



SECRETARY OF DEFENSE
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WASHINGTON, DC 20301-1000

SEP - 8 2017

The Honorable John McCain
Chairman
Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

I am writing in response to your August 29, 2017 letter regarding the potential impacts of another fiscal year under Continuing Resolution (CR) authority. I appreciate and share your concern in this matter.

Long term CRs impact the readiness of our forces and their equipment at a time when security threats are extraordinarily high. The longer the CR, the greater the consequences for our force. A CR, if required, avoids a government shutdown and provides an opportunity for a long-term solution that lifts the BCA caps.

In the long term, it is the budget caps mandated in the Budget Control Act (BCA) that impose the greater threat to the Department and to national security. BCA-level funding reverses the gains we have made in readiness, and undermines our efforts to increase lethality and grow the force. Without relief from the BCA caps, our air, land, and sea fleets will continue to erode. BCA caps obstruct our path to modernization, and continue to narrow the technical competitive advantage we presently maintain over our adversaries.

The Service Secretaries and Chiefs have identified many of their specific concerns about operating under a CR (enclosed). I appreciate that you share our concerns, and look forward to working with you in FY18 as we build a solution to alleviate the BCA caps.

I have provided similar letters to the other Chairs and Ranking Members of the House and Senate Committees on Armed Services and Appropriations.

Enclosure:
As stated

cc:
The Honorable Jack Reed
Ranking Member



Impacts of a Continuing Resolution Authority in Fiscal Year 2018

- **This summary describes the most likely impacts of operating under a Continuing Resolution (CR), if enacted for Fiscal Year 2018 (FY18). The impacts of a CR depend in part on the level of funding provided and the duration of the CR period.**
- The Military Departments and Defense Agencies are justifiably concerned that under a CR, the Department cannot reprogram FY18 funds until a full appropriation is enacted. Inability to reprogram CR funds drastically reduces the ability to respond to urgent requirements or to address funding gaps that damage readiness.
- During a CR, we remain committed to supporting the warfighter. The Military Departments will realign or execute CR and existing budgetary resources within the limits of their authorities to fully support forward-deployed operations, direct support activities, and urgent operations of the Combatant Commands. Finding ways to fully fund such essential activities while operating during a CR does not make CRs any less disruptive or detrimental – in reality, doing so imposes a great burden on DoD’s foundational capabilities, and immediately manifests in impacts on training, readiness and maintenance, personnel, and contracting.
- **Training: Impacts begin immediately, within the first 30-days of a CR. By 90 days, the lost training is unrecoverable due to subsequent scheduled training events. These training losses reduce the effectiveness of subsequent training events in FY18 and in subsequent years.**
- Most major exercises and training events are scheduled for the spring and summer, and presume individual and unit-level training was completed. Training scheduled during the period of the CR, however, must be re-scoped and scaled to incorporate only mission essential tasks and objectives, so units enter the major exercises less prepared.
- For example, the scope of a Joint live fire field training exercise (FTX) scheduled to execute in conjunction with annual Marine Corps weapons certification events may have to be reduced during a CR by limiting weapons crews to firing at levels that firing tables specify as necessary to maintain certification, thus forgoing the added training benefit of firing weapon systems in a Joint operational context. Without this experience, the Marines would then enter their major exercises and training rotations without the benefit of having practiced coordinating joint fires, or the experience of firing in an operational environment.
- Air Force must preserve core readiness training for deployed or next-to-deploy units, at the cost of institutional training and flying hours. Lack of funds to stand-up two F-16 training squadrons, reduced aircraft availability, and inability to grow the force (military and civilian) will further reduce pilot production, leaving the Air Force unable to train the number of pilots necessary for continued readiness recovery. Cancellation of exercises will further degrade pilot training and readiness

Readiness and Maintenance: The impacts of a CR are felt immediately, and grow exponentially over time. Although maintenance impacts can be mitigated for some activities operating under a 3-month CR, in areas, such as Navy Ship Depot Maintenance, funding shortfalls result in delays in Naval vessel availability, which may affect subsequent deployment rotations.

- Under a CR, funding reductions will impact all major activities not related to deployed forces, including: depot maintenance, individual and collective training, and munitions procurement. Failure to properly fund readiness restoration initiatives in a stable and consistent manner will impede the recovery of our readiness, which has just begun to see tangible results, and may prove fatal in a future conflict with major-power adversaries. Furthermore, a ready force requires continued and stable investment in our munitions inventory and a CR will not provide the Services the necessary flexibility to procure and develop weapons, nor build sufficient infrastructure to align with the Department's readiness recovery efforts.
- Navy will delay the induction of 11 ships, which will exacerbate the planned ship maintenance in FY18, and will slip ship availabilities into FY19, further impacting that plan. FY18 Ship availabilities considered for schedule slip:

Ship	Planned Start	Location
- KIDD DDG-100	19 Nov	Puget Sound
- PINCKNEY DDG-91	04 Dec	San Diego
- CORNADO LCS-4	15 Dec	San Diego
- PORT ROYAL CG-73	22 Dec	Hawaii
- PRINCETON CG-59	25 Dec	San Diego
- SAN DIEGO LPD-22	31 Dec	San Diego
- CARTER HALL LSD-50	22 Jan	Virginia
- OSCAR AUSTIN DDG-79	02 Feb	Virginia
- VELLA GULF CG-72	19 Feb	Virginia
- JAMES E WILLIAMS DDG-95	19 Feb	Virginia
- MAHAN DDG-72	19 Feb	Virginia

- Under a 90-Day CR, all listed ship inductions will be delayed, as the shipyards' capacity is not capable of fully "catching-up" lost work, thus the entire schedule slips to the right. This means that even a relatively short CR creates delays in ship depot maintenance, thus deployment timelines, into subsequent years.
- Under a 3 month CR, Army will defer supply transactions, and then later have to pay more to get parts fabricated or shipped quickly, in order to keep up with maintenance timelines. Under a 6 month CR, Army will order parts from sources outside the DoD supply system, just to keep up with operational demand. These external transactions will cost more and fail to leverage the efficiencies built into the centralized supply system.
- Under a CR, the Army will have about \$400 million per month less in their operating accounts. Beginning in a 3 month CR, It will be forced to restrict home station training

- Immediately under a CR, Army will postpone all non-critical maintenance work orders until later in the year.
- Within the first 3 months of CR, Navy will reduce flying hours and steaming days for those units not deployed or next to deploy. It will delay the replenishment of spares and repair parts on supply shelves in our ships, submarines, and aircraft carriers across the non-deployed Fleet.
- The Military Departments will limit execution of infrastructure funding by prioritizing life, health and safety requirements. For the Air Force, this will affect 79 major installations worldwide and negatively impact aircraft bed-downs and mission generation.
- The lack of a National Defense Authorization Act, the legal requirement for specific appropriations for major military construction projects, and new start restrictions within the CR combine to mean that no new major military construction projects can be initiated using CR funds, with an inevitable delay in project schedules and potential increased costs. For the Navy this will impact 37 projects; the Air Force has 16 projects; the Army has 38 projects.

Personnel: The uncertainty imposed during a 3-month CR causes most hiring actions and recruitment to be curtailed, and vacancies to then be re-announced once an appropriation is enacted. This disruption leaves critical gaps in the workforce skill set and causes unnecessary angst among military and civil servants, making the Government a far-less attractive option to the highest-skilled potential candidates.

- Both Congress and the President agree need exists to add military personnel to meet critical skill gaps such as pilots, maintainers, cyber experts, and nuclear trained personnel. A CR will delay the accession process, with the consequence that units and organizations will continue to lack the full complement of personnel they need to be effective.
- Professional development and training for both military and civilians will be delayed.
- Non-critical travel, which includes PCS moves for civilians and military members and their families, will be curtailed. This often results in missed hiring opportunities as potential employees pursue other options. It creates unnecessary turmoil for families who had otherwise planned to relocate, whose orders are delayed; and may then result in missed schoolyear timing for dependent spouses and children.
- Adverse outcomes for medial beneficiaries experiencing potentially life threatening illnesses due to delays in receiving the required treatment. Beneficiary health care is an entitlement and there is no mechanism to slow down or reduce the demand for services.

- Payments to medical care providers for services rendered for patients will be delayed. This results in a potential reduction in future access to private sector health care for DoD beneficiaries, as a result of providers discontinuing services to patients paid by TRICARE.

Contracting: The impacts of a CR on DoD contracting efforts are significant and begin within the first 30-days of each CR. Every contract that has to be re-competed represents additional work for the already-pressed DoD acquisition workforce. In addition to these increased administrative costs, new start rules and funding constraints carried forward under each CR extension combine to increase the likelihood that costs of material and labor in the contracts themselves will also grow. To the vendors and manufacturers, the Government becomes a less reliable, higher-risk customer.

- As is the case in the private sector, DoD saves money by buying in quantity. When we are forced to sever contracts and renegotiate terms with each CR, our costs grow to offset the increased risks and delays; we offer vendors less stability and predictability, and pay accordingly.
- Acquisition programs are forced to use incremental contract actions to preserve efforts and schedules, which inevitably results in higher program costs and schedule delays. Each iteration of contract rework further taxes the DoD Contracting community, doubling or tripling their workload annually.
- Under a CR, there are generally no new-starts, and no production rate increases for acquisition programs with budgetary program quantities of record.
- In FY18:
 - In the first 3 months under a CR, the Army has 18 new starts and 8 production rate increases that would be impacted. These include the Paladin Integration Management Improvement, Interim Combat Service rifle, Multi-role Anti-armor Anti-personnel Weapon System, Lightweight 30mm cannon and the Armored Multi-purpose Vehicle. Rate increases are planned for handguns, TOW2 missiles, M240L medium machine gun and the Advanced Tactical Parachute system.
 - Beyond three months (4-12 months), the Army would have 24 additional new starts and 7 additional production rate increases. The new starts include the Udairi Range Target Lifters, Heavy Equipment Transporter System, and the Modular Catastrophic Recovery System. Production rate increases include modifications to Stinger and Avenger, Guided Multiple Launch Rocket System, and the Reduced Range Practice Rocket.

- The Navy has 7 procurement contracts that will be delayed by a 6-month CR due to the new start restrictions. It also has 12 planned production rate increases that will be deferred and 3 research and development new starts.
- The Air Force has a total of 6 new starts that would be impacted by a 6-month CR. These include multiple F-15C and F-16 upgrades and the Joint Space operations Center Mission system.
- Funding limitations for all research and development will result in the Services assessing the relative priorities of their programs, resulting in providing only minimum sustaining funding to the selected programs.