

**DEPARTMENT OF DEFENSE APPROPRIATIONS
FOR FISCAL YEAR 2007**

TUESDAY, MARCH 7, 2006

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:38 p.m., in room SD-192, Dirksen Senate Office Building, Hon. Ted Stevens (chairman) presiding.
Present: Senator Stevens.

DEPARTMENT OF DEFENSE

**STATEMENT OF HON. TINA JONAS, UNDER SECRETARY OF DEFENSE
(COMPTROLLER)**

**ACCOMPANIED BY VICE ADMIRAL MARTY CHANIK, DIRECTOR OF
FORCE STRUCTURE, ASSESSMENTS AND RESOURCES, JOINT
CHIEFS OF STAFF**

OPENING STATEMENT OF SENATOR TED STEVENS

Senator STEVENS. I am sorry to be a little bit late. We have several conferences going on at the same time. Our co-chairman has indicated he cannot be with us now. But I do welcome you here, Ms. Jonas, with your colleagues. I understand you are joined by Admiral Marty Chanik from the Joint Chiefs. Admiral, you are the Director of Force Structure, is that right?

Admiral CHANIK. Yes, sir, the J-8 on the Joint Staff, which is Director of Force Structure Assessments and Resources.

Senator STEVENS. Thank you. Well, it is good to have you both here and we look forward to your testimony. I am sorry that we have these conflicting things going on right now. There are conferences going on, caucuses on the questions of lobbying and the basic problems that we face as far as rule changes in those areas.

As we meet here, our men and women remain engaged in critical missions. We just had a whole series of briefings about the budget aspects of defense and I think we all know that you have \$67.5 billion for defense activities on this bill. That is a 6 percent increase as I understand it for this year. Included in that is \$423.2 billion for Department of Defense (DOD) programs under the purview of our subcommittee.

PREPARED STATEMENT

We will make your statements part of the record completely as well as Senator Inouye's in the record, and hopefully we will be joined by others.

[The statement follows:]

PREPARED STATEMENT OF SENATOR DANIEL K. INOUE

Mr. Chairman, it is indeed a pleasure for me to join you once again as we begin our oversight hearings of the fiscal year 2007 defense budget. For the sake of those who are here today, I want to point out that this is the twenty-sixth year that Senator Stevens has served the Defense Subcommittee as either its chairman or ranking member.

His record of accomplishment during this period is unmatched. His knowledge of defense matters remains unparalleled elsewhere in the Congress. His dedication to the men and women in the military is inspirational. And, his fairness to members on both sides of the aisle is a model that all of us should emulate.

So, Mr. Chairman I just want to reiterate what a pleasure it is for me to be able to join you once again as we formulate the subcommittee's recommendations for defense spending in the coming year.

The budget request before this subcommittee is \$422.6 billion, an increase of \$23.8 billion—not including supplemental funding for wars and natural disasters.

It includes small percentage increases for our military pay and health care programs, and relatively large increases for procurement and day to day operations.

I find it curious that a major emphasis in this year's request is to try to rein in personnel and health care programs at a time when the Defense Department is having such a difficult time encouraging young people to join the military.

I also find it interesting that the Defense Department has decided to terminate the C-17 program when we are flying the wings off of our airlift fleet in the gulf. This is even more surprising when one learns that airlift is the Air Force's top unfunded priority this year.

So to, I was surprised to learn that DOD planned to eliminate the second engine supplier for the Joint Strike Fighter after we have invested more than \$1 billion to ensure we would have competitive pricing in what is expected to be a multi-thousand aircraft program.

I hope to learn more about these subjects, and the DOD recommendations today.

Finally, Mr. Chairman, I want to join you in welcoming our witnesses here today. Ms. Jonas and Admiral Chanik we appreciate all that you do for the nation in your current positions. We understand the challenges that you face in trying to meet our nation's military needs with limited resources. The chairman and I and this subcommittee face the same challenge as we prepare our committee's recommendations. We thank you for being here today, and look forward to your testimony.

Senator STEVENS. I am really quite interested in the conversation we are going to have today because we have talked about it a little bit on a personal basis, Ms. Jonas, but the sustainability of these budgets is beginning to worry me considerably.

Would you like to summarize your statement? We have all the time in the afternoon, so I am not setting a limitation on any time. The whole statement, though, is in the record as though read.

SUMMARY STATEMENT

Ms. JONAS. Thank you very much, Mr. Chairman. I will just hit a few highlights of the budget if I might. We thank you for having us here today. I thank you for the opportunity to discuss the President's fiscal year 2007 budget request for the Department of Defense, and I would also like to thank this subcommittee for their strong support of the men and women of America's armed forces and their families.

So let me just briefly summarize. The President's fiscal year 2007 budget request is \$439.3 billion. This is a 7 percent increase over the 2006 enacted level of \$410.8 billion. This subcommittee has jurisdiction over \$422.6 billion, which includes operation and maintenance, procurement, research and development, and military personnel.

The budget supports the President's 2005 national security strategy and the long war against terrorist extremists and the findings and recommendations of the 2006 Quadrennial Defense Review (QDR). The budget is aligned with the QDR, the strategic priorities, and invests in capabilities and forces the Nation needs to prevail in irregular warfare operations, to defend the homeland, and to maintain America's military superiority. Of course, this budget supports strongly our men and women in uniform and their families.

In the area of prevailing in irregular warfare operations, the budget substantially increases the size and capabilities of the special operations forces. We invest \$5.1 billion in 2007 and \$28.7 billion over the fiscal year 2007 to 2011 program period. Some highlights in that area include an additional 14,000 special operations forces (SOF). That is a growth of 4,000 forces in fiscal year 2007. In addition, we add SOF battalions, we increase funds for the Marine Corps Special Operations Command, and we establish a Special Operations Forces Unmanned Aerial Vehicle Squadron, and we increase the number of Navy SEAL teams as well.

In addition, we are increasing our joint combat power and the budget provides \$6.6 billion in 2007 and \$40.6 billion over the program period to complete the conversion of 48 regular Army brigades to 70 modular brigade combat teams. We also continue the modernization and integration of ground forces. The Future Combat System is fully funded in this budget, \$3.7 billion in the fiscal year 2007 period.

In addition, because understanding the nature of the battle space on a minute to minute basis is critical to the success of our forces, the budget provides \$1.7 billion in fiscal year 2007 and \$11.6 billion over the program for unmanned aerial vehicles to increase our intelligence-gathering capabilities and enable persistent real-time intelligence.

In addition, we equip our forces with language and cultural skills that they need for the 21st century mission, and the budget highlights an investment of \$181 million for fiscal year 2007 to expand our language training for both general and special operations forces.

The budget also invests significantly in defending the homeland against 21st century threats, including global terror networks and rising states with nuclear weapons. The budget provides \$1.7 billion to develop countermeasures against advanced biological and other weapons and to tag, track, and locate and render-safe nuclear weapons.

The budget also includes \$10.4 billion in fiscal year 2007 to produce and field additional ground-based and sea-based interceptors to defend against intercontinental and theater ballistic missiles, and \$900 million in 2007 and about \$9.3 billion over the program to dramatically increase and extend satellite communications capabilities to our deployed forces around the world.

In addition, we want to maintain our military superiority and our ability to deter or defeat conventional forces of other nations, and the Department maintains a robust procurement program. The budget invests \$84.2 billion in 2007. Just as a point of reference, this is twice what it was in 1995, so that is an important area of

investment for us. This includes funds to improve our joint air support capability, maintain and improve joint air dominance, and improve our maritime capabilities, including \$4.7 billion to purchase additional aircraft, such as the Apache, the Chinook, Blackhawk helicopters, and the V-22 Osprey.

We include \$10.4 billion over the 2007 period to acquire more capable weapon systems also, such as the F-22, the F/A-E and F, and the first procurement, notably, of the Joint Strike Fighter in this budget.

In the shipbuilding area, we provide \$11.2 billion in fiscal year 2007. This includes seven ships, two DD(X) destroyers, two littoral combat ships, one Virginia class submarine, one amphibious assault ship, and the logistics ship, the T-AKE. So that is an important feature also of our investment program.

Importantly, I would like to focus also on what we are doing for our service members and their families, because everything we do depends on their success and their dedication and skill. So in the area of military pay, the budget provides 2.2 percent over the enacted level of 2006. But importantly, we also include for certain enlisted, senior enlisted members, \$263 million in this budget to provide them additional increases over the 2.2 percent increase. So for example, an E-5 with 8 to 12 years of service might receive 2.5 percent in addition to the 2.2 percent. So that is an important piece. Certain warrant officers would receive as much as an 8.3 percent increase. So it is very important here.

We also increase the basic allowance for housing to ensure no out-of-pocket housing costs for military families living off base. An average rate of 5.9 percent will be experienced by most family members.

As many of you know, we have spoken about health care over the past years and our budget provides \$39 billion to provide health care for our military personnel and families. That includes the personnel and infrastructure associated with providing care. Of that portion, \$21 billion is associated with the defense health program, which is a \$1 billion increase over the 2006 level.

We are very concerned about this area because over the last 5 years our military health care costs have nearly doubled, going from \$19 billion in 2001 to \$37 billion enacted in 2006. Unless action is taken to address this rising cost, the current program is projected to increase to \$50 billion by 2011 and would go to \$64 billion by 2015.

So we are very concerned about these and we have proposed in this budget an increase to the fee structure and cost share. When the TRICARE program was established by Congress there were certain cost shares established. In 1995, as Congress established the program 73 percent of the cost was paid by the Department of Defense and 27 percent of the cost of the care was provided by the beneficiary. Today those cost shares have gone to 88 percent for the Department of Defense and 12 percent for the beneficiary.

So the budget is proposing to make some slight increases to that cost share for beneficiary. I do have also with me Dr. Bill Winkenwerder if there are further questions on that in testimony.

So, Mr. Chairman, we appreciate your support of this budget. We believe the budget sustains the President's commitment to defend

the United States, especially against catastrophic terrorism, and provides for the security of the American people. It continues his strong support of service members and their families and it supports the continued shift in emphasis away from static posture and forces of the last century to highly mobile expeditionary forces needed to prevail against adversaries ahead.

As you know, sir, we also have in front of the Congress a \$65.3 billion supplemental, and I know that is not the subject of today's hearing, but we would be happy to answer questions on that as well.

PREPARED STATEMENT

So thank you, sir, for your support and the subcommittee for its support of our men and women in uniform.

[The statement follows:]

PREPARED STATEMENT OF TINA W. JONAS

Mr. Chairman, members of the Committee, thank you for the opportunity to discuss President Bush's fiscal year 2007 budget request for the Department of Defense.

I would like to begin by saying thank you to the Committee for your continued strong support for the men and women of America's Armed Forces and their families. I will briefly summarize some of the more important elements of the request.

The President's fiscal year 2007 budget request for the Department of Defense is \$439.3 billion. This is a seven percent increase over the fiscal year 2006 enacted level of \$410.8 billion.

This Committee has jurisdiction over \$422.6 billion, which includes operation and maintenance, procurement, research and development, and military personnel.

The budget supports the President's 2005 National Security Strategy, the long war against terrorist extremists, and the findings and recommendations of the 2006 Quadrennial Defense Review (QDR).

STRATEGIC PRIORITIES

Like the QDR, the fiscal year 2007 budget supports the Department's continued shift in emphasis—away from the static posture and forces of the last century to the highly mobile and expeditionary forces needed to prevail against any adversary in the years ahead.

The budget is aligned with the QDR's strategic priorities and invests in the capabilities and forces the Nation needs to:

- Prevail in irregular warfare operations, including wars of long duration, like the global war on terror;
- Defend the homeland, especially against catastrophic terrorism and other advanced threats;
- Maintain America's military superiority, to ensure our ability to deter or defeat threats from other nation-states; and
- Continue the Department's strong support of our military men and women and their families.

PREVAIL IN IRREGULAR WARFARE OPERATIONS

To prevail in irregular warfare operations, the fiscal year 2007 budget substantially increases the size and capabilities of Special Operations Forces, investing \$5.1 billion in fiscal year 2007 and \$28.7 billion over the fiscal year 2007 to 2011 program to:

- Fund an additional 14,000 Special Operations Forces (Special Operations Forces will expand from 50,000 in fiscal year 2006 to 64,000 by fiscal year 2011. This is a growth of 4,000 in fiscal year 2007);
- Increase the number of SOF battalions by 33 percent (Active duty battalions will grow from 15 to 20 by fiscal year 2012);
- Fund a new Marine Corps Special Operations Command;
- Establish a SOF Unmanned Aerial Vehicle Squadron; and
- Increase the number of Navy SEAL teams to provide added maritime capability.

To increase Joint combat power, the budget provides \$6.6 billion in fiscal year 2007 and \$40.6 billion over the program, to complete conversion of 48 regular Army brigades to 70 modular Brigade Combat Teams.

To continue the modernization and integration of ground forces, and produce a swifter, smarter, and more lethal force, the budget provides \$3.7 billion in fiscal year 2007 and \$22.4 billion over the program for the Future Combat System.

Understanding the nature of the battle space on a minute-to-minute basis is critical to the success of our forces. The budget provides \$1.7 billion in fiscal year 2007 and \$11.6 billion over the program for unmanned aerial vehicles to increase U.S. intelligence-gathering capabilities and enable persistent, real-time intelligence—24 hours a day, seven days a week.

In addition, to equip our forces with the language and cultural skills they will need for 21st century missions, the budget invests \$181 million in fiscal year 2007 and \$760 million over the program to expand language training for both general and special operations forces.

DEFEND THE HOMELAND

To defend the homeland against 21st century threats, including global terror networks and rising states with nuclear weapons, the fiscal year 2007 budget provides:

- \$1.7 billion in fiscal year 2007, and \$9.3 billion over the program to develop countermeasures against advanced biological and other weapons, and to tag, track, locate and render-safe nuclear weapons;
- \$10.4 billion in fiscal year 2007 and \$47.5 billion over the program to produce and field additional ground and sea-based interceptors to defend against intercontinental and theater ballistic missiles; and
- \$0.9 billion in fiscal year 2007 and \$9.3 billion over the program to dramatically increase and extend satellite communications capabilities to our deployed forces around the world.

MAINTAIN U.S. MILITARY SUPERIORITY

While the focus in the years ahead will be on irregular warfare operations rather than another major conventional war, the United States must maintain the ability to deter or defeat the conventional forces of other nations.

The Department continues to maintain a robust procurement program. The budget invests \$84.2 billion in fiscal year 2007. This is an increase of \$8 billion over the fiscal year 2006 level.

To improve joint air support capabilities, maintain and improve joint air dominance, and improve the maritime capabilities of the joint force, the budget invests:

- \$4.7 billion in fiscal year 2007 and \$27.1 billion over the program, to purchase additional Apache, Chinook, and Black Hawk helicopters as well as the V-22 Osprey;
- \$10.4 billion in fiscal year 2007, and \$61.3 billion over the program, to acquire more capable weapons systems—such as the F-22, the F/A-18 E/F, and the first procurement of the Joint Strike Fighter; and
- \$11.2 billion in fiscal year 2007 and \$77.5 billion over the program for seven new multi-mission, multi-capable ships: two Destroyers (DDX), two Littoral Combat Ships (LCS), one Virginia Class Submarine (SSN), one Amphibious Assault Ship (LHA(R)), and one Logistics Ship (T-AKE).

SUPPORTING SERVICE MEMBERS AND THEIR FAMILIES

Because success in everything we do depends on the skill and dedication of the men and women who safeguard the freedom we enjoy every day, the fiscal year 2007 budget continues the Department's strong commitment to provide a high quality of life for those who serve and their families.

MILITARY PAY

One demonstration of that commitment is military pay. Since 2001, basic military pay has increased 29 percent. In fiscal year 2007, basic pay will rise another 2.2 percent over the fiscal year 2006 level.

That means an Army Sergeant (E-6) with 14 years of service, for example, will earn \$779 more in fiscal year 2007 than he or she did in fiscal year 2006, and \$8,893 more than in 2001.

A typical Air Force captain (O-3) will earn \$1,188 more in fiscal year 2007 than in fiscal year 2006, and \$11,347 more than in fiscal year 2001.

To ensure no out-of-pocket housing costs for military families living off-base, the budget increases the basic allowance for housing by an average rate of 5.9 percent.

MILITARY HEALTH CARE

High-quality health care is another important benefit for service personnel and their families. The Department's health care program, TRICARE, provides one of the best health care coverage programs in the Nation.

The budget provides \$39 billion in fiscal year 2007 to provide health care for military personnel and their families. This includes \$21 billion for the Defense Health Program—a \$1 billion increase over the fiscal year 2006 enacted level.

In fact, over the past five years, the full cost to provide military health care has nearly doubled—from \$19 billion in fiscal year 2001 to \$37 billion enacted in fiscal year 2006. Unless action is taken to address the rising cost of care, the current program is projected to increase to \$50 billion by fiscal year 2011.

Clearly, these rising costs cannot be sustained over the long term. Therefore, to place the health benefit on a sound fiscal basis for the long term, the Department is proposing to rebalance the share of costs between individuals and the government. The budget proposes to adjust the cost share for working-age retirees under 65. This change will not affect active duty service personnel and their families, except for minimal changes to pharmacy co-payments for family members.

In 1995, as established by Congress, 73 percent of the cost was paid by the Department of Defense; 27 percent of the cost was paid by the beneficiary. Today, 88 percent of the cost is paid by the Department of Defense; and just 12 percent by the beneficiary.

The budget proposes to gradually adjust these shares to less than the 1995 cost-share level.

DEPARTMENT OF DEFENSE FISCAL YEAR 2007 BUDGET

The Quadrennial Defense Review is the result of an extensive, year-long review of U.S. military capabilities and forces. The QDR identified strategic priorities for added investment, and the fiscal year 2007 budget initiates the process of funding those priorities.

The budget sustains the President's commitment to defend the United States, especially against catastrophic terrorism, and provide for the security of the American people. It continues the Department's strong support of service members and their families, and it supports the Department of Defense's continued shift in emphasis—away from the static posture and forces of the last century, to the highly mobile and expeditionary forces needed to prevail against any adversary in the years ahead.

SUPPLEMENTAL

The President recently submitted a request for a fiscal year 2006 supplemental appropriation. The Department of Defense's portion of this request is \$65.3 billion, which will fund ongoing military operations in Afghanistan and Iraq, and other incremental costs of the global war on terror.

The Department appreciates the Committee's prompt passage of previous supplemental requests, and we request your support for this one as well. Approval of the supplemental request will enable the Department to fund war-related costs for the rest of this fiscal year.

Senator STEVENS. Thank you very much.
Admiral, do you have any comments to make?

BUDGET

Admiral CHANIK. Chairman Stevens, just a couple comments that I will add to Ms. Jonas's if that is okay. First, sir, I thank you for the opportunity to be able to speak to you today in reference to the President's fiscal year 2007 budget request for the Department of Defense.

What I will do, since Ms. Jonas has pretty much captured the essence of the budget, is just add a couple words. From a warfighter's perspective, we believe that this is a budget that represents a balance of near-term risk versus long-term risk, that the services and the Combatant Command (COCOMs) worked hard on to weigh current readiness, the global war on terror, and investments in transformational initiatives for the future fight.

We think it provides a budget for the armed forces that allows the armed forces to be fully capable of executing our national military strategy and that it supports the chairman's priorities of winning the war on terrorism, of accelerating transformation, of strengthening joint warfighting, and of improving the quality of life for our troops and their families.

As Ms. Jonas mentioned in her opening statement, we think it provides, continues to provide, strong support for today's fighting forces, that it invests in the capabilities we need to have to prevail in irregular warfare operations and in defense of the homeland.

What I would like to underline and reemphasize, because she did speak to it in quite a bit of detail, are the thoughts on the proposal with reference to the health program. We think that this proposal takes some vital and important steps in renorming some of those fees for a superb military health care system. I would like to underline the fact that this affects those retirees under the age of 65 primarily and does not affect our active duty service personnel and their families. But as you have heard, the Chairman, the Joint Chiefs, and the Secretary are all behind this important proposal.

I will close by thanking you and your subcommittee for your continued support to our men and women in uniform. As you are well aware, they are doing tremendous work around the world in some very difficult circumstances, and they certainly appreciate what you and your subcommittee and what Congress provides to them.

I look forward to your questions, sir.

Senator STEVENS. Thank you both very much. I am saddened that I am here alone today.

I think we will face substantial controversy when we get to the floor with this bill, primarily by people who want to add to it. I will ask you some questions about that. I think what I will do is, with your consent, would be just submit some of these questions, the ones that should be, just as matters for the record. I will submit them to you and ask you to respond to them. I do not know if Senator Inouye would have similar ones, but if he does we will do that.

Ms. JONAS. Certainly.

Senator STEVENS. I am going to make a rule from now on, we are not going to seek answers to questions from Senators who do not attend the session unless there is a reason such as the good co-chairman has today. But I do believe more people should come to these hearings and should pursue their questions here before they present amendments on the floor.

END STRENGTH OF ARMY GUARD

We heard about a recent agreement that you are going to fund the Army Guard at a strength of 350,000 soldiers for 2007. Is that in the budget? Is that amount covered by the budget?

Ms. JONAS. Senator Stevens, what is in the budget is an amount for 333,000. If I can explain, that is the amount, the number, that they were currently at. The Congress has authorized 350,000. In prior years they have not made their number and so that has resulted in a little bit of funds available for other purposes and so we have reprogrammed those.

But it is the Army's intent to fund the number that the Guard can reach. So we will make sure that that is done. We will work very closely, Mr. Chairman, with that.

Senator STEVENS. Are you going to do that through reprogramming, or how are we going to get to that figure?

Ms. JONAS. In the past, sir, when we have had an overage—and this has happened in prior years—we have reprogrammed funds. We did so last year when they did not reach the 350,000. I think there was about \$347 million available. But my expectation is that we would work with the Army to reprogram funds.

SPECIAL FORCES

Senator STEVENS. A similar question with regard to the special forces capabilities. It is our understanding that there is going to be a significant increase in those forces capabilities. Are any of those capabilities funded in this request?

Ms. JONAS. Yes, Mr. Chairman. As I noted in my testimony, we increased about 4,000, by about 4,000 in this 2007 budget and about 14,000—

Senator STEVENS. I heard that, but is the money in here for that?

Ms. JONAS. Yes, sir. We are about \$1 billion over where we were for special forces last year.

Senator STEVENS. You are going to increase them by 13,000 over 5 years and there is 2,000 in this year's budget?

Ms. JONAS. We are increasing the number by 4,000 in fiscal year 2007 and 14,000 over the program period, sir.

COSTS OF THE WAR

Senator STEVENS. We have discussed the problem of sustainability and I mentioned that. Now, it is our understanding, my staff tells me, that this bill before us now funds military operations at the current level, which is roughly \$6.8 billion a month as we understand it, for the global war on terror. If that is correct, are we not looking at a supplemental just going in for that portion of this operation, these operations of the Department?

Ms. JONAS. Mr. Chairman, the request before the Congress right now for the supplemental, the DOD portion of it, which excludes the intelligence funding, is \$65.3 billion. So the rate that you are discussing, the \$6.8 billion what is referred to as a burn rate, was what we had for the prior year, for fiscal year 2005. We expect there to be some increase due to increases in fuel costs. Our personnel are going to be a little bit more expensive because of the addition of death benefits, for example. There also is a little bit of inflation.

In addition, we have costs for reset, what we call reset and reconstitution. So it will be a little bit higher than \$6.8 billion, we expect, in fiscal year 2006.

Senator STEVENS. I am told again by my staff that there is some sort of an amendment that we are going to look at which deals with a bridge, a \$50 billion bridge. Bridges, I do not like to talk about bridges, coming from where I come from. But this one is from A to B.

Why do you need a bridge in addition to this bill?

Ms. JONAS. The bridge fund or the request for fiscal year 2007—we have got in front of you a 2006 supplemental and what the administration is proposing for 2007 is an additional bridge fund of \$50 billion. We will provide—

Senator STEVENS. \$50 billion?

Ms. JONAS. For 2007, sir.

Senator STEVENS. Will that be the supplemental for 2007?

Ms. JONAS. It will be, yes, sir, a portion. We do not know exactly how much we are going to need, but the administration wanted to make sure, so that it could count against the overall budget concerns of the Congress, that we would at least have some of that counted for deficit projection purposes.

Senator STEVENS. How soon do you need the 2006 funding?

Ms. JONAS. Mr. Chairman, we believe that we need those funds by the end of April, no later. We do not have sufficient operation and maintenance (O&M) dollars to get us through May.

Senator STEVENS. The supplemental that there was a hearing on this morning, we have got a hearing every day this week, I think, that is for 2006, right?

Ms. JONAS. That is correct, sir.

Senator STEVENS. Are we going to include any portion of the 2007 bridge in that one?

Ms. JONAS. No, sir.

Senator STEVENS. Do we expect that, though, to come in before the end of this fiscal year, to have a bridge to 2007?

Ms. JONAS. That is our expectation, sir.

Senator STEVENS. And am I led to believe that is \$25 billion?

Ms. JONAS. \$50 billion.

Senator STEVENS. No, you have got that \$50 billion already, do you not?

Ms. JONAS. Sir, we have \$50 billion from the prior—actually, we have \$45 billion from your prior action, so the bridge supplemental that you recently approved and we are executing.

Senator STEVENS. That is for 2006?

Ms. JONAS. Yes. And so in addition to that, we are asking for the \$65.3 billion which is before you now for fiscal year 2006.

Senator STEVENS. You are anticipating \$50 billion for 2007?

Ms. JONAS. Correct, sir.

Senator STEVENS. When are we going to start folding these into the regular bill?

Ms. JONAS. Mr. Chairman, I will answer that in the way that the Secretary has. He is fully open to doing it either way. The concern that many of us have is that we cannot provide the type of detail that is normally wanted by the Congress. For example, when we develop the request before you we actually plug in the deployment orders into our cost modeling, so that provides a level of exactness that you cannot get with some of the types of projections on the \$50 billion.

But I certainly understand your concerns, Mr. Chairman. I know the Secretary does. But that would really be something that needs to be worked out, I think, between the congressional leadership and the Office of Management and Budget with respect to the use of supplementals.

Senator STEVENS. Well, I am concerned because some of the things that are in the regular bill for 2007 are related to the war on terror, are they not?

Ms. JONAS. Yes, sir.

Senator STEVENS. And the \$50 billion is exclusively, theoretically, for the war on terror?

Ms. JONAS. Yes, sir.

Senator STEVENS. But when we were in Iraq and we went out to Fallujah and we saw the trucks that were there being up-armored, that money was paid for out of the supplemental, right?

Ms. JONAS. Yes, sir.

Senator STEVENS. But it was really a routine matter that is going to go on all over the Department, but just those in Iraq were paid for out of the supplemental?

Ms. JONAS. I would have to get to your specific, at what you were looking at specifically. But we have equipment that—

Senator STEVENS. I am just using that as an example.

Ms. JONAS. Yes, sir.

Senator STEVENS. I think these things blend—we think we are controlling expenses, but up here we have got a feather pillow that just goes wherever you want to put it and it does not make any difference what we try to do to try to get some control over some of these expenses.

Ms. JONAS. Yes, sir. We try to the best that we can to track what is spent in theater. We do have reporting to the Congress that we provide. As a general matter, the overhaul and the wear and tear on the equipment that is being used in theater is being funded or rehabbed out of supplemental funds. Maybe Marty wants to talk to this a bit, but we are doing the best we can to try to give the Congress some clarity on that, sir.

CONTRACTING

Senator STEVENS. Well, who makes the decision when to outsource an activity? Admiral?

Admiral CHANIK. Yes, sir. Can you clarify that question? I am not sure I have exactly what you mean when you talk about outsourcing activity.

Senator STEVENS. They have got enormous contracts over there, food servicing, repair of vehicles, so many different things that we saw. Who makes the decision that those things cannot be done by people in uniform in the regular course of appropriations?

Admiral CHANIK. Sir, I will have to get back to you to see exactly who does that. That certainly is the commander in theater and his staff that is going to work through those issues and determine the best way to provide the requirements to support the soldiers, the sailors, airmen, marines on the ground. So they will work through that staff. They certainly have multiple regulations they comply with to go through that.

But who exactly in that chain in the logistics side, we can certainly provide that for you if you would like, sir.

[The information follows:]

When determining outsourcing needs, the combatant commander allows Service components to create outsourced logistical support in their respectively assigned areas, consistent with Service regulations and authorities. Service components then

develop and tailor outsourcing initiatives in their respective areas of responsibility (AORs). For example, there are more than 40,000 contractors in the U.S. Central Command (USCENTCOM) AOR performing functions in the combat support and combat service support arenas. Specific support functions currently contracted under the Logistics Civil Augmentation Program (LOGCAP) include: (1) Theater Transportation Mission; (2) Corps Logistical Service Support; (3) Army Oil Analysis Program; (4) Embassy Support, Baghdad; (5) Test Measurements Diagnostic Equipment; (6) Base Operations for U.S. Personnel; and (7) Subsistence (Dining Facilities operation).

Senator STEVENS. We are getting more and more questions, as I said to Ms. Jonas, from Members of the Senate about the outsourcing and who makes the decision and who decides what the level of commitment will be and where does that money come from. I really think you are going to have to help us get some details here on how these decisions are made and what level of control there is over out-sourcing as compared to the control we have over regular expenditures through the Department's normal procedures.

Admiral CHANIK. Yes, sir. We can certainly do that. I can assure you that in theater when they look at the alternatives of how to supply a particular capability, whether it is out-sourced or whether it is organic to the forces in theater, they will look at that and determine what is the best way to achieve what they need to achieve in the time that they have to do that at the best cost. They will have a certain set of rules to go through that. But we can get you more detail, sir, and provide that to you.

[The information follows:]

The combatant commander allows Service components to create outsourced logistical support in their respectively assigned countries. Service components then develop and tailor outsourcing initiatives in their respective areas of responsibility consistent with Service regulations and authorities. Specifically, outsourcing initiatives are regulated by set guidelines. These regulations include: (1) 10 USC 129a, which authorizes the Secretary of Defense to use civilian contracting if it is financially beneficial and consistent with military requirements; (2) Department of Defense Directive 1100.4, "Guidance for Manpower Management", which directs that assigned missions shall be accomplished using the least costly mix of personnel (military/civilian/contractor) consistent with military requirements; (3) Department of Defense Instruction 3020.37, "Continuation of Essential DOD Contractor Services During Crises", which states that DOD components shall rely on the most effective mix of the total force, cost, and other factors, including contract resources necessary to fulfill assigned missions; and (4) Army Regulation 700-137, which established policies, responsibilities, and procedures for the implementation of the Logistics Civil Augmentation Program (LOGCAP). The LOGCAP objective is to preplan for the use of civilian contractors to perform selected services in wartime to augment Army forces.

FUNDING FOR VETERANS

Senator STEVENS. One of the questions we have been asked so far or told so far is going to be raised is the adequacy of funding for veterans under this bill. I am told there will be an amendment to add funds for veterans. What funding is already in this bill that covers veterans activities?

Ms. JONAS. The Department of Veterans Affairs does provide the funding for that. I am unaware of any funding in the supplemental for that. We can certainly get back to you for the record, sir.

[The information follows:]

The Department of Veterans Affairs provides the funding for veterans benefits. The fiscal year 2007 President's Budget request for the Department of Defense does not include any funding for veterans benefits. However, the Defense portion of the President's fiscal year 2006 supplemental appropriations request for ongoing

military and intelligence operations in support of Operation Iraqi Freedom, Operation Enduring Freedom, and selected other international activities does include about \$0.9 billion in funds to reimburse the Department of Veterans Affairs for casualty and disability benefits. These funds are included in the amounts requested for the Department's military personnel appropriations and include \$0.4 billion for reimbursement of Servicemembers' Group Life Insurance (SGLI) claims and \$0.5 billion for reimbursement for claims associated with the SGLI Traumatic Injury Protection program proposed by the President and enacted as part of Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005 (Public Law 109-13).

Senator STEVENS. We understand that, but I understand that this bill will be the target of additions for funding of veterans, particularly those that are coming out of this current involvement in Iraq. Is there any money for veterans in the supplemental to your knowledge?

Ms. JONAS. Sir, I would have to get back to you for the record. Not to my knowledge, sir.

FUNDING FLEXIBILITY

Senator STEVENS. I am told that the services have expressed concerns about the lack of flexibility to fund emerging requirements or cash flow for combat operations if the basic allowance for housing and facilities, sustainment, restoration, and modernization funding are pro-rated in the Military Quality of Life and Veterans Affairs appropriations bill. As you know, this comes about because of the separation in the House now.

Is there a problem there? Can you give us your assessment of the impact of this change in terms of the operations of the Department?

Ms. JONAS. Certainly, Mr. Chairman, it will change the way we have to work with the Congress and it may limit our ability to transfer funds between certain accounts. For example, the sustainment accounts we will not be able to access for reprogramming or cash flowing purposes. So there are some limitations, but we will work carefully with the Congress to make sure that we can meet the requirements. But it does cause some constraints that we have not experienced in the past and will limit our flexibility to a degree.

Senator STEVENS. I will submit the balance of that question, then. That is really a technical question as I see it. I do not know how we are going to get through—this is the first year when that separation is going to take place.

We did have to make a reduction overall on the bill last year of a 1 percent reduction. Have you determined how that impacts your budget with regard to the various functions, such as military personnel?

Ms. JONAS. Yes, Mr. Chairman. It has caused some difficulties in the military personnel accounts. For example, we are working through an issue with the Navy right now in trying to execute this budget. We expect to have to reprogram some funds. So that has caused some little bit of difficulty in certain accounts.

Senator STEVENS. Are those attributable to the war on terror or are they routine impacts on the overall bill because of the 1 percent?

Ms. JONAS. My understanding is that these are routine impacts. You mentioned the basic allowance for housing, for example. Those surveys to assess how much we actually provide are done later in the budget year and so that has also caused a little bit of a difficulty for the Navy. But the 1 percent has caused us some issue within the baseline.

Senator STEVENS. What kind of detail do you provide—now, we have gone through 2005 and we had both the basic bill and the supplemental in 2005. Have you filed either with OMB or with the authorization committee an as-spent type of budget? Do we know how that money was actually spent?

Ms. JONAS. Yes, sir, we do provide, I believe, to the committees on a routine basis—and I will have to check with my folks—

Senator STEVENS. I do not mean—I mean a closeout for the year. Can we compare how we thought the money was going to be spent and how it was actually spent?

Ms. JONAS. Yes, sir. That can be done, and we do provide what are called 1002 accounts. It is an accounting report of how funds were spent, sir.

Senator STEVENS. We will submit the rest of the questions, Ms. Jonas and Admiral. But I have got to tell you, as I said, I left that budget discussion and the projections out into the future on how this current trend is adjusted, assuming we do complete our actions in Iraq and still have the war on terror. The presumption is that we would have a bill that would cover the Department's operations and we would no longer have supplementals; is that a reasonable assumption?

COSTS

Admiral CHANIK. Yes, sir. I think we have certain costs, obviously, as you are well aware now, with the efforts in Afghanistan, the efforts in Iraq, and those bring costs associated with them. Once those drop off, then I think that we have a much better chance of getting away from supplementals.

I would also mention to you that one of our assumptions, as I think you are well aware, is that as we reset and reconstitute the force based on all that we have done in Iraq and Afghanistan, that there are still some dollars associated with that and that we will be requesting some supplementals to help in that reset of the force since we cannot really quantify that at the moment.

But that is something that the chiefs have brought up in some of their testimony, that there will be some costs directly attributable to what we have done in Iraq and Afghanistan, even when those drop down to a steady state normal operating pace.

Senator STEVENS. Well, we are going to schedule some discussions with the Armed Services Committee. I have the feeling that one of the reasons that we do not have people here is they really do not know what questions to ask. We are getting just these gross figures and gross demands and we are not really getting a handle on what controls there are on either.

If you look at the trend line I just looked at from 2001 to now, the total amount for the Department is more than double what it was in 2001. We are lacking in the capability to assess the rationale for those increases and to determine whether they are actually

necessary. I really think we are going to be in for some real problems, particularly on this year's amounts, because we are looking at the bridge amount and then we are looking at another supplemental for 2007 once we are in that. It is very difficult for us to tell people, yes, we have gone over these accounts and these are accounts we understand, because we do not have the detail to know what they are.

Ms. JONAS. Sir, we would be happy to provide as much detail as this subcommittee needs to assess the request in front of you. I will say, as we mentioned earlier, what I am concerned about is the cost, the rising cost of personnel. If you think about what we are spending on healthcare, for example, we are spending \$2 billion more than Germany spends for its entire defense budget, on healthcare.

We have mentioned the issue of other benefits that are important for our families that get added. But as you look at why our costs have increased over time, I would suggest that in the personnel area that is one area.

Certainly in the area of acquisition there are studies that have been undertaken on acquisition and we need to do what we can to control overruns, cost overruns on weapon systems. That is a key area.

But you should know, with respect to accountability and understanding what we are doing with funds, just to give you an example, the Defense Contract Audit Agency reviews \$320 billion worth of contracts annually. They do 40,000 audits annually. So they are just one of the audit entities that we have working in the Department.

I understand your concern and the Congress' concern about how funds are spent, accountability for those large increases that you noted, and we do take it seriously and we have got some terrific, dedicated professionals working on that, sir.

Senator STEVENS. I look forward to some discussions because the real—some of the questions that are coming at us, particularly in the area of out-sourcing—when there is out-sourcing, when these functions are performed by military personnel or by civilian personnel in the Department, there are guidelines and there are precedents as far as what is spent. When it is out-sourced, we have had questions about what is the level of control on a contractor spending money to do the functions that otherwise would have been done by the military. It does not appear to be within the budget that the military would have done the job.

Admiral?

OVERSIGHT

Admiral CHANIK. Sir, the only thing I guess I can add to that, I think as we mentioned earlier perhaps we need to be able to come back or take a question for the record to give you more detail that you want on that. I know it is certainly an area that the services are very concerned about. In fact, there is going to be established an inspector general, an inspector general office, in Qatar to help in terms of oversight on some of these issues. So it is getting a tremendous amount of attention to review the rules and regulations of how these decisions are made and how the out-sourcing occurs.

But I think the best thing is if we can take some questions for the record, sir, and we will come back with some better detail than that general comment.

Senator STEVENS. All right. Well, just look at it this way. We will have dealt with \$120 billion this year for which we have no justification at all. It is emergency spending in supplementals. Those are the areas that we are going to get the questions on and I believe that those are the areas where questions ought to be raised.

As Ms. Ashworth said, we do not have justification books on them, nor do we have any post-expenditure explanations that I know of. I think we are going to start getting questions we cannot answer, and once we cannot answer them we do not get a bill.

So I hope that you will really consider what information we can have about how this money is going to be spent and what controls there are on its being spent, okay?

Ms. JONAS. Absolutely, Mr. Chairman. My understanding is that we provide quarterly reports on the expenditure of the funds.

Senator STEVENS. That is in gross. We have got that. Yes, we have got, we spent x billion dollars.

Ms. JONAS. Okay. I believe that we provide account-level detail, but we will provide this subcommittee whatever it needs to properly assess the proper expenditure of funds and the requests before you, sir.

ADDITIONAL COMMITTEE QUESTIONS

Senator STEVENS. Again, I am sad that the other people are not here. We will submit the questions and will ask Senator Inouye if he wishes to submit any.

Thank you very much.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR TED STEVENS

BASIC ALLOWANCE FOR HOUSING

Question. The Services have expressed concern about the lack of flexibility to fund emergent requirements or to cash flow combat operations if Basic Allowance for Housing and Facilities Sustainment, Restoration and Modernization funding are appropriated in the Military Quality of Life and Veterans Affairs Appropriations bill for fiscal year 2007. Please explain the impact this change will have on budget execution with the Department?

Answer. The reorganization of the Department of Defense (DOD) and the Military Construction Appropriations Bills poses significant financial management challenges for the Department. As proposed, the reorganization moves the following programs out of the DOD Appropriations Bill into a new Military Quality of Life and Veterans Affairs Bill:

- Facilities Sustainment, Restoration and Modernization (FSRM) (Currently, generally funded as part of the Services' Operations and Maintenance appropriations.)
- Defense Health Program (DHP)
- Environmental Programs (Currently funded in transfer accounts; most of the funds are transferred to the Services' Operations and Maintenance accounts for execution.)
- Basic Allowance for Housing (BAH)

Splitting the Operation and Maintenance and Military Personnel appropriations into two bills: creates suboptimal tradeoffs within each of the separate bills; constrains the Department's ability to react to emergent execution requirements; and adds additional administrative burdens on both DOD and congressional staffs.

The Military Construction Appropriations Bill does not include general transfer authority. Year of execution cost increases for BAH or medical care would require the Department to submit supplemental appropriations requests to the Congress.

At a minimum, DOD must have the authority to: transfer funds between and among the appropriations included in the final Acts; increase DOD's General Transfer Authority; and transfer from/to the Foreign Currency Fluctuation appropriations to offset foreign currency losses resulting from a decline in the market value of the U.S. dollar.

Providing authority to transfer funds between and among the appropriations included in the final Acts and increasing DOD's General Transfer Authority, will help mitigate, but not solve issues 1 and 2 above. For example:

—*DOD Contingency Operations.*—The new bill structure will make it more difficult to finance contingency operations, such as Operation Iraqi Freedom and Operation Enduring Freedom, because historically Commanders use Facilities Sustainment, Repair and Modernization (FSRM) funding to cash flow critical war fighter needs until a supplemental is received.

During fiscal year 2005, the Department cash flowed significant percentage of the FSRM funds to finance operational requirements. Any delay in enactment of the supplemental will make it more difficult to execute the Global War on Terror (GWOT).

—*BAH.*—Annual funding of BAH fluctuates based on a number of factors, including the number of military personnel, grade structure, dependency rates and the availability of military housing. In addition, to provide Service members with the most accurate allowance possible, BAH rates are set outside of the budget cycle.

—At present, due to the large size of the military personnel appropriations (over \$100 billion), the Department has managed BAH fluctuations within the current appropriation structure.

—If transfer authority between appropriations and across appropriations Acts is not provided, DOD would have to seek supplemental funds to avoid any pay problems for our military members and their families.

—Even if transfer authority is provided, DOD would need to formally reprogram funds causing delays and possible pay problems if shortfalls are realized late in the year. It also increases the risk of pay errors due to payment of military personnel from duplicative accounting infrastructure required for BAH and other military compensation.

—None of the current military pay and accounting systems has the functionality to properly pay the BAH from a separate account. Time to make the changes depends on the system and the complexity of the change. At a minimum, it will require 6 months from the time when all requirements are known.

Question. I understand that rate changes in Basic Allowance for Housing have caused significant bills for the Services, particularly the Navy. Can you explain how the Department would fund these requirements if Basic Allowance for Housing is funded in the Military Quality of Life and Veterans Affairs Appropriations bill?

Answer. The current unfunded fiscal year 2006 estimate for the BAH program is over \$800 million. This is due to both an increase in inflation after the fiscal year 2006 President's Budget was submitted, and the impact of congressional reductions in fiscal year 2006.

How the Department would fund these requirements depends on the flexibility provided in the law for reprogramming funds. In the past, BAH shortfalls have often been financed from within the military personnel appropriations due to variances in force level execution (the number of personnel, or the mix of personnel by officer/enlisted and by grade).

If flexibility is provided to reprogram between the Defense Appropriations Bill and the Military Quality of Life Appropriations Bill, the Department would more than likely reprogram resources from the military personnel appropriations; if additional resources are required, other programs would be considered. If there is no flexibility to reprogram from outside the Military Quality of Life and Veterans Affairs Appropriations bill, and general transfer authority is provided to reprogram resources among Quality of Life accounts, then Facilities Sustainment, Restoration and Modernization (FSRM) funding would likely be the source. If no general transfer authority is provided, the Department would be forced to submit a supplemental appropriations request.

Even if transfer authority between appropriations and across appropriations acts is provided, the proposed realignment would require the Department to formally reprogram funds causing delays and possible pay problems if shortfalls are realized late in the year.

QUESTIONS SUBMITTED BY SENATOR THAD COCHRAN

CORROSION COSTS

Question. Since the return on investment is so great and the annual costs of corrosion so high, why is the Department of Defense reducing this budget and recommending only \$13 million for the corrosion prevention and control?

Answer. The Department of Defense agrees that significant funding for corrosion prevention and mitigation is warranted. The Congressional mandate manifested in 10 U.S.C. 2228 requiring the corrosion prevention and mitigation program has illuminated the problem and drawn the attention of a much wider audience throughout DOD. However, we must be judicious in determining the size of the investment. The Global War on Terrorism, international and national disasters, and other high priority competing programs have severely stretched the DOD budget. The DOD Corrosion Prevention and Control Strategic Plan, our long term strategy, depicts an integrated approach in preventing and mitigating corrosion of DOD's weapons systems and infrastructures. This approach entails R&D; training; outreach and communications; specifications, standards and qualification processes; policy and requirements; facilities; and cost of corrosion and other metrics. Funding specific projects with high and measurable ROIs is just one of the several approaches identified in our Strategic Plan to combat corrosion. Therefore, the current level of investment is appropriate as we continue to validate the projected return on the \$27 million investment in the fiscal year 2005 and the \$14 million investment in the DOD Corrosion Program. It is critical to our continued success to show quantitatively and objectively that the projected cost avoidance associated with our corrosion projects is real and demonstrable. We plan to continue supporting science and technology investment in corrosion understanding and prevention technologies to maintain a supply of transitionable research products for current and future forces.

Question. Can we expect to see an increase in corrosion funding in the future, so we can take advantage of potential savings?

Answer. We will evaluate the results of the cost of corrosion baseline study and the results of funded corrosion prevention and control projects with other Department requirements. The Under Secretary of Defense (Acquisition, Technology and Logistics) is evaluating the requirements in consideration for the next budget cycle.

SUBCOMMITTEE RECESS

Senator STEVENS. If there is nothing further, the subcommittee will stand in recess.

[Whereupon, at 3:19 p.m., Tuesday, March 7, the subcommittee was recessed, to reconvene subject to the call of the Chair.]