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THE SENATE COMMITTEE ON ARMED SERVICES

STATEMENT OF
ADMIRAL JOHN M. RICHARDSON
U.S. NAVY
CHIEF OF NAVAL OPERATIONS
BEFORE THE
SENATE COMMITTEE ON
ARMED SERVICES
ON
LONG TERM BUDGETARY CHALLENGES

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Mr. Chairman, Ranking Member Reed, and distinguished members of the Armed Services Committee, thank you for the opportunity to discuss the Navy's current and future fiscal needs. I have appeared before you and your colleagues in the Congress multiple times to tell this story over the last 14 months; unfortunately, little has changed during that time. The gap between the demands the Navy is facing and the solutions available to address them is growing, and remains my deepest concern. As has always been true, each of the military services seeks to find the best balance between readiness for today's operations and ensuring adequate preparation for the future. The solution required to establish the best balance includes two broad dimensions: how much resources are provided, and how Navy uses those resources to best effect.

Regarding how much resources are provided, there is no question that the fiscal limits imposed by the Budget Control Act (BCA), application of the sequester mechanism, and even the slightly relaxed limits in the Bipartisan Budget Act have made finding this balance much more difficult. The Navy has seen increasing pressure on its budget since President's Fiscal Year (FY) 2014 request. Against that baseline, our funding has been cut by \$30 billion, to include a \$5 billion reduction reflected in the pending FY 2017 proposal.

Reduced funding levels are just one of aspect of the "triple whammy" that the Navy faces. Those cuts come at a time when continued mission demands result in high operational tempo, and there is persistent uncertainty about when budgets will be approved. The combination of these factors has resulted in Navy incurring substantial "readiness debt," just like carrying a debt on a credit card.

The operational demands on the Navy remain high. The maritime security environment is becoming increasingly congested and competitive, when technology is advancing and being adopted at unprecedented rates, and when competition in the information domain is permeating every aspect of our existence. China and Russia are leveraging these trends to expand both their capabilities and capacity, and are making the maritime competition felt both at sea and in the air. North Korea's missile programs continue to advance and their provocations persist. Iranian forces vacillate between professional and more threatening actions on the sea, raising the potential for miscalculation, and ISIL continues to demonstrate its ability to threaten America and its interests.

In response to these challenges, the Navy's sustained operational tempo has been high. To meet demands, the Navy continues to extend deployments and stress our platforms beyond projections. Our analysis from the last 15 years of conflict shows that a seven-month deployment is sustainable. But between late 2013 and the end of 2015, the average deployment for our carrier strike groups was nine months. We are currently taking steps to return to our seven-month goal as rapidly as possible, but the need to support the fight against ISIL recently led us to extend the deployments of the USS HARRY S TRUMAN and USS THEODORE ROOSEVELT Carrier Strike Groups to eight and eight and a half months respectively.

The effects of this high operational tempo manifest themselves through increased wear and tear on ships, aircraft, and people. As we conduct much-needed repairs, the average amount of work needed for the 34 ships currently in private shipyards is exceeding our projections by 35 percent. For aircraft, our planned maintenance in depot work periods for legacy F/A-18s is taking 345 days to return them to safe flying status, almost double the 180 days we had planned. This results from extended operations and increased use of our systems, which causes material conditions to degrade faster than anticipated. Longer maintenance cycles have operational implications, and often have a cascading effect. Aircraft carrier strike group deployments are just one example: last year, the USS DWIGHT D EISENHOWER's scheduled dry dock repairs had to be extended by nine months. In order to meet mission requirements, the USS HARRY S TRUMAN's maintenance period was cut short so she could deploy in place of EISENHOWER. The deferred work on the TRUMAN will now be rolled into her upcoming maintenance period that begins later this month. For surface combatants, the Congress is currently considering reprogramming actions that will help us to address cost growth and support planned maintenance availabilities for three destroyers in this fiscal year, but sustained budget pressure and higher than expected maintenance volume has already led to delaying an attack submarine maintenance period beyond this fiscal year.

Our people are also feeling the strain. While we continue to meet both our recruiting and retention goals in the aggregate, these numbers mask lower retention for certain heavily stressed specialties like SEALs (26 percent less than the goal from 2013 to 2015) and surface nuclear officers (14 percent less than the goal over the same period). Navy aviation is another area where this is a concern. We are seeing declines in officer retention for multiple grades, and bonuses are not proving fully effective. Though we are still able to meet our manning needs, these trends are particularly worrisome given the projected increases in civilian aviation hiring. This fraying of the team

represents a grave threat to our future. We ask a lot of our Sailors, and they expect very little in return. At a minimum, we owe them the ability to sustain a personal and family life as they pursue their Navy careers.

Constrained resources, reduced funding levels, combined with operational and related maintenance challenges, have been exacerbated by budget uncertainty. Building and maintaining high-end ships and aircraft requires long term stability and commitment. Without it, costs grow and work takes longer. Skilled workers leave the workforce - many don't return. Private industry defers investments in necessary process improvements. Despite these obstacles, recovery from our current maintenance backlog is underway -- but it will take time. We must find a way to restore the trust and confidence that underpin the crucial relationship with our acquisition and maintenance workforce. Our ability to achieve true effectiveness and efficiency has been undermined by budget instability, workforce limitations, and eight -- now likely nine -- straight years of budget uncertainty and continuing resolutions.

The impact of continuing resolutions is significant. Navy leaders have essentially been managing an enterprise, with a budget the size of a "Fortune 10 Company," in what amounts to three fiscal quarters per year. This compromises our mission, and drives inefficiency and waste into all that we do. For example, a short term continuing resolution requires us to break what would otherwise be single annual contract actions into multiple transactions. This results in a 20 percent increase in the overall number of funding documents for activities like base support and facilities maintenance, and fails to take advantage of savings from contractors who could better manage their workload and pass on lower costs to the Navy. These redundant efforts drive additional time and cost into the system, for exactly the same output.

As our first priority, Navy leaders ensure that every single unit we send forward on deployment is fully prepared to conduct its mission. Doing so at current budget levels forces difficult choices about readiness levels of the force we have in reserve, and the resultant length of time that would be needed if we are called upon to "surge" that force in response to a large conflict or emergent contingency. For example, we are falling short in the numbers of ready aircraft and the parts to support them. This means it will take more time and training if there were a need to push them forward in response to a crisis. We have also been forced to rely upon contingency funding to augment our base budget. For example, our FY 2017 budget proposal funds only 20 of the 24

steaming days per quarter for non-deployed unit training and readiness - the four remaining days are reflected in our contingency request. If contingency funding is curtailed, the loss of steaming days will directly impact the surface fleet's training and readiness to conduct exercises at sea for basic, intermediate, and advanced training.

The Navy's uncompromising commitment to preserving the readiness of the forces deploying today also affects investments in our future readiness, as reflected in our modernization accounts. Some examples of this tension include lower funding for Counter Electronic Attack Kits to defeat high end threats; continued procurement for next generation F-35C aircraft; additional advanced tactical cryptologic and cryptologic support tools; additional AIM-9X missiles; and a modernized DDG combat system that leverages the latest advances in attack capabilities. These are critical modernization capabilities that are currently not funded at desired levels.

My top modernization priority, and greatest concern, is adequate, stable funding for the Ohio Replacement Program (ORP) while still providing a fleet that will meet other important Navy missions.

In the immediate future, January 2017 is planned to be a major ORP milestone when we transition from research and development to ship construction funding in order to conduct detailed design work. The absence of an approved budget puts at risk this transition, and the Program as a whole. If we cannot find a way to begin this work by the beginning of the calendar year, ORP will almost certainly experience unnecessary cost growth, as well as experience delays that threaten the conduct of an existential mission that we have covered continuously since 1960. I welcome the opportunity to provide any additional information to further explain the imperative of keeping this program on track.

I have other concerns as well. We foresee future shortfalls in our Attack Submarines, Future Surface Combatants (including Destroyers and Frigates), in strike fighter aircraft, and in facilities. We are taking steps to mitigate all of those shortfalls as best we can. For example, a major part of our aviation "get well plan" rests on a multifaceted strategy that involves extending the service lives of the F/A-18s; improving the capabilities of the F/A-18 Super Hornets to address current and emerging threats; getting F-35s built on time, in sufficient numbers, and out to the fleet; and pushing unmanned aircraft out to the flight deck. Our MQ-25 Stingray program is the leading edge of this effort, and I

am driving this as quickly as possible so we can capitalize on the step increase in capability unmanned systems will offer us in the future.

Another area of concern is our shore infrastructure. It is aging, and we currently carry a facilities maintenance backlog of over \$5.5 billion - an amount that is growing at \$600 million annually. We are prioritizing funding those projects that resolve safety deficiencies and repair the most mission critical facilities, but this is far short of what is needed to support a reasonable quality of life and work for the Sailors, civilians, and families that make up our Navy team.

The other important dimension to closing the gap between mission requirements and solutions is how the Navy uses our resources to best effect. As I've previously testified, budget constraints are forcing choices that limit our naval capabilities in the face of growing threats. I look forward to providing any additional support I can to inform discussions about how best to address those constraints, and would be especially grateful for any solution that offered greater budgetary stability.

But I also share some of the responsibility to address the gap between Navy missions and the resources we have to address them. While I do not write the amount of the Navy's check, I can ensure that we are spending what we get to greatest effect. I see changing how we do business to be faster and more efficient as both a moral and a warfighting imperative.

To that end, I am working to the limits of my authority to bring greater speed to our acquisition process without compromising the discipline ingrained in our practice. We are increasing our emphasis on rapid prototyping and experimentation and simplifying our bureaucracy to the maximum extent possible, seeking input and ideas not only from within but from our traditional and non-traditional industry partners. This will save money. Even more importantly, it will put capabilities in the hands of our Sailors that they need to remain superior to adversaries who are gaining on us in many key technology areas.

Given the pace at which things are changing, I also owe you hard thinking about our future needs and how we can best address them. We are nearing completion of our assessment of future fleet size, composition, and capabilities, which is being updated to reflect contemporary missions and threats. We are also engaged in a wide set of studies, wargames, experimentation, and analysis to think through new ways to ensure the Navy retains our advantage in an environment that is dynamic,

uncertain, and accelerating everywhere we look. We have clarified roles and responsibilities for thinking through the near, mid, and far term that will bring greater coherence and rigor to our plans, and are taking a more strategic approach to allocating the resources in support of those efforts. And we are doing all of this at the same time we are reducing our headquarters staffs, consistent with your direction. I am convinced that these adjustments, while painful, will force us to become more creative and effective as we continue to downsize.

In sum, taking all of factors into account, the FY 2017 budget request represents our best proposal to strike the appropriate balance between today and tomorrow, given available funding. The Navy's budget addresses our gaps on a prioritized basis, takes measured steps to improve current readiness, and starts to accelerate investments in some of the capabilities most important to maintaining a competitive advantage over our adversaries.

Looking forward, I remain deeply concerned about the gap between what the American people expect of their Navy now and for the foreseeable future, and the available resources to deliver on those expectations. Your Navy team has always and will always do everything that is asked of them, and every ship and aircraft being sent forward is fully prepared to conduct its mission. The strain on the depots, labs, shipyards, logisticians and others that allow us to maintain this standard -- which we will not compromise -- is substantial. We are taking every step we can to relieve it. For the Navy, the size of this gap is likely to grow as the nation's strategic challenges increase in number and complexity, and as resources in both the short and longer term remain tight. A return to reliable and predictable budgeting is equally important. To fulfill our responsibility to be effective stewards of the resources we receive, we are doing all that we can to bring to bear the ingenuity and creativity that has characterized your Navy throughout its history. Thank you, and I look forward to your questions.