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THE SENATE ARMED SERVICES
COMMITTEE

STATEMENT OF
THE HONORABLE RICHARD V. SPENCER
SECRETARY OF THE NAVY
BEFORE THE
SENATE ARMED SERVICES
COMMITTEE
ON
FISCAL YEAR 2019 DEPARTMENT OF THE NAVY BUDGET
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INTRODUCTION

Chairman McCain, Ranking Member Reed, distinguished members of the Committee, thank you for the opportunity to appear before you today to testify regarding the Department of the Navy (DON) 2019 President's Budget request (PB19).

First, on behalf of our Sailors and Marines, I would like to express gratitude for the efforts put forth by Congress addressing the President's Budget request. We are very aware that this process has stretched members to their limits on many fronts. Please know that the resources we receive will be expended in focused alignment with the National Security Strategy (NSS) and National Defense Strategy (NDS) building our combat credible force.

Our Nation supports maritime operations worldwide. Forward-deployed and forward-stationed naval forces use the global maritime commons as a medium of maneuver, ensuring the maritime levels of commerce remain free and open, assuring access to overseas regions, defending key interests in those areas, protecting U.S. citizens abroad, and preventing adversaries from leveraging the world's oceans against the United States. The ability to sustain operations in international waters far from U.S. shores constitutes a distinct advantage for the United States – a Western Hemisphere nation separated from many of its strategic interests by vast oceans. Maintaining this advantage in an interconnected global community that depends on the oceans remains an imperative for the Sea Services and the Nation.

Our PB19 request enhances readiness and begins increasing the capability and capacity of the Navy and Marine Corps team. As directed within the 2018 National Defense Strategy (NDS), the PB19 budget submission will support the building of a more lethal, resilient, and agile force to deter and defeat aggression by peer competitors and other adversaries in all domains and across the conflict spectrum. Ultimately, our budget submission reflects the DON's efforts to protect the homeland and preserve America's strategic influence around the world. The Navy's overarching plan – the Navy the Nation Needs (NNN) – consists of six dimensions: Readiness, Capability, Capacity, Manning, Networks, and Agility. The Marine Corps' plan – Modernizing for the Future Force – focuses on investments in Modernization, Readiness, and Manpower; further increasing its competitive advantage and lethality resulting in a Next Generation Marine Corps. The resourcing of both services aligns with the NDS, ready to fight and win across the range of military operations (ROMO).

The strategic environment is rapidly changing and the Navy and Marine Corps is engaged in a competition that they have not faced in over twenty years. To meet the objectives of the NDS, and as part of the Joint Force, the Navy and Marine Corps' primary force contributors are Carrier Strike Groups (CSG) and Amphibious Ready Groups / Marine Expeditionary Units (ARG/MEU), and ballistic missile submarines – the most survivable leg of the nuclear triad. These units remain forward at all times, while additional CSGs and ARG/MEUs are ready to surge in support of Operational Plans. Our PB19 budget continues to make strides in achieving that requirement to once again re-establish the standard that has ensured preeminence. This will be imperative to winning peer-on-peer competition, as we move forward to deliver enhanced distributed lethality.

The Department is committed to follow reform guidance and has identified savings of over \$1 billion in FY2019 and \$5 billion over the Future Years Defense Program (FYDP) which will be reinvested in force structure and readiness. Savings were achieved through reform efforts focused on improving organizational effectiveness; eliminating, restructuring, or merging activities; and workforce management. One specific fiscal reform effort has been the Department's focus on improving the expenditure of funds through an emphasis on the quality of our obligations. Leadership is committed to ensure that a dollar appropriated to the Department is expended by the Department to achieve the direction laid out by the NDS. Additionally, the Department has also reviewed duplicative programs or programs that are no longer mission essential. This has resulted in the divestiture of legacy F/A-18

Hornets, the transition of the HH-60H reserve squadron from legacy aircraft to newer MH-60S aircraft, and a review of Marine Corps training munitions. Representative investments resulting from the reform initiative include an additional DDG-51, one additional F/A-18 E/F, increased procurement of Rolling Air Frame missiles and MK48 torpedoes, and funding afloat readiness to maximum executable levels. Moreover, the Department is focused on improving business processes heightened through the audit of our financial statements.

As we continue to look forward to the PB19 budget, our priorities center on *people, capabilities, and processes*, and will be achieved by our focus on speed, value, results, and partnerships. Readiness, lethality, and modernization are the requirements driving these priorities.

PEOPLE

The ability to accomplish our mission successfully relies on the Navy and Marine Corps team – 800,000 Sailors and Marines, active duty and reserve, our civilian teammates and families. We rely on their superior talent, recruiting the most promising workforce for the future, and making strategic investments in training and retention initiatives.

Our forward-deployed forces suffered tragic mishaps in 2017, both on the sea and in the air. We will never forget those we lost and we stand by our fellow Sailors and Marines along with their families in solidarity.

We do not take these losses lightly; both the Comprehensive and Strategic Readiness Reviews have examined the factors that led to the series of incidents on the sea and provided recommendations we are now implementing. The Strategic Readiness Review found that institutional deficiencies were the cumulative result of well-intended decisions developed over decades. Accepting deviations from our standards translated into the acceptance of higher risk, which then gradually became normalized, thereby compounding the accumulating risks. The entire Department of Navy leadership is committed to addressing these issues across the Force. The action plan, well underway, commands my full support and oversight and while we operate with a sense of urgency, we are steadfast in ensuring this is addressed correctly the first time.

Good order and discipline are key ingredients to unit cohesion and lethality. Sexual assault is a cancer effecting the aforementioned. The Department of the Navy has come a long way in addressing sexual assault, but until we get to zero, there is still work to be done. As with any cultural change in an organization, our challenge involves sustaining positive momentum. We continue to resource and monitor our progress and address preventing sexual assault along with prosecution. My commitment is enduring and fundamental, and my position of intolerance for sexual assault anywhere is unequivocal.

While the Navy and Marine Corps are achieving overall military recruiting objectives, the Department faces ongoing challenges from an increasingly competitive marketplace and a decline in the propensity for military service among young people as our accession goals are modestly increasing. The Department continues to explore systematic improvements to support recruitment and retention, to include programs which maintain the health and resilience of the force, and maximize professional, personal, and family readiness. Our success in sustaining maritime dominance relies on our ability to attract America's best. We will continue to recruit superior talent and invest in long-term measures to retain it, while fostering an environment where our Sailors, Marines, and civilians are provided the opportunities and resources they need to thrive and be successful. Aligned with our Core Values of Honor, Courage, and Commitment, we continue to strengthen our investment in the ethical development of our Sailors, Marines, and civilian employees. While competition for talent with the private sector continues to increase, I believe we are resourced and positioned to overcome our manning and retention challenges.

CAPABILITIES

As we build our lethal capabilities to fight tonight and challenge rivals, we must respond on all fronts, to include research and development, rapid prototyping, accelerated learning, and partnership with industry. These efforts and partnerships will be built on shared risks and shared benefits. We are now working with industry in a true partnership to achieve a sustainable acquisition process that will provide us solutions to problems we face in order to remain ahead of the competition.

The Department of the Navy has an overarching plan to meet warfighting requirements in support of the NDS. For example, the long range ship acquisition plan:

- (1) Establishes acquisition profiles to grow the force at a steady, sustainable rate. This includes sustainment of the industrial base at a level that supports more affordable acquisition while growing an experienced workforce to support more aggressive growth if additional resources become available.
- (2) Implements Service Life Extensions (SLE) based upon return on investment – we will modernize rather than replace when appropriate as good stewards of taxpayer dollars.
- (3) Provides options for aggressive growth as resources and industrial capacity permit. PB19 includes four additional DDG 51 Flight IIIs over the FYDP, for a total of 14 Flight III ships and three additional fleet oilers across the FYDP. New ship construction totals have increased since last year’s plan, with three additional ships (1 DDG 51 Flight III, 1 Expeditionary Sea Base, and 1 fleet oiler) added in this request for FY19. Throughout the FYDP, the Department added a net total of 11 battle force ships.

With sustained funding and SLEs, PB19 puts the Navy on a path to 355 ships while we are simultaneously increasing our capabilities. By setting the conditions for an enduring industrial base as one of our priorities, the Navy is postured to take advantage of additional funding that may be provided through reform initiatives in future years. This can be achieved without threatening the long-term competitive posture of a balanced warfighting investment plan while retaining an option to accelerate a targeted portfolio of weapons systems.

The Navy is aggressively pursuing cost reduction opportunities to deliver fully capable assets at the most efficient possible cost. The Ford Class Aircraft Carrier program refined the ship construction process for CVN 79 by, capitalizing on technological improvements, and enhancing shipbuilder facilities to drive towards the targeted 18 percent reduction in labor hours from CVN 78. The Navy is also executing advance procurement and negotiating long-lead time material for CVN 80, and full funding for CVN 81 begins in FY23.

Naval Aviation continues to operate forward, fully prepared for conflict across the ROMO while managing near-term service life extensions, mid-term procurement and modernization, and long-term investment in research and development. With the support of Congress, the U.S. Navy and Marine Corps are implementing our “Vision for Naval Aviation 2020.” The Department has initiated a Next Generation Air Dominance Analysis of Alternatives (AoA) study that is investigating technology and program investment requirements to recapitalize Navy F/A-18E/F and EA-18G tactical aviation platforms. The future of DON tactical aircraft relies on a combination of F-35B and F-35C 5th generation aircraft. Continued investment in capability upgrades for both platforms is required to improve the lethality of the CSG and ARG/MEU. We will see our first operational deployment of F-35Bs later this year with our ARG/MEUs in the Pacific.

The MV-22B Osprey’s unique combination of vertical flight and fixed-wing capabilities continues to enable effective execution of missions that were previously unachievable. Marine Corps MV-22B’s

continue to extend operational reach, revolutionizing our ability to operate from the sea, austere locations, and previously damaged airfields within a contested environment. The DON begins procurement of the Navy CMV-22B variant in support of the Carrier On-Board Delivery mission in FY18.

Navy and Marine Corps Expeditionary Forces will soon receive the next generation protected mobility. The Joint Light Tactical Vehicle begins fielding in 2019. In FY19, the Marine Corps is set to receive the first Amphibious Combat Vehicle Low Rate Initial Production units in preparation for Operational Test and Initial Operational Capability in 2020. These capabilities are vital for our continued efforts to adapt and modernize our expeditionary forces with the requisite protected mobility. As we work through the programmatic schedule with these vehicles, we are continually looking at ways to improve their ability to counter ever changing threats from potential engagement with peer adversaries.

The Department of the Navy is determined to lead the way in the development and responsible integration of cyber metrics and artificial intelligence, establishing aggressive goals for the acceleration of integrating these unmanned systems. One of these future systems is the Snakehead Large Displacement Unmanned Underwater Vehicle which is designated as a Maritime Accelerated Capability Office program to fast-track this capability. Surface operations will be augmented through an integrated team of manned and unmanned enhancing capabilities and capacity. Investments in autonomous platforms and mine countermeasure technology will reduce the threat of mines in contested waters while reducing risk to our Sailors conducting this dangerous mission.

Steady progress will continue in developing and fielding unmanned aviation assets. Today the MQ-4C Triton Unmanned Aircraft System enhances awareness of the operational environment and shortens the sensor-to-shooter kill chain. The Navy is committed to future unmanned carrier aviation with the MQ-25 Carrier Based Unmanned Aerial System that will deliver an unmanned tanker. The Marine Corps continues development of the unique Marine Unmanned Expeditionary (MUX) system to further increase lethality and resilience of the fleet while also enhancing aggregate ISR capability.

We are also investing in strike weapons as well as theater and high value target multi-layer area defense weapons for the Fleet. Investments are enhancing warfighting capability and increasing magazine depth. Along these lines, the Marine Corps is pursuing ground based fires to restrict freedom of movement along sea lanes while requesting the integration of Vertical Launch Systems to amphibious shipping.

Efficiently operating Navy and Marine Corps installations are essential in generating naval forces. Over the last decade the DON has taken risk by underfunding infrastructure capital investments and installation operations to fund other warfighting, readiness, and modernization requirements. Under-investment has created a backlog of maintenance and repair requirements and reduced facility effectiveness. The DON's FY19 budget request acknowledges and begins to address these installation investment challenges. The budget funds infrastructure that supports new platforms and an increase in infrastructure sustainment funding; begins to address the significant requirement to recapitalize our naval shipyards; and recapitalizes critical enabling infrastructure.

PROCESSES

The Department is actively reforming business processes and driving efficiencies to increase speed, value, and support to the warfighter, while concurrently enhancing lethality and increasing readiness. We are identifying and clearing constraints caused by burdensome policies and regulations, and are increasing adoption of agile business models and technologies to support our need for urgency. Layers of overhead are being removed and organizations are being flattened to return decision-making authority further down the command structure. We are also demonstrating progress in the area of data-driven decision making and problem solving. The Department of the Navy's FY19 budget request reflects extensive use of modeled campaign and mission level outcomes to evaluate capabilities and force structure and maximize

naval power. We stood up a Digital Warfare Office to harness the power of data by executing digital pilot projects that informed decisions on operational effectiveness and readiness. Moving forward, the FY20 Navy budget features additional force level analytic tools, developed at our Federally Funded Research and Development Centers and in conjunction with industry that will further assist us in integrating valuation and capability assessments to optimize the Navy's budget for the highest warfighting return on investment.

Growing the Fleet requires a strong and integrated relationship with our private sector partners. We are working closely with our prime contractors to ensure suppliers are prepared to support the increasing demand of building a larger Fleet. We need industry to provide solutions and capabilities at the speed of relevance and at an affordable value. As the same time we also need to be a better customer. Industry needs predictable and stable programs, which require a stable budget. If we are effective at long-range planning, we can increase our buying power by using all of our tools to provide stable commitments to our industrial partners. We appreciate the much needed two year budget deal and look forward to working with you to produce stable and flexible funding that will drive improved productivity, efficiency, and competitiveness across the supplier base.

We continue to pursue acquisition reforms contained in recent legislation, with emphasis on provisions that increase Service acquisition oversight and the role of the Service Chiefs in the process, along with those that provide opportunities to accelerate the fielding of critical capabilities. We are employing new constructs, to include the Maritime Accelerated Capabilities, the Marine Corps Rapid Capability Office, and an Accelerated Acquisition Board of Directors. These solutions will improve innovation, speed, and agility through strategy-driven investments addressing our highest priorities.

The DON is undergoing its first full audit of all financial statements, which will help us gain a clearer picture of the effectiveness and an opportunity to improve our processes and internal controls. The Marine Corps was the first from our Department to complete the Full Financial Statement Audit for FY 2017, sharing lessons learned across the Department. As our data quality improves, we will be able to harvest savings generated through process reform and reinvest in lethality. We are committed to full accountability for every dollar.

CONCLUSION

I deliver you today a plan with a sense of urgency. The FY19 President's Budget request seeks to provide sustained and predictable investments to modernize and increase the readiness of our Navy and Marine Corps team. We cannot and will not allow our competitive advantage to erode.

These planned investments will provide combat-credible maritime forces for the future. I commit to you that we will not just look forward but will lean forward. I will focus the Departments support to the NSS and NDS. We will gain efficiencies and effectiveness through business reforms at my level while supporting both the Chief of Naval Operations and the Commandant of the Marine Corps' programmatic efforts to fulfil their needs to meet the challenges our Nation faces in the evolving strategic environment and maritime domain. We are grateful to Congress for their support and efforts. We will ensure we are good stewards of the provided resources, drive efficiency across the department to maximize every dollar, and invest smartly to leverage the return on our investments.

I appreciate this opportunity to present our plan and will continue to work with the Congress to provide our Nation the Navy and Marine Corps team it requires.