSIONS. Now, what is the congressional cost cap? Congress when the price was high put a cost cap on it. Do you remember when that was? And what is the cost cap, and are you under it now?

Mr. STACKLEY. I think the cost cap was set in, the current cost cap, in 2010. I don't even look at that cost cap any more because we're nowhere near it. We're nowhere near it. The cost cap was set in 2010 with an allowance to account for escalation, and what's happened is our costs have been going down while the cost cap would incrementally increase associated with inflation. It's not even a factor in terms of our decisionmaking.

Senator SESSIONS. You don't look at it because you're so far below it?

Mr. STACKLEY. Exactly.

Senator SESSIONS. Would altering this production rate, could that have costs for the Navy if the assembly line is broken or there are significant delays?

Mr. STACKLEY. That statement is true of all of our shipbuilders right now. We have several programs that are in stable production flow and they are all at risk of reduced production quantities, which will have a cost impact. So in the case of LCS the shipbuilders basically tuned their facilities to about a two ship per year rate. And as you can see, in the Future Years Defense Plan that drops down to about a two to three ship per year. When you split it out over the builders, it's about a one and a half ship per year rate.

So that reduced rate is going to have some cost impact when we look at future contracts.

Senator SESSIONS. I believe the Navy had stated that the ship for survivability purposes meets or exceeds the same standards in those elements of survivability and recovery for the frigate. I believe the frigate has about 215 sailors to operate that ship, is that right, Admiral?

Admiral HILARIDES. Yes, sir.

Senator SESSIONS. And that this ship would come in at 50, 60 or so sailors to operate this highly modern ship. But is its survivability, Admiral, consistent with the frigate's survivability?

Admiral HILARIDES. I'll go ahead. I think the CNO covered in his testimony very well that the elements of survivability include susceptibility, that is how easy it is to hit the ship, vulnerability, its self-defense capabilities, and then the recoverability part, which is what a lot of people think of as survivability. The recoverability of the ship with an aluminum hull and thinner skin is almost by definition slightly less. But the modularity and the ability to go modify the mission package to bring susceptibility down dependent upon the threat scenario balances out, and I would say that, yes, it is of a roughly equal survivability to the frigate.

Senator SESSIONS. My time is up. I would just add for the record that Congress asked the Navy and the Navy is seeking and has sought to develop a faster, more cost-effective ship utilizing smaller crews and less fuel, with a lot of flexibility and a substantial mis-

sion bay and capabilities that we may not even know today a ship like that may need to have in the future.

This ship, the bugs are coming out of it, the cost is dropping, and we're below what the cost cap said significantly. And the Navy remains committed to it. It's a joint requirement of 52 ships, fully approved through the normal, tough combatting competitive system of the Navy.

So I guess I would say, you gentlemen, you're going to be challenged. Senator McCain is going to challenge you, as you know he will, and we all should. And I respect that. But I do think this is an extraordinary ship, very cost-effective, and I believe it has capabilities we may not even know we need now, that we will have in the future.

Thank you.

Senator REED. Senator, I've had two rounds. If you'd like to ask additional questions that you have, it's completely appropriate. We are waiting, I think, on some of our colleagues who are returning. I have a couple other comments I could make, but if you have additional questions, please, take this time.

Senator SESSIONS. With regard to deployment of the ship, it would normally be deployed with another, other ships, who may have—as an aircraft carrier is vulnerable, they are deployed with other ships and other air cover and protection. In hostile zones, wouldn't this ship also be deployed in concert with other ships that would help provide protection?

Mr. STACKLEY. Absolutely, sir. In my opening remarks I said we were looking at three things: requirements, capabilities, and concepts of operations. Under all circumstances, the Littoral Combat Ship, like most of our fleet, will be operating as part of a larger group. While the Littoral Combat Ship is designed for its own self-protection, it does rely upon Aegis destroyers and cruisers to provide the larger air cover over the theater area.

We are not inclined to send ships in alone and unafraid in a hostile environment. So whether it's an LCS or other ships of the battle group, we operate as a force, and that concept of operations is an important part of what Admiral Hilarides was referring to when he described the CNO's characterization of survivability.

So when you think about the ships that the LCS is replacing, mine countermeasures ships, patrol craft, the current FFG-7 class, the LCS has a far more robust degree of survivability and self-defense than those ships. The mine countermeasures ship today has zero self-defense, zero. So when you think about a mine countermeasures mission being performed by a Littoral Combat Ship, she is far, far more survivable than the ships she is replacing.

Senator SESSIONS. Thank you.

I guess I'll just comment and may ask for the record. Mr. Stackley, I respect you and I think all of us on the committee do. I think the Nation should be thankful for having you at this very tough job that you have. And the Navy will be facing some tough choices. We just went through the military, the Army's, downsizing of its members. Over 100,000 they're talking about, well over 100,000.

I'm having a little difficulty understanding. People talk about the sequester. Well, we've already hit the bottom of the cuts. The budg-

et's supposed to be flat the next couple of years and then grow at 2.5 percent a year for the next six years, I believe, or seven, which is about \$13 billion a year for the defense budget increases.

It seems to me you have a difficult time right now with flat budgets and you still haven't fully achieved the savings. Steps you take now to save money may only save money several years out in the future.

So it seems to me your budget situation would be better five years from now if nothing changes than it is right now, instead of worse.

Mr. STACKLEY. Actually, sir, as you're aware, the budget that we submitted across the Future Years Defense Plan is about \$115 billion above BCA levels.

Senator SESSIONS. Well, that's your submission. The law of the United States of America is the Budget Control Act, as modified by Ryan-Murray, which helped this year and next year some.

Mr. STACKLEY. Yes, sir. The BBA, the Bipartisan Budget Act, is above what the BCA would have placed us at. When we looked at if we dropped back down to the BCA levels through the fiscal yearDP and we look at what that does to our ability to provide for the Nation's security, we determined that that's not adequate. Therefore we laid in a budget, constrained as best as we could, as close to the BCA level as we could, but it's \$115 billion above that, and that defines what we believe to be the budget necessary to operate, maintain, support, and recapitalize the force to meet the national defense strategy.

Senator SESSIONS. Well, the Budget Control Act reduced the growth of spending from a growth of \$10 trillion to a growth of \$8 trillion over 10 years. Now, I just had in my office the Legal Services Corporation, the National Institutes of Health, both of which feel they can't sustain our budget either. So we're going to have to challenge you to do the best you can, and I think—I will just say this. If we have to find money, we're going to have to find more money for the Defense Department. It's a core function of government.

But don't think this is going to be easy to achieve, because when Congress makes a commitment to limit its spending, it needs to stay there.

Mr. STACKLEY. Yes, sir. Sir, there's absolutely no complacency. One of the things that we are doing our best at is trying to inform Congress as best as possible what the difference is between the budget we've submitted and what would happen if we dropped down to the BCA levels and what impact that has on our ability to provide for the Nation's defense.

Senator SESSIONS. I look forward to working with you on that. Thank you, Mr. Chairman.

Senator REED. Thank you, Senator Sessions.

Before I recognize Senator King, Mr. Secretary, you made reference to a memo or a letter from Secretary Hagel with respect to LCS. Could we have a copy for the record? That would help us, if that's possible.

Mr. STACKLEY. I will do my best. I'll go back to the system and get it to you.

[The information referred to follows:]

[SUBCOMMITTEE INSERT]

Senator REED. Thank you very much.

Senator KING, please.

Senator KING. Gentlemen, thank you very much for joining us. I'm looking forward to welcoming Secretary Stackley and Admiral to Maine on Saturday for the commissioning of the *Zumwalt*.

Secretary Stackley, at the posture hearing last month Admiral Greenert showed us this chart, which I'm sure you're familiar with, which indicates that if the sequester returns in 2016 as it's currently scheduled to do, basically there would be three less DDGs, four less support ships, the *George Washington* would be retired with a carrier air wing.

I guess I have a specific question. If the sequester returns in 2016, does that affect the 10-ship DDG contract that was just finalized?

Mr. STACKLEY. Sir, let me say everything is hypothetical, correct?

Senator KING. Right.

Mr. STACKLEY. What the CNO provided in that chart is, early on in the process in the build of the 2015 budget—and I mentioned the strategic choices management review, and we looked at going down to the BCA levels. That chart reflects one of the standing scenarios that we looked at if we had to stay at the BCA. Did that scenario make its way through the budget process where we had all the debate that needs to take place, and we racked and stacked and visited priorities and things of that nature? No. But is that a potential outcome? Yes.

With regards to the specific question of if we go down to the BCA levels will that impact the 10-ship multi-year?

Senator KING. In 2016.

Mr. STACKLEY. Yes, sir, and I'm going to—that's an unanswerable question right now, except for I will tell you that shipbuilding is a top priority for the Secretary of the Navy. The DDG-51 is an extremely strong-performing program, and when it comes time to making those decisions if we have to budget at the BCA level, those two factors are going to weigh very heavily in that decision.

Senator KING. Thank you. I appreciate that. I assume that's as far as you can go, given the knowledge of the situation.

Mr. STACKLEY. Anything beyond that would just be projecting decisions that haven't been made.

Senator KING. Another question involving destroyers. Does the President's budget request and the 5-year plan provide for the funding of all three of the DDG-1000s?

Mr. STACKLEY. Yes, sir. The DDG-1000s were previously appropriated. There's additional funding in the budget request. It's tied to, when the program was truncated that drove costs up in the program and so there was a cost to completion line that was laid in. So we request the funding in the year of need and that's what you see in the budget.

Senator KING. But that's part of the—but that budget request is the one that exceeds the caps in the out years, 2016, starting in 2016. The budget request as I understand it, the President's budget request, is for more money than is within the current sequester plus caps.

Mr. STACKLEY. Yes, sir. So in the Future Years Defense Plan 2016 and out, the total budget request is above the BCA level, yes, sir. That does not infer that the DDG-1000 funding that's laid out in those years is above the BCA level.

Senator KING. Let me ask a more general question about the shipbuilding industrial base. What's your assessment of the overall health of the shipbuilding industrial base? Where are the risks, and not only of the major shipbuilders, of course which I have an interest in, but also the supply chain?

Mr. STACKLEY. I'm very concerned with it. All testimony, DON posture hearings, has been to the effect of we don't have enough ships, the budget is putting pressure on our shipbuilding account. You look at the industrial base today and I will tell you that half of our shipyards are one contract away from going out of business. So it's extremely fragile.

Senator KING. And if that's the case, by the way, that means there are an awful lot of companies that most of us haven't heard of who may be one contract away from going out of business.

Mr. STACKLEY. Of the vendor base, we have great insight into the health and welfare of the shipyards, the shipbuilders. It gets more difficult the further away—the further you get away from that first tier and delve down into the vendor base, yes, sir.

Senator KING. This is not only an economic concern. This is a national security concern, is it not?

Mr. STACKLEY. Absolutely. Without our strategic industrial base we don't have a Navy. So we have to be very mindful of the decisions that we make in our formulation of our budget. There's current readiness and there's future readiness. We need the industrial base in both halves of that debate.

Senator KING. Turning to the *Ohio* replacement, which I understand is a very high priority, I understand the Navy is analyzing something called a joint cross-class block buy contract for the *Ohio*-class and *Virginia*-class submarines. Can you explain what this concept means and to what extent you think it could produce savings compared to doing separate contracts for the two classes?

Mr. STACKLEY. It's very—it's very preliminary to be talking about how we buy the *Ohio* replacement, because that's a 2021 boat. The advanced procurement's in 2019. We're at the point in time on that program where we have to start making decisions between the two boat builders so they can start to invest in facilities that will be needed to support the construction of the *Ohio* program.

So as we approach those decision points, we're looking at the current *Virginia*-class construction program, looking at existing facilities. We're looking at where they currently have strengths in the way they divide the construction of the *Virginia*'s, and that becomes a baseline for determining how the *Ohio* replacement will be built.

But we have made no decisions yet in that regard.

Senator KING. A broader question. If sequester returns without any modification in 2016—and Senator Sessions is right that 2016 is essentially flat, based upon these two years, and then there are increases built into the assumptions that go out into the out years—can you reach your goal of a 306-ship Navy without some relief from sequester, at least in 2016?

Mr. STACKLEY. The reality is that it takes about on average four to five years from when you put a ship under contract to when it's delivered. So there's a lot of energy in the system right now. By that I mean, I described we have 43 ships that are currently under construction. So in the near years those ships will continue to deliver. We'll stay on our current plan for decommissionings. So you'll continue to see an increase in our ship count in the near years.

Sequestration is going to start to impact the 2020s, and that's where you're going to start to see significant dropoff in our ship count in terms of the total force. That is compounded when you overlay on top of that the funding requirements for the *Ohio* replacement plan.

Senator KING. So you get hit in the jaw in 2016, but you don't feel it until 2020?

Mr. STACKLEY. Yes, sir.

Senator KING. Thank you. Thank you very much.

Thank you, gentlemen.

Senator REED. Thank you, Senator King.

Senator Kaine, please, in order of appearance, Senator Kaine.

Senator KAINE. Great. Thank you, Mr. Chairman, and thank you all for your testimony.

Secretary Stackley, I want to talk to you about the opening comments that you made about the carrier, because I'm just trying to work through and make sure I understand this fully from having now sat through a number of hearings about it.

From all the testimony I have heard from Secretary Hagel to Secretary Mabus to others who have appeared before the committee, it seems like the following is all a consensus position: It is the policy, desire, military policy, desire, of the White House and the DOD to have 11 carriers at least. It is a statutory requirement that we have an 11-carrier Navy. If we get sequester relief we are committed to having an 11-carrier Navy. Those things have all been said.

But in looking at the budget numbers, we were puzzled, and there's been a lot of questions on this committee about it, because the budget if we grant sequester relief to the Department does not clearly identify the funds for the carrier, even though the President in his 2014 budget and Congress in our 2014 NDAA and appropriations bill put about \$245 million into the refueling of the *George Washington*.

So I guess we're trying to get to the point of understanding what exactly is the position of the Navy on this, particularly on the budgetary side. Your opening testimony suggested we know that it's a requirement, we think it's a good idea, we are proposing because of budgetary challenges to delay that refueling. Do I follow you right?

Mr. STACKLEY. Let me clarify. We know it's a requirement. It's more than a good idea. It is a hard-core requirement for 11 carriers. I described that when we started formulating this budget and we looked at the results of the SCMR and we were planning around BCA levels, we were looking at losing two to three carriers, and we fought to getting that down to being minus one.

In the end, we ended up coming across with a budget that goes above BCA levels. At that last stage, we didn't try to shoehorn the

carrier back in. There was also a fair degree of uncertainty over whether or not ultimately we'd be seeing congressional support for anything above BCA levels in the out years.

So what you have heard from Secretary Mabus and I believe also from Secretary Hagel is a commitment that if we get—if we are confident in budgets in 2016 and beyond being above the BCA level, the carrier will be in there. And in fact we're building our POM with that guidance today.

I'll ask Admiral Mulloy if he wants to—

Senator Kaine. Please, Admiral.

Admiral MULLOY. Yes, sir. As we're now working with OSD, they are looking at the total Department of Defense assets and assuming, as Mr. Stackley said, the DOD number was \$115 billion over the FYDP, the Navy is about 30-something billion of that. If that 115 appears for DOD and there's Navy money, then we would go back and rerack and stack. What those trades would be made between us and all the services is not done yet. But the commitment was if the 115 is there in 2016, then the Navy would have the funds and we would make the funds available to keep the carrier.

But once again, it comes back to being a balance of force. If I get—if I go to the BCA level and I have 11 aircraft carriers, what am I not going to have for support ships? What submarines won't I have? What airplanes will I not have to be flying off the aircraft carrier? Those all are built in shorter time. So you have to have a balance in what you do and that's my primary focus.

Senator Kaine. Let me walk through the two forks in this decision path that we're on. We give you a budget above the BCA level or we don't. So on the one we give you the budget above the BCA level—and I'm certainly going to do everything I can to suggest that we should; I was glad that we were able to provide BCA relief in fiscal year 2014 and 2015 as members of the Budget Committee. That was a good thing and I want to do it for 2016 and out.

It sounds like, give us that relief—and you're only asking for essentially relief from about half the sequester. You would absorb the other half over the entire length of the sequester. But the word to us has been, give us a signal and give us a signal in an appropriate time so that we can rerack and stack, as you say, and find a way to meet the 11-carrier requirement.

The timing of the signal is potentially a challenge, because since we did a two-year budget we're not likely to do another one until March or April of calendar year 2015, which would be in the 2016 fiscal year—I'm sorry, that would be in the 2015 fiscal year. But my understanding is, based on your own budget schedules, you're going to be presenting material to the White House for their work on 2015 and 2016 budgets by the fall. So we will likely not be sending you a signal with a budget, a 2016 budget, until the spring.

So what kind of signal are you looking for and why isn't the action of Congress in putting \$245 million into procurement for this particular item in the fiscal year 2014 omnibus—that's a pretty good signal and we just did that about 2 months ago. What kind of signal are you looking for to reshuffle to make sure that we are providing for that eleventh carrier? 1

Mr. Stackley. I'm going to give you an inexact answer, sir, because—here are the tools that Congress has. One, we have public

hearings. Two, you have the NDAA. And a third thing would be action on the budget itself dealing with the BCA and other tools.

We are leaning forward. We are leaning forward in terms of building our POM to put that carrier back in there. The signal, I don't know how clear a signal we're discussing here. But when the budget is at OSD at the end of this year and we have the 2015 NDAA and the 2015 appropriations bill in our hands and all other public record and discourse has taken place between the Department and the Congress, then at the Secretary level I believe they will determine whether or not we have the signal to send the carrier with the budget in 2016.

Senator KAINE. Let me ask one other thing about a signal. My understanding is we have appropriated \$245 million in fiscal year 2014 for the refueling, and the Navy's order is to only use \$63 million of that this year and not use the remainder of the \$245 million; is that correct?

Mr. STACKLEY. That's correct. So here's where we are. 245, of which the first phase of the refueling overhaul is a lot like the first phase of a defueling activity.

Senator KAINE. Right. You need to spend the money regardless of which path you're going.

Mr. STACKLEY. Exactly. It's planning, it's opening them up, and it's starting to pull the fuel. So the \$63 million is to support those mutual activities. In the near term, hopefully we'll be seeing defense bill markups and that might be sufficient signal to go ahead and start the work on the balance of the \$245 million.

But I will tell you that, given where we are today, we're not going to recover the schedule back to the original start date of September 2016. We will probably be able to improve upon it as opposed to losing a full year if we go down that path. But we're already eating into that schedule today.

So that would be a measured first step, but the ultimate, which is the \$7 billion associated with the carrier and the air wing and manpower—that measured first step isn't a leap into the balance of the funding requirement for that RCOH.

Senator KAINE. And even if we don't grant relief, additional relief from the BCA, there still is an 11-carrier statutory requirement.

Mr. STACKLEY. There's a law in place.

Senator KAINE. Yes.

Mr. STACKLEY. Yes, sir.

Senator KAINE. All right, thank you.

Thank you, Mr. Chairman.

Senator REED. Thank you, Senator Kaine.

Senator Blumenthal, please.

Senator BLUMENTHAL. Thanks, Mr. Chairman, and thanks for holding this hearing. Thank you for being here and for your service to our Nation.

Mr. Secretary, I understood from your earlier testimony that the *Ohio*-class program has about a \$150 million gap on the nuclear reactor development and that that funding is going to be sought from alternative sources, specifically the Department of Energy. Can you expand a little bit on that?

Mr. STACKLEY. Let me clarify. For our nuclear programs, the Navy has the responsibility for the boat, the weapons systems, and

propulsion plant. But the NNSA under the DOE has responsibilities associated with the reactor plant itself. Just like the Department of Defense, they have—they're dealing with their budget shortfalls, and they've allocated I believe the number is about \$150 million towards their efforts in support of the *Ohio* replacement. That does have a direct impact on our schedules near-term, long-term.

Between the Department of Defense, DOE, and, frankly, the Congress because we're bringing this to you, we have to resolve this shortfall or we are losing schedule on the program.

Senator BLUMENTHAL. To be precise, the shortfall is \$150 million?

Mr. STACKLEY. Let me get back to you.

Joe, do you know?

Admiral MULLOY. Sir, the \$150 million is across a number of programs, and we'll get the exact specifics. One part of it involves the reactor core itself for the *Ohio* replacement. The other components Naval Reactors was able to protect because it was a general 151. There are some other areas in nuclear training and other areas that don't directly affect the Navy.

But we'll get you a breakdown via Naval Reactors. But there is a component that directly affects the core development for the *Ohio* replacement and I don't remember the number, but it's not the 150. It's somewhere in the \$20 to \$50 million range that affects the *Ohio* replacement.

[The information referred to follows:]

[SUBCOMMITTEE INSERT]

Senator BLUMENTHAL. So forgive me for seeming overly simplistic. That seems like a drop in the bucket compared to the overall commitment to the entire program.

Admiral MULLOY. Yes, sir, but once again it comes back to being this is in his Department of Energy budget, not the Navy side. So there's three lines of operation in the Navy side—propulsion plant, missile compartment, total submarine. Naval Reactors and NAVSEA work on the propulsion plant, but when it comes to the actual reactor core design that's under the Department of Energy hat that Naval Reactors has. So it is under their budget. So it was not even the Defense Committee provided this mark. It is on the—I think it's the Energy and Water, Energy-Water Subcommittee mark against DOE and NNSA. And in the mix of that budget, components fell on weapons and other areas.

We have been attempting with OMB and DOE to say, this is an impact. They're saying, we're losing money on all of our programs.

Senator BLUMENTHAL. Isn't this point a weakness in the authorization or appropriation process, to potentially put the entire *Ohio* replacement class, *Ohio*-class replacement program, at risk because of this anomaly or idiosyncrasy in budgeting?

Admiral MULLOY. Well, sir, it also goes all the way back to the Atomic Energy Act of 1947—

Senator BLUMENTHAL. I understand that it has its origins in a whole bunch of history and procedure and so forth.

Admiral MULLOY. Right.

Senator BLUMENTHAL. I'm looking at it from the taxpayers' standpoint, and I'm assuming you'd agree we need the *Ohio*-class replacement.

Admiral MULLOY. Yes, sir.

Senator BLUMENTHAL. We need it on time and hopefully under budget, as our submarine-building program has done. And I'm not meaning to put you in defense of a procedure that is anomalous and maybe irrational, but that may be something we need to change.

Admiral MULLOY. Well, sir, I'd have to really get Admiral Richardson to come back and talk to you. But there's many—there's interstitials of this entire budget. This is a problem for us. That's why I've gone to OMB and OSD Comptroller myself and we've gone to the Secretary of Energy, the Secretary of the Navy has. So there's discussion going on about how can we recover it, but it's not a matter as simple as—I can't as the Navy budget officer write them a check, under fiduciary law of the United States of America. We need to have them try to solve that.

But there's many other consequences where DOE has been able to lead and keep reactor plants long-term going along with nuclear fuel. It's a very intertwined area. So we need to be careful about fixing one thing that could have tremendously unintended consequences across the full spectrum of our relationship with the nuclear industry, sir.

Senator BLUMENTHAL. Thank you.

Moving to helicopters, I understand, Secretary Stackley, that the Navy—again, I'm going to put it in probably oversimplified terms—is considering declining to order or buy about 29 UH-60M aircraft; is that correct?

Mr. STACKLEY. That's approximately correct. H-60 aircraft the Navy buys off of the Army multi-year contract. Part of this is tied to the same issue associated with the aircraft carrier. If we're down a carrier, if we're down an air wing, then there's some number of helicopters that are affected by it.

So our last year's procurement in that multi-year is 2016 and today the budget reflects zero Navy aircraft in 2016. So it would be a reduction of 29.

Senator BLUMENTHAL. Have you considered what the cost will be in adding to the ultimate procurement expense involved?

Mr. STACKLEY. We're reviewing that right now. There are estimates today that range from various factors to the Navy's share of an ultimate production shutdown, to termination liability for any material that was procured earlier on that's associated with the multi-year, to unit cost impacts to the Army aircraft. I've had a first round with the NAVAIRSYSCOM as well as the PEO and I've sent them back with a lot of analysis that I need to back up the numbers.

Senator BLUMENTHAL. Even with the changes that you describe in the aircraft carrier, won't there still be a need for the 11 frigates to have helicopters?

Mr. STACKLEY. Our inventory for H-60s, if you pull the carrier out of equation our inventory for H-60s is very healthy right now.

Joe, do you want to add to that?

Admiral MULLOY. Sir, we're going to have to analyze that in light of the cruisers, the LCS discussion, and the carrier. Once again, the commitment is if we go down in 2016 and we're appropriated above that level, we will finish the plan of record, which was the helicopter buy, the carrier, and all the other ships. If we are not at that position, then we would have to come back in a 2016 sequester plan to figure out what is the total size of the Navy and where the helicopters go.

So they're all intertwined in this whole discussion of the 2016 and out laydown of the size of the Navy and these various platforms. But we are taking advantage of a tremendous price buying on this Army—one, to buy a lot of helicopters. But it was clear that the Navy would still always have shutdown costs. What it was, we are taking into account what the liability is of buying less than we initially thought.

But I've been the budget officer for 4½ years before I became this job, and I have dealt with the largest budget the Navy's ever had and I'm dealing with the single largest dropdown in a short period even compared to the 1990s when I worked in the Budget Office before it was back in the fleet again. These are dramatic times and we're weighing off the cost, as I work with Mr. Stackley, of hard decisions versus what will be the size of the Navy and what do we have to retain.

Senator BLUMENTHAL. Do you have any idea when you'll finish this analysis?

Admiral MULLOY. This will be part of the 2016 budget, sir.

Senator BLUMENTHAL. Thank you.

Senator REED. I had the opportunity of a second round. So did Senator Sessions. I would invite any of my colleagues to take a second round or additional questions. Senator King, please.

Senator KING. Secretary Stackley, I certainly don't want to make extra work for you, but something that—I'm sure you're thinking uh-oh. I think something that would be really helpful to this committee, because this is complex and these decisions are all inter-related and very difficult. But we're dealing with our colleagues on the issue of the sequester and the effect of what happens in 2016 and then 2017 and on out.

To the extent you are able, if you can tell us what that means in terms of ships that would be very helpful. In other words, instead of us just saying to our colleagues it'll affect the shipbuilding budget, it would be—this was scary, but helpful. And you indicated that there's been additional analysis done. But I think it would be very helpful to the committee if we could say, okay, if we have the full sequester as currently scheduled here is what we would have to cut back; if we have a partial relief from the sequester, say half, here's what we could do.

It would help us to put a real face on the sequester in terms of discussing it with our colleagues and what the impacts would be. I realize it's somewhat speculative, but if you could give us your best analysis right now, here's what would happen starting in 2016 and this is where we would have to go to reduce, to reduce these expenditures.

The President's budget is fine. We would all like to see that increase. But I don't know if that's going to happen. I want to play

center field for the Red Sox, too. I'm not sure that's going to happen. So we really have to have alternatives of what the concrete effect would be of different levels of sequester relief, including zero relief.

Mr. STACKLEY. Yes, sir. Let me bracket the problem a bit. We'll just start with three cases. The first is the budget that we've submitted, second is the BCA, and then the third case pivots around the *Ohio* replacement program. There's been discussion with Congress in various hearings and things about the significance of that single program on the shipbuilding budget from about the 2020 through 2035 period, and there's discussion of what if that was partially funded from some other source. So I'm not suggesting that that's the outcome, but that's one of the scenarios that we looked at.

In the base case, if you look at historically where we've been over the last handful of years, we have invested about \$13 billion a year into new ship construction. The budget that we've submitted supports the 306-ship Navy. We get there about the end of the decade. Then, even in the period of the *Ohio* replacement, in the long-term view, which is beyond the budget, where we assume additional increases to our budget for shipbuilding, then we sustain a 300-plus ship Navy throughout that period.

If you then constrain that to BCA level and say, well, we're going to keep it at the BCA level and then escalate it on out beyond and no additional relief associated with the *Ohio* replacement program, then that 300-plus type of force, you look out in the out years—not in the 2020s, because we start with a large force. But over time, as you decommission and as your ship count draws down, at the end of the 30-year period you're down to about a 240-ship Navy.

So it would be a gradual reduction from today we're in the 280s. We're at 289 by the current method of ship counting. We get up to 300-plus by the end of the decade, and then in 2016, as we described earlier, the budget reduction's impact upon the new construction and the numbers—if you keep the numbers capped at about that \$13 billion number associated with and then lay in the BCA, you go down to 240.

If in fact during the period of the *Ohio* replacement there was some other strategic fund that covered the cost of the *Ohio* replacement or there was some relief to the top line for shipbuilding, well, then we're in much better shape. Then we're in the 280s range in terms of a long-term force structure.

So that tends to bracket the discussion. Now, let's lay a couple other factors in. The *Ohio* replacement program under all circumstances that's going to be a top priority. We have a reasonable estimate right now for what that program's going to cost. We know when it's going to be laid in. So whatever you assume for your top line, that's the first layer of bricks, the carriers.

Carriers, one carrier every 5 years nominally to support the carrier force structure, that's about a \$2 billion plus bill. So you can lay that in.

Virginia-class submarines. When we look at requirements in terms of force structure, we know already that we're going to have a shortfall. Under all scenarios we're going to have a shortfall of submarines in the back end of the 2020s. We need to sustain about

a one and a half *Virginia* per year rate long-term to maintain a 48-boat force.

So in terms of priorities, you're going to see a priority laid in for *Virginia*. Now, we're not going to be able to sustain a two *Virginia* per year rate under any circumstance with the *Ohio* replacement program. So that's going to be throttled some, but that would be the next tier you start to see in. That's where it gets very difficult, because now you're looking at surface combatants, you're looking at the amphibious force that we've already discussed in terms of our current shortfall to amphibious lift.

The bottom line is that at BCA level through the 2023 period and then you start to—you assume that the Navy's going to fund the full, which is the baseline assumption, the Navy's going to fund the full cost of the *Ohio* replacement construction. We're looking at four, plus or minus, additional ships per year other than—

Senator KING. Of all types.

Mr. STACKLEY. Of all types.

—than the *Ohio* replacement and the carrier, the carrier every 5 years, during that 15-year window. That's what drives your numbers.

Now, to get into the specifics in terms of how many destroyers, which year, when would the next big deck be, you can move those things around with assumptions. But when you just grasp what that means—*Ohio* replacement, carrier every 5 years, and then four, plus or minus, ships per year otherwise—you are entirely reshaping our Navy's force structure, and with that what the Navy can do for the Nation.

Senator KING. Thank you. It's sobering and straightforward. I appreciate that.

Senator REED. Thank you very much, Senator King. Thank you to my colleagues.

I want to first cite the witnesses for their very insightful and very articulate testimony, and for your incredible service to the Nation. Thank you so much.

I think Senator King raised a very important question and your response was very helpful. If you have the ability to generate the scenarios—I assume, like every organization, you'll have a plan A, a plan B, and a plan C. So whenever that might be ready for prime time, you could share it with us.

A final point and just the impression that I've had, and I think it reflects something Senator McCain said, is that there's always the debate whether budgets drive strategy or strategy drives budgets. We spent the whole afternoon talking about budgets, basically, not strategy, not threats, not the future. But I think we have to recognize, and Senator McCain suggested this, that we might be at an inflection point, because the permissive environment that has been the assumption of a lot of our shipbuilding and platforms of all varieties, that we can go anywhere and do anything because the other folks don't have the technology and there's a huge gap, that is rapidly changing. And that has huge strategic implications. That's another factor you have to build into your discussions.

But I think it is interesting to note that this whole conversation this afternoon has been dominated by budgets, not by emerging threats, strategies, new technologies, et cetera. We have to remem-

ber that, too. In fact, my sense is it's becoming more of an issue each day rather than less of an issue.

But let me suggest that the hearing record will remain open until April 16th, next Wednesday. If there are additional statements for the record, please submit them. My colleagues, if we have written questions, we'll get them to you before the 16th or on or about. We'd ask for your prompt response.

If there are no further comments or questions, I would thank the witnesses and the hearing is adjourned.

[Whereupon, at 4:23 p.m., the subcommittee adjourned.]