S. HRG. 109–827, PT. 3

DEPARTMENT OF DEFENSE AUTHORIZATION FOR APPROPRIATIONS FOR FISCAL YEAR 2007

HEARINGS

BEFORE THE

COMMITTEE ON ARMED SERVICES
UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

ON

S. 2766

TO AUTHORIZE APPROPRIATIONS FOR FISCAL YEAR 2007 FOR MILITARY ACTIVITIES OF THE DEPARTMENT OF DEFENSE, FOR MILITARY CONSTRUCTION, AND FOR DEFENSE ACTIVITIES OF THE DEPARTMENT OF ENERGY, TO PRESCRIBE PERSONNEL STRENGTHS FOR SUCH FISCAL YEAR FOR THE ARMED FORCES, AND FOR OTHER PURPOSES

PART 3
READINESS AND MANAGEMENT SUPPORT

FEBRUARY 7, MARCH 2, 15; APRIL 5, 2006

Printed for the use of the Committee on Armed Services

DEPARTMENT OF DEFENSE AUTHORIZATION FOR APPROPRIATIONS FOR FISCAL YEAR 2007—Part 3
READINESS AND MANAGEMENT SUPPORT

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DEPARTMENT OF DEFENSE AUTHORIZATION FOR APPROPRIATIONS FOR FISCAL YEAR 2007

TUESDAY, FEBRUARY 7, 2006

U.S. SENATE,
SUBCOMMITTEE ON READINESS
AND MANAGEMENT SUPPORT,
COMMITTEE ON ARMED SERVICES,
Washington DC.

CONTRACTING ISSUES IN IRAQ

The subcommittee met, pursuant to notice, at 2:30 p.m. in room SR–222, Russell Senate Office Building, Senator John Ensign (chairman of the subcommittee) presiding.

Committee members present: Senators Ensign, Akaka, and Dayton.

Also present: Senators Levin and Reed.

Majority staff members present: William C. Greenwalt, professional staff member; and Elaine A. McCusker, professional staff member.

Minority staff member present: Peter K. Levine, minority counsel.

Staff assistants present: Jessica L. Kingston and Benjamin L. Rubin.

Committee members' assistants present: John A. Bonsell, assistant to Senator Inhofe; D'Arcy Grisier and Alexis Bayer, assistants to Senator Ensign; Russell J. Thomasson, assistant to Senator Cornyn; Stuart C. Mallory, assistant to Senator Thune; Elizabeth King, assistant to Senator Reed; Darcie Tokioka, assistant to Senator Akaka; Kimberly Jackson, assistant to Senator Dayton; and Andrew Shapiro, assistant to Senator Clinton.

OPENING STATEMENT OF SENATOR JOHN ENSIGN, CHAIRMAN

Senator ENSIGN. This afternoon, the Subcommittee on Readiness and Management Support meets to receive testimony on Iraq contracting issues in review of the National Defense Authorization Request for Fiscal Year 2007. I am pleased to welcome today's witnesses for the hearing, Claude M. Bolton, the Assistant Secretary of the Army for Acquisition, Logistics, and Technology; Major General Ronald L. Johnson, Deputy Chief of Engineers and Deputy Commanding General, U.S. Army Corps of Engineers; and Stuart W. Bowen, the Special Inspector General for Iraq Reconstruction.

As part of its general oversight of military expenditures, the Senate Armed Services Committee and this subcommittee in particular have conducted numerous hearings and briefings on acquisition oversight and reform and initiated numerous investigations by the Government Accountability Office (GAO) and a Department of Defense (DOD) Inspector General (IG) on DOD acquisition practices and programs.

Contracting issues in Iraq are a subset of this overall effort. In addition, the full committee has held a number of Iraqi-related hearings and briefings where Iraqi contracting issues have been discussed and conducted frequent bipartisan staff briefings on specific Iraq contracting issues. The subcommittee met specifically on Iraq contracting practices in May 2004. At that hearing, the subcommittee looked at the adequacy of DOD contract oversight in Iraq, the appropriateness of functions that are being contracted out and how contractor security functions should operate in the U.S. military chain of command. Since our last hearing, there has been a significant amount of change in oversight structure and authorities for contracting in Iraq.

As such, this is an appropriate time for the subcommittee to gain a better understanding of current DOD roles and responsibilities for Iraq contracting and to review lessons learned from the reconstruction effort. There have been a number of negative reports on problems with some Iraq contracts. To a certain degree, all Federal contracting is susceptible to fraud, waste, abuse, and even honest mistakes. Key questions for Congress to answer are whether Iraq contracting is more susceptible to these problems, and are there adequate controls and remedies in place to find the bad actors and to punish them, thus deterring additional fraud, waste, and abuse. Are the auditors, the Special IG for Iraq Reconstruction, the DOD IG, and Defense Contract Audit Agency (DCAA) up to the task, and is there adequate contracting experience on the ground to prevent fraud and wasteful spending? The Iraq and Afghanistan experience should have plenty of lessons learned from emergency contracting that Congress should explore for application in future contingencies.

For example, having contracting vehicles in place, such as the Army's Logistics Civil Augmentation Program (LOGCAP) contract, can quickly mobilize contractors to meet DOD's needs. However, one should ask at what point is it appropriate to transition from sole-source cost-plus task orders, to firm, fixed-price competitive contracts. Should the next LOGCAP contract be awarded to more than one contractor, and should task orders be competed at an appropriate time? Other issues to explore include: does the DOD need to improve its contingency contracting procedures and workforce for future operations. Last year's National Defense Authorization Act (NDAA) asked DOD to review its policies and procedures in this area.

In addition: does DOD have adequate visibility and control over Federal contractors and especially security contractors in a war zone?

Finally: what additional mechanisms and authorities are needed to oversee contracting in major contingencies such as Iraq? Tens of billions of taxpayers' dollars are being expended in Iraq. I look for-

ward to hearing from our witnesses on what needs to be done to ensure that the money is spent appropriately and wisely. As soon as Ranking Member Senator Akaka gets here, I'll defer to him to make an opening statement, but at this point, I'd like to, so that we have as much time as possible, hear from the witnesses and to ask questions. Can we start with Mr. Bolton, if you would start with your testimony, and we'll go Mr. Bolton, Major General Johnson, and Mr. Bowen.

[The prepared statement of Senator Ensign follows:]

PREPARED STATEMENT BY SENATOR JOHN ENSIGN

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There have been a number of negative reports on problems with some Iraq contracts. To a certain degree, all Federal contracting is susceptible to fraud, waste, abuse, and even honest mistakes. Key questions for Congress to answer are whether Iraq contracting is more susceptible to these problems and are there adequate controls and remedies in place to find the bad actors and punish them—thus deterring additional fraud, waste, and abuse. Are the auditors—the Special IG for Iraq Reconstruction, the DOD IG and Defense Contract Audit Agency—up to the task and is there adequate contracting experience on the ground to prevent fraud and wasteful spending?

The Iraq and Afghanistan experience should have plenty of lessons learned for emergency contracting that Congress should explore for application in future contingencies. For example, having contracting vehicles in place such as the Army's LOGCAP contract can quickly mobilize contractors to meet DOD's needs. However, one should ask at what point is it appropriate to transition from sole-source cost-plus task orders to firm-fixed-price competitive contracts. Should the next LOGCAP contract be awarded to more than one contractor and should task orders be competed at an appropriate time?

Other issues to explore include does the DOD need to improve its contingency contracting procedures and workforce for future operations? Last year's National Defense Authorization Act asks DOD to review its policies and procedures in this area. In addition, does DOD have adequate visibility and control over Federal contractors and especially security contractors in a warzone? Finally, what additional mechanisms and authorities are needed to oversee contracting in major contingencies such as Iraq? Tens of billions of taxpayers' dollars are being expended in Iraq. I look forward to hearing from our witnesses on what needs to be done to ensure that this money is spent appropriately and wisely.

STATEMENT OF HON. CLAUDE M. BOLTON, JR., ASSISTANT SECRETARY OF THE ARMY FOR ACQUISITION, LOGISTICS, AND TECHNOLOGY

Mr. BOLTON. Thank you and good afternoon to you, Mr. Chairman, and to the members of the subcommittee and full committee who are present today. I'm Claude Bolton, and I serve as the Assistant Secretary of the Army for Acquisition, Logistics, and Technology, and it's my privilege to testify on the important subjects that have come under my purview with regard to contracting in Iraq and reconstruction efforts in that country.

Mr. Chairman, I'm also pleased to be here today with Major General Ron Johnson, the Deputy Commanding General for the Army Corps of Engineers, and with Stuart Bowen, the Special Investigator Inspector General for Iraq Reconstruction. Both are invaluable associates in the continuing important reconstruction mission in Iraq that is being directed by the Secretary of State through Secretary Rice and through the Chief of Mission, Ambassador Salazar.

Mr. Chairman, as my prepared statement reflects, the United States Army has been hard at work executing, as directed by State, on the largest portion, approximately $13 billion of the $18.4 billion, on the projects and other requirements that have been generated from the fiscal year 2004 through fiscal year 2006 Iraq Relief and Reconstruction Fund (IRRF) appropriated by Congress. At the same time, we've also been very busy supporting the warfighter in a variety of requirements that have arisen in the theater since 2003. With regard to reconstruction in Iraq, I refer you to the slide attachments of my prepared statement for the quickest read on the size and scope of the operational tempo of the efforts. Behind you on your left, you'll see a poster that highlights the country of Iraq. In 2000, a number of red dots and blown-up, the city of Baghdad, with green dots, those represent, in just 2005, the number of projects completed. Wrapping up a project and contracting effort that has gone literally from 0 to 60 in the last 18 to 24 months has been an enormous challenge.

During this time, we have been directed first by Coalition Provision Authority (CPA) and now by the Department of State (DOS), and those agencies began to analyze Iraq's massive requirements and embark on a plan. During the same time, we have been agile enough to work with those in the lead as they have worked through the several changes in Iraq's government at the cabinet and ministerial levels.

The scale, timeline, and intense security environment of this enormous undertaking are unprecedented. We have built a series of organizations, acquisition strategies, and systems in response to an adaptive, cunning enemy that does not wish for us to succeed, and a workplace that is 8,000 miles from home and staffed by the military and civilian volunteers.

Importantly, we have worked with the Iraqi people themselves, the vast majority of whom welcome our efforts despite decades of isolation from the modern world. We've adjusted the reconstruction ideas and requirements of a new and evolving Iraqi democracy as the Iraqis go to the polls and select their representatives and leaders.

We're working hard to understand and to meet the sustainment needs of the projects that have been or will be completed, and we're fully engaged with the DOS on Iraq's capacity-building needs with regard to the reconstruction process. At each step in the process, the Army Corps of Engineers has been with us, demonstrating time and time again why they are the very best at what they do.

In early 2005, we began a process that culminated with the preliminary consolidation of the Project and Contracting Office (PCO) and the Corps of Engineers' efforts in Iraq. We're working to expand that consolidation as we arrive at a point where our respective efforts are joined. As we enter the third year of this program, more than 80 percent of the $13 billion of the $18.4 billion in the reconstruction funding directed to the Army has been obligated.

In total, 7,500 contract actions for the reconstruction and critical non-construction material and services, and over 2,800 projects have been started by the Army's PCO. Over 2,000 projects have been completed, and we're largely on schedule to finish obligating 100 percent of the PCO funds in the next several months.

Today, we have around 60 percent disbursements of the funds for which the PCO is responsible. To facilitate the sustainment operation of our reconstruction projects, our contractors are required to transfer their technical knowledge and skills to the Iraqi personnel through thousands of hours of training, and the provision of contract deliverables, including operations and maintenance manuals, preventative maintenance plans, and databases that contain information on both subcontracting activities and efforts to develop the capacity needed to sustain the infrastructure being built.

Along this journey, we have learned much, improved a great deal and have worked very hard. We know that the better and faster we do our job, the better and faster the new Iraqi Government can assume its full responsibilities, and our soldiers can return home. Subject to your questions, Mr. Chairman, this concludes my remarks. Please allow me to express our profound gratitude for all the Members of Congress who have done such a great job in supporting the Army, past, present, and future. Thank you.

[The prepared statement of Mr. Bolton follows:]

PREPARED STATEMENT BY HON. CLAUDE M. BOLTON, JR.

INTRODUCTION

Mr. Chairman and distinguished members of the Subcommittee on Readiness and Management Support of the Senate Armed Services Committee, thank you for the opportunity to report to you on the status of Iraq reconstruction and contracting within the boundaries of our responsibilities for approximately $13 billion of the fiscal year 2004 funding appropriated for Iraq under the Iraq Relief and Reconstruction Fund (IRRF) appropriated funds. Today, it is my privilege to represent the Army leadership and the military and civilian members of the combined reconstruction program management and contracting workforce team. Allow me to echo the President's message last Tuesday to Congress and to the Nation that we have learned much from our experience in Iraq. Just as we have adjusted our military tactics, we have changed and refined our approach to reconstruction as the situation on the ground has warranted.

HISTORY—HOW DID WE GET HERE?

As you are aware, the Army is the Executive Agent for the Department of Defense's (DOD) reconstruction and relief mission in Iraq as outlined in the IRRF. The requirements writer and interagency leader, first the Coalition Provisional Authority (CPA) and then the Department of State (DOS), has directed that the Army exe-

cute approximately $13 billion of the $18.4 billion for projects in Iraq. The following brief history of this monumental effort is provided to show in simple terms how we have arrived at this point.

At first, responsibility for providing humanitarian assistance and aiding in the reconstruction of post-war Iraq initially fell to the Office of Reconstruction and Humanitarian Assistance (ORHA), which was tied to both the DOD and the U.S. Agency of International Development (USAID). Later, the CPA was established and responsibility for the reconstruction was shifted to that organization as Congress appropriated monies. The CPA, which existed from May 2003 to June 2004, was originally charged only with responsibility for the oversight and expenditure of the Development Fund for Iraq and the initial funds appropriated in April 2003 under the first emergency supplemental for Iraq. However, with the appropriation of the $18.4 billion into the Iraq IRRF, under Public Law 108–106 in November 2003, the CPA's reconstruction mission expanded. The Army was asked to serve as Executive Agent in two separate actions for ORHA in May 2003 and, again, for CPA in June 2003; responsibilities that it readily accepted. In an effort to immediately support this Executive Agency responsibility, and as the Army's Senior Acquisition Executive, I initially designated a Head of Contracting Activity (HCA) for CPA, and an office was established to assist Ambassador J. Paul Bremer.

In January 2004, the Program Management Office (PMO) was established by, and within CPA, to provide programmatic and contracting support for the IRRF. It was at this same time that the Army was asked to expand its Executive Agency responsibilities to specifically include acquisition and program management support. In February 2004, I designated a one-star general officer as the HCA for Iraq reconstruction, and the contracting mission was expanded in staffing and scope. In fact, during this initial reconstruction phase when there was less than optimal information on reconstruction requirements, the Army awarded $5 billion in Indefinite Delivery-Indefinite Quantity Design-Build construction contracts to seven separate contractors. This took only 90 days with full and open competition and in full compliance with the Federal Acquisition Regulation (FAR). Furthermore, there were no contract protests. Normally, this process would have taken nearly 18 months.

The next phase of the Army's acquisition and program management responsibilities in Iraq occurred in June 2004, upon the standdown of the CPA and the establishment of the U.S. Embassy for Iraq. The DOS assumed overall control of the reconstruction program through the Iraq Reconstruction Management Office (IRMO). IRMO was given the responsibility of managing all assistance efforts in Iraq, to coordinate all U.S. efforts, to set the priorities and to set the requirements for all parts of the IRRF with the Army and USAID serving as the implementers of the State Department's priorities for the reconstruction. In preparation for this transition, the Project and Contracting Office (PCO) was established to replace the PMO and moved under my direct supervision. In Iraq, PCO was placed under IRMO and Chief of Mission authority. A Principal Deputy was added to my office to direct my office's efforts with the PCO as the Director of Iraq Reconstruction and Program Management. Additionally, my Deputy Assistant Secretary of the Army for Policy and Procurement improved oversight of the contracting mission by establishing the Office of the Deputy Assistant Secretary of the Army for Policy and Procurement-Iraq (DASA (P&P)-Iraq). The PCO-Washington and the DASA (P&P)-Iraq offices are co-located and work together to bring full cooperative reach-back support to the program and contracting personnel on the ground in Iraq.

In October 2004, the U.S. Central Command designated the Army as the lead component for contracting for Operation Enduring Freedom in the Combined Joint Operations Area, Iraq and Afghanistan, and the Joint Contracting Command-Iraq/Afghanistan (JCC–I/A) was established. JCC–I/A provides contracting support under my authority as the Army Acquisition Executive to both the Iraq reconstruction effort and to our combatant commanders in Iraq and Afghanistan. The JCC–I/A is headed by a two-star general officer who has been designated by me as HCA for Iraq and Afghanistan. This joint command has over 160 people in two theatres of war who are working in dangerous and difficult conditions.

Today, we are in another phase of the Army's mission to support the reconstruction. As the majority of our projects have moved from design to construction, we have responded to this development by asking the U.S. Army Corps of Engineers, Gulf Region Division (GRD), to expand its responsibilities for on-the-ground construction management. PCO has consolidated and streamlined its organization in association with the GRD in order to increase efficiencies and continue efforts to reduce costs and complete the mission. As of December 4, 2005, the PCO Director in Iraq is the GRD commander. This three-stage evolution from the CPA and PMO, to the PCO, and currently to GRD/PCO and JCC–I/A is truly a good news story that demonstrates how effectively the Army can organizationally readjust and respond

to the changing circumstances in a war-time environment and at the same time provide consistent policy guidance and oversight.

CURRENT PERFORMANCE

Together the GRD/PCO and the JCC–I/A are working as a team, with IRMO and the Department of State, in rebuilding Iraq. The GRD/PCO and JCC–I/A operate in full compliance with the Federal Acquisition Regulations and have many success stories that demonstrate our abilities to streamline and adapt acquisition processes to the complex and dynamic environment. As we enter into the third year of this 4 year program, more than 80 percent of the $13 billion of the $18.4 billion in reconstruction funding allocated to the Department of Defense has been obligated. (Attached to this statement is a chart titled Iraq Reconstruction Program that depicts the committed, obligated and disbursed dollars).

In total, JCC–I/A has completed over 7,500 contract actions for the reconstruction and critical non-construction material and services, and over 2,800 projects have been started by PCO. Over 2,000 projects have been completed, including nearly 800 schools where more than 300,000 students are being educated; 13 major oil projects to assist in increasing Iraqi oil production; and Army's electricity projects have added or re-habilitated over 1,400 additional megawatts in generation capacity to the National electrical grid. When all water projects are completed, roughly 3.6 million people will have safe drinking water. One hundred and seventy-six water treatment projects have been completed to date, and 90 more are underway. Approximately 3.6 million Iraqis will have access to drinking water with the completion of these water projects. The majority of these projects were awarded directly to local contractors and local water authorities. We are currently renovating 16 hospitals, constructing a number of new primary health care facilities; restoring the country's railroad system; and constructing 500 kilometers of roadways. Lastly, the GRD/PCO spearheaded a joint effort of all U.S. Government agencies to successfully reconstruct the badly damaged Port of Umm Qasr. By the latter part of 2004, $3.5 billion in material and goods had moved through the port. (Attached is a map titled Iraq Reconstruction Projects, December 2005, Completed Projects that depicts the distribution of the completed reconstruction projects).

To facilitate the sustainable operations of our reconstruction projects, our contractors are required to transfer their technical knowledge and skills to Iraqi personnel through thousands of training hours and the provision of contract deliverables including operations and maintenance manuals preventative maintenance plans and databases that contain information on both subcontracting activities and efforts to develop the capacity needed to sustain the infrastructure being built. In the water sector alone, contractors have held more than 140,000 hours of training and capacity development to over 78,000 Iraqi ministry personnel ranging from the facility to the ministry level.

In October 2004, DOS, GRD/PCO, and JCC–I/A began shifting the acquisition strategy to make greater use of local Iraqi firms through direct contracting as the local contractor base matured and stabilized. Projects that have been directly contracted to Iraqi firms include electricity transmission and distribution, potable water, roads, and numerous others. Direct contracting has allowed certain projects to be completed faster, cheaper, safer, and more visible to Iraqis. In the Oil Sector, we have tailored the IRRF projects toward engineering and procurement where the state-owned operating companies are directly responsible for construction. To date, over 40 percent of all projects started, or 1,100 projects, have been through direct contracts with the Iraqis. Stated differently, in dollar volume, we have obligated $1.3 billion to Iraqi companies. Iraqi employment under GRD/PCO reconstruction projects exceeds 50,000 people.

The success that we see on the ground in-theater by IRMO, the GRD/PCO and JCC–I/A is being achieved with a dedicated group of military, civilian and contractor personnel. Both offices operate long hours, 7 days a week under extremely volatile conditions. On January 29, 2005, we lost two of our own, Barbara Heald and Navy Lieutenant Commander Keith Taylor, who were killed at their desks by a rocket attack on the U.S. Embassy compound in Baghdad. These are the heroes and the role models for all of us working this important mission supporting democracy.

ACCOUNTABILITY IN IRAQ RECONSTRUCTION

I also want to emphasize the following very important point. The reconstruction program in Iraq has been one of most audited efforts ever undertaken by our government. From the beginning, we welcome this "good government" look at our work. In addition to the Special Inspector General for Iraq Reconstruction (SIGIR), we also have been audited by the Government Accountability Office (GAO), the Defense

Contracting Audit Agency (DCAA), the Department of Defense Inspector General (DODIG), the Department of State Inspector General (DOS IG), and the Army Audit Agency (AAA). Our policy throughout this mission has been to work side-by-side with all auditors in order to ensure the proper expenditure and oversight of U.S. taxpayer money allocated by the U.S. Congress. We have also found that they serve a valuable role in helping us execute our mission better and with greater care. As an example, auditors have given us recommendations, which we have worked hard to implement, on improving cost-to-complete estimates, improving the documentation of our award fee process for the design-build contractors, and the establishment of a centrally coordinated approach to sustainment issues. In our opinion, the number of auditors both in theatre and in Washington, along with their associated cost, has not been lacking.

Let me also assure you that we work continuously to uphold all U.S. laws and regulations, and that contracts are awarded in complete conformance with the Federal Acquisition Regulations.

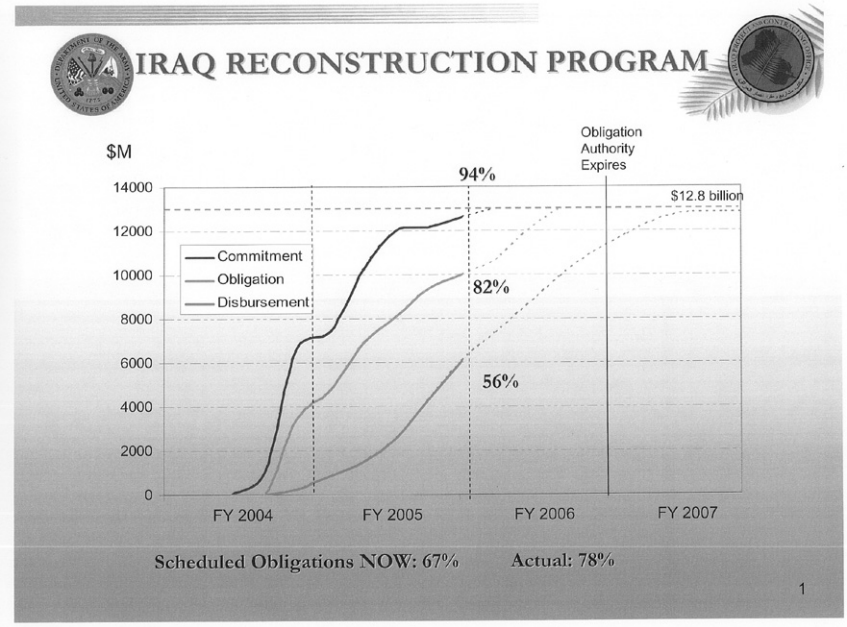
CONCLUSION

This historic effort continues to be a temporary program about to begin its third year. As we close year two, over 80 percent of the work is on contract and over 50 percent of the payments have been made on completed projects.

In addition to the Iraqi people, the winners in our successful Iraq reconstruction program are the soldier, the centerpiece of the Army, and the civilians and contractors who have also made the ultimate sacrifice on the battlefield while undertaking this critical national priority. The scale, timeline, and intense security environment of this enormous undertaking are unprecedented. We have built a series of organizations and systems in response to an adaptive and cunning enemy. We have adjusted to the ideas and requirements of a new and evolving Iraqi democracy as they have been presented. We are working hard to understand and to meet the sustainment needs of the projects that have or will be completed; and we are fully engaged with the Department of State on Iraq's capacity building needs with regard to the reconstruction process.

While the challenges have been daunting at times, we have maintained a tremendous sense of urgency and intense operational tempo with regard to our reconstruction mission. We are proud of our accomplishments, and we want the people of this great Nation and Congress which represents them to know of this effort.

In summary, we are an Army at war, a full member of the Joint and Interagency Team, and we are fighting the global war on terror while bearing the enormous responsibilities associated with reconstruction. The Army is constantly working to improve the way we do business so that we can better support our soldiers, civilian volunteers, and contractor personnel in the field. Again, to echo President Bush, we benefit from responsible criticism that aims for success. With your continued support, we will succeed.


IRAQ RECONSTRUCTION PROGRAM
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Commitment
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Disbursement
94%
82%
56%
Obligation Authority Expires
$12.8 billion
FY 2004
FY 2005
FY 2006
FY 2007
Scheduled Obligations NOW: 67%
Actual: 78%
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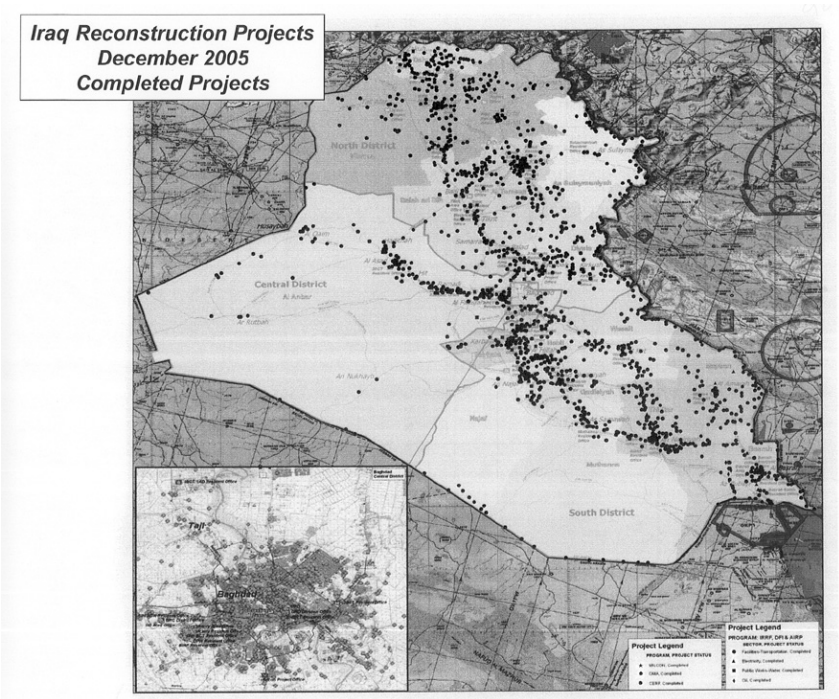
Iraq Reconstruction Projects
December 2005
Completed Projects
North District
Central District
South District
Baghdad
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Project Legend

Senator ENSIGN. I'll turn to my colleague, somebody who I enjoy working with a great deal, Senator Akaka.

STATEMENT OF SENATOR DANIEL K. AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. This is our first meeting for this year of the Subcommittee on Readiness and Management Support, and I look forward to working with you this year, and I want to wish you well under your leadership and chairmanship of this subcommittee as we pursue the issues that are important to all of us.

On January 26, 2006, the Special IG for Iraq Reconstruction (SIGIR) reported on his review of 907 contracts awarded by the CPA. The IG reported that 17 percent of the contracts were not competitively awarded. Ten percent of the contracts were paid in full at the time of contract signing, and the completion of project work was never verified, and 31 percent of the contracts failed to contain documentation showing that the required work was performed.

Other IG reports show a similar picture. For example, on April 30, 2005, the IG issued two reports, one addressing 300 contracts valued at more than $300 million paid for out of Iraq funds, and the other addressing 17 contracts valued at almost $200 million paid for out of U.S. funds.

The IG determined that more than half of the contracts paid for out of Iraqi funds and more than 20 percent of the contracts paid for out of U.S. funds failed to contain evidence that the goods or services we paid for had ever been received. There are many reasons for these contracting failures. I would like to focus for a moment on one source of the problem, our chronic understaffing of acquisition positions in Iraq.

Last April, the SIGIR issued two reports in which he traced significant mismanagement issues to inadequate staffing. The first report had stated, "According to PCO management, the Aegis contract is one of approximately 6,500 contracts and task orders administered by the PCO, and PCO staffing is not adequate for the considerable workload entailed in the administration of the Aegis contract. The PCO has authorized 69 contract specialists, civilians, contractors, and military. At that time, our audit field work was concluded. The organization was able to only staff 41 of these positions. The Aegis contract is one of approximately 50 contracts administered by 1 contracting officer. This situation is further exacerbated by high PCO staff turnover. At the time of the audit, the Aegis contract had four contracting officers and three contracting officer representatives since its inception less than a year earlier."

The second report stated, "The PCO contracting activity was understaffed by 23 contracting personnel according to its organization chart dated September 2004. During the audit, we observed that the PCO contracting administrator (CA) contracting personnel worked 7 days per week. PCO CA personnel also told us that they worked 13 to 15 hours each day, 6 days a week, with a shortened shift of 6 to 11 hours on the seventh day. As one contracting officer stated to us, a contracting officer in the United States would normally have a team of contracting specialists who assist in the procurement process. However, in Iraq, contracting officers work the

majority of the contract actions from start to finish without assistance."

Mr. Chairman, these problems are symptomatic of our broader failure to hire, train, and retain the acquisition workforce we need to support our military. It is just not fair to our contracting professionals, whether in Iraq or in the United States, to ask them to work 13 to 15 hours a day, 7 days a week, and then blame them when the results are not up to our expectations. We owe them better.

I look forward to the testimony of the witnesses, Mr. Chairman. Thank you.

[The prepared statement of Senator Akaka follows:]

PREPARED STATEMENT BY SENATOR DANIEL K. AKAKA

Mr. Chairman, thank you for calling this hearing. On January 26, 2006, the Special Inspector General for Iraq Reconstruction reported on his review of 907 contracts awarded by the Coalition Provisional Authority. The Inspector General reported that 17 percent of the contracts were not competitively awarded; 10 percent of the contracts were paid in full at the time of contract signing and the completion of project work was never verified; and 31 percent of the contracts failed to contain documentation showing that the required work was performed.

Other Inspector General reports show a similar picture. For example, on April 30, 2005, the Inspector General issued two reports—one addressing 300 contracts valued at more than $300 million paid for out of Iraqi funds and the other addressing 37 contracts valued at almost $200 million paid for out of U.S. funds. The Inspector General determined that more than half of the contracts paid for out of Iraqi funds and more than 20 percent of the contracts paid for out of U.S. funds failed to contain evidence that the goods or services we paid for had ever been received.

There are many reasons for these contracting failures. I would like to focus for a moment on one source of the problem: our chronic understaffing of acquisition positions in Iraq. Last April, the Special Inspector General for Iraq Reconstruction issued two reports in which he traced significant mismanagement issues to inadequate staffing. The first reported stated:

> "According to Project and Contracting Office (PCO) management, the Aegis contract is one of approximately 6,500 contracts and task orders administered by the PCO, and PCO staffing is not adequate for the considerable workload entailed in the administration of the Aegis contract. The PCO is authorized 69 contract specialists (civilian, contractors, and military). At the time our audit fieldwork was concluded, the organization was able to only staff 41 of these positions. The Aegis contract is one of approximately 50 contracts administered by 1 contracting officer. This situation is further exacerbated by a high PCO staff turnover. At the time of the audit, the Aegis contract had four contacting officers and three contracting officer representatives since its inception [less than a year earlier]."

The second report stated:

> "The Project and Contracting Office Contracting Activity (PCO CA) was understaffed by 23 contracting personnel according to its organization chart dated September 2004. . . . During the audit, we observed that the PCO CA contacting personnel worked 7 days per week. PCO CA personnel also told us that they worked 13 to 15 hours each day, 6 days a week; with a shortened shift of 6 to 11 hours on the seventh day.
>
> "As one contracting officer stated to us, a contracting officer in the United States would normally have a team of contracting specialists to assist in the procurement process. However, in Iraq, contracting officers work the majority of contract actions from start to finish without assistance."

Mr. Chairman, these problems are symptomatic of our broader failure to hire, train and retain the acquisition workforce we need to support our military. It is just not fair to our contracting professionals—whether in Iraq or in the United States—to ask them to work 13 to 15 hours a day, 7 days a week, and then blame them when the results are not up to our expectations. We owe them better.

I look forward to the testimony of our witnesses.

Senator ENSIGN. Thank you, Senator Akaka. General, do you have an opening statement?

General JOHNSON. Yes, sir, I do.

Senator ENSIGN. Excellent.

STATEMENT OF MG RONALD L. JOHNSON, USA, DEPUTY CHIEF OF ENGINEERS/DEPUTY COMMANDING GENERAL, U.S. ARMY CORPS OF ENGINEERS

General JOHNSON. Mr. Chairman and members of the subcommittee, good afternoon. I'm Major General Ron Johnson. I'm the Deputy Commanding General of the U.S. Army Corps of Engineers. I had the honor and privilege of leading the Corps's dedicated soldiers and civilians as the first commanding general of the Corps of Engineers Gulf Region Division in Iraq. During this time, I was also dual-hatted as Admiral Dave Nash's deputy, U.S. Deputy, in the Program Management Office of the CPA. Support to this country's global war on terror continues to be the Corps of Engineers's number one priority.

Prior to January 2004, nearly 6,000 U.S. Army Corps of Engineers personnel, and I should add, both civilian and soldier, had deployed in support on the global war on terror. Primarily civilian volunteers, these men and women worked in Iraq, Afghanistan, and Kuwait in support of the reconstruction effort.

To date, the Corps of Engineers has had approximately 2,500 personnel deployed in support of the global war on terror with many people volunteering for more than one deployment. These deployments ranged from 120 days to a year or more. While only 2,500 were forward-deployed, we had the ability to harness the experience and knowledge of all 34,000 civilian employees virtually using our total engineering capability. This expands our capabilities while reducing the number of personnel in harm's way.

The Gulf Region Division Office and three district offices located in Mosul, Baghdad, and Tallil currently operate with 555 U.S. personnel deployed to Iraq and 240 local nationals for a total of 795 personnel. Corps employees have filled vital positions in the Program Management Office/Projects and Contracting Office from its inception in the fall of 2003.

When the Gulf Region Division stood up in January 2004, we teamed with the Program/Project Management Office (PMO) and PCO to become the Construction Management Directorate for the organization. Then recently, when the majority of the effort shifted from programming and planning to construction management, the Gulf Region Division and PCO merged into the single organization that we are today.

Mr. Chairman, the U.S. Army Corps of Engineers stands ready to continue to support the global war on terror, and I would be happy to answer any questions that you or your committee members may have.

Senator ENSIGN. Thank you, Major General.

Mr. Bowen.

STATEMENT OF STUART W. BOWEN, JR., SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

Mr. BOWEN. Thank you. Mr. Chairman, Ranking Member Akaka, and members of the subcommittee, I'm Stuart Bowen, the SIGIR. Tomorrow evening, I will leave for my 11th visit to Iraq since being appointed IG almost exactly 2 years ago to continue the important work of my office in providing oversight, oversight that works and works hard on the ground in Iraq performing audits, investigations, and inspections.

I thank you for the opportunity to address you today on the important matters regarding the role of the United States in the reconstruction of Iraq. I hope for a productive exchange of views and ideas in this hearing, and that it will help illuminate some of the issues underlying that effort, in particular, those challenges we're facing in the contracting sector. To date, SIGIR has completed a total of 70 audits and inspections since inception, and they provide an important perspective on U.S. progress in reconstruction in Iraq. Seventeen of our audits speak directly to the issue of contracting.

To summarize them overall, they tell a story of some fairly significant problems early on; as we've heard already, some tied to manpower, and other issues that we've identified. But the good news is is that contracting has substantially improved, and things continue to get better. Early on, there were instances in poor internal controls, missing contracts or incomplete files, and administrative problems. We made specific recommendations on tightening up award fee procedures, and that happened, saving taxpayer dollars. A recent audit identified issues related to the Prompt Payment Act, and corrective measures are underway to address that.

Over the last 12 months, we have seen significant improvements in the performance of overall contracting operations within the Joint Contracting Command, Iraq. We've also built on our knowledge from our audits through additional research, interviews, and a lessons-learned initiative that is looking closely at the entire history of our experience in Iraq reconstruction and in particular, at contracting. We are in the midst of editing our draft of a detailed review of the history of contracting in Iraq, and I expect that that will be published this spring.

Our report on human capital management will be out this month, and we will also have a lessons-learned forum on program management in late spring. Essentially, we have found that cooperation and collaboration among agencies engaged in reconstruction is the overarching requirement needed for successful post-conflict reconstruction contracting.

Based on our research thus far, SIGIR has the following key recommendations for improving reconstruction contracting, whether in Iraq or any future overseas reconstruction endeavor: First, include contracting staff at the beginning of contingency planning. That was not part of the Iraq experience, and thus, we were a little bit behind the power curve when it came to deploying contracting staff to CPA.

Second, use more flexible contracting mechanisms in special contracting programs. The Commanders Emergency Response Program (CERP), which we've audited twice, has been a relatively suc-

cessful program in Iraq, providing local and immediate answers to the needs of Iraqis. Programs like that should be considered in any future endeavor.

Third, the need for more concrete requirements formulations when it comes to contracting. This addresses the form and the type of contracting mechanism used and is reflected in Iraq as we've moved from reliance on large design-build cost-plus contracts to more direct contracting mechanisms.

Fourth, better integration of the security situation's impact into contract planning and execution certainly has been an issue that's impeded the overall effort in Iraq, and we've had to alter our allocation of reconstruction dollars to address stabilization needs, specifically security infrastructure.

Last, sustainment. It's an issue of great importance right now in Iraq. By sustainment, I mean ensuring that there is sufficient funding for operations and maintenance of the infrastructure we've provided the Iraqis and that there's been capacity building, that they have been empowered to operate that infrastructure and to grow their economy.

Such advances that we've seen include the development of civilian and military partnerships, the creation of centralized contracting coordination, more flexible contracting mechanisms, and pre-deployment preparations of contracting personnel. These are all improvements, lessons learned, that we've seen applied in the course of the Iraqi experience. A detailed analysis of all of this history, including the ongoing successes, will be out when our report is released.

I'm proud of my staff's commitment and willingness to serve in the lethal environment that is Iraq today, far from their families, as we vigorously carry out our duties and responsibilities assigned by Congress.

I appreciate this opportunity to participate in this hearing and look forward to answering any questions the committee may have. Thank you.

[The prepared statement of Mr. Bowen follows:]

PREPARED STATEMENT BY STUART W. BOWEN, JR.

INTRODUCTION

Mr. Chairman, Ranking Member Akaka, and members of the subcommittee—thank you for the opportunity to address you today on important matters regarding the role of the United States in the reconstruction of Iraq and the oversight of such efforts provided by my office, the Special Inspector General for Iraq Reconstruction (SIGIR). I hope for a productive exchange of views and ideas in this hearing to illuminate issues and challenges regarding Iraq reconstruction that we are now confronting.

This hearing is particularly timely as I released last week the January 30, 2006 Quarterly Report to Congress and to the Secretaries of State and Defense containing seven new audit reports detailing challenges, issues and concerns in Iraq reconstruction efforts. SIGIR has now completed a total of 70 audit reports and project inspections. Among our 41 audit reports, almost half have dealt with contracting issues. Together, these provide an important perspective on U.S. progress in Iraq.

Throughout 2005, SIGIR provided independent, aggressive oversight to prevent waste, fraud, and abuse in the dangerous operating environment in Iraq. My emphasis on real-time auditing—where guidance is provided immediately to management authorities upon the discovery of a need for change—enables rapid improvements that can save taxpayers money.

In our discussion of contracting issues arising from Iraq relief and reconstruction, I will include some information on how we are deriving lessons learned from the

experience. I would like to illustrate one important lesson—oversight delayed is oversight denied.

Last week, an individual who had been employed by the CPA to manage reconstruction funds in South-Central Iraq, was convicted of bribery and fraud—the conclusion of a criminal case opened by SIGIR investigators in 2004. This individual is one of four subjects currently identified in connection with criminal activities involving Iraqi money that was intended for the benefit of the Iraqi people.

Court documents released last week contained a number of electronic messages between these individuals as they coordinated their criminal activities. Many of these e-mails were transmitted in January 2004—a period when their activities, which had already gone on for months, were in full swing,

Coincidentally, on January 20, 2004, I was appointed as the Coalition Provisional Authority Inspector General. This appointment was the first formal, substantive measure to provide oversight of the entire range of Iraq reconstruction programs and operations. Unfortunately, the establishment of an inspector general came months too late to deter these particular criminal activities.

However, while we were not in place to keep these crimes from occurring, the trails of those who committed crimes in Iraq are still warm enough for us to follow. In partnership with the Department of Homeland Security Bureau of Immigration and Customs Enforcement, the Internal Revenue Service Criminal Investigation, and the Department of State (DOS) Inspector General, we have created an interagency Special Investigative Task Force for Iraq Reconstruction (SPITFIRE). With our SPITFIRE partners, and with the strong cooperation of the Department of Justice, we will continue to identify, arrest, and prosecute those relative few who dishonored our Nation's efforts in the reconstruction of Iraq.

Thus, the important lesson is that oversight works, and it works well when it works hard. But, it works more efficiently the earlier it is put in place. Provisions for formal oversight of Iraq reconstruction should have been established at the very beginning of the endeavor.

While there has been much attention given to our work involving the Iraqi funds that were used by CPA for Iraq reconstruction, our current work chiefly involves the funds appropriated in the Iraq Relief and Reconstruction Fund (IRRF). I believe it is important to address apparent confusion in reports about the funds that were lost from the criminal activities we are investigating: we have found limited evidence of crimes involving appropriated funds provided by the American taxpaying public. Corruption is not a pervasive problem on the U.S. side of the reconstruction program. While we have found and reported inefficiencies and waste in the management of reconstruction contracts, projects, and finances, the problems and lack of controls in spending appropriated funds were far less serious than those that we found, and investigated, in the management of Iraqi funds used in reconstruction.

Even under the difficult conditions of Iraq, we have observed continuous improvement. The multiple organizations engaged in Iraq reconstruction have improved their coordination. The recent reorganization to integrate the Project and Contracting Office (PCO) with the Gulf Regional Division of the Army Corps of Engineers has contributed to these improvements.

Today, to help you to focus on contracting issues in Iraq reconstruction, I will discuss the findings from our audits that looked into contracting issues. SIGIR has conducted 17 audits into contracting matters since we began our work in Iraq in the spring of 2004:

Award of Sector Design—Build Construction Contracts (SIGIR–04–005—July 23, 2004)

- The Department of Defense (DOD) components used competitive procedures to award the design-build construction contracts for rebuilding the Iraqi infrastructure. However, except for the two contracts for the oil sector, the contract awards were limited to sources from designated countries, including the United States, Iraq, coalition partners, and force-contributing nations.
- On awarding these contracts, Army components properly advertised the requirements, developed source selection plans, and had sufficient controls to ensure that the plans were followed.
- As a result, the U.S. Government obtained the benefits of competitive contracting, but the PMO faces challenges in ensuring that tasks performed under these contracts fully meet the U.S. Government's requirements and are economically and efficiently executed.

Coalition Provisional Authority's Contracting Processes Leading Up To and Including Contract Award (SIGIR–04–013—July 27, 2004)

- The audit found that the CPA's Contracting Activity did not consistently provide oversight and technical supervision to the contracting officers awarding contracts on behalf of the CPA and Iraqi ministries.
- Specifically, the Procuring Contracting Officer (PCO) did not ensure that:
  - management information was accurate
  - contract files contained all the required documents
  - a fair and reasonable price was paid for the services received
  - contractors were capable of meeting delivery schedules
  - contractors were paid in accordance with contract requirements
- The CPA–IG recommended the Head of Contracting Activity attempt to recoup unsupported costs associated with a contract reviewed during the audit.

Task Order 0044 of the Logistics Civilian Augmentation Program III Contract (SIGIR–05–003—November 23, 2004)

- During the audit, SIGIR identified several problems concerning cost data submitted by Kellogg Brown & Root (KBR) to the CPA for work performed under Task Order (TO) 0044 (to provide for logistics and life support for personnel assigned to the CPA mission). First, KBR did not provide sufficiently detailed cost data to evaluate overall project costs or to determine whether specific costs for services performed were reasonable. As a result, the ACO did not receive sufficient or reliable cost information to effectively manage TO 0044.
- Second, the lack of certified billing or cost and schedule reporting systems hampered effective monitoring of contract costs.
- Third, because the contractor did not provide detailed cost information to support actual expenses incurred, resource managers were unable to accurately forecast funding requirements to complete TO 0044.
- Based on limited audit work, SIGIR also believes that Federal Acquisition Regulations (FAR) Clause 52.216–26, Payments of Allowable Costs Before Definitization, should be enforced because of the lack of definitization for TO 0044.

Compliance with Contract No. W911SO–04–C–0003 Awarded to Aegis Defence Services Limited (SIGIR–05–005—April 20, 2005)

- Specifically, Aegis did not provide sufficient documentation to show that all of its employees who were issued weapons were qualified to use those weapons or that its Iraqi employees were properly vetted to ensure that they did not pose an internal security threat.
- Aegis was not fully performing several specific responsibilities required by the contract in the areas of personal security detail qualifications, regional operations centers, and security escorts and movement control.
- Further, SIGIR identified deficiencies in the monitoring of the contract by the Project and Contracting Office (PCO).
- As a result, there is no assurance that Aegis is providing the best possible safety and security for government and reconstruction contractor personnel and facilities as required by the contract.

Administration of Iraq Relief and Reconstruction Fund Contract Files (SIGIR–05–007—April 30, 2005)

- The PCO did not adequately maintain the 37 contracts and associated contract files SIGIR reviewed, valued at more than $184 million, to fully support transactions relating to the performance of contract administration processes.
- Further, the PCO could not produce 21 percent, or 10 of the 48 randomly selected contract files for SIGIR's review.
- The PCO generally awarded contracts that contained adequately prepared statements of work, specific contract deliverables, and clearly negotiated contract terms. However, the audit identified significant deficiencies in contract administration processes and controls.
- Consequently, there was no assurance that the contract file data was available, complete, consistent, and reliable or that it could be used to effectively monitor and report the status of contracted project activity for the IRRF.
- The audit identified material management control weaknesses in the administration of contract files. Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of IRRF contracts.

• Management agreed with the finding and recommendations made in this report. The report contained seven recommendations. Actions have been taken or are underway to correct the reported deficiencies.

Administration of Contracts Funded by the Development Fund for Iraq (SIGIR–05–008—April 30, 2005)

• PCO did not fully comply with the requirements described in a memorandum from the Iraqi Interim Government Minister of Finance to monitor DFI contract administration.
• PCO and the Joint Area Support Group—Central (JASG–C) comptroller could not accurately identify the current value of obligations, payments, and unpaid obligations for DFI contracts. However, cash payments appeared to be made in a timely manner.
• PCO lacked the necessary controls and adequate documentation to effectively perform their responsibilities to monitor and administer contracts funded by the DFI.
• The audit identified material management control weaknesses in the accounting for DFI contract liabilities and in contract administration.
• Consequently, there was no assurance that fraud, waste, and abuse did not occur in the management and administration of contracts funded by the DFI, that DFI funds were used in a transparent manner, or that DFI funds were used for the purposes mandated by UN Security Council Resolution 1483.
• The report contained six recommendations. Management from PCO and JASC–C agreed with the findings and recommendations made in this report. Actions have been taken or are underway to correct the reported deficiencies.

Reconciliation of Reporting Differences of the Source of Funds Used on Contracts After June 28, 2004 (SIGIR–05–009—July 8, 2005)

• During the course of this audit, SIGIR found that it could not fully address the overall objective because 21 of the 69 contracts identified for review could not be located by government officials.
• SIGIR concluded that the 48 contracts reviewed disclosed no instances of incorrect obligations of DFI funds.
• SIGIR also concluded that the Joint Contracting Command-Iraq (JCC–I) current contract data files were not accurate and not adequately supported.
• Review showed that 48 of the 69 contracts contained data entry errors in documenting the date of the contract award or the source of the funding.
• JCC–I officials stated that the 21 contracts that could not be located may have been destroyed by a rocket that struck the Presidential Palace in January 2005 or that some of these contracts were turned over to Iraqi ministry officials after contract completion and final review by contracting officials. However, the JCC–I had no records to support these conjectures.
• During the audit, the JCC–I corrected the Contract Management Information System reporting errors identified by the audit. SIGIR believes that these actions sufficiently corrected the identified deficiencies.

Attestation Engagement Report concerning the Award of Non-competitive Contract DACA63–03–D–0005 to Kellogg, Brown and Root Services, Inc. (SIGIR–05–19—September 30, 2005)

• The Director of the Defense Reconstruction Support Office-Iraq (DRSO) asked SIGIR to provide an attestation on a non-competitively awarded contract that Kellogg, Brown and Root obtained before the 2003 Iraq war.
• SIGIR performed the attestation based on agreed-upon procedures of both DRSO and the U.N. International Advisory and Monitoring Board.
• The purpose of the attestation was to determine whether the non-competitive award of the contract was appropriately justified and whether the goods and services delivered and billed for were those required under the contract.
• SIGIR concluded that the use of the non-competitive contract was appropriately justified and that the goods and services delivered and billed for were those required under the contract.

Management of Commander's Emergency Response Program for Fiscal Year 2004 (SIGIR–05–014—October 13, 2005)

• The overall objective of this audit was to evaluate the adequacy of controls over Commander's Emergency Response Program (CERP) funds.
• Funds available for CERP during the period under review amounted to more than $727.1 million, of which approximately $140 million were appropriated funds. SIGIR reviewed CERP transactions made by the U.S. Central Command's Multi-National Force-Iraq (MNF–I).

• SIGIR concluded that, while CERP-appropriated funds were properly used for their intended purposes, overall controls over CERP processes required improvement.

Acquisition of Armored Vehicles Purchased through Contract W914NS–05–M–1189 (SIGIR–05–018—October 21, 2005)

• SIGIR performed this audit after receiving a Hotline complaint
• SIGIR concluded that MNSTC–I purchased seven armored Mercedes-Benz vehicles that did not have the required level of armored protection.
• In addition, MNSTC–I could not locate one of the vehicles after delivery was made.
• Thus SIGIR concluded that MNSTC–I may have paid $945,000 for armored vehicles that will not meet the purpose intended and may not be available for use.
• SIGIR recommendations included that Commanding General, JCC–I/A, purchase armored vehicles by using standard supply contracts rather than commercial items contracts.
• Management from MNSTC–I and JCC–I/A agreed with the recommendations made in this report. Actions have been taken or are underway to implement the recommendations.

Award Fee Process for Contractors Involved in Iraq Reconstruction (SIGIR–05–017—October 25, 2005)

• This audit was to determine whether award fees provided to contractors performing IRRF-funded projects are adequately reviewed, properly approved, sufficiently substantiated, and awarded according to established standards.
• In general, cost-plus award-fee contracts include a base award fee (for simply meeting contract requirements) and a merit-based award fee for performance that exceeds contract expectations. For 16 of the 18 contracts reviewed, the base fee component was 3 percent, the highest base fee allowed by the DOD FAR Supplement.
• However, the 18 contracts did not contain the required criteria with definable metrics. This missing component created the potential for inflated contractor performance evaluations.
• For 9 of the 11 design build contracts, the award fee plans allowed awards of an additional 50–74 percent of the award fee pool for average results.
• For the 7 program management-and-support (PMAS) contracts, the award fee plans permitted awards of an additional 60–70 percent of the award fee pool for some performance above standard while still allowing several weaknesses in performance to remain.
• SIGIR found that the Award Fee Evaluation Board recommendations and determinations of fees were not documented in sufficient detail to show that the integrity of the award fee determination process had been maintained. Thus, the documentation SIGIR reviewed in contract files was insufficient to substantiate the award fees that were approved.
• JCC–I/A concurred with SIGIR's findings and recommendations. Actions have been taken to comply with this report.
• As a result, award fees are now based on quality performance rather than providing contractors higher fees than deserved.

Management of Rapid Regional Response Program Grants in South-Central Iraq (SIGIR–05–015—October 25, 2005)

• This audit report was one of a series of reports addressing controls over cash, contract management, and grants management for the Coalition Provisional Authority (CPA) South-Central Region. This audit report discussed the processes used for the authorization, award, execution, and oversight of grants within the CPA South-Central Region.
• SIGIR found that South-Central Region personnel, under the direction of the CPA, did not effectively manage 74 grants awarded through the Rapid Regional Response Program (R3P) amounting to $20.8 million.

  • South-Central Region personnel could not account for $20,541,000 in DFI funds provided for R3P grants, and they made payments of $2,633,500 that exceeded the total value of grants awarded.
  • CPA South-Central Region personnel disbursed $23,471,500 through 74 grants, although the award value of these grants was only $20,838,000.

• SIGIR concluded that the South-Central Region failed to manage its R3P grant program.
• Management generally concurred with SIGIR recommendations.

Management of the Contracts, Grant, and Micro-purchases Used To Rehabilitate the Karbala Library (SIGIR–05–020—October 26, 2005)

- SIGIR found that, in the management of contracts, a grant, and micropurchase contracts using Rapid Regional Response Program funds, South-Central Region personnel:
  - circumvented guidance by splitting requirements into more than one contract to avoid seeking the required funding-level approval or to avoid required documentation
  - issued contracts for dollar amounts that exceeded requirements
  - did not monitor any contracts, the grant, or micro-purchase contracts; did not make any site visits; did not issue performance reports; did not prepare post-award assessments; did not act on the reports that the contractor was not performing to the standards set in the contracts
  - disbursed funds on contracts, a grant, and micro-purchase contracts for which work was not performed, work was not contracted, equipment and services were not delivered, or the contracted amount was exceeded
  - paid contract amount in full on the day the contracts, grant, and micropurchase contracts were signed and did not require that progress payments be tied to project performance
  - did not maintain files with accurate or required documentation
- South-Central Region personnel, under the direction of the CPA, did not comply with applicable guidance and did not properly manage R3P funds provided through 5 contracts, 1 grant, and 33 micro-purchase contracts used to rehabilitate the Library. Specifically, South-Central Region needlessly disbursed more than $1.8 million for contracts, a grant, and micro-purchase contracts for which work was not performed, and the contracted amount was exceeded.
- Further, more than $2.3 million in R3P funds was disbursed despite the fact that the total value of the contracts, grant, and micro-purchase contracts awarded for the Library was about $2.1 million.
- The Director of IRMO, the Commanding General, JCC–I/A, and the Commander, JASG–C Baghdad concurred with the finding and recommendations.

Management of the Contracts and Grants Used To Construct and Operate the Babylon Police Academy (SIGIR–05–016—October 26, 2005)

- SIGIR found that, in the management of contracts and grants using R3P funds, South-Central Region personnel:
  - entered into an unauthorized land grant and violated conflict-of-interest rules
  - circumvented guidance by splitting requirements into more than one contract to avoid having to seek the appropriate funding-level approval and needlessly expended funds because work was not consolidated into a single contract
  - did not make site visits, did not issue final performance reports, and did not properly prepare certificates of completion forms
  - disbursed funds before contracts and grants were signed
  - did not establish the required separation of duties as a control over the disbursement of funds
  - did not maintain files that contained accurate or required documentation
- As a result, South-Central Region personnel, under the direction of CPA, did not comply with applicable guidance and did not properly manage approximately $7.3 million of R3P funds. Specifically, South-Central Region needlessly expended almost $1.3 million in contract funds for duplicate construction projects; unnecessary or overpriced equipment; and requirements not identified in contract documents.
- Further, the South-Central Region could not account for more than $2 million of disbursed grant funds.
- Management concurred with the recommendations made in this report. Actions have been taken or are underway to implement the recommendations.

Management of Rapid Regional Response Program Contracts in South-Central Iraq (SIGIR–05–023—January 23, 2006)

- SIGIR found that South-Central Region personnel, under the direction of CPA, did not effectively manage 907 contracts and 1,212 micro-purchase contracts that were awarded through the RRRP, amounting to $88.1 million. As a result:
  - 4 projects, using 20 contracts (2.2 percent) and several contract modifications, totaling approximately $9.1 million, apparently split requirements to

keep the contract awards below the $500,000 approval threshold so as to circumvent the required reviews and reporting.

• 158 contracts (17.4 percent), totaling approximately $16.3 million, were either not competitively awarded or lacked documentation that showed a competitive process had taken place, and 26 contract files (3.0 percent), totaling approximately $2.6 million, did not contain a signed contract.

• 11 contracts (1.2 percent), totaling more than $5.6 million, were issued without proper authorization, and 38 contracts (4.2 percent), totaling approximately $7.0 million, were awarded after the transfer of responsibility for the DFI to the Iraqi government on June 28, 2004.

• 91 projects (10.7 percent), totaling approximately $11.6 million, were paid in full at the time of contract signing, and the completion of the project work was not verified; 11 contracts (1.2 percent) were overpaid by $571,823; approximately $515,000 was disbursed for CPA salaries and operations in violation of Program Review Board Guidance 06.2 (amended); approximately $47,000-$87,000 in cash was lost but not reported to the CPA Comptroller; and approximately $23 million was transferred to unauthorized personnel, but documentation showed only $6.3 million disbursed to contractors resulting in the loss of oversight of $16.7 million.

• 286 contract files (31.5 percent), totaling approximately $31 million, did not contain certificates of completion, yet $24 million had been disbursed for the projects. Other contract files were missing documentation for approximately $12.6 million in disbursements and consequently, it could not be determined whether contractors were properly paid for work actually performed.

• A property record book to document the property purchased with RRRP funds was not maintained; contract files for 160 vehicles, totaling approximately $3.3 million, did not document the receipt of the vehicles, and there was limited documentation in the contract files to identify whether the beneficiary actually received the vehicles; ammunition and weapons were purchased, but detailed records of deliveries and distribution were not maintained; and not all of the weapons could be located.

• 346 micro-purchase contracts (28.5 percent) exceeded the micro-purchase dollar limitation of $5,000 yet did not maintain the required documentation in the files for awards greater than $5,000; 387 micropurchase contract files (31.9 percent) did not contain disbursement documentation; 786 files (64.9 percent) did not contain a vendor invoice; and 838 files (69.1 percent) did not have a completion document.

• SIGIR also identified material internal control weaknesses. U.S. Government agents and coalition partners did not comply with applicable guidance and did not properly control and account for Iraqi cash assets. Further, SIGIR found indications of potential fraud and referred these matters to the SIGIR Assistant Inspector General for Investigations for action. Related investigations are continuing.

• Based on the documentation examined, SIGIR concluded that CPA South-Central Region failed to adequately manage its RRRP contracts and micro-purchases

• Both the Commanding General, JCC–I/A and the Commander, JASG–C concurred with the findings and recommendations. Both Commands have actions underway to implement the recommendations, and the comments to all recommendations are fully responsive.

Management of the Commander's Emergency Response Program (CERP) for Fiscal Year 2005 (SIGIR–05–025—January 23, 2006)

• SIGIR found that MNF–I had made considerable progress to improve the management of CERP. This included the improved alignment of projects with MNF–I strategic objectives, centralized tracking of project status and management of project records, and coordination of CERP with other U.S. reconstruction programs.

• SIGIR found, however, that the project data MNF–I used to track the progress of projects and report the status of projects to higher headquarter units contained several errors, and MNF–I units still did not fully comply with requirements for project records. In addition, SIGIR found that MNF–I lacked a consistent process to coordinate CERP projects with DOS and USAID when CERP was used in conjunction with other reconstruction programs in Iraq, and that it did not coordinate with DOS for the sustainment of large CERP construction projects.

• During the course of this audit, SIGIR notified MNF–I of its concerns about errors in the project-tracking tool. As a result, MNF–I initiated its own review of its fiscal year 2005 project data. In addition, MNF–I and the U.S. Embassy-Iraq published a Joint Mission Statement on December 6, 2005, which stated that all political, military, and economic tools available to U.S. agencies in Iraq will be integrated in fiscal year 2006 to maximize the effectiveness of U.S. efforts to rebuild Iraq.

• On behalf of MNF–I, the Multi-National Corps-Iraq (MNC–I) concurred or partially concurred with four of five recommendations of the report. SIGIR generally agreed with the comments provided by MNC–I and, in some cases, changed its report accordingly. USAID also provided technical comments for this report. SIGIR agreed with the comments and changed the audit report accordingly. The comments received are fully responsive.

Prompt Payment Act: Analysis of Expenditures Made from the Iraq Relief and Reconstruction Fund (SIGIR 06–002 February 3, 2006)

• In fiscal year 2005, approximately $1.4 million in interest penalty payments were made by the Army against Iraq Relief and Reconstruction Fund disbursements of about $5.275 billion made by DOD organizations because of late payments of contractor invoices.

• This amount of interest exceeded an Army management goal that there be no more than $85 in interest penalty payments for every million dollars disbursed; the $1.4 million in interest penalties paid amounted to about $259 in interest penalties per million disbursed and exceeded the Army goal by 304 percent.

• As a result, interest penalties paid to contractors from the Iraq Relief and Reconstruction Fund appropriation reduced, dollar-for-dollar, the availability of funds appropriated for the reconstruction of Iraq and for the benefit of the Iraqi people.

• The Office of the Assistant Secretary of the Army (Financial Management and Comptroller) concurred with the finding and recommendation and the comments to the recommendation are fully responsive.

All SIGIR audit reports are available to the public on our Web site at www.sigir.mil.

In addition to providing these typical products of inspector general oversight, SIGIR has also undertaken development of a retrospective analysis of the U.S. reconstruction experience in Iraq. This lessons-learned initiative is unfolding in three parts: human capital management, contracting, and program management.

Our lessons-learned process is rigorous. In addition to the significant data we have collected in our normal oversight activities, we have gathered information from a broad range of sources, especially from those who had boots-on-the-ground Iraq reconstruction experience. As well, we have been successful in attracting the participation of experts, in and out of government, to help us to understand clearly, what our Nation must learn from the Iraq reconstruction experience.

As this hearing is intended to encompass contracting for Iraq reconstruction, I offer a preview of our Lessons Learned project on Contracting.

SIGIR began research on Iraq Reconstruction contracting in early autumn 2005. In December 2005, we completed a draft Contracting Lessons Learned Report, which we presented to two forums made up of experts involved with Iraq Reconstruction contracting. The first forum was for government officials, academics, and officials of non-profit organizations and think tanks. The second forum was for private sector personnel who held (or hold) Iraq reconstruction contracts from USAID and/or DOD. We are currently in the process of incorporating the information gained from these two events, further research, and interviews into the draft report. The revised paper will then be sent to Forum members and other appropriate persons for vetting, before final publication.

Based on our research thus far, SIGIR has made the following key observations concerning Iraq Reconstruction contracting:

The need for cooperation and collaboration is the overarching requirement for successful post-conflict reconstruction contracting. The job in Iraq proved just too big for one agency or contractor. U.S. agencies and departments have various capacities, flexibilities, and differing areas of expertise in terms of contracting and program management. In Iraq, efforts seemed to be most successful when different agencies understood and leveraged each other's mandates, needs, skills, and strengths. Unfortunately, SIGIR research found many situations in which agencies' lack of cooperation contributed to contracting inefficiencies.

Other Observations:

• Inclusion of Contracting Staff from the Beginning of Any Reconstruction Effort. SIGIR research found that there was general agreement among agencies concerned with Iraq Reconstruction that contracting plays a central role in mission execution and cannot be an afterthought in the planning process. Whether for stabilization or reconstruction, contracting officials can provide an accurate and holistic picture of the resources needed to efficiently contract for a given mission. This understanding extends to the number of personnel required, their skills and functional areas, and the systems and procedures required for them to operate efficiently.

• Use of Flexible Contracting Mechanisms. There is mixed opinion in the government contracting community about whether a "wartime FAR" or other additional contracting regulations are required for post-conflict reconstruction efforts. Our information to date indicates that there needs to be a broader understanding of the flexibilities that currently exist in the FAR and its supplements, as well as the acceptable use of waivers and other provisions that apply when speed and flexibility are critical. SIGIR research indicates that not all contracting personnel in Iraq were properly informed about FAR flexibilities and thus were sometimes hesitant to use them, fearing that they might be subject to penalties for incorrect or improper use of these options. Methods are needed that would ensure personnel have the necessary knowledge and also the confidence to use such flexible mechanisms when necessary.

• The Need for Better Requirements. In order to efficiently procure an item or a service, contracting personnel must be provided with an adequate description of customers' needs. The inability to properly define and prepare these "requirements statements" for projects appears to be a significant and continuing shortcoming of the Iraq Reconstruction process. To remedy this, customers and contracting personnel must work closely together on a continuing basis. There also needs to be sufficient personnel on the customer side—both in the field and in the US—capable of laying out requirements with appropriate detail and accuracy. Moreover, in Iraq, this ability must be transferred to local personnel through capacity building, in order to strengthen long-term contracting capabilities.

• Use of Special Contracting Programs. During the reconstruction effort in Iraq, various programs containing flexible funding and contracting mechanisms were used in order to enable quick execution of small-scale projects. Some of these, such as USAID's Office of Transitional Initiatives (OTI), predated the U.S. intervention in Iraq, while others apparently evolved out of necessity during the conflict, such as the Commanders' Emergency Response Program (CERP) and the Commanders' Humanitarian Relief and Reconstruction Program (CHRRP). Other such programs included CPA's "Accelerated Iraq Reconstruction Program (AIRP)" and the Project and Contracting Office's (PCO) Rapid Contracting Initiative for the electricity sector.

  • The focus of these programs was to meet immediate needs—especially employment generation that would help ameliorate security conditions—and not necessarily the long-term reconstruction of the country. Yet, these smaller programs appear to be vital to creating an environment conducive to and able to absorb larger, more sustainable reconstruction efforts.

  • Given the generally positive performance of these programs, it would be important in future reconstruction efforts to make available designated pools of flexible funds for such initiatives, and to create standardized, but unconstrictive, mechanisms for contracting and managing these funds. It should be noted, however, that these programs can present accountability challenges due to their speed and flexibility.

• Sustainment of Advances and Innovations. Lessons have been learned throughout the experience of Iraq Reconstruction contracting, resulting in improvements to contracting and related processes. Examples include: the development of civilian-military partnerships, creation of centralized contracting coordination, flexible contracting mechanisms, and personnel who arrive in country better prepared to carry out their required tasks. This gain in understanding and capability needs to be institutionalized within the concerned U.S. Government agencies for application in future post-conflict reconstruction events.

Overall Impact of the Security Situation on Contracting

This is an area where SIGIR continues to carry out research and looks forward to providing more information as our findings develop.

TRANSITION

2006 is a year of transition for the U.S. reconstruction program in Iraq. The successful December 2005 elections launched Iraq into a new phase of its history. The first government elected under Iraq's new constitution is now forming and will soon assume responsibility for managing Iraq's economy and infrastructure.

By the end of this fiscal year, the U.S. expects to have fully obligated the Iraq Relief and Reconstruction Fund (IRRF). IRRF dollars represent only a portion of the amount estimated by the World Bank and United Nations (U.N.) to be necessary to restore Iraq's infrastructure. The IRRF has provided a substantial down payment on what will be a lengthy restoration process. The progress made thus far with U.S. reconstruction funds has supplied the new Iraqi government with a significant start toward establishing an effective infrastructure and eventual prosperity.

As more and more IRRF-funded projects are completed, the U.S. agencies and elements that currently manage and implement the overall U.S. reconstruction effort, including the Iraq Reconstruction Management Office (IRMO), U.S. Agency for International Development (USAID), and the U.S. Army Corps of Engineers Gulf Region Division Project and Contracting Office (GRD-PCO), will implement transition strategies to ensure that completed projects and related assets are turned over to the appropriate Iraqi officials who have the training and budgetary resources necessary to sustain them.

As the transition process gains momentum, the U.S. reconstruction presence in Iraq should begin to shift toward foreign assistance programs managed by the DOS and the U.S. Agency for International Development (USAID).

Regarding the reconstruction transition, SIGIR has several concerns:

- Do all of the U.S. reconstruction implementing agencies in Iraq have strategic plans in place for transitioning their respective parts of the reconstruction program?
- Are there sufficient resources to support capacity development for national and local government officials, operations and maintenance, infrastructure security?
- Have Iraqi officials sufficiently budgeted and planned for the essential maintenance of the new, U.S.-provided infrastructure?
- Is the United States prepared to sustain the reconstruction presence required to complete planned projects that may take another 3 or 4 years to complete?

There are significant signs that transition planning is being implemented—the Iraq Reconstruction and Management Office, DOS and DOD are reviewing critical issues of funding and transition. The importance of this issue compels SIGIR to announce a new audit to review all reconstruction transition planning.

RECONSTRUCTION GAP

SIGIR introduced the concept of the Reconstruction Gap with our October 30 Report to Congress. We define the Reconstruction Gap as the difference between what was originally planned for reconstruction in the various sectors and what will actually be delivered.

To be clear, this is not an alarm bell, but merely an observation of a current reality: Changing conditions in Iraq, including deteriorating security conditions and evolving political and economic priorities, required IRRF reprogramming that altered sector funding levels and projected outcomes.

During the last quarter, we conducted an audit to examine the Reconstruction Gap further. We found that the U.S. Government will not complete the number of projects anticipated by the IRRF program allocations in the November 2003 legislation. Our audit found these shortfalls:

- Of the 136 projects originally planned in the Water sector, only 49 (36 percent) will be completed. Most of the projects planned in sewerage, irrigation and drainage, major irrigation, and dams have been cancelled .
- Of the 425 projects originally planned by CPA in the Electricity sector, only 300 (70.5 percent) will be completed. Of the 3,400 additional megawatts planned for the Generation sub-sector, 2,200 megawatts will be delivered.

These shortfalls are substantially attributable to the autumn 2004 IRRF reprogramming, which increased the funding available for security by reducing the allocations to the Water sector from $4.3 billion to $2.1 billion (down 51.2 percent). The Electricity sector dropped from $5.560 billion to $4.309 billion (down 22.5 percent). Allocations to certain other sectors in addition to security increased: the Private Sector Development sector grew from a very low by 420 percent, and the Justice, Public Safety, Infrastructure, and Civil Society sector rose by 70 percent.

A number of factors combined to make these program changes necessary, the most significant being the rise of the insurgency. A new strategy that was more responsive to the new security and political situation in Iraq resulted in the reallocation of a total of $5.6 billion in IRRF funding since August 2004. Additionally, administrative costs of the U.S. agencies implementing IRRF programs caused another $425 million in programcuts. Another $350 million is now budgeted for new sustainment activities that were not included in original planning. Finally, the following factors have also contributed to the reconstruction gap:

- inadequate or non-existent cost estimates for many projects in the original November 2003 plan
- increased costs of materials, particularly in the Oil and Gas sector, aggravated by smuggling of subsidized construction materials across Iraq's borders
- high costs of contractor security
- high costs of project delays caused by intimidation and violence
- evolving reconstruction priorities to fit the Multi-National Force-Iraq campaign plan and political requirements
- lack of oversight of reconstruction projects as they developed

I believe that more resources must be allocated to sustainability—the ability of a program to deliver its intended benefits for an extended period of time after major financial, managerial, and technical assistance from an external donor is terminated.

But the story of the Reconstruction Gap is fundamentally about security needs driven by a lethal and persistent insurgency. In addition to the reallocation by DOS of $1.8 billion to training and equipping Iraqi security forces, the costs for the security of contractors have risen on average to more than 25 percent.

While this security spending reduces the funds available for actual reconstruction, it is vital. This is demonstrated most clearly by the number of contractors killed, kidnapped, or wounded. Intimidation of workers continues to delay projects, and the insecure environment has driven away critically needed foreign technicians in the essential service sectors.

It is difficult to overstate the impact of violence on the reconstruction program. Often, those commenting on Iraq reconstruction begin by stating that electrical capacity is lower than pre-war levels. They are correct. However, not many realize that electrical capacity grew above pre-war levels in mid–2004 and peaked in July 2005. Since then, however, the insurgents have targeted the electrical infrastructure, sabotaging the towers that carry high-voltage lines to Baghdad from generating facilities in the south. As well, increasing demand for electricity, provided to consumers at no cost, the influx of new appliances and new customers, and the creation of new industries, businesses, factories and jobs also contribute to nationwide shortages.

SUSTAINABILITY

A SIGIR audit report published October 24, 2005 noted: "There is a growing recognition that the Iraqi government is not yet prepared to take over the near- or long-term management and funding of infrastructure developed through the IRRF projects." Key recommendations from the October Quarterly Report—including the creation of a Sustainment Coordinator—have been implemented, but the coordinative function should continue to be a high priority for reconstruction managers in Iraq.

SIGIR audits conducted this quarter made these key sustainability recommendations:

- Create a single database of IRRF-related assets and provide it to the Iraqi government to support planning and budgeting.
- Coordinate plans and funding for the sustainment of Commander's Emergency Response Program (CERP) construction projects with DOS, IRMO, GRD–PCO, and USAID.

Through our project inspections, which are conducted by teams of SIGIR auditors and engineers, we also gain insight into the sustainability of reconstruction projects.

COST-TO-COMPLETE

The cost-to-complete a project is defined as the total estimated cost of the project, less the actual cost of work performed to date. Nearly a year ago, SIGIR reported that the U.S. reconstruction program did not have reliable cost-to-complete estimates for its projects. The failure to compile and report cost-to-complete information, as required by Public Law 108–106, has made it difficult for implementing agencies to exercise effective fiscal management of IRRF dollars. Without current

and accurate cost-to-complete data, management cannot determine whether sufficient funds will be available to complete ongoing work, nor can it project the availability of funds for any new programs or projects. This has also deprived SIGIR of the financial visibility I need to execute my oversight responsibility.

For the past year, SIGIR auditors have continually pressed for accurate cost-to-complete data. DOS confronted the issue last spring: in March 2005, a DOS team went to Baghdad to press for cost-to-complete data from agencies implementing the IRRF. This effort has produced limited success.

ANTICORRUPTION EFFORTS

Success in the reconstruction could be eroded in the long term unless Iraq is successful in developing and implementing substantial anticorruption measures. SIGIR is committed to intensifying U.S. efforts to promote an effective anticorruption system within the Iraqi government and commends the U.S. Mission's efforts thus far to support anticorruption institutions in Iraq. In the October 2005 Quarterly Report, we urged the Ambassador to hold an anticorruption summit, which he did in November 2005. The summit resulted in a proposal for a joint U.S.-Iraqi Anticorruption Working Group and initial agreement on the need for more training for officials from the Board of Supreme Audit, the Commission on Public Integrity, and the Inspectors General of the Iraqi ministries. The Embassy Anticorruption Working Group previously identified several major priorities, including:

- promoting market reforms and reducing subsidies
- helping to reinforce the weak law enforcement structure
- creating a public education campaign on the corruption issue

SIGIR continues to support the Iraqi Inspectors General system since its inception in 2004. The Iraqi IGs are charged with auditing, investigating, and reviewing the accountability and integrity of the ministries, and with preventing, deterring and detecting waste, fraud and abuse. Although this is a new system in Iraq, and in the region, and will take time to function effectively, the continued development and progress is encouraging.

In addition, the Board of Supreme Audit (BSA), though a holdover from the prior regime, is well respected by senior Iraqi officials and provides effective audit work across all ministries. Despite the hazardous environment in which we all find ourselves working, the BSA has expressed interest in using SIGIR's audit work in its own efforts.

As the anticorruption efforts continue, SIGIR will audit to evaluate progress.

THE WAY AHEAD

As I have noted, 2006 is a year of transition for Iraq reconstruction, and of course, Congress will face key decisions. As of February 1, the State Department reports that 84 percent of the $18.4 billion Iraq Relief and Reconstruction Fund is obligated, under contract. What remains is less than $3 billion, which we estimate will not permit the completion of all projects that were envisioned when the requirement for $18.4 billion was being determined in late 2003.

While SIGIR has identified a Reconstruction Gap based on these initial requirements, and noted that water and electrical projects will not be completed, I reiterate that this is an observation—not an alarm bell.

Our conclusions on this matter do not constitute an evaluation of the original list of projects. We are not saying that all of these problems must be finished to complete successfully the U.S. investment in the reconstruction of Iraq. In our view, rather than to focus the remaining resources on finishing up this list of projects, our investment in ensuring the sustainment of projects that are or will be completed, and efforts toward building the capacity of the Iraqis to take over the repair of their infrastructure will bring a much higher return.

Also, among the improvements we have observed in the past year is the development of an integrated information management system to provide a more accurate picture for program management.

I am pleased to say that the cooperation that this inspector general is receiving from those engaged in Iraq reconstruction is refreshing. When I return to Iraq later this week, I will be in regular contact with senior reconstruction management, including IRMO director Ambassador Dan Speckhard, Army Corps of Engineers Gulf Regional Division commander Brigadier General Bill McCoy, and Major General Darryl A. Scott, who recently relieved Major General John Urias, as Commander, Joint Contracting Office—Iraq. As well, I regularly meet with Ambassador Zalmay Khalilzad and the Multi-National Force—Iraq Commanding General, George W. Casey, Jr. Our relations are positive and productive and they are providing our 45

SIGIR auditors, inspectors, engineers and investigators in Iraq the access they need to provide this important oversight.

In Washington, I met with Secretary of State Condoleezza Rice and Deputy Secretary of Defense Gordon England, and it is clear to me that they support our oversight.

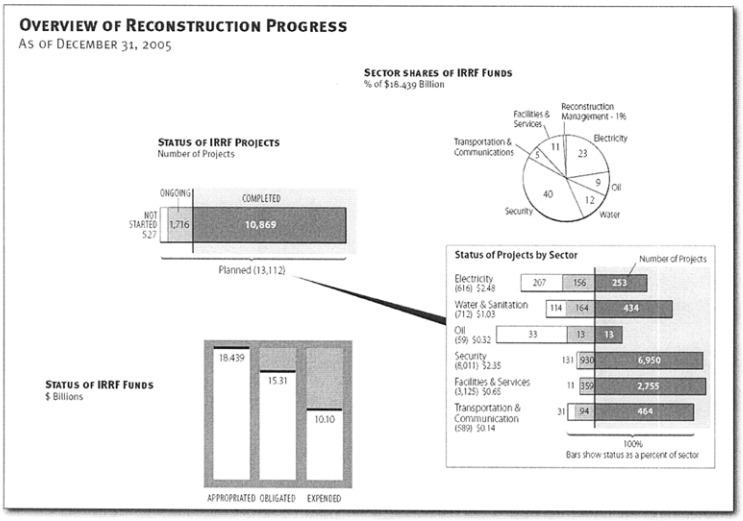
CONCLUSION

We at SIGIR are vigorously carrying out the duties and responsibilities assigned by Congress in a very hazardous environment. I am proud of my staff's commitment and willingness to serve in a dangerous land far from their families. We will continue to ensure effective oversight and timely reporting, and to promote the success of the Iraq reconstruction plan.

I am gratified that Congress has recognized the impact of my office through the extension of our tenure. On November 10, the Congress passed Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2006 containing an amendment to extend the duration of SIGIR oversight by modifying the SIGIR termination clause to base it upon the level of IRRF expenditures, instead of obligations. I will continue to serve Congress and the Secretaries of State and Defense by providing rigorous oversight to prevent waste, fraud and abuse in Iraq.

I appreciate this opportunity to participate in this important hearing, and I look forward to answering any questions that the committee may have.

Summary IRRF Reconstruction Fact Sheet



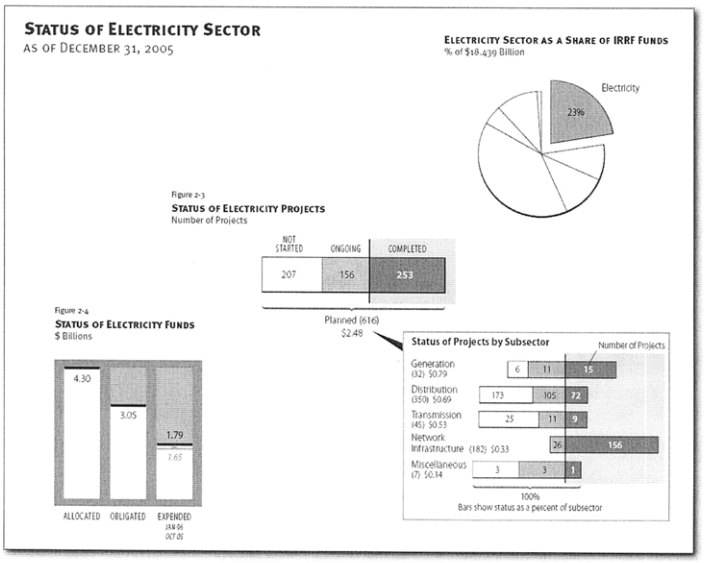
Current Critical Issues *in Iraq Reconstruction*

- ***Outputs*** of US reconstruction projects ***have not translated*** into enhanced essential services for Iraqis – a wide "gap" is evident between increased capacities and service deliveries

- The ***final end date*** of construction projects is ***undetermined*** at this point
  - Restoration of essential services implications
  - Cost to Complete implications

Special Inspector General for Iraq Reconstruction

Electricity Reconstruction Fact Sheet

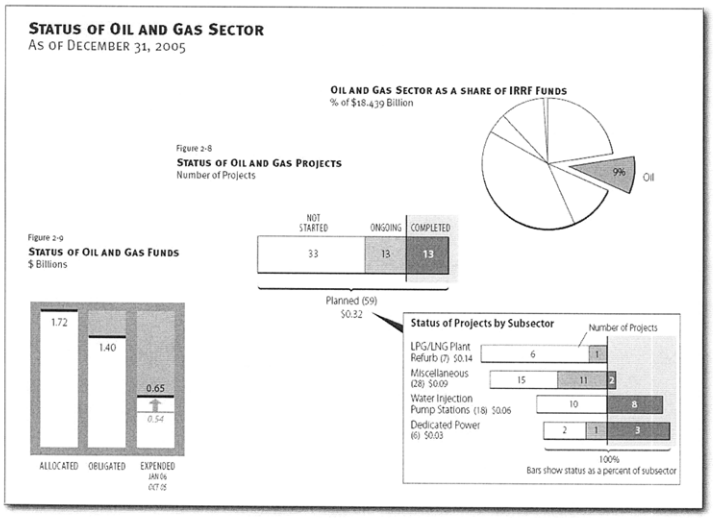


Metric	Pre-War	Post-war Peak	Current	US Contribution
Generation Capacity	4,500 MW	5375 MW *(Summer 2005)*	3,995 MW	2,710 MW
Hours of Power, *Iraq*	4-8 per Day	N/A	10.2 per Day	N/A
Hours of Power, *Baghdad*	16-24 per Day	N/A	3.7 per Day	N/A

Sector Critical Issues

- ***Insurgent attacks*** on transmission lines and fuel pipelines reduce generation
- ***Demand is unchecked*** because of below-market prices (subsidies)
- ***Iraqi ability to sustain infrastructure*** is limited
- ***Increased fuel cost*** has burdened the sector

Oil & Gas Reconstruction Fact Sheet



Metric	Pre-War Peak	Post-war Peak	Current	US Contribution
Oil Production	2.58 MBPD	2.67 MBPD	~2.0 MBPD	1.5 MBPD capacity

Sector Critical Issues

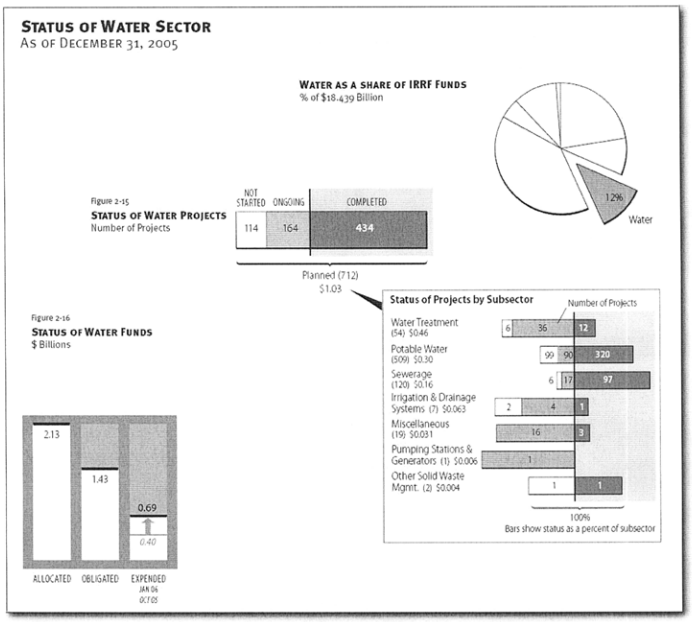
- ***Insurgent attacks*** on pipelines and infrastructure reduce production and exports, and slow reconstruction
- ***Iraqi ability to sustain infrastructure*** is limited . . .

  . . . but,

- Increase in world ***oil prices has been a boon***

Special Inspector General for Iraq Reconstruction

Water/Sanitation Reconstruction Fact Sheet



Metric	Pre-War	Post-war Peak	Current	US Contribution
Iraqis with Potable Water Access	12.9 M (50%)	8.25 M (32%)	8.25 M (32%)	2.8 M
Iraqis with Sewerage Access	6.2 M (24%)	5 M (20%)	5 M (20%)	4.5 M

Sector Critical Issues

- Iraqi ***ability to sustain*** this infrastructure is ***severely limited***
- ***System rehabilitation*** – plants, mains, distribution – has to be completed before clean water is delivered to users
- Power outages and lack of diesel fuel ***limits plant operation***

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Senator ENSIGN. I thank all the witnesses. I want to get right to questioning. I want to start asking a big-picture question, and it has to do with competitive contracts at a fixed-price versus what, Mr. Bowen, you mentioned about design-build at cost-plus type contracts.

In Nevada, and looking at some of the projects that we've done on infrastructure projects in our State, we have both situations, as most States have. Talking to people, for instance, the Nevada Department of Transportation, their experience has been less costly, more on time, better experienced, basically, with the design-build concept. But it seems like in Iraq, that the problems have been

more with the cost-plus type of contracts. So, would any of you like to comment on that general aspect and why maybe there's a difference of what happens over here versus what happens in a theater of war with those type of contracts.

Mr. BOLTON. I'll kick it off. With the design-build, and we were not involved in the determination on that, that was back during the CPA days, but I think the thought was, based upon what had happened after the Gulf War the first time, what Saddam had done to the oil fields, that the design-build was the approach to go. Basically, you have a prime contractor who'll get the right subs, and then he'll go get the job done. So, it was logical to assume that approach would work again. It's worked in other countries.

As the CPA got into it, as they understood what was going on, basically, you have no infrastructure, you have no banking system, you have no information technology (IT) system, you have no financial accounting system, you have no set of laws, and you need to get Iraqis working. The notion on the design-build started the change, and we saw that in the types of contracts that were being released and also the end efforts, direct contracting, as the IG has already pointed, to Iraqi firms and people. I think today, we have over 40 percent of the contracts for which we're responsible are direct with the Iraqis. That puts more of them to work, reduces some security concerns, and then it's a matter of making sure that the projects are done.

Now, I've been out on a limb here because as I said, I was not involved with the early thinking on this, but as an observer looking at it, that appears to be what happened and as the infrastructure has grown in Iraq. So, we can have better accountability. We're able to move into a number of different modes of contracting. A lot focused on the direct to the Iraqis, but cost-plus, fixed-price, direct and less design type of contracts are there, and perhaps the IG, Stuart, would have more to add on that.

Senator ENSIGN. Mr. Bowen, maybe you could address also, in the context of this, when is it appropriate if you start with the design-build, however you want to call it, that we did, for instance, with the oil fields as the example, at what point is it appropriate, how long into this is it appropriate to switch, because from what I understand, some of the way the contracting was done was the need for speed, the need to get things done. I think everybody understands that, but at what point is it appropriate, then, how long is long enough, I guess, is one question, to where you can get to this other model of competitive bidding?

Mr. BOWEN. I think there's a lot there. First of all, the design-build approach was chosen because a decision was made early on to rebuild the infrastructure of Iraq by executing very large projects. The President identified that as a weakness early on, and it's something we have, of course, changed and moved to smaller local projects that meet more immediate needs.

The design-build process unfolded after the November 2003 appropriation, $18.4 billion. There was the competitive phase that unfolded, and our audits looked at that competitive phase and found it appropriate. In other words, it was executed well. It did not comment on whether it was the right policy.

The challenge of indefinite delivery, indefinite quantity cost-plus contracts, which is what the design-build contracts are, is that they empower the contractor to go forward and without any specifications, as opposed to a fixed-price contract, you don't know how much you're going to spend. You aim for a point where you're going to definitize, but that's a gradual process. They bear the risk, and the balance is they bear the risk of going into an environment where they don't know what the challenges are going to be. On the other hand, we've agreed to fund those contracts up to $500 million each. They are large-scale contracts from which task orders are issued.

Now, what we didn't anticipate and where we did run into, I think, waste and a lot of U.S. dollars not going to actual bricks and mortar, was the insurgency that inhibited the execution of the plan. In the summer of 2003, as those who were in Iraq remember, people were going downtown into Baghdad and they weren't inhibited in their comings and goings. That dramatically changed as we moved into the fall and winter. In 2004, the insurgency was in full swing since April 2004, excepting the 2 months immediately after last January's election, it has been a fundamentally-inhibiting factor to the execution of the reconstruction program.

But when Ambassador Negroponte came onboard in 2004, he immediately began an appropriate review of how the money for the IRRF was allocated, and it resulted in $5.8 billion being moved from bricks and mortar into, what I call, direct security costs. That is, the funding of the standup of the Iraqi Police, the Iraqi Security Forces, the Iraqi Army, an appropriate investment, because without stabilization, you can't have reconstruction.

But throughout that period, we were paying overhead for contractors who were in the field, yet were not engaged in turning dirt. January 2005, that changed. The effects of stabilization and from the security investment began to be realized. There was a period when the insurgency went down for a bit, and the level of construction, the pace of construction, dramatically increased. Last year was a year of rapid construction throughout Iraq and a great accomplishment. It doesn't change the fact that in 2004, not a lot got done. We now have an audit that is ongoing to look at what's called the administrative task orders. That's contract speak for overhead.

Administrative task orders, some of the design-build contracts had them, to pay for how much it cost to keep a contractor in-country ready to work. So, that's going to look at exactly how much we spent on that. We're also looking at exactly the issue you raised, Mr. Chairman, and that is the benefits to direct contracting versus design build, and we have an audit looking precisely at that issue that will be out in our April report.

But the bottom line is, is that the move away from design-build has been dramatic since mid last summer. Indeed, I would say that over 80 percent now of contracting actions are direct contracting actions, and they are fixed-price contracts, and I think that as a result, taxpayer dollars are being spent better now than before.

Senator ENSIGN. Thank you. Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman. Mr. Bowen's reports provide a breakdown of the staffing of our con-

tracting function in Iraq in 2004 and 2005. According to one report, "Although the PCO CA was authorized to staff 69 contracting personnel, the onboard staff was comprised of 46 personnel." I'm not sure that it is appropriate for the contractor employees to act as an integral element of a contracting office in this way.

My concern is exacerbated by the February 2, 2006, Washington Post article which reports that a former contracting officer for the CPA in Iraq has agreed to plead guilty to accepting more than a million dollars worth of cash, cars, jewelry, and real estate in return for favoritism in the bidding process. According to the article, the individual involved was hired by a Native American company that had a contract to provide experts to the CPA despite a previous fraud conviction and was not even a Federal employee.

I would like to ask each of you this question, is it proper to allow a contractor employee to act as a contracting officer? Would you agree that we need to exercise far greater care in the future in the roles that we allow contractor employees to play in our contracting organizations? Mr. Bolton?

Mr. BOLTON. Yes, the incident you're referring to was prior to my standing up with the PMO, later the PCO. To answer your last question there, it is not proper to have a contractor acting for the government. It is not part of the way we do business. It's not our rules. When we stood up with the PMO, I put a one-star in charge who was fully qualified to do that job. We populated that office with professionals who have the experience and warrants to accomplish the job, and then we enhanced that when the PCO stood up.

I read the article, and I was as appalled as anybody else. We take very seriously the job that we do, and I must tell you that the vast majority, 99.9 percent of the folks who are doing the job over there, have the highest professional ethics, and do the job exceedingly well, and we take great displeasure when we find that someone acting on our behalf has done that in violation of the trust that we put into people.

I know when I first came to this position it was my task within the first month to dismiss a contracting officer in another command, far from what we're talking about here, and he's now in the Federal penitentiary along with someone else. I do not tolerate that. The people that we put in charge, first a one-star and then a two-star, and the folks who surround him have done an excellent job. The reports that I've gotten back from the special IG, from the DOD IG, from the GAO, from the Army IG, from the DOS IG, and from the audit agencies say they're doing the job, and doing it well.

Senator AKAKA. General Johnson.

General JOHNSON. Yes, sir. I would like to answer this from a couple of perspectives, first as a commander in the field. First of all, Senator, all of these great selfless civilians are volunteers, and all of them were influenced, indeed, by maybe what they saw on the news at night. Early on, in my division alone, it was very difficult to get people to want to volunteer to come to a place where they could make the ultimate sacrifice.

So, while we have a great defense acquisition work program, we have a strategic workforce plan, we have talented people. Number one, they're volunteers, and they volunteer to come in harm's way. Number two, unlike a commanding general of the First Cavalry Di-

vision, as a commanding general of the Gulf Region Division or the Pacific Ocean Division, as you remember me from, I cannot leave my home station and say see you when I get back, because I still have work that I have to do back in the Pacific Ocean Region.

So, all the people we were pulling together, for example, in my division, were volunteers that we were taking from our other divisions around the U.S. Army Corps of Engineers and other agencies who supported us, and so, we were challenged by that.

To answer your question, no, it is absolutely not proper because that contracting officer duty is considered to be inherently governmental. The purpose of that job is to make sure that the United States Government is getting a dollar's worth of stuff for a dollar spent. So, no, it is not proper.

Senator AKAKA. Mr. Bowen?

Mr. BOWEN. Senator Akaka, you were reading from one of five audits that we've conducted regarding the wrongdoing in Hilla during CPA. Hilla was one of three regional offices the CPA set up to manage funds, reconstruction funds, throughout Iraq. The others were in Basra and Mosul.

Robert Stein was the comptroller whom you referred to and who has now agreed to plead guilty and will be convicted and go to the penitentiary for a good while, and he was a bad actor and a man who'd been previously committed of fraud, a Federal felony conviction, who snuck under the radar here in the chaos that was the early days in Iraq and took advantage of an environment where there was a lot of cash. It was really a cash-only environment. There was no electronic funds transfer. There was $120 million, as we identified, in Iraqi money, Development Fund for Iraq (DFI) dollars that was allocated to that region for grants and contracts. Our audits showed that over $90 million of it didn't have adequate receipts or any documentation to substantiate its use. Almost $10 million was simply missing. As we got in deeper, I sent three auditors who spent 4 months there looking at it. We found that there were massive irregularities in contracting and grants, work not performed, and then I deployed three investigators down there. A result of a 9-month investigation, we now have one conviction. We've had three other arrests and more—the Department of Justice is fully engaged, and there will be more penalties to pay from this wrongdoing.

The lesson here is that oversight needs to be present, on the ground, and aggressive, in Iraq to deter. This happens—actually, the criminal scheme unfolded before I was appointed. This was in the late fall of 2003 and into the beginning of 2004. We first became aware of it in the late spring of 2004, of a potential problem, and have been working on it ever since. The fact that deterrence worked was evidenced when we knocked on Robert Stein's door. When our investigators knocked on his door, he wasn't surprised to see us. He'd been reading our audits, and he knew it was a matter of time before we would catch him. We have 57 other investigations ongoing, and I expect we'll have the same reaction from some of those people over time as we bring them to closure.

Senator ENSIGN. Just real quickly on what he was asking, that was the past. Do we currently have enough oversight on the ground? Just a quick yes or no by each one of you.

Mr. BOWEN. Yes, I think so, and let me associate my remarks—my agreement with Secretary Bolton's remarks. Well over 95 percent of the people there are giving their all to honor their country and service in Iraq.

Senator ENSIGN. That's the way it always is.

Mr. BOWEN. It's a small group.

Senator ENSIGN. That's the way I—but to prevent those other small percentage, you all agree, affirmatively nodding yes.

Mr. BOLTON. Yes.

General JOHNSON. Yes.

Senator ENSIGN. Thank you.

Senator Dayton.

Senator DAYTON. Thank you, Mr. Chairman. Mr. Inspector General, I'm a bit surprised by your glowing summary of the reconstruction progress that has occurred in Iraq, it seems to be in significant contrast to your January 30, 2006 report, your quarterly report. Just to highlight a couple of those matters, electricity generation is lower in late November 2005 than in March 2003, you go on to say that as a result, Iraqis living in Baghdad have an average of just 3.7 hours of power per day in early January 2006. Oil production is below prewar levels. Water and sanitation projects have not provided even half the Iraqis or, I'm sorry, before the war, half the Iraqis had access to water, affordable, drinkable water. November 2005, only 32 percent had access. As Chairman Warner said this morning and Senator Levin also, the failure to make adequate progress on these reconstruction projects has a direct bearing on the safety of the lives of our troops as well as the success of their mission and the overall mission.

So, the deficiencies and the failures that have been identified by your own analysis, and then by others specifically, have a direct bearing on our support for our troops and their ability to complete their mission and come home safely and alive to their families.

We have attempted, because of the failure of this committee to exercise aggressive oversight, and I don't refer to your subcommittee, Mr. Chairman, but to the full committee, to look into these contracting procedures and open public hearings. The Democratic Policy Committee has attempted to do so. I regret that it has had to be under the auspices of something associated with just one party. It should be by this committee. But in the absence of that, this has been necessary. It's been accused of focusing on Halliburton, Kellogg Brown and Root (KBR) exclusively, and it has certainly given them a primary attention in part because according to the information I have, they have now 52 percent, over half, of the total contract value of the contracts in Iraq with the DOD and also because—and I hope that we could have a chance to hear from the DCAA. It has now identified $1 billion, $474 million either questioned costs or unsupported costs by KBR as a result of the contracts that has been awarded most of which are sole-source contracts to date.

Mr. Chairman, if I take the figures that I have here about the contracts funded in Iraq of about $25.4 billion by the DOD, and if Halliburton has half of those, that figure, $1.4—almost $1.5 billion has been questioned, that's about 10 percent roughly, and maybe you could refine that for me, Mr. Secretary, but about 10 percent

of the total costs that have been billed by Halliburton and paid have been questioned subsequently by the DCAA.

Just taking, for example, one contract, the Restore Iraqi Oil (RIO) contract, which again, as we described earlier, is vital to its reconstruction. Under this contract, the Army issued 10 task orders worth about $2.5 billion. The DCAA questioned over 10 percent of those contracts, found that they weren't supported of their costs on which the audit—which were not considered acceptable, and yet at the same time, Mr. Secretary, the contract, the RIO contract, was awarded on a sole-source basis despite the PARK staff person primarily responsible, writing a note herself on the contract before she submitted it to you because she didn't think it was appropriate to award that for 2 more years on a sole-source basis with a 3-year option. That was the recommendation on her part.

I guess it was ignored or at least rejected by you because you did sign it, and it's my information that in December 2003, when the DOD auditors preliminarily concluded that Halliburton was charging excessive amounts for fuel imports from Kuwait and Iraq the same time, just days later, the Department granted Halliburton a special waiver releasing the company from providing certified costs and pricing data from its Kuwaiti fuel contractor.

Specifically, December 11, 2003, DCAA auditors held a press conference announcing that their draft audit had found Halliburton had billed for as much as $61 million in excess of costs to import gasoline from Kuwait into Iraq. The auditors indicated that Halliburton has not demonstrated: They did an inadequate subcontract pricing evaluation prior to the award of the—rather than cooperate with this audit, Department officials took the opposite action. They granted Halliburton a waiver that eliminated Halliburton's responsibility to provide any cost and pricing data from its Kuwaiti subcontractor. This seems to me to be the opposite of what you've asserted, that these are controls that have been established and that they're being improved.

In fact, it indicates the opposite, that these contracts have been awarded on a sole-source basis without a competitive bid, and then they haven't even, after that point, been monitored properly. When there have been variances, they're granted waivers so that they don't have to be held accountable. Could you respond, sir?

Mr. BOLTON. The first contract that you referred to was before my watch, and that doesn't solve the problem here today. It's the only sole-source contract that I've been able to find, the RIO contract to which you're referring, a 1-year base with 2-year extension. We did grant a 1-year extension. That is up in May of this year. No decision's been made as to whether or not to exercise the option for the third year.

With regard to the others, there seems to be a mix of LOGCAP and RIO contracts here, and I would have to separate those out. The only other sole-source contract that I'm aware that is taking place—and by the way, we've not done any in the PCO, they've all been competitive, was to Lucent, and that was to complete a first-responder network so that we could provide the right security for the elections. That's the only other sole-source that I'm aware.

All the others to which you refer, we have had the audits reports. We've had the lawyers take a look at it. We've done our own in

terms of looking at the definitization of those contracts and the task orders and so forth.

Senator DAYTON. Mr. Secretary, the audits have been performed, but the Department and the Army Corps have evidently ignored the audit findings. Another example, and my time is up, but let me just say and ask for a response. On December 31, 2004, the DCAA issued a flash report alerting the Department about significant deficiencies in Halliburton's cost-estimating system. It goes on to elaborate on some of their other financial weaknesses. Based on the flash report, auditors sent a second memo on January 13, 2005, warning that Halliburton could not adequately estimate its costs for work in Iraq. On January 16, 2004, just 3 days after that memo was sent, the second one of a flash warning about Halliburton's deficiencies, the Army Corps of Engineers awarded Halliburton a new $1.2 billion contract to restore and operate the oil infrastructure in the southern half of Iraq, an infrastructure which we now learned is failing to be revived at an acceptable rate.

In response to questions about why the Corps disregarded the auditor warnings, an Army spokesman stated we have our own internal audit process, and we haven't turned up any serious wrongdoing or major problems. So, what's the point of having audits if they're just ignored and these contracts are awarded anyway?

Mr. BOLTON. I think that last sentence or two is very important, that we had our folks go and take a look, and they could not find and justify what had been alleged, and I have to rely upon them. They're the experts, I'm not in that area.

With regards to the others, which go to task orders 59 and later on, the 80 series, we actually put a team together in the government and went through and definitized those by March of that year, and there were monies withheld because I could not find the documentation to substantiate that.

Senator DAYTON. I'll return to this as soon as the opening of the second round of questioning, Mr. Chairman.

Senator ENSIGN. Senator Reed.

Senator REED. Thank you very much, Mr. Chairman, and thank you, gentlemen. Senator Dayton pointed out some of the overall shortfalls in reconstruction, which you illustrate in your report, Mr. Bowen, reduction from prewar energy levels, potable water, also crude oil production, which is critical to the economy. I think it raises a question, which the chairman also raised about the overall strategy we have, and let me try to break it up into pieces. We have lost some of that $18 billion on security costs, we have diverted some of the $18 billion into smaller projects, we get more bang for the buck, which leaves the question: Do we have enough money still there or in the pipeline to finish these major projects, bring oil production up to levels that are at least prewar—water, electricity? Can you make that assessment?

Mr. BOWEN. You addressed several issues there, but first, let me address the prewar versus current output question, and it's a challenge just to look at prewar and current because a lot happened in the interim. Prewar in electricity, the number was about 4,500 megawatts. It is now below 4,000, 3,900. As a matter of fact, the latest is down. It dropped again. It's down to about 3,700. But last summer, it was at 5,300, so we were 800 megawatts above prewar

at the end of last July. What happened? What happened is that a focused insurgency began targeting the infrastructure, and they have repeatedly hit the Baiji Baghdad powerline. It resulted—they just hit it Monday, and we had an all-day blackout in Baghdad as a result of that. This is an insurgency that is insidious and carefully planned, and their focus continues to be on infrastructure: oil.

Look at last September. They launched a series of attacks last September. We were above prewar in July in oil output. Those attacks in September pushed us now well below. There's just no getting around the fact that the investment in security that was done in 2004 has been borne out in experience in 2005, and that is this is an aggressive insurgency. It's going to take time to suppress. Before it's suppressed, they will continue to hit the infrastructure, some of which we've built, like the Al Fatah pipeline and river crossing.

Senator REED. Right.

Mr. BOWEN. It's a RIO project. Indeed, when we address in our latest report, and we have some real concerns about how that unfolded. The history of that project is not a good one, but the current history is defined by it being one of the most dangerous places to work in Iraq right now. It's now working, the money that's being spent on the Al Fatah Pipeline River and Canal Crossing Project. It's moved from KBR to Parsons International Joint Venture. It's one of several in the oil sector, punitive steps that PCO has taken with respect to KBR. They have been under a cure notice for well over half of last year because of their poor cost accounting.

The bottom line is, to answer several of the issues that you've raised, is that we are not going to produce as much of infrastructure as we wanted at the beginning because of the security issue. We've moved $5.8 billion out of bricks and mortar into security. The reasons for that have been borne out in experience.

However, in the next 3 months, we're going to see two electrical generation facilities come online. The Al Fatah project is almost done. In April, the Erbil water treatment facility will come online. It will provide potable water to a million Kurds in Erbil, the largest city in the north. So, over the next 6 months, as long as we can suppress the insurgency and keep them from knocking out what we're providing, we're going to see those numbers come back up to numbers that we saw last summer.

Senator REED. That's a very valuable explanation, and I appreciate it very much. But a lot of the presumptions about the progress that Iraq would make was based upon a notion of it going above prewar levels, oil production particularly, et cetera. The question I have is, given this insurgency, and you're absolutely right, they're extremely bright, and they've figured out a way to impede our efforts in Iraq by attacking its infrastructure. There are currently discussions though, that we're going to essentially stop our reconstruction efforts at the $18 billion mark, that we're essentially going to say okay, we've put in $18 billion, it hasn't been spent entirely because they had to protect security, infrastructure projects have been delayed.

Are you comfortable with essentially stopping and leaving with maybe prewar levels, maybe a little better in a situation in which

this is so critical to the protection of our troops and the advancement of our mission?

Mr. BOWEN. Senator Reed, you're right. Reconstruction can't stop. The World Bank said it's going to cost $56 billion to bring it up to operational levels, and that assumed our investment, the $20 billion, would all be spent on infrastructure. We now know that that number has to be moved up a little bit before we're going to get there.

The Iraqi economy is going to have to get on track with oil production to generate revenue to fund the continued recovery. This is a long-term relief and reconstruction program that they will manage, right—we have a new government now that will be around for 4 years. We've had three governments in 18 months. It's extremely difficult to have coordinated reconstruction and recovery in that environment. The stability—the political stability—we hope is beginning to take place. The security situation needs a lot of attention on the ground there, and it's getting it.

As we see the security situation and the political government situation stabilize, I think we'll see a more rapid progress on the infrastructure front, but is $18 billion enough to get the job done? No, but it's a start.

Senator REED. Thank you very much, Mr. Bowen. Thank you, Mr. Chairman.

Senator ENSIGN. Senator Levin.

Senator LEVIN. Thank you, Mr. Chairman. The total shortfalls in terms of reconstruction of various component parts of the economy are: electricity generation—10 percent below prewar levels; oil production—20 percent below prewar levels; and potable water—30 percent below prewar levels. Now, the factor that you just referred to, I believe, Mr. Bowen, I think it was you, or it may have been Secretary Bolton, has to do with the difficulty of security.

Mr. BOWEN. That's right.

Senator LEVIN. But there are other factors that have gone into this besides the insurgency. You, Mr. Bowen, have called the gap here a reconstruction gap, and you've pointed out corruption, fraud, mismanagement, and waste that have plagued the reconstruction efforts. So, the security problem is obviously a massive problem, and that is hopefully being addressed in a number of ways. But what this subcommittee is looking into is the question of waste, mismanagement, fraud, and corruption. I assume that is the focus in any event, and it is a pretty chaotic picture that you painted for us in your reports. What I'd like to do is take one project and talk about it, and that project is called the Al Fatah project which is a river crossing for a pipeline and where your report goes into some detail about a $75 million task order for that river crossing for a pipeline.

Here's what your report tells us: First, the project failed because subsurface geologic conditions made it impossible to carry out the project design. These conditions were identified by a consultant before the work commenced, but neither the Army Corps of Engineers nor KBR acted on the consultant's recommendation to perform additional research and surveys that would have prevented the failure. Now, that's just one flaw, number one. Why was that not done?

Mr. BOWEN. I don't have an answer as to why that wasn't resolved.

Senator LEVIN. Okay, do any of the other witnesses here know why that survey was not done that was identified by the consultant as being necessary?

General JOHNSON. Sir, I'm not familiar with the specifics of that surveyor, but I can tell you that a survey was done.

Senator LEVIN. All right. Secretary Bolton.

Mr. BOLTON. Nothing to add.

Senator LEVIN. Okay, now a subject matter expert for the CPA recognized that KBR had limited experience. This is in your report, now. I am just quoting from your report. KBR had limited experience in this type of project and advised that the project would probably fail because design restrictions provided no flexibility to accommodate site conditions, but KBR refused to conduct design reviews requested by the subject matter expert. Do you know why they refused? Why were they allowed to refuse? Were they permitted to refuse under the contract? What can you tell us about that?

Mr. BOWEN. This was under the RIO contract early on, I don't know why KBR was allowed to continue, but eventually, they were discontinued, and the project was given to Parsons International Joint Venture (PIJV).

Senator LEVIN. But why were they, at that time, allowed to proceed when they did not do what the expert called in said that they needed to do, which was to accommodate the site conditions? Who is responsible? Who is accountable?

Mr. BOWEN. The Corps of Engineers was the project manager.

Senator LEVIN. Okay, now let me ask the Corps, do you know why it was that they were allowed to proceed without doing the design changes to allow for the site condition to be taken into account?

General JOHNSON. Senator Levin, you ask me a difficult question because I don't know that there were site conditions that required them to not proceed.

Senator LEVIN. All right.

General JOHNSON. I can tell you why KBR was doing the work, and if you recall the time line, KBR was there doing task force RIO missions, primarily earlier, to put out the fires that we saw in Operations Desert Shield/Desert Storm, and they did that. The design-build construction contractors were not in theater at the time we started Al Fatah.

Senator LEVIN. All right, but the question here is that why was there not enough flexibility to accommodate the site conditions as found? Do you know why?

General JOHNSON. Sir, I don't.

Senator LEVIN. But did you respond to the IG's report on this? Did you disagree? Did you file a disagreement with that report on that point?

General JOHNSON. Sir, I don't know that we did. I don't know that we recognized that as an issue for the Gulf Region Division and because it was prior to the standup of the Gulf Region Division, but I think Southwest Division and the U.S. Army Corps Headquarters probably responded to that comment.

Senator LEVIN. Did they respond to the comment? What was their comment, Mr. Bowen?

Mr. BOWEN. They didn't respond specifically to that issue.

Senator LEVIN. Okay. According to this report of yours, the Gulf Region Division responded concurring with the report without——

Mr. BOWEN. They concurred with the overall report.

Senator LEVIN. All right.

Mr. BOWEN. They didn't respond to that specific issue, but I've had follow-up discussions with General McCoy out there, and he wants to discuss it in more detail when I arrive.

Senator LEVIN. Shall I finish this now? My time is up.

Senator ENSIGN. Go ahead.

Senator LEVIN. It's one subject. The Corps of Engineers awarded KBR a firm fixed-price contract with no performance requirements on this one. There are no performance requirements on this task order, is that correct?

Mr. BOWEN. This was, again, a RIO contract, a task order under the prewar overall RIO program.

Senator LEVIN. How could there be no performance requirements? That's your report.

Mr. BOWEN. Yes, well——

Senator LEVIN. How do you issue a task, or what is it, just dig holes? Then it says you don't have to—according to your report, I'm just quoting your report here.

Mr. BOWEN. Yes.

Senator LEVIN. I'm just trying to figure it out here. The only performance requirement in the subcontract was to attempt to drill holes on a daily basis. There was no requirement that the subcontractor complete any holes.

Mr. BOWEN. I think that was presumed in the contract. That—what happened at Al Fatah—actually, there was a fairly famous video during the war of the destruction of the bridge. It was a pipe, a transfer pipe. It's the primary transfer pipe in the north to the Baiji refinery of crude, and it actually went underneath the bridge. It was not a subsurface pipe, and it was taken out during the war. It was decided shortly thereafter to try—rather than put it—rebuild it under the bridge, to drill underneath the river crossing right there. What it turned out was that the consistency of this soil, the substrata there, proved impossible to successfully drill the horizontal project.

Senator LEVIN. With no flexibility to do something different as we discovered that?

Mr. BOWEN. Eventually they did. It's now been that the——

Senator LEVIN. Not eventually, at the time, we were drilling holes which were not accomplishing their purposes.

Mr. BOWEN. Right, yes, they were drilling into sand, and it wasn't working. That's correct.

Senator LEVIN. We were paying them to do that?

Mr. BOWEN. We were paying that, and that gets back to a larger issue that I identified earlier, answering the chairman's question, and that is when you pursue a reconstruction program based on cost-plus Indefinite Delivery, Indefinite Quantity (IDIQ) contracts, you've agreed to bear the cost of getting the job done, almost whatever that would be.

We've had issues in Iraq where subcontractors simply failed at some level in the course of carrying out a project and that we've had to pay for it and it ultimately pushes the cost of the overall contract up.

Senator LEVIN. That's not getting the job done. We're paying their——

Mr. BOWEN. I'm just helping explain why there have been some cost overruns in certain instances, and this is an example of one.

Senator LEVIN. Cost overruns I understand, but I don't understand paying someone when you're not accomplishing a job. To me, that's the Corps here, and then I'll—my time's way overdue. How do we enter into that kind of a contract where you're paying somebody where there's no requirement that you even complete the holes which are being dug, no flexibility to change the design, paying for something which is not accomplishing a purpose? How does the Corps justify that?

General JOHNSON. Sir, you're absolutely right. We didn't do that. Here's the way I understand Al Fatah, and I wish I had the numbers and I was prepared to discuss the details of the project. But I remember this project because every project has a cost, a scope, and a course of schedule. The scope was to repair the pipe so it would be secure because through this pipe flowed, literally, thousands or millions of liters of crude, and it was like it would cost a dollar, I got the numbers wrong, but it would cost you a dollar to repair the pipe, but in less than 6 months, you were going to generate enough revenue from the flow of this crude so the benefit cost ratio was tremendous.

Now, when you're executing this, of course, you're trying to do what the scope of the project set out to do. The flexibility would have been in discovering, at some time, and it's really—we do the quality assurance. We're concerned about connecting the pipe, and if you're drilling and the drill's not making the holes that we expect it to make, that's kind of engineering. I thought KBR knew what they were doing. They didn't have the success we wanted them to have, but I'm telling you, we did—we were not paying them to just drill holes, we were paying them to repair that pipe so we could get crude flowing through it so that we could generate the revenues we were expecting from crude to help people in Iraq.

Senator LEVIN. That was the purpose? They didn't successfully carry out that mission, but we paid them anyway.

General JOHNSON. Sir, we didn't have a choice. It was the nature of the contract. We've learned from that.

Senator LEVIN. Thank you, Mr. Chairman.

Mr. BOWEN. KBR failed and lost the project.

Senator ENSIGN. Let me try to put this in a little bit of bigger context because the purpose, Senator Levin brought up the purpose for this hearing. Yes, it is some of the things that he talked about, but it's also—it's a bigger purpose, and that is to learn from what was done wrong, to try to help use the dollars that we have, not only in our current situation, but in future situations, to do it better, and that's why I asked the fundamental question at the beginning.

When we have these, we had a situation set up where KBR was there because of previous contracts that were bid, but they would

be on the ground. Now, they come in, and it's a no-bid sole-source type of a situation. It gets to the point we know that there are going to be problems in that, in that situation. They're inevitable. I don't know that there's any way to not have those. Maybe there is. Maybe we need to figure out something, but those were the rules of the game going into this.

A question that needs to be answered is how long. In other words, with a project like this of an emergency nature so much that it should not have been bid out. How much faster should have all these projects been bid out?

The IG's office said that 80 percent of these things are now no longer being sole-sourced. Should it be 100 percent, or is 80 percent good? That's part of the purpose of these hearings that we're trying to get at. Some of the things that I've heard, and I've just sat back just listening to some of the things about oil contract, the oil, amount of oil produced and potable water and power in the country. The fact is that it is correct. Some of these contracts were done, done well, got power running, got oil up, but we do have this small thing called the insurgency going on, and that has hurt our efforts. That's the reality. It's a war zone, and we have to reflect. We have to adjust in what it's doing in that war zone. So, I don't think that an issue needs to be made of, this particular, millions of barrels of oil a day is not what it was prewar when in fact, we had it higher than prewar levels at one point. If it wasn't for the insurgency, it'd be even higher than that today and the same thing with power generation and on and on.

The point of this hearing, because that just gets into politics, should be is, how can we do it better? How can we help the military, and how can the IG help the military? How can we hold accountable those who did things wrong? I think we need to figure out if contractors did something wrong, and especially if they did something wrong knowingly, instead of just waste, they actually got into the fraud-type of aspects, how do we prevent them from contracting into the future? At what level of abuse do we set? Then I think Congress has to look at that.

That's really the purpose of this hearing is to look at the bigger picture for how we improve so we are using those dollars, that $18 billion and on and on, how we are using those in a better way, being better stewards of the taxpayers' dollars.

So, with that, I just have a couple other questions along those lines. What additional mechanisms and authorities are needed to oversee contracting in major contingencies like Iraq or in the future?

Mr. BOLTON. If I can respond to that, when I was given the task of setting up the PMO and the PCO, I went to the Army historian, and I asked her to take a look at what we had done in Japan post-World War II with MacArthur, and Europe, the Marshall Plan, and Korea and even back to the Spanish-American War, how did we go about doing this, and what we had done over the last almost 2 years now is to grow into that scenario. The special IG, when they first visited me, really sparked my interest. I've been an IG, so I think I understand some of their role. But what really sparked my interest was, to your point, Mr. Chairman, the fact that we're actually going to do some lessons learned. We're going to pull that in-

formation out. We're going to put it into a body of work, and we're going to learn from this. I've read the first draft, and I think it's moving in the right direction.

I think Senator Akaka also spoke to this. When we look at what we're doing here, and all the questions that have been asked are absolutely spot-on right questions, the people who were involved in the early days, whether it was the Office of Reconstruction and Humanitarian Assistance (ORHA) or the CPA, the PMO and now the PCO and Iraq Reconstruction Management Office (IRMO) and all the other good, dedicated Americans, trying to do the very best, looking at a situation and trying to figure out what should we do. We are looking with the benefit of 20/20 hindsight here.

But as surely as we're sitting here, there will be another group of folks somewhere else in the world faced with the same challenge. Now, how do we make it better? First of all, I think it's not just DOD nor DOS. We have learned as we've gone on here that this is an interagency-type of operation. It involves those agencies and Congress to figure out how do we make this better for the folks who are going to be sitting there, a lot of them volunteers, trying to execute this mission.

I believe if I take Stuart's report on lessons learned and I look at it, it's a good first start, and we're going to offer some comments to him. I think what we need to do is take the questions that you've all asked this afternoon and sit down and really do a red team. Let's suppose that we're facing another insurgency. Let's suppose that we're going into a country that's not had an infrastructure that amounts to a hoot for 30 years where the people haven't been trained how to maintain this for 30 years, that doesn't have a banking system, that's filled with corruption. How are we going to function in that country and figure out what tools, what legislations have to be changed, what rules and regulations in the department, but most importantly, how our people are trained and experienced to work in that environment.

That's what we're pushing on our side and to the point, starting about 2 years ago, we took our contingency contractors, and we put them into military formations. We call them modularity in the Army. They're in the various brigades there, and their job is to train to be ready to go into the theater and perform their function. That's a first step. We have a lot more to do in terms of program managers and other folks go along with this and then to benefit from all the things that we're talking about today.

Senator ENSIGN. Any other comments?

General JOHNSON. Sir, I would just add this is sort of like a relay race and when you're in a relay race, I can talk about that. I've actually done that. One of the key things is when do you let go of the baton? For the guy that's grabbing it, when do you grab it? I say this is like a relay race because not only were we learning how to evolve and transform into this within the DOD, but we were trying to do it across departments as we transitioned from DOD to DOS. There's some things that we know now that we did not know before.

For example, we did not know that it would be important, for when the DOS took over, to be able to hold back some of the commitment of these funds so that as you elected the new Iraqi Gov-

ernment there would be some incentive there to inspire that new Iraqi Government to come along with what it was and we were proposing for them to do. We did not know that. We kind of thought this wheel would just keep moving in spite of the fact that I was the guy on the ground when DOD was in charge with PMO and when the DOS was on the ground with PCO.

I think as you see the development of the doctrine of counterinsurgency warfare, as you see the national security directive where the DOS takes a lead for reconstruction and all things reconstruction, as you see us discuss about planning for phase zero, and phase four at the same time, I think you see we're beginning to at least talk about what we've learned. Then the next test, as the secretary said, will be the next time we do this, how will we execute it. I think we're learning, and we'll continue to learn.

Mr. BOWEN. The President signed in December NSPD–44 which lays out a new framework for executing relief, reconstruction, and stabilization operations and places the locus of decisionmaking for that within the DOS's new office to manage that.

Secretary Rumsfeld signed a parallel complimentary directive in November. So, planning for contingency operations is moving to a new level and specifically contracting, developing appropriate contracting changes that will enable successful operations in the future are underway. Now, it's important to think about reconstruction and stabilization. It seems to me that we pursued reconstruction before stabilization was present. The World Bank has done several studies that show that investing in reconstruction before a nation, a society, is reasonably stable doesn't provide a good return on that invested dollar.

I think our invested dollar now is returning better than it did 2 years ago. Even though we still have a fair way to go before we can call Iraq stabilized, even reasonably so. But you were asking for a concrete suggestion as well, and when I met with General Casey regarding contracting and talked about the problems that we've faced through the variety of contracting entities over there, and that is one problem, there have been so many, U.S. Agency for International Development (USAID), DOS, Joint Contracting Office Iraq (JCCI), there hasn't been a consolidation of it. So that's one, try to remember to consolidate contracting in a contingency operation so you don't stovepipe it and lose track of who's building what where.

But two, and more importantly, how to make it happen better. All of them operate under the Federal Acquisition Regulations (FAR). That is an effective check on potential improper practices in a peacetime environment.

But in a wartime environment, perhaps there needs to be a streamlined FAR. General Casey said that it would help him immensely if there could be a contingency operation FAR developed that would help contracting officers get the job done, still comply with safeguards, required safeguards, but not have to be burdened when you're outside Fallujah trying to build a school and under fire, you shouldn't have to post on Federal Business Operations for 30 days, I mean that sort of thing.

The truth is, I think that makes sense. I think the FAR has within it the tools that can make that happen, but they're cum-

bersome to pull out, to create a supplement that identifies how to get the job done in a contingency operation. That would be a great way for Congress to help contracting officers in contingency operations.

Senator ENSIGN. Excellent answers, thank you.

Senator Akaka.

Senator AKAKA. As I noted in my opening statement, the SIGIR reported that one of the reasons for contracting problems was our failure to adequately staff and equip our acquisition organizations.

In addition to the audit reports that I quoted in my opening statement, Mr. Bowen provided us with a draft lessons-learned document which makes many of the same points about chronic understaffing and frequent turnover in the acquisition office. That report indicates that these problems were identified more than 2 years ago by a DOD contracting assessment team. The DOD assessment team found that the contracting function was grossly understaffed even before Congress appropriated $18 billion for Iraqi reconstruction and was completely inadequate to handle the added load.

Mr. Bowen, if this problem was identified way back in 2003, why was it never adequately addressed, and why have we continued to provide inadequate staffing and resources to our acquisition organizations in Iraq?

Mr. BOWEN. I think that our Human Capital Management report points out that CPA was understaffed and particularly in contracting. Colonel Tony Bell showed up on the ground in the summer of 2003, and there were three people in his office for a while. That eventually grew to 40 by 9 months later and is now at around 160 in Joint Contracting Command Iraq (JCCI). So, understaffing at the beginning was a severe impediment to effectively ensuring that safeguards were continually met. Understaffing is not as big an issue today as turnover. Part of our contracting lessons-learned seminar included not just a visit with the government side, but we also had a day-long seminar with contractors who are operating in Iraq to try to get feedback about how their interactions with the contracting were, and their biggest concern was the turnover in contracting officers and the lack of institutional knowledge being maintained. Each Service has a different length of stay assignment in Iraq. Some are 2 months, the Air Force has 2 or 3 months, the Army a year, Marines 6 months. As a result, you had this constant flow-through of contracting officers.

A lesson-learned from that is to try and identify a core-contracting contingent that will go and stay and execute until the job's done. As a result, we have this continuing experience of steep learning curves among contracting officers and I think it's better now than it's been since the start, but it was a rough start.

General JOHNSON. If I could add to that——

Senator AKAKA. Secretary Bolton and General Johnson, at our previous hearing on Iraq contracting in May 2004, your counterparts, that's Assistant Secretary Tina Ballard and General Carl Strock, assured us that acquisition personnel would be moved into the theater as needed and would be sufficient to provide oversight of all DOD contracting activities. My question is, why wasn't this done? Mr. Bolton?

Mr. BOLTON. Two comments, that was early 2004, we just stood up the PMO, for which I was responsible, later the PCO, and the comments that the IG has just commented on, we started to take a look at that. Tony Bell worked for me, Colonel Bell. When I sent him over there responding to a request from CPI, I asked him please tell me what you need, and we'll go out to find that. We then, through my deputy, Ms. Ballard, went out to start looking for volunteers to start building this office, and it grew from what Tony had to what eventually General Seay had. The PCO has been 25 people plus some administrative help from seven contractors and one military type, and they essentially have done most of the contracting activity.

Every time I talk to them, which is on a weekly basis, and I look at the figures too, we run about 80 to 85 percent, if we're lucky, in terms of percent filled, what do you need from us, and whatever that is, we try to provide it.

Second part, we are asking to put people in there who are coming from a group of people who are already short across the entire Federal Government, not just DOD. In a Federal Times article about 3 or 4 months ago, we're short in the Federal Government by 1,500–2,000 contracting officers. The folks I have, they're great people, but in a couple years, about half of them are gone because they're retiring, and so, we're out trying to recruit. The simple factor here is that there aren't a whole lot of folks that you can draw from to do this particular function. They're just short. I'm fortunate to have the civilians which we rotate every 6 months. That helps with the learning curve because they were there a few months ago, they understand, they've been talking to the folks on a weekly basis because we put them in the home office back here in Washington. That helps with the learning curve, and they're up on the issues. They're all volunteers, and they love doing this, going back and back.

My concern is down the road, where do I get all of these people? So, the lesson to learn here is to try to figure out how you put this all into formation to begin with, which I alluded to earlier. We, on the Army side, are doing, by putting them into the modular forces. Two, the bigger issue is how do you attract, recruit, train, and retain this type of expertise when you're short across the entire Federal Government.

Senator AKAKA. General Johnson?

General JOHNSON. Sir, I think the secretary said it best. We did respond. I stood up the division in January 2004. At the time, we're providing people to—trying to stand up our division headquarters. We're all over the country of Iraq, we're not just in one location. We had one district in Basra, one in Baghdad, and one north up in Mosul. We were providing some contracting volunteers to PMO. We can do better.

Additionally, and as I stated before, while our number one priority is for the global war on terror, the same U.S. Army Corps division of people are drawn to 90 other countries around the world. We were doing this before the global war on terror. Today, we have a priority of effort down in the New Orleans area. We have about 2,700 people deployed down there. The same kind of people we need to do contracting officer responsibilities and engineering re-

sponsibilities in Iraq are the same type of people that we need down in New Orleans and the Gulf Coast area. So, we have to keep at this each and every day, and you've been very helpful as Congress.

One of the big challenges I had when I first got there was a civilian could work a 12-hour day, and for me, that's a half-day schedule. Still, after about 3 months, they would be over their pay cap because we were working extremely long days. We were in a combat zone. We were trying to get things going. You raised that pay cap to allow us to get more people to come overseas and be willing to make the sacrifice and be paid. I think there may be a time where we'll have to look at this, and there may have to be some special incentives for folks that have contracting officer capabilities.

Senator AKAKA. Thank you, Mr. Chairman.

Senator ENSIGN. Senator Dayton.

Senator DAYTON. Mr. Chairman, I have to express my strong objection to your characterization in your recent remarks of these lines of questioning as flowing toward politics. I'm deeply offended by that. I was State Auditor in Minnesota, and every time I raised something, I was accused of politics. I don't want to be an apologist for an administration. I don't want to be an unfair critic. I want the facts to speak for themselves. When I see the lack of even interest in your raising these questions and pursuing them, anytime anybody wants to have a colloquy in the Senate floor about the influence of politics into questioning the prosecution of this war and those who have ignored the problems or apologized for them to the detriment of our own Armed Forces because as I've said before, and I'll tell you, my motivation isn't politics. My motivation is as a citizen this morning.

I was at Camp Shelby in Mississippi 10 days ago, there were 2,600 Minnesotans that are being trained to go over to Iraq. I looked at those faces, and I thought some of them are probably not going to come back. Some of them will probably die over there. Some of them will come back without limbs. Those will be Republicans, Democrats, Independents, it doesn't matter who they are, they're Americans. When things aren't done properly over there, sure there's an insurgency, sure there are things blown up. But when the electricity ticks up in July of last year, according to the reports I have, for the first time since prewar, and residents of Baghdad only have 8 hours of day and night of electricity under that generation, they're really unhappy about that.

I was in Iraq with the ranking member, the chairman, and others on this committee in July 2003. It was 115 degrees every day. With no electricity, that means no air conditioning, no refrigeration and no running water and sanitation in some places. Does that fuel the insurgency? Does that mean, as I've read the Washington Post today, that when some group of Americans goes out on a convoy 200 yards away from their base camp and get blown up and die that these things don't matter? They do.

So, when I hear nothing but apologies for this stuff and glossing over, and then I'm accused of playing politics as I raise the questions, I find it deeply deeply offensive.

I would ask you, Mr. Secretary, going back to my line of questioning before, and I hope this hearing record will be kept open for a week because I have a lot of questions that I can't have time to ask here. But let me just ask you this, you said you got a contrary report from some audit source in your department regarding this RIO 2 contract and following up on your questions raised with the DCAA. What is the relationship of DCAA to your office, to DOD? Is that a credible auditing entity?

Mr. BOLTON. I use them all the time, just as I use the other auditing folks.

Senator DAYTON. So, if they—and we're talking now here not about the operational side of these contracts, but the financial accounting, if they come up with a finding that over 10 percent of the contract costs were, whether it's Halliburton or anybody else, I don't care but 10 percent of them are, what are they called, questioned or unsupported, is that within the normal tolerance of deviation in terms of defense contracting?

Mr. BOLTON. I think it doesn't matter to me what the deviations are. What matters to me is that they raise the concern. In that particular case—and the only thing I really approved was the option. The contract was set before I came aboard. I was asked to take a look at the option. I asked my staff, both legal and professional, should we exercise this given all the concerns that were there, and the answer was yes. I said fine.

Now, if we don't exercise this, and since you need this and it bears upon as you've just said, Senator Dayton, whether or not we're going to get our troops out of there in a timely fashion, if we complete this right now, how long will it take, and what will happen? The answer was one I didn't like. Taking all into account, is it legal? Have we done the right things? By the way, we have a special group now to go take a look at that particular contractor and the issues that you just raised on where is the documentation and so forth. They worked through all of that, but after I'd signed the piece of paper. I thought it was the wise thing to do at the time.

Now, can I be second-guessed on it? Absolutely. Can I be taken to task with it? Absolutely. You should, but I think we made the right decision at the time.

Senator DAYTON. Sir, going back again, the DCAA on December 31, 2004, issues a flash report, I assume, as a function of these questioned and unsupported costs in the previous Halliburton contracts and then repeats that again just 2 weeks later, and then 3 days after that second one is issued, the Army Corps of Engineers awards Halliburton a new $1.2 billion contract to restore and operate the oil and infrastructure in the southern half of Iraq, January 16, 2004. We talk about lessons-learned. I don't see many lessons being learned in that process, and what I said earlier in my previous round of questioning and quoted here why the Corps disregarded the auditor warnings and that there's an Army spokesman not identified saying we have our own internal audit process, we hadn't turned up any serious wrongdoing or major problems, then that's quite a variance from what DCAA is planning of over 10 percent of variance. How do you reconcile those?

Mr. BOLTON. The way I reconcile is to break it up. In the first part, I did take that seriously. That's why we set up a team to look at all the task orders that were open and to close those and find out where we had documentation to pay and where we didn't have documentation to pay. As a result, Halliburton, or actually KBR, was not paid for portions that we could not justify.

With regard to the second, I think we're referring to the next option on the RIO contract, which the Army Corps of Engineers took a look at and said it's appropriate to do this. To me, those are two separate things, granted on the same contract, but actions were taken.

Senator DAYTON. My time is up, but I'll follow up with, if I may, some written questions and ask for responses for the hearing record. I'm also told that on August 16, 2004, the Army declined to withhold 15 percent of Halliburton's payments because of these unsupported costs. Again, in February 2005, DOD approved a final waiver of the 15-percent withholding provision for Halliburton. I'm also told that there was a purging or retraction or redaction of all DCAA's audits when the RIO contract was submitted to the International Advisory and Monitoring Board. I'm not sure whether, and maybe these are incorrect, but that's the information that I've been given here, and I guess I'll ask for a formal response to those.

Mr. BOLTON. Yes, sir, please.

The last one I'm not familiar with, Senator Dayton. The one on the 15—but we do have a FAR proviso that if we have not definitized, that wouldn't hold up to 15 percent. I did ask for a waiver. I can't grant that waiver. That's done at the Office of the Secretary of Defense, one of his Under Secretaries, sir.

Here's the problem that was presented to me. We can stop that 15 percent. Given the cash flow problem with that particular company, that burden would fall upon the subs. We're talking about subs who are providing food and water to the soldiers who are in action. The subs couldn't bear that responsibility. They financially couldn't do it, so they were going to stop. You can only imagine what the headlines would read if I withheld that money from that prime contractor, and the subs could not provide water, food, and sanitation for our fighting troops over there. So, I asked for a waiver from the Office of the Secretary of Defense and then promised him that I would definitize that within a certain amount of time, which I did.

Senator DAYTON. My time has expired. Thank you. Thank you, Mr. Chairman.

Senator ENSIGN. Thank you.

Senator Levin.

Senator LEVIN. Mr. Secretary, on that issue when you say you definitize it, does that mean that some part of the questioned amounts were recovered?

Mr. BOLTON. Yes, sir, what that means when we definitize on most of these, not most, but some of these contracts where we have task orders, we do a competitive. We select a contractor, and we tell him we're not sure what environment you're going to work, but when you get there, we'll have a pretty good idea, and then we'll ask for your rough estimate. Then as you do the work, we will go ahead and definitize what did you really do, what do we really

want, and how much should it really cost us and so forth. So, that's what we did. We took that task order, the big one——

Senator LEVIN. Gotcha.

Mr. BOLTON. —that does all the dining halls and——

Senator LEVIN. Gotcha.

Mr. BOLTON. —water and so forth.

Senator LEVIN. My question is somewhat different. I am not talking then about the definitized function, I am talking about where the DCAA questioned the claim of the contractor, KBR. Apparently, about $1 billion out of the $10 billion, roughly, was questioned by the DCAA. Of that $1 billion, how much of that was recovered by the Army?

Mr. BOLTON. I don't have exact figures. I'll take that for the record. My recollection is that we were able to definitize most of it, so we're talking a few hundred million dollars, we could not verify, and therefore, we didn't pay them.

Senator LEVIN. So that perhaps it would be a couple hundred million dollars of the billion that was questioned by the DCAA, which ultimately, we refused to pay to the contractor.

Mr. BOLTON. Yes, sir. I'll get you the exact numbers

[The information referred to follows:]

There were questioned costs on all task orders issued under the Restore Iraqi Oil (RIO) contract. This is normal for a cost reimbursement contract. However, the Defense Contract Audit Agency (DCAA) questioned whether Kellogg Brown and Root (KBR) had always used the best business approach in executing the mission; not whether it had provided the Services or paid the claimed costs to its subcontractors. United States Army Corps of Engineers is not aware of any allegations that goods or services which were purchased for the Iraqis under the RIO contract with KBR were not provided or delivered. In fact, in an audit of the RIO contract, the Special Inspector General for Iraq Reconstruction stated that the goods and services delivered and billed for by KBR where those required under the contract.

In order to reach a bottom-line government negotiating position, the contracting officer examined the specific questioned and unsupported costs to determine how they would be handled in the negotiations with KBR. This analysis was performed in close consultation with DCAA, which provided financial advice to the contracting officer on possible government negotiating positions and supported the contracting officer during the negotiations. For the task orders where audits had identified significant issues, DCAA advisors assisted the contracting officer during the negotiations with KBR. Neither the DCAA audits nor the DCAA financial advice to the contracting officer during negotiations with KBR included any recommendations not to reimburse KBR for the questioned costs, other than $3.8 million, which was not reimbursed.

Senator LEVIN. Okay, now another issue on this pipeline going across this river, the IG's report indicates that KBR refused to provide information to the government that could have enabled the Army Corps to identify and correct the technical problems with the project. Now, here's what your report says: "KBR restricted subcontractor communications by requiring all communications to be addressed to them. No one from the subcontractor's team was permitted by KBR to talk to representatives from the Corps of Engineers. An Army Corps engineer stationed in Kirkuk noted that getting information from KBR on anything was a major struggle. When asked for cost reports, KBR's representative told him that detailed cost reports were not required by the contract." Is that acceptable?

General JOHNSON. Sir, I don't know the details of that specific incident.

Senator LEVIN. This is in the IG's report. Is that an acceptable action by a contractor—to deny information and to the Corps?

General JOHNSON. It's not normal. It is not normal.

Senator LEVIN. Do we know what action has been taken against KBR for this? I want to learn from lessons. I want to get some lessons learned, too. I am all in favor of learning lessons, believe me, but you also have to hold people accountable.

General JOHNSON. Yes.

Senator LEVIN. If you are really going to change behavior, if you gloss over behavior which is unacceptable, you are less likely to change future behavior, which I agree is a very significant goal. So, has KBR been held to any account for refusing to provide information to the Army?

Mr. BOWEN. Yes, they have. They were put under a cure notice in December 2004.

Senator LEVIN. For exactly this issue?

Mr. BOWEN. Inadequate cost reporting. This had to do with the contract that Senator Dayton was referring to, the southern oil contract.

Senator LEVIN. Is this inadequate or refusing to provide information?

Mr. BOWEN. They're being ordered to provide it and not providing it after repeated requests in the fall of 2004 and the failure to provide that——

Senator LEVIN. Mr. Bowen, could you just tell us what a cure order is?

Mr. BOWEN. Cure notice.

Senator LEVIN. Cure notice.

Mr. BOWEN. Yes, it's a suspension of payments and really a threat of termination of contract. If you don't provide better data about your costs, then you will lose the contract.

Indeed, although KBR did eventually resolve that cure notice, it took them over 8 months to resolve it. It was finally lifted in the midsummer of last year. They lost virtually all their work in the southern region. All of it was switched over to the Parsons International Joint Venture. So, although they had a billion dollar contract for that southern region, they ultimately only did about just over $200 million in work.

Senator DAYTON. This is RIO 2?

Mr. BOWEN. They had the capacity. There was a capacity to do $1.2 billion, I think you referred to, under that contract.

Senator DAYTON. Is this RIO 2 or just Halliburton?

Mr. BOWEN. They call it RIO 2. It was the southern region. They divided Iraq up into northern and southern regions in the January 2004 award, and Parsons International Joint Venture got the northern region, and KBR got the southern region. KBR, I've been concerned about their performance, and as I've noted in a number of my audit reports. This I noted when I met several times with the oil sector and PCO. I sent a letter to General Urias recommending termination for cause. It was ultimately terminated for convenience based on advice of counsel, but I was not happy with what I saw as their insistent failure to meet the standards that the oil sector government lead was repeatedly demanding.

Senator LEVIN. I commend you on your work, by the way. I was quoting from your work because I think it's very pointed, and I don't think there's adequate answers that we've been given by anybody to the points that you've made in terms of the response that has not been forthcoming from a contractor in terms of how much money's not been recovered from the contractor. The stakes here were real high in addition to money being paid out that shouldn't have been paid out. The stakes here have to do with whether or not a pipeline is going to be built across that river which is going to help Iraq get back on its feet. Because that subcontractor was not allowed to talk to the Army and that according to your report——

Mr. BOWEN. Right, and that started with a hotline report to my office. That was the first report I got of it in the late spring of 2004.

Senator LEVIN. As a result of that, the subcontractor representative said that after encountering cobble, which I guess is gravel of some kind, bad subsurface.

Mr. BOWEN. That's right.

Senator LEVIN. That they suggested alternative drilling sites which were turned down by KBR. So, no one from the subcontractor's team, according to your report, is allowed to tell the Corps of Engineers that that problem occurred. All we've done is said we're going to discontinue the contract for the convenience of the government instead of holding them accountable in some significant way. The stakes here were huge. The outcome here was probably impacted. The way it sounds to me in your report, by that information being denied to the Corps of Engineers, that that subcontractor found a subsurface, it could not hold that pipeline.

These are immense stakes for a country which is in the middle of an insurgency. The insurgency is tough enough as we all know, but for this kind of a contractor, I think, misbehavior in denying information to go forward to the Corps of Engineers has to have consequences for that contractor besides having a contract denied for the convenience of the government. The lack of pipeline capacity resulted in the loss of more than a billion and a half dollars in potential oil revenues to the Iraqi Government.

So, I guess for the record, I will have to ask you this since my time is up. There have been some whistleblowers who have complained also about KBR. A former KBR employee named Rory Mayberry has identified problems in the food service contract. He alleges that he was told by KBR managers not to speak to the auditors. Another former KBR employee, Ben Carter, identified problems with the contamination of water that was being supplied to our troops in Iraq, said keep his mouth shut, don't talk to the military about what you're alleging. I guess the question here is are these whistleblower complaints familiar to any of you gentlemen?

General JOHNSON. Sir, I'm familiar with the one concerning the water quality.

Senator LEVIN. Would you, for the record, answer those?

General JOHNSON. Water quality in the base camps, yes, sir.

[The information referred to follows:]

This issue has been researched extensively and information confirmed with the Defense Contract Management Agency (DCMA), the agency responsible for oversight.

While Kellogg Brown and Root (KBR) is tasked with operating water purification units for both potable and nonpotable water, they do not operate all of the systems in theater. During the period in question (January–May 2005), KBR was not operating the Reverse Osmosis Water Purification Unit in Ar Ramadi. During that timeframe, purification and testing was being accomplished by the 704th Quartermaster Battalion. KBR's involvement was limited to drawing and delivering/distributing water until May 2005. KBR took over the water purification operation at this site on May 21, 2005. According to DCMA, water quality tests conducted during this time period revealed no deficiencies.

Notwithstanding the above, this matter in its entirety has been referred to the appropriate investigative agencies.

Senator LEVIN. Would you do that for the record, if you would, because I'm over my time limit. Then also for the record, the allegations of Bunnatine Greenhouse, these are against the Corps itself, and would you, for the record, I think you're familiar with those allegations. Would you address those allegations for the record?

General JOHNSON. Absolutely.

[The information referred to follows:]

The Acting Chief Counsel did not advise Ms. Greenhouse that her appearance before the Democratic Policy Committee would not be in her best interest. In an e-mail sent June 23, 2005, the acting Chief Counsel advised Ms. Greenhouse to "make clear in your testimony that you are not appearing in those proceedings as a representative of the Department of the Army or the Corps of Engineers and you are not testifying on behalf of the Army or the Corps." The Acting Chief Counsel further stated "I also respectfully request that you be careful in your testimony and these proceedings to protect appropriately, proprietary information that you may have on any of the matters under discussion." The Acting Chief Counsel also met with Ms. Greenhouse on June 24, 2005, and reiterated these points.

Senator ENSIGN. I think that there are going to be several—I know I have several questions that we'll want, simply because of the lack of time today, to have addressed for the record.

Just in conclusion, first of all, I want to thank all of you for your testimony today and response to the questions and thank the senators who attended as well for their questioning. Very important issues that we're dealing with here, that we're talking about credibility of our military, credibility of our contracting process. I agree with Senator Levin, and I tried to make that clear, that I absolutely agree that people need to be held accountable, but I also wanted to make sure that the hearing's purpose was to learn from mistakes that were made in the system, built into the system, and how we can design a better system to make sure in the future that we minimize these opportunities for abuse and also opportunities just for outright mistakes that were made.

So, I want to thank all of you for your testimony, and this hearing is adjourned.

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR JOHN ENSIGN

RESTORATION OF IRAQI OIL

1. Senator ENSIGN. Mr. Bowen, in your response to questions during the recent Readiness and Management Support Subcommittee hearing on Iraqi contracting, you noted that Kellogg Brown and Root (KBR) had "lost virtually all of their work in the southern region" of Iraq under the Restore Iraqi Oil (RIO) II contract. According to your statement, although KBR had a "$1 billion contract for that southern

region, they ultimately only did about just over $200 million in work." The work was "switched over to the Parsons International Joint Venture." Please clarify the circumstances and time frame involved in the action you described above.

Mr. BOWEN. The U.S. Army Corps of Engineers (USACE) reports that the award of fully and openly competed contracts to replace the original sole-source award was part of its pre-war acquisition plan for the oil mission.[1] On July 10, 2003, the Request for Proposals for two new contracts, one for work in the north and one for work in the south, was released with a deadline for submission of August 15, 2003. On October 29, 2003, USACE announced that it would modify the solicitation of the two contracts to increase their capacity but not change the scope of work. USACE states the reason for the increase as: continued sabotage, continued assessments plus the need to provide additional security under the contracts.[2] The Indefinite Delivery Indefinite Quantity (IDIQ) cost-plus-award fee contracts were awarded January 16, 2004, to Parsons Iraq JV for work in the north and KBR for work in the south. The contract ceiling for the "northern" contract was $800 million, for the "southern" contract it was $1.2 billion.[3]

In its April 2005, 2207 Report to Congress, the State Department reported that:

> "Due to failure to adequately control and report costs, KBR, the southern Design Build (DB) contractor was issued a Cure Notice on January 29, 2005. This has resulted in the replacement of some key personnel and a proposal from KBR to remedy the issues. Their response was considered insufficient and KBR was required to take further actions. When KBR's revised response is received, it will be reviewed and decisions on appropriate actions will be made."[4]

The Report goes on to list as an "accomplishment" since the previous report:

> "Change of contract executing strategy due to poor performance of KBR." PCO has begun working with Parsons (PIJV) in the south to execute some of the remaining work."[5] The Report does not provide further details of the "poor performance" of KBR.

In its July 2005, 2207 Report to Congress, the State Department reports:

> "KBR has made numerous improvements to the Monthly Cost Report, thereby satisfactorily addressing most of the issues PCO raised in the Cure Notice it issued to KBR in January. KBR is continuing efforts to close the remaining gaps. PCO awarded six southern task orders for former KBR projects to the northern DB contractor, Parsons Iraq Joint Venture (PIJV). PIJV has mobilized resources to the south and the facilities assessments, to define the scope of work, have been completed. Project Scope and Status Report (PSSR) packages will be complete on all projects by mid-July."[6]

Nine Terminations for Convenience were issued regarding the KBR Southern Oil Sector Contract (also known as RIO II)—Contract Number W9126G–04–D–0001. A list of these task orders and a short reason why the task order was terminated for convenience follows. No task orders were terminated for default. All of these task orders were awarded with Iraq Relief and Reconstruction Fund (IRRF) monies.

- Task Order 0001 - Transition Planning and Fuel Import and Delivery Mission: KBR rescinds their cost proposal and requests a cancellation of the Task Order.
- Task Order 0002 - Initial Mobilization: All remaining support requirements are moved to Task Orders 14–17.
- Task Order 0005 - Life Support to Southern Camp: All remaining support requirements are moved to Task Orders 14–17.
- Task Order 0009 - Daura Centralized Power: KBR cannot justify high costs and cost reporting system discrepancies.
- Task Order 0018 - Al Faw Peninsula Piping Assessment and Repair: KBR cannot provide supporting documentation for final costs and other cost issues.
- Task Order 0019 - Pipeline Oil Spill Clean-up: KBR cannot provide supporting documentation for final costs and other cost issues.

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[1] USACE Press Release PA–03–30. "Corps to Amend Solicitation for Contracts for Repair of Iraq's Oil Infrastructure." October 29, 2003.
[2] Ibid.
[3] Ibid.
[4] State Department. 2207 Report. April 05, 2005. p. 55.
[5] Ibid. p. 56.
[6] State Department. 2207 Report. July 07, 2005. p. 57.

• Task Order 0024 - Pipeline Communications: Lack of agreement with KBR on high cost issues.
• Task Order 0025 - Refurbish Loading Arms: Lack of agreement with KBR on high cost issues.
• Task Order 0027 - Well-Workovers: Failure to obtain indemnification agreement from Iraqi Ministry of Oil. (For additional information see next question.)

Task Order 27 under the KBR southern oil sector contract number W9126G–04–D–0001 (also known as RIO II) was terminated for convenience on July 5, 2005. Task Order 27 involved well-workovers for which KBR requested indemnification from the U.S. Government prior to commencing work. After being unable to reach an agreement with KBR on the indemnification issue and failure of the Iraqi Government to also provide indemnification, the Task Order was terminated. It should be noted that the termination applied only to Task Order 27 and not to the entire contract, and neither the contract nor any other task orders have been terminated for default.

The work contemplated under Task Order 27 was then awarded to Parsons International Joint Venture (PJIV) under their northern oil sector contract number W9126G–04–D–0002 as Task Order 22. A proposal from PIN that details project scope, to include an execution strategy, schedule, assumptions and cost estimate, is currently undergoing a Defense Contract Audit Agency (DCAA) audit. Commencement of the work under this task order is also awaiting a signed four-party indemnification between the Iraqi Ministry of Oil; the Southern Oil Company; PIN; and Weatherford, PIJV's subcontractor.

KBR Task Order 27 was definitized at $36,981,995 on March, 11, 2005. The cost of PIJV Task Order 22 has not been negotiated nor definitized. PIJV's proposal dated January 11, 2006, estimated the work at approximately $80,458,353.

The switch of contractors from KBR to PIJV was also due to the fact that KBR sought indemnifications and the U.S. Government did not support the request. Special Inspector General for Iraq Reconstruction (SIGIR) has now learned that there is a new request from the current contractor for indemnifications which we expect the Iraqis to provide. The KBR cost is mainly related to overhead, developing of a man camp, and equipment.

Mr. BOLTON. (Mr. Bolton is answering per agreement with the Office of the SIGIR.)

Under the KBR southern oil sector contract number W9126G–04–D–0001, 30 task orders have been issued with an estimated total value of $665,678,579. Under this contract, task order 27 involved well work-overs for which KBR requested indemnification from the U.S. Government prior to commencing work. After being unable to reach an agreement with KBR on the indemnification issue and the failure of the Iraqi Government to also provide indemnification, the task order was terminated for convenience. The work contemplated under this task order was then transferred to Parsons International Joint Venture (PITV) as Task Order 22 under their northern oil sector contract number W9126G–04–D0002. PIJV commencement of work under this task order is awaiting DCAA approval of PIJV's proposed project scope and receipt of indemnification from the Iraqi Government.

2. Senator ENSIGN. Mr. Bowen, when, and under what circumstances, was the KBR contract under RIO II switched to Parsons?

Mr. BOWEN. The KBR contract was not switched to Parsons International Joint Venture (PIJV), however oil sector representatives say that they limited the task orders awarded to KBR under its contract and increased the task orders awarded to PIN under its contract. (see list of Task Orders in response to Question 1).

Task Order 27 under the KBR southern oil sector contract number W9126G–04–D–0001 (also known as RIO II) was terminated for convenience on July 5, 2005. Task Order 27 involved well-workovers for which KBR requested indemnification from the U.S. Government prior to commencing work. After being unable to reach an agreement with KBR on the indemnification issue the task order was terminated. Neither the contract nor any other task orders have been terminated for default.

The work under Task Order 27 was then awarded to PJIV under their northern oil sector contract number W9126G–04–D–0002 as Task Order 22. A proposal from PIJV is currently undergoing a DCAA audit. Commencement of the work under this task order is also awaiting a signed four-party indemnification between the Iraqi Ministry of Oil, the Southern Oil Company, PIN, and subcontractor Weatherford.

KBR Task Order 27 was definitized at $36,981,995 on March 11, 2005. The cost of PIJV Task Order 22 has not been negotiated nor definitized. PIJV's proposal dated January 11, 2006, estimated the work at approximately $80,458,353.

Mr. BOLTON. (Mr. Bolton is answering per agreement with the Office of the SIGIR.)

Under the KBR southern oil sector contract number W9126G–04–D–000l, 30 task orders have been issued with an estimated total value of $665,678,579. Under this contract, Task Order 27, involved well work-overs for which KBR requested indemnification from the U.S. Government prior to commencing work. After being unable to reach an agreement with KBR on the indemnification issue and the failure of the Iraqi Government to also provide indemnification, the task order was terminated for convenience. The work contemplated under this task order was then transferred to Parsons International Joint Venture (PIJV) as Task Order 22 under their northern oil sector contract number W9126G–04–D0002. PIJV commencement of work under this task order is awaiting DCAA approval of PIJV's proposed project scope and receipt of indemnification from the Iraqi Government.

3. Senator ENSIGN. Mr. Bowen, what is the status of the RIO I contract?

Mr. BOWEN. The Army Corps of Engineers should be contacted for the latest status on the RIO I contract (Contract Number DACA63–03–D–005). However, SIGIR can provide the following background information.

On March 8, 2003, the Army Corps of Engineers awarded a sole-source contract to KBR for services related to the implementation of plans to extinguish oil well fires and to assess the damage to oil facilities during Operation Iraqi Freedom. The justification used for this noncompetitive award was Federal Acquisition Regulations (FAR) 6.302–1, which provides for sole-source procurements when "only one responsible source and no other supplies or services will satisfy agency requirements."

SIGIR performed a limited scope attestation engagement in September 2005 on the RIO I KBR contract and concluded that the use of the noncompetitive contract was appropriately justified and that the goods and services delivered and billed for were those required under the contract. However, that audit addressed only the KBR RIO contract number DACA–63–03–D–0005. SIGIR addressed only the portions of the contract that used DFI funds (Task Orders 5 through 10). SIGIR did address Task Order 6 in so far as it related to the agreed upon procedures in the limited scope attestation engagement. That is, SIGIR concluded that documentation existed justifying the sole-source award of Task Order 6.

On July 17, 2004, Task Order 6, which was awarded with Development Fund for Iraq (DFI) monies through RIO I to KBR for the Al Fatah Bridge pipeline project, was terminated for convenience due to an exhaustion of funds. This work was subsequently awarded to PIJV under their Northern Oil Sector Contract (also known as RIO I) (Contract Number W9126G–04–D–0002) for a cost of $29.7 million in IRRF monies.

Mr. BOLTON. (Mr. Bolton is answering per agreement with the Office of the SIGIR.)

All contractor work is complete. Actual contractor costs, base and award fees, and indirect costs for all but Task Orders 1–4 have been negotiated and paid. Indirect costs for Task Orders 1–4 will be finalized upon completion of DCAA audits.

4. Senator ENSIGN. Mr. Bowen, what is KBR's current role in that project?

Mr. BOWEN. The U.S. Army Corps on Engineers would be able to provide accurate information on the current status. However the justification for the original contract stated that the requirement was restricted to a sole-source due to the necessity that a contract be immediately available upon direction to implement the Contingency Support Plan (CSP), in case armed conflict with Iraq occurred before a competition could be conducted. The execution of the CSP would see to the repair and continuity of operations of the Iraqi oil infrastructure. USACE emphasized that complete familiarity with the CSP and access to proprietary essential elements was necessary to maintain and implement the CSP. In addition, because the CSP was and remains classified, any other contractor would require substantial time to assure appropriate facilities and personnel clearances to enable their review of the CSP. On the other hand, KBR already had a cadre of individuals cleared for the plans classified aspects. As such, KBR, the developers of the CSP under a previously competitively awarded contract, became the only contractor to satisfy the requirement for the immediate execution of the CSP. As required by U.S.C., title 41, section 253, the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) approved the award of the sole-source contract on February 28, 2003.

The Justification and Approval document for contract DACA63–03–D–0005 contained a signed statement from the contracting officer that the contract was a cost-plus-award fee, IDIQ contract and that cost would be continuously monitored to ensure that they were fair and reasonable and properly allocated. According to the Ad-

ministrative Contracting Officer (ACO), fair and reasonable cost determinations would be made upon definitization of each task order.

Ten task orders were issued under IDIQ contract DACA63–03–D–0005. Initially, the task orders were funded with U.S. Army Operations and Maintenance funds. However, beginning September 2003, the Program Review Board (PRB) voted to fund some of the task orders with DFI funds. Task Orders 0001 through 0004 and part of Task Order 0005 were funded using U.S. Army Operations and Maintenance funds. Task Order 0005 was also funded with Iraqi seized and vested funds, as well as DFI funds. Task Orders 0006 through 0010 were funded with DFI funds. From September 2003 to March 2004 the PRB voted to provide, on a reimbursable basis, nearly $1.4 billion of DFI funds for the procurement and distribution of fuel products and Iraqi oil infrastructure restoration.

The statements of work for Task Orders 0005, and 0007 through 0010, provide support for Iraq oil restoration and for fuel distribution. Specifically, the effort required under these task orders was to repair fuel products distribution systems, procure, import, and distribute refined products (liquid products) and gas products (mixtures of propane and butanes referred to as LPG) in order to meet the domestic demand for fuels for commercial and private use within Iraq. In addition, the contractor was to monitor fuel demand and availability as necessary to prevent localized or large-scale fuel shortfalls.

The statement of work for Task Order 0006 provides for restoration of essential oil infrastructure. Specifically, the effort required was intended to support actions necessary to: restore the pipeline crossing the Tigris River; install 50 kilometers of pipeline from Kirkuk to the Tigris River; and install emergency back-up generation capability at various locations.

Mr. BOLTON. (Mr. Bolton is answering per agreement with the Office of the SIGIR.)

KBR currently has no role in the well work-over project that was transferred to PITV as Task Order 22 under their northern oil sector contract number W9126G–04–0002.

QUESTIONS SUBMITTED BY SENATOR CARL LEVIN

KBR

5. Senator LEVIN. Secretary Bolton and General Johnson, Marie deYoung, a former Army captain who worked for KBR in Kuwait, told the Senate Democratic Policy Committee (DPC) on September 10, 2004 that KBR paid $1.1 million a month for fuel trucks obtained through a company called La Nouvelle, when it could have obtained the same trucks directly from the vendor (without the middleman) for $200,000 a month. Ms. deYoung also told the DPC that KBR received two equally acceptable bids to build an ice factory—and chose the company that bid $3.4 million instead of the company that bid $450,000. Have you looked into these allegations? If so, what is the Army's response?

Mr. BOLTON and General JOHNSON. The situation concerning fuel trucks that Ms. deYoung describes was, in fact, discovered during a routine records check and reported by KBR, and has been investigated by the Army Criminal Investigation Command.

In February 2003, a KBR employee (Mr. Mazon) was given the job of soliciting bids from potential subcontractors to supply fuel tanker trucks at a U.S. military airport in Kuwait for a 6-month period (March through August 2003.) Mr. Mazon received at least two bids—one from an unnamed company for approximately $1.9 million and another from a company called La Nouvelle for nearly $1.7 million.

In March 2005, Mr. Mazon was indicted by an Illinois grand jury for fraudulently inflating both bids before the contract was awarded, more than tripling them to $6.2 million for the unnamed company and $5.5 million for La Nouvelle. La Nouvelle then won the contract on the basis that it had submitted the lower bid. The indictment also accused Mr. Mazon of receiving a $1 million payment from La Nouvelle executed as a false promissor note to make the payment appear to be a loan.

On March 16, 2005, Mr. Mazon was arrested in Georgia and charged with four counts of major fraud and six counts of wire fraud. He waived his right to appear before an Atlanta court the next day and was sent to Rock Island, Illinois, (where the United States Army Field Support Command is based) to be tried in Federal court. A pretrial conference is set for September 2006. The trial is to take place in October 2006.

KBR voluntarily withheld billing until they completed an internal review. DCAA also reviewed all LaNouvelle related billings.

The allegations concerning selection of a subcontractor for the ice plants are under review. We have requested additional information and an update will be provided when the information becomes available.

6. Senator LEVIN. Secretary Bolton and General Johnson, have these allegations been referred to the Department of Defense (DOD) Inspector General (IG) or the IG of the Army for investigation? If so, what is the status of that investigation?

Mr. BOLTON and General JOHNSON. The situation concerning the fuel trucks has been investigated by the Army Criminal Investigation Command. The allegations concerning selection of a subcontractor for the ice plants are under review. We have requested additional information from the agencies providing oversight for this contract and an update will be provided when the information becomes available. We will also ensure that the appropriate investigative agency be notified regarding these allegations.

7. Senator LEVIN. Secretary Bolton and General Johnson, Rory Mayberry, a former KBR employee who served as food production manager for a military dining hall at Camp Anaconda, Iraq, told the DPC on June 13, 2005, that KBR charged the government for meals that were never served to our troops and to third-country nationals; paid inflated prices for food; served food items that were outdated, expired, or spoiled; served food at KBR events that was intended for the troops; and failed to comply with military sanitation rules. Have you looked into these allegations? If so, what is the Army's response?

Mr. BOLTON and General JOHNSON. These matters have been referred to the appropriate investigative agencies. The Army Materiel Command has consulted with the Defense Contract Management Agency (DCMA) Iraq and they have been unable to substantiate the allegations raised in Mr. Mayberry's testimony.

AMC was unable to substantiate allegations that KBR served food items that were outdated, expired, or spoiled. DCMA Quality Assurance Representatives (QARs) and Army Medical Department personnel perform audits to ensure that the food served is not outdated, expired, or spoiled. While acknowledging that an occasional problem may be found during inspections, no indication of systemic, criminal, or negligent behavior has been noted.

AMC was unable to substantiate allegations that KBR paid inflated prices for food. In fact, during the majority of the timeframe that Mr. Mayberry was working for KBR (January–April 2004), the Government was delivering food items. Since then, food items have been "government furnished" to KBR by the Defense Logistics Agency through its contractor, PWC Logistics.

We were unable to substantiate allegations that KBR failed to comply with military sanitation rules. DCMA QARs perform frequent audits in the dining facilities to ensure that KBR follows military sanitation rules. In addition, at many sites, the Army provides food service specialists who also oversee the food preparation and sanitation conditions to ensure it meets military standards.

Concerning the allegations that KBR served food at KBR events that was intended for troops, the source for food for KBR employees is the same as the source of food for the troops. In most locations, KBR employees eat at the same Dining Facility (DFACs) as the troops; however at some large installations, they have their own DFAC located near the KBR camps.

Lastly, Mr. Mayberry states that KBR charged the government for meals that weren't served. This matter has been extensively analyzed and the proper adjustments have been made. The Army reached agreement with KBR on March 28, 2005, for DFAC cost issues that have been in contention for some time. The settlement—a $55 million decrement to KBR's actual costs implemented the government position that DFAC payments should be based on the actual services provided to patrons, while accounting for conditions that existed early in contingency operations. The agreement covers 14 Logistics Civil Augmentation Program (LOGCAP) Task Orders providing DFAC services during approximately the first 6–9 months of Operation Enduring Freedom/Operation Iraqi Freedom.

8. Senator LEVIN. Secretary Bolton and General Johnson, have these allegations been referred to the DOD IG or the IG of the Army for investigation? If so, what is the status of that investigation?

Mr. BOLTON and General JOHNSON. These matters have been referred to the appropriate investigative agencies. In addition, considerable time and effort has been taken to ensure food service operations in theater are in full compliance with established guidelines. Inspections and other oversight operations continue to monitor quality control. The Multi National Force-Iraq (MNFI) has initiated a multi-discipline food service top-to-bottom review to specifically address issues such as food

expiration dates. The LOGCAP Contracting Directorate within the Army Field Support Command (AFSC) has also recently undergone an initial restructuring designed to place additional management elements in theater to closely monitor contract management and execution.

9. Senator LEVIN. Secretary Bolton and General Johnson, Mr. Mayberry also told the DPC that KBR threatened retaliation against employees who sought to discuss these problems with government officials. According to Mr. Mayberry:

> "Government auditors would have caught and fixed many of the problems. But KBR managers told us not to speak with auditors. The managers themselves would leave the base or hide from the auditors when they were on base and not answer radios when we called for them. We were told to follow instructions or get off the base. . . The employees that talked to the auditors were moved to other bases that were under fire more than Anaconda. . . I personally was sent to Fallujah for 3 weeks. The manager told me I was being sent away until the auditors were gone because I had opened my mouth to the auditors. . . I was put in danger because the KBR managers didn't want me to talk with U.S. Government auditors."

Have you looked into these allegations? If so, what is the Army's response?

Mr. BOLTON and General JOHNSON. We will ensure that the statements above are referred to the appropriate agencies.

10. Senator LEVIN. Secretary Bolton and General Johnson, have these allegations been referred to the DOD IG or the IG of the Army for investigation? If so, what is the status of that investigation?

Mr. BOLTON and General JOHNSON. No, the allegations have not been referred. However, we will ensure that the matter is referred to the appropriate investigative agencies.

11. Senator LEVIN. Secretary Bolton and General Johnson, Ben Carter, a former KBR employee who served as acting foreman for KBR's water purification unit at Ar Ramadi in Iraq, told the DPC on January 23, 2006 that KBR failed to chlorinate drinking water that it provided to U.S. troops at that base. Mr. Carter also told the DPC about an internal KBR report which, he said, detailed similar problems at other bases in Iraq. In addition, Mr. Carter told the DPC that he should "keep my mouth shut" and not tell the military about the problem. Have you looked into these allegations? If so, what is the Army's response?

Mr. BOLTON and General JOHNSON. This issue has been researched extensively and information confirmed with the DCMA, the agency responsible for oversight.

While KBR is tasked with operating water purification units for both potable and nonpotable water, they do not operate all of the systems in theater. During the period in question (January–May 2005), KBR was not operating the Reverse Osmosis Water Purification Unit in Ar Ramadi. During that timeframe, purification and testing was being accomplished by the 704th Quartermaster Battalion. KBR's involvement was limited to drawing and delivering/distributing water until May 2005. KBR took over the water purification operation at this site on May 21, 2005. According to DCMA, water quality tests conducted during this time period revealed no deficiencies.

Notwithstanding the above, this matter in its entirety has been referred to the appropriate investigative agencies.

12. Senator LEVIN. Secretary Bolton and General Johnson, have these allegations been referred to the DOD IG or the IG of the Army for investigation? If so, what is the status of that investigation?

Mr. BOLTON and General JOHNSON. This matter in its entirety has been referred to the appropriate investigative agencies.

13. Senator LEVIN. Secretary Bolton and General Johnson, has either the Army or the IG obtained a copy of the internal KBR report referenced in Mr. Carter's statement?

Mr. BOLTON and General JOHNSON. This matter in its entirety has been referred to the Department of Justice.

14. Senator LEVIN. Secretary Bolton and General Johnson, on March 8, 2003, the Army Corps of Engineers awarded a sole-source contract to KBR for the reconstruction of Iraqi oil fields. The Army Corps of Engineers has indicated that this was intended as a temporary "bridge" contract, to be in place only until the Corps could

conduct a competition for a follow-on contract. Yet, the contract was for a period of 2 years, with three 1-year options and a total dollar value of up to $7 billion. The sole-source justification documents were signed by you, Secretary Bolton, and by the commanding officer of the Army Corps of Engineers. Bunnatine Greenhouse—who was then the senior civilian at the Army Corps of Engineers responsible for contracting—also signed the justification documents, but with the following notation:

> "I caution that extending this sole-source effort beyond a 1-year period could convey an invalid perception that there is not strong intent [to conduct a follow-on] competition."

Do you agree or disagree with Ms. Greenhouse's concern that awarding a contract for a period of up to 5 years, with a value of up to $7 billion, would create the widespread impression that the Army Corps lacked a strong interest in awarding a competitive contract?

Mr. BOLTON and General JOHNSON. Disagree. At the time the sole-source contract was awarded, it was not clear if the Iraqi oil fields would be as extensively sabotaged as the Kuwaiti oil fields had been during the First Gulf War. It was also not clear that the Iraqi Ministry of Oil could be quickly reconstituted and make any substantial contribution. The $7 billion amount was a medium estimate of the damage which might be expected. Since no work of any kind can be accomplished without a contract in place, it made sense at the time to have this much capacity and include options to maintain maximum flexibility. In addition, the government contracting process can be quite complex, with the possibility of protests, stays of the procurement action, and litigation at many different points. Failure to include sufficient capacity to deal with unknown events or options to continue work in the sole-source contract would have been too risky. Including this capacity did not obligate the government to use it.

The USACE also did not lack strong interest in awarding a competitive follow-on contract. In fact, the first draft of the acquisition strategy was completed by the USACE, Southwestern Division (SWD) before formal responsibility for executing the RIO mission was assigned to USACE February 13, 2003, and before the justification and approval documentation supporting the award of the sole-source contract to KBR was approved on February 28, 2003. Both the acquisition strategy and the supporting source selection plan had to be approved by the Army and several drafts were required to resolve all issues raised by various reviewers on the Army Staff. The final version was not approved until May 19, 2003, and the supporting acquisition strategy was not approved until June 11, 2003. Even then, some legal questions concerning the amount of foreign competition allowed had not yet been resolved. The follow-on contracts were awarded on January 16, 2004, which was less than a year after formal mission assignment to USACE. Had there been protests or litigation, the award could have been delayed for a considerable time past that.

15. Senator LEVIN. Secretary Bolton and General Johnson, why did the Army believe it was necessary to have a contract with a period of up to 5 years, if it were planning to award a follow-on competitive contract as soon as possible?

Mr. BOLTON and General JOHNSON. At the time the sole-source contract was awarded, it was not clear if the Iraqi oil fields would be as extensively sabotaged as the Kuwaiti oil fields had been during the First Gulf War. It was also not clear that the Iraqi Ministry of Oil could be quickly reconstituted and make any substantial contribution. Since no work of any kind can be accomplished without a contract in place, it made sense at the time to include options to maintain maximum flexibility. In addition, the government contracting process can be quite complex, with the possibility of protests, stays of the procurement action, and litigation at many different points. Failure to include sufficient capacity to deal with unknown events or options to continue work in the sole-source contract would have been too risky.

16. Senator LEVIN. Secretary Bolton and General Johnson, is this contract still active? If so, why?

Mr. BOLTON and General JOHNSON. All aspects of the contract are complete, with the exception of the determination of the indirect rates for Task Orders 1–4. Upon completion of an audit of KBR 2004 actual costs, the 2004 indirect rates will be determined allowing for final payment and contract closeout. No additional work was assigned to KBR under the sole-source contract after the competitive contracts had been awarded and the contractors were mobilized.

17. Senator LEVIN. Secretary Bolton and General Johnson, did the Army subsequently direct Ms. Greenhouse not to place any more notations on contract documents? If so, why?

Mr. BOLTON and General JOHNSON. On several occasions beginning in September 2003, Ms. Greenhouse was told by her immediate supervisor, Major General Robert H. Griffin, not to make handwritten notations on official documents, but instead to document her comments in a separate memorandum. There was no link between Major General Griffin's instructions to Ms. Greenhouse and the justification and approval for the sole-source RIO contract with KBR, as Major General Griffin had no involvement with the processing of that then-classified document. Major General Griffin told Ms. Greenhouse that making handwritten notations was unprofessional, often created confusion and ambiguity in the document, leading the reader or reviewer to guess the status of the document and the additional actions that were being required by Ms. Greenhouse to complete the staff process, and did not represent a coordinated response. When Ms. Greenhouse insisted that making handwritten notations on contracting documents was a routine matter, the issue was discussed with the Deputy Assistant Secretary of the Army for Policy and Procurement, who agreed with Major General Griffin's assessment.

18. Senator LEVIN. Secretary Bolton and General Johnson, on June 27, 2005, Ms. Greenhouse testified before the DPC about the problems that she saw with the KBR contract. Ms. Greenhouse testified that the acting General Counsel of the Army Corps of Engineers had told her, 3 days earlier, that "my voluntary appearance would not be in my best interest." Three weeks later, the Secretary of the Army authorized Ms. Greenhouse's removal from her contracting position and from her position in the Senior Executive Service. Would it be appropriate for the acting General Counsel of the Army Corps of Engineers to advise an employee that testifying before the DPC "would not be in her best interest?"

Mr. BOLTON and General JOHNSON. The Acting Chief Counsel did not advise Ms. Greenhouse that her appearance before the DPC would not be in her best interest. In an e-mail sent June 23, 2005, the acting Chief Counsel advised Ms. Greenhouse to "make clear in your testimony that you are not appearing in those proceedings as a representative of the Department of the Army or the Corps of Engineers and you are not testifying on behalf of the Army or the Corps." The Acting Chief Counsel further stated "I also respectfully request that you be careful in your testimony and these proceedings to protect appropriately, proprietary information that you may have on any of the matters under discussion." The Acting Chief Counsel also met with Ms. Greenhouse on June 24, 2005, and reiterated these points.

19. Senator LEVIN. Secretary Bolton and General Johnson, do you know whether the acting General Counsel met with Ms. Greenhouse on June 24, 2005, and tried to discourage her from testifying? If you do not know, will you find out and inform the committee?

Mr. BOLTON and General JOHNSON. The Acting Chief Counsel met with Ms. Greenhouse on June 24, 2005; however, he did not try to discourage Ms. Greenhouse from testifying before the DPC. The Acting Chief Counsel merely advised Ms. Greenhouse that she should inform the DPC members that she was appearing in her personal capacity, not as a representative of the Army or the Corps of Engineers, and that she should be careful in her testimony not to disclose any procurement-sensitive information.

20. Senator LEVIN. Secretary Bolton and General Johnson, Ms. Greenhouse testified before the DPC again on September 16, 2005, after the personnel actions had been taken against her. At that time, Ms. Greenhouse testified that she had been in the process of completing a Defense Base Act (DBA) insurance program at the time of her removal. She stated:

> "This program, which I created and brought into existence, will save taxpayers hundreds of millions of dollars in unreasonable pass-through insurance costs . . . during the past year, I single-handedly wrote the draft and final DBA insurance solicitations, responded to all questions from industry, conducted an industry forum with more than 50 insurance brokers in attendance, and engineered the procurement process to its final stages."

Is Ms. Greenhouse's statement accurate?

Mr. BOLTON and General JOHNSON. Ms. Greenhouse was the Program Manager and a key advocate for the DBA pilot program. The pilot program was tasked to the USACE by the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. The pilot program is modeled on the DBA contract already in place at the Department of State (DOS). The USACE Humphreys Engineer Center Support Activity (HECSA) Contracting Office was the office within USACE that was tasked with soliciting and awarding the actual contract.

Ms. Greenhouse played a lead role in conducting an industry forum on the pilot program. She provided industry with information about the pilot program and responded to industry questions. She also prepared draft answers to questions raised by industry that were reviewed by HECSA contracting professionals and legal staff. In addition, Ms. Greenhouse provided the HECSA Contracting Office with a draft statement of work and draft evaluation criteria for the contract action which were also reviewed and revised by the HECSA contracting and legal staff. However, the draft solicitation consisted of the solicitation developed and utilized by the DOS in awarding their DBA contract with the HECSA Contracting Office modifying the DOS solicitation as required to support the pilot program. Ms. Greenhouse reviewed and commented on these revisions. The contracting action itself, however, was handled by the professionals at HECSA who issued the solicitation, developed the source-selection plan, and awarded the contract. While Ms. Greenhouse's efforts certainly contributed to the successful award of the pilot contract, the HECSA staff, which continues to administer the DBA contract today, played a significant role in this mission.

21. Senator LEVIN. Secretary Bolton and General Johnson, did Ms. Greenhouse in fact play a leading role in the creation and negotiation of the DBA insurance pilot program at the Army Corps of Engineers?

Mr. BOLTON and General JOHNSON. Ms. Greenhouse was the program manager and key advocate for DBA pilot program. The pilot program was tasked to the USACE by the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. The pilot program is modeled on the DBA contract already in place at the DOS. The USACE HECSA Contracting Office was the office within USACE that was tasked with soliciting and awarding the actual contract.

Ms. Greenhouse played a lead role in conducting an industry forum on the pilot program. She provided industry with information about the pilot program and responded to industry questions. She also prepared draft answers to questions raised by industry that were reviewed by HECSA contracting professionals and legal staff. In addition, Ms. Greenhouse provided the HECSA Contracting Office with a draft statement of work and draft evaluation criteria for the contract action which were also reviewed and revised by the HECSA contracting and legal staff. However, the draft solicitation consisted of the solicitation developed and utilized by the DOS in awarding their DBA contract with the HECSA Contracting Office modifying the DOS solicitation as required to support the pilot program. Ms. Greenhouse reviewed and commented on these revisions. The contracting action itself, however, was handled by the professionals at HECSA who issued the solicitation, developed the source-selection plan, and awarded the contract. While Ms. Greenhouse's efforts certainly contributed to the successful award of the pilot contract, the HECSA staff, which continues to administer the DBA contract today, played a significant role in this mission.

QUESTIONS SUBMITTED BY SENATOR DANIEL K. AKAKA

IRAQ RECONSTRUCTION

22. Senator AKAKA. Mr. Bowen, we have been working on Iraqi reconstruction for roughly 3 years now. Yet, in that short period of time, we appear to have assigned responsibility for that effort to at least a dozen different defense agencies and components. For example, in 2003, acquisition functions for Iraqi reconstruction were performed by the Office of Reconstruction and Humanitarian Assistance, the Task Force Restoration of Iraqi Oil, the Army Corps of Engineers-Commander Southwestern Division, the Defense Contracting Command-Washington, the CPA Project Management Office, the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, and the Tank and Automotive Command. In 2004, acquisition functions were performed by the Army Corps of Engineers-Gulf Regional Division, the Air Force Center for Environmental Excellence, the Project Contracting Office, the Iraq Reconstruction Management Office, and the Joint Contracting Command-Iraq. This list doesn't even include the many non-defense agencies and components that have participated in the effort. In your view, what impact have these constant changes in our acquisition structures for Iraq reconstruction had on our ability to conduct the mission?

Mr. BOWEN. SIGIR audits and quarterly reports have commented on the negative results of the lack of coordination and control of the various organizations. It is challenging to maintain effective or efficient continuity of operations as roles and responsibilities change between offices and personnel.

In addition, SIGIR's audit on Challenges Faced in Carrying Out Iraq Relief and Reconstruction, SIGIR 05–029, identifies some of the impact. We also just announced a review on identifying the roles and responsibilities of those responsible for IRRF. Further, SIGIR's Lessons Learned Initiative will review many of the issues brought about by the changing roles and authorities in the reconstruction effort in Iraq. The recently released Lessons Learned Report on Human Capital Management (previously provided to the committee) touches on this issue.

23. Senator AKAKA. Secretary Bolton, we have been working on Iraqi reconstruction for roughly 3 years now. Yet, in that short period of time, we appear to have assigned responsibility for that effort to at least a dozen different defense agencies and components. For example, in 2003, acquisition functions for Iraqi reconstruction were performed by the Office of Reconstruction and Humanitarian Assistance, the Task Force Restoration of Iraqi Oil, the Army Corps of Engineers-Commander Southwestern Division, the Defense Contracting Command-Washington, the CPA Project Management Office, the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, and the Tank and Automotive Command. In 2004, acquisition functions were performed by the Army Corps of Engineers-Gulf Regional Division, the Air Force Center for Environmental Excellence, the Project Contracting Office, the Iraq Reconstruction Management Office, and the Joint Contracting Command-Iraq. This list doesn't even include the many non-defense agencies and components that have participated in the effort. Do you know which of the dozen defense organizations that I just named came under your authority and which did not?

Mr. BOLTON. Of the organizations listed, the following fall under my authority as the Army Acquisition Executive: the Joint Contracting Command—Iraq/Afghanistan, the USACE, the Defense Contracting Command—Washington, the Project and Contracting Office, and the Tank Automotive and Armament Command.

24. Senator AKAKA. Secretary Bolton, would you agree that we would have been much better off with a single, coherent organization to manage the acquisition process?

Mr. BOLTON. Yes. The size, extent, and complexity of the contracting support effort we are experiencing in our stabilization and reconstruction operations in Iraq are unprecedented. We have been learning valuable lessons for improving our current contracting and acquisition support structure, as well as how to better plan for similar operations in the future. One of these valuable lessons is the necessity to design our Service and Other Government Agency contracting organizations and operations to facilitate rapid conditions-based integration during stabilization and reconstruction operations. This will more readily enable a transition from the service-based contracting organizations that are necessary during early stages of combat operations to a single, joint contracting organization with the transition to stabilization and reconstruction operations, as we did when the combatant command established the Joint Contracting Command—Iraq/Afghanistan.

QUESTIONS SUBMITTED BY SENATOR MARK DAYTON

BUNNATINE GREENHOUSE

25. Senator DAYTON. Secretary Bolton and General Johnson, after you received the March 2, 2004, letter from Ms. Greenhouse, did you authorize Ms. Greenhouse's removal as the USACE Principal Assistant Responsible for Contracting (PARC)?

Mr. BOLTON and and General JOHNSON. Ms. Greenhouse was removed from her position in the Senior Executive Service as the PARC at the USACE effective August 27, 2005, and placed in a GS–15 position. Her removal was required by title 5, Code of Federal Regulations, section 359.501, because she had received two final performance ratings of less than fully successful during a 3-year period. The two performance ratings were for the rating periods ending September 30, 2002, and December 31, 2003. As required by Army regulations, both of these ratings were reviewed by me and by the Assistant Secretary for Manpower and Reserve Affairs.

Ms. Greenhouse was initially notified that she would be removed from her position effective November 3, 2004. However, Acting Secretary of the Army Brownlee suspended the removal action after receiving a letter from Ms. Greenhouse's attorney containing allegations of contracting irregularities in the USACE and contending that she was facing removal because of her attempts to ensure that fair and open competition exists in government contracting. On July 14, 2005, the Secretary of the Army decided, after review, to allow the removal action to proceed based on

his conclusion that the removal action was based on Ms. Greenhouse's performance and not because of any allegations of contracting irregularities she may have made.

26. Senator DAYTON. Secretary Bolton and General Johnson, what action did you take to review Ms. Greenhouse's concerns before you authorized her removal?

Mr. BOLTON and General JOHNSON. Ms. Greenhouse's removal was based on two final performance ratings of less than satisfactory during a 3-year period. In each case, the USACE Commanding General was her senior rater and responsible for assigning the final performance rating. Prior to assigning the final performance rating, the Commanding General reviewed the entire record including the initial rating proposed by Ms. Greenhouse's immediate supervisor, Ms. Greenhouse's response to that initial rating, the recommendations of the Senior Executive Service Performance Review Board, and all supporting documentation. In addition, prior to requesting that the Secretary of the Army allow the removal action to proceed (after it had been suspended based on a letter from Ms. Greenhouse's attorney containing allegations of contracting irregularities in the USACE and contending that she was facing removal because of her attempts to ensure that fair and open competition exists in government contracting), the USACE Commanding General again reviewed the matter.

27. Senator DAYTON. Secretary Bolton and General Johnson, the contract awarded to KBR/Halliburton to be the premier logistics support provider for the U.S. Army in the Balkans was originally set to expire in 5 years. When the 5 years expired, did you approve the extension of that contract for 2 additional years past the expiration date?

Mr. BOLTON and General JOHNSON. In February 1999, after full and open competition, KBR received the Balkans Support Contract (BSC) with the final option period ending in May 2004. The BSC will be replaced by a more complex and geographically broader contract known as the U.S. Army Europe Support Contract (USC). However, evaluation of proposals for the replacement contract has required more time than anticipated and thereby delayed award of the contract. As a result, in order to ensure uninterrupted availability of critical services to our troops, the BSC was extended from May 2004 to November 2004 under the contract's Option to Extend Services clause. This standard clause provides the government the right to require the contractor to continue to provide services for a period of up to 6 months and does not constitute a sole-source award.

Due to additional time required to evaluate proposals for the USC, the BSC was again extended from November 2004 to April 2005 under the authority of 10 U.S.C. § 2304(c)(1) and Federal Acquisition Regulation 6.302–1. The decision to extend the BSC was based on a determination that KBR was the only contractor capable of providing these vital services without interruption and in a timely manner during this time period. For similar reasons, the BSC was extended again for a 1-year period, from May 1, 2005, through April 30, 2006, with 6-month and 3-month option periods. The length of the base and options periods provided for unanticipated delays in the USC acquisition process. These extensions were in accordance with all applicable acquisition laws and regulations.

28. Senator DAYTON. Secretary Bolton and General Johnson, for what reasons did you ignore Ms. Greenhouse's objection that the contract should only be extended for an additional 6 months or 1 year, so the Army could complete a competitive bidding process?

Mr. BOLTON and General JOHNSON. Ms. Greenhouse did not object to the proposed extension period of the BSC. In a memorandum to the Deputy Assistant Secretary of the Army for Procurement and Policy dated February 18, 2005, Ms. Greenhouse stated that she approved the request, but recommended that the second option period be eliminated. Given the magnitude and complexity of the USC that was to replace the BSC and the potential for unanticipated delays in awarding the USC, a 1-year extension of the BSC with two option periods was warranted. The flexibility provided by the extension and options ensured that support to the warfighter was not compromised. In fact, changes in requirements on the part of U.S. Army Europe, as well as a protest filed in connection with this acquisition in July 2005, have further delayed contract award.

KBR WATER TREATMENT

29. Senator DAYTON. Secretary Bolton, did KBR perform all required water quality tests on nonpotable water provided to our troops at Camp Ar Ramadi and other military facilities throughout Iraq?

Mr. BOLTON. Records indicate that KBR performed all water quality tests in accordance with its contractual obligations. Furthermore, water quality tests conducted by oversight agencies, including the DCMA and military medical authorities, have not detected any contaminated water. According to medical authorities there have been no reported cases of illness caused by water-borne pathogens.

30. Senator DAYTON. Secretary Bolton, has KBR properly treated nonpotable water provided to our troops at Camp Ar Ramadi and other military facilities throughout Iraq?

Mr. BOLTON. From all information that has been gathered through the DCMA and medical personnel, all nonpotable water provided to the troops has been properly treated in accordance with the terms of the contract and water quality standards for the theater. All water tested was found to be chlorinated in accordance with established guidelines.

31. Senator DAYTON. Secretary Bolton, has any contaminated nonpotable water been provided to our troops at Camp Ar Ramadi or any other military facility in Iraq at any time since the effective date of the water supply contract with KBR?

Mr. BOLTON. At present, the Army is unaware of any instances where improperly treated water has been provided to personnel in theater, and there is no evidence that water-borne pathogens have caused health problems for deployed personnel.

32. Senator DAYTON. Secretary Bolton, did KBR inform U.S. military commanders about contamination of nonpotable water provided to our troops at Camp Ar Ramadi or any other military facility in Iraq?

Mr. BOLTON. The only report received from KBR was in late March 2005 and was related to nonchlorination of nonpotable water. No reports have been received indicating KBR notified U.S. military commanders about possible contamination of nonpotable water anywhere in theater.

33. Senator DAYTON. Secretary Bolton, did KBR or U.S. military commanders take any steps to inform our troops that they had been exposed to unsafe nonpotable water at Camp Ar Ramadi or any other military facility in Iraq?

Mr. BOLTON. No steps were taken to inform the troops because no reports of contamination were provided to the AFSC. If reports are received indicating that personnel have been exposed to contaminated water, or might be at risk from a contaminated water supply, immediate action (including informing all at-risk personnel) will be initiated to mitigate the impact on the health and readiness of our forces. The Army has provided for several layers of oversight to enhance capability to detect problems with water purity, including daily inspections by the contractor, and additional checks by medical authority and the DCMA.

34. Senator DAYTON. Secretary Bolton, have you requested a copy of Mr. William Granger's 21-page report which confirmed the existence of the water contamination problem, and found that the lack of testing and improper water treatment existed at military facilities throughout Iraq?

Mr. BOLTON. A copy of the referenced 21-page report was requested and received on February 28, 2006, and has been provided to the DCMA for review. We will provide a copy of the report to the appropriate investigative agency. In addition, KBR notified the AFSC that they also provided the report to the U.S. Senate Permanent Subcommittee on Investigations on February 27, 2006.

REIMBURSING HALLIBURTON

35. Senator DAYTON. General Johnson, what was the basis for the Army Corps of Engineers' decision to pay Halliburton $130 million in cost reimbursements, profits, and bonuses for costs that the DCAA had identified as "questioned" and "unsupported?"

General JOHNSON. There were questioned costs on all task orders issued under the RIO contract. This is normal for a cost reimbursement contract. However, the DCAA questioned whether KBR had always used the best business approach in executing the mission; not whether it had provided the services or paid the claimed costs to its subcontractors. USACE is not aware of any allegations that goods or

services which were purchased for the Iraqis under the RIO contract with KBR were not provided or delivered. In fact, in an audit of the RIO contract, the SIGIR stated that the goods and services delivered and billed for by KBR where those required under the contract.

In order to reach a bottom-line government negotiating position, the contracting officer examined the specific questioned and unsupported costs to determine how they would be handled in the negotiations with KBR. This analysis was performed in close consultation with DCAA, which provided financial advice to the contracting officer on possible government negotiating positions and supported the contracting officer during the negotiations. For the task orders where audits had identified significant issues, DCAA advisors assisted the contracting officer during the negotiations with KBR. Neither the DCAA audits nor the DCAA financial advice to the contracting officer during negotiations with KBR included any recommendations not to reimburse KBR for the questioned costs, other than $3.8 million, which was not reimbursed.

36. Senator DAYTON. General Johnson, additionally, for what reason did the Army Corps of Engineers pay Halliburton a 3.4-percent bonus on these challenged costs?

General JOHNSON. The USACE caefully evaluated the costs challenged by the DCAA and established its position on them after receiving additional financial advice from DCAA. Negotiations with KBR were also conducted with assistance from DCAA. As a result, USACE excluded just over half of the questioned costs from the amount used to calculate both the base and the award fees. KBR was paid no fees on these amounts.

IRAQ RECONSTRUCTION PROCESS

37. Senator DAYTON. Mr. Bowen, what additional resources do you consider necessary for the SIGIR office to comprehensively and accurately oversee the inspection of the Iraqi reconstruction process?

Mr. BOWEN. Currently, SIGIR is authorized to provide oversight for the IRRF until 80 percent of the IRRF has been expended. SIGIR currently has 114 full-time government employees, 55 of whom are assigned to Baghdad—which is proportionally adequate to cover the scope of the $18.4 billion program. In addition. SIGIR performs joint audits with the DOS IG with whom we have an excellent working relationship. DOS IG initially budgeted $3 million to provide coverage for both Iraq and Afghanistan, and SIGIR feels that this funding is important in ensuring that DOS IG has the resources to fully support joint audit efforts which include reviews of DOS INL and U.S. Anti-Corruption Efforts in Iraq. SIGIR maintains the most significant oversight presence in-country of any U.S. Government agency. In our fiscal year 2007 budget request to Office of Management and Budget (OMB), SIGIR requested $30 million to fully fund our mission. OMB has recommended $24 million in its official transmission of the supplemental telling SIGIR that under their estimations of our current formula, that SIGIR will only be operational for 9 months of fiscal year 2007. However, based on current projections of the IRRF expenditures (which put our legislative termination date further into fiscal year 2007), and on the strong support of Secretary Rice and Ambassador Khalilzad for our continued presence in-country while significant amounts of U.S. taxpayer dollars are being invested in Iraq, SIGIR remains committed to providing our unique capabilities to this important mission for the entire 12 months of fiscal year 2007—and would consider full funding at $30 million to be essential to accomplishing our mission.

38. Senator DAYTON. Mr. Bowen, overall, how significant of a role has KBR/Halliburton's fraud, waste, and abuse, including its unsupported costs, overcharges, and incomplete work, had on the current status of U.S. reconstruction efforts in Iraq?

Mr. BOWEN. KBR has been awarded contracts for a significant portion of the reconstruction effort as well as for support of the military mission in Iraq, which, due to the scope of the contracts, plays a significant role in the progress of reconstruction.

SIGIR has a number of efforts underway to identify and address fraud, waste, abuse, unsupported costs, overcharges, and incomplete work by KBR as well as other contractors in Iraq.

QUESTIONS SUBMITTED BY SENATOR HILLARY RODHAM CLINTON

KBR

39. Senator CLINTON. Secretary Bolton, according to press reports, Contracting Officer Gordon A. Sumner and Lieutenant General Robert B. Flowers signed a waiver that released Halliburton's subsidiary KBR from its obligation to provide cost and pricing data to the DCAA, which was investigating KBR's contract with the firm "Altanmia" to purchase fuel at $2.65/gallon, when Iraq's State Oil Marketing Organization was paying an average of $0.97/gallon for fuel from the same Middle Eastern countries. How was it in the interest of the Army Corps of Engineers to issue this waiver?

Mr. BOLTON and General JOHNSON. The question appears to compare the cost of purchasing a gallon of fuel to the cost of purchasing a gallon of fuel and transporting it to Iraq. The only source of fuel in Kuwait is the Kuwait Petroleum Company (KPC) and the distance involved, and the availability of trucks and convoy escorts dictated that most of the fuels imported into the south of Iraq come from Kuwait. Unlike the Iraqi's State Oil Marketing Organization which could negotiate with KPC on a government-to-government relationship, KPC insisted on dealing with KBR through an intermediary.

On May 4–5, 2003, at the urgent direction of USACE, KBR sought and obtained price competition for providing fuel to Iraq. The lowest responsive responsible bidder was Altanmia and USACE requested that KPC approve Altanmia as KBR's subcontractor for what was believed at the time to be a short-term mission to deliver imported fuel immediately. The requested approval was granted by KPC and the subcontract awarded. Further competition in the following several days produced the same result, so KBR continued to use Altanmia and the Corps did not request KPC to approve additional subcontractors at that time. Because the subcontract was competitively awarded there also was no need for the submission of certified cost and pricing data, and no waiver has been requested or granted for this general timeframe.

In October 2003, another potential subcontractor, the Kuwait Establishment Company (KEC), responded to a solicitation issued by KBR with a proposal to provide fuel at a price lower than that being charged by Altanmia. In a letter dated November 1, 2003, USACE requested the approval for KEC to perform the fuel mission. However, in spite of additional inquires, KPC did not approve the use of any subcontractor other than Altanmia. Since USACE was unsuccessful in getting a new subcontractor approved, the nature of the subcontract with Altanmia changed from a competitive subcontract to a sole-source contract.

Given the sole-source nature of continued fuel purchases, certified cost and pricing data would normally be required. KBR had that same understanding of the situation and on December 14, 2003, sent a letter advising USACE that they had not been successful in obtaining certified cost and pricing data from Altanmia, and requesting guidance on how to proceed. Because KBR had been unsuccessful in obtaining certified cost and pricing data and there was no apparent way to compel Altanmia to provide this information, the only options available to USACE at that time were to approve a waiver of the requirement for certified cost and pricing data as provided for within the Federal Acquisition Regulations or stop deliveries of fuel from Kuwait.

While cost is always an important consideration, in this case it was less important than continuing the critical deliveries of fuel given the unstable security situation in Iraq. Fuel supplies in Iraq at that time were perilously low, particularly in Baghdad. The daily fuel inventory for December 16, 2003, shows there were less than 2 day's supply of benzene, diesel, kerosene, and LPG on hand in the south of Iraq, and particularly in Baghdad, the destination for imports coming from Kuwait. In addition, the military commanders regarded the continued delivery of fuel as a significant domestic security and stability issue inside Iraq.

The fuel mission at that point involved approximately 1,043 trucks from Kuwait which were under lease to Altanmia. Finding a comparable number of trucks in Kuwait would have been somewhat of a challenge for another contractor and an interruption of deliveries of even a few days would have resulted in significant civil unrest. Further, imports from sources other than Kuwait would not have been able to supply the required quantities to points in the south of Iraq even if the military had been able to provide escorts for the much longer convoys required. In addition, the need for multiple fuel sources was demonstrated by a labor strike of truckers transporting fuel from Turkey to Kuwait in early Decembeer 2003.

In short, there were no options available to USACE other than to approve continued imports using Altanmia, the only subcontractor that had been approved by KPC

and in a position to meet the delivery requirements, and to approve a waiver of certified price and cost data.

40. Senator CLINTON. Secretary Bolton, who first ordered the initiation of the waiver process?

Mr. BOLTON. The waiver process was initiated by the USACE.

41. Senator CLINTON. Secretary Bolton, what role, if any, did the Office of the Secretary of Defense play in the waiver process?

Mr. BOLTON. I am not aware of any role played by the Office of the Secretary of Defense.

42. Senator CLINTON. Secretary Bolton, Bunnatine Greenhouse, then the PARC, claims that the DOD purposely began and completed the waiver process on a day that she was out of the office. Please explain the timing of the waiver, and why such an important waiver was not held for the PARC's return.

General JOHNSON. (Major General Johnson is answering on behalf of the Army.) Ms. Greenhouse was on sick leave and holiday from December 15 to December 29, 2003. In a letter dated December 14, 2003, KBR stated that they had been unable to obtain certified cost and pricing data from its subcontractor. The requirement for certified cost and pricing data was brought on by the failure of the KPC to approve the use of a new subcontractor who had submitted a lower bid. That action made it clear that USACE was no longer dealing with a competitive situation, but with a sole-source situation for which certified cost and pricing data normally would be required. Since Altanmia had refused to provide this data, the only way to continue critical imports and be consistent with the requirements of the FAR was to obtain a prospective waiver of the requirement. The USACE, SWD office, therefore, gathered the available information and prepared the request for waiver and transmitted electronically to Corps headquarters on December 19, 2003, and it was approved the same day. Because of Ms. Greenhouse's extended absence during this period, there would have been a stoppage of urgent and critical fuel deliveries to the south of Iraq had the waiver been held until her return to the office. At the time, supplies of fuel on hand generally were sufficient to cover 2 days or less of consumption.

43. Senator CLINTON. Secretary Bolton, was the waiver in question drafted in the Army Corps of Engineers Dallas office, signed by Mr. Sumner, and then flown to Lieutenant General Robert B. Flowers in Washington, DC, within 24 hours? If so, why?

Mr. BOLTON. No, the waiver was not flown to Washington, DC. The waiver was drafted by the SWD office of the USACE and transmitted electronically to USACE headquarters. The reason it was transmitted electronically was the urgent mission requirement for continued import in the south of Iraq to meet requirements established by Central Command (CENTCOM) and the CPA. Transmitting documents electronically to meet an urgent suspense is a common practice.

44. Senator CLINTON. Secretary Bolton, are waivers normally flown to Washington, DC, within 24 hours of origin?

Mr. BOLTON. The waiver was drafted by the SWD office of the USACE and transmitted electronically to USACE headquarters. The reason it was transmitted electronically was the urgent mission requirement for continued imports in the south of Iraq to meet requirements established by CENTCOM and the CPA. Transmitting documents electronically to meet an urgent suspense is a common practice.

45. Senator CLINTON. Secretary Bolton, how many waivers of an obligation to provide cost and pricing data to the DOD, or to related inspectors, have been granted since the beginning of Operation Iraqi Freedom?

Mr. BOLTON. Under the reconstruction mission of Operation Iraqi Freedom, I am aware of one waiver of an obligation to provide certified cost and pricing data that was gathered by the Head Contracting Authority of the Joint Contracting Command Iraq/Afghanistan for the execution of an option year on a reconstruction program management contract.

[Whereupon, at 4:25 p.m., the subcommittee adjourned.]

DEPARTMENT OF DEFENSE AUTHORIZATION FOR APPROPRIATIONS FOR FISCAL YEAR 2007

THURSDAY, MARCH 2, 2006

U.S. SENATE,
SUBCOMMITTEE ON READINESS
AND MANAGEMENT SUPPORT,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

MILITARY INSTALLATIONS, MILITARY CONSTRUCTION, ENVIRONMENTAL PROGRAMS, AND BASE REALIGNMENT AND CLOSURE PROGAMS

The subcommittee met, pursuant to notice, at 2:02 p.m. in room SR–222, Russell Senate Office Building, Senator John Ensign (chairman of the subcommittee) presiding.

Committee members present: Senators Ensign, Inhofe, Sessions, Thune, Akaka, and Bill Nelson.

Majority staff members present: Gregory T. Kiley, professional staff member; Derek J. Maurer, professional staff member; David M. Morriss, counsel; and Lucian L. Niemeyer, professional staff member.

Minority staff members present: Peter K. Levine, minority counsel; and Michael J. McCord, professional staff member.

Staff assistants present: Benjamin L. Rubin and Jill L. Simodejka.

Committee members' assistants present: Arch Galloway II, assistant to Senator Sessions; D'Arcy Grisier, assistant to Senator Ensign; Alexis Bayer, assistant to Senator Ensign; Stuart C. Mallory, assistant to Senator Thune; Darcie Tokioka, assistant to Senator Akaka; and William K. Sutey, assistant to Senator Bill Nelson.

OPENING STATEMENT OF SENATOR JOHN ENSIGN, CHAIRMAN

Senator ENSIGN. My memo says "Good morning," but good afternoon. The Readiness and Management Support Subcommittee meets this afternoon to receive testimony on installations and environmental programs in the fiscal year 2007 President's budget request. We have also asked our witnesses to be prepared to address the implementation of the decisions of the 2005 Base Realignment and Closure (BRAC) process.

Along with Senator Akaka, we welcome our witnesses: Philip Grone, Deputy Under Secretary of Defense for Installations and the Environment; the Honorable Keith Eastin, Assistant Secretary of

the Army for Installations and the Environment; the Honorable B.J. Penn, Assistant Secretary of the Navy for Installations and the Environment; and the Honorable William Anderson, Assistant Secretary of the Air Force for Installations, Environment, and Logistics.

The fiscal year 2007 budget request for military construction (MILCON) and family housing programs represents a truly staggering testimony to the wide range of substantial changes and transformation underway within the Department of Defense (DOD). Totaling over $16 billion, DOD has proposed up to $6 billion for the first major construction required by decisions for the 2005 BRAC round.

At the same time, the Army has embarked on significant investment plans for new construction and infrastructure to support the return to the United States from overseas locations of over 100,000 military personnel and their families. In addition, both the Army and Marine Corps have requested over $2 billion of new construction this year to provide the facilities necessary for a fundamental reorganization of fighting units within each Service.

Of the Air Force's request of $1 billion for MILCON, over report 60 percent is dedicated to transformation and new mission projects, doubling last year's request for new mission MILCON.

Our witnesses are to be commended for the wide array of facility initiatives. They are working every day to improve our military, while at the same time, supporting combatant forces in the global war on terror. While it is clear what the Department wants to spend in fiscal year 2007, we also recognize that for many of the construction programs supporting change and transformation this budget request represents just a first installment of long-term investment plans. In order to be sure that taxpayer dollars are being invested in smart ways that will yield substantial dividends for our military, we must know the total plan and all expected costs to complete that plan.

Also, I am concerned that the MILCON priorities established by the Services for new missions and transformation will result in deferring repair and modernization of existing facilities.

I look forward to hearing from our witnesses today on the impact of the fiscal year 2007 program, where we are headed in these construction programs, and how we plan to sustain investment in our existing facilities.

This subcommittee also remains dedicated to improving the efficient and effective management of the resources we have already provided to the DOD. We continue to support their efforts to leverage the interests and contributions of others to upgrade our infrastructure, provide excellent housing for military personnel and their families, and satisfy other critical mission requirements.

I am also convinced that the DOD can improve efficiencies in contracting by using technology to improve review transparency and innovation in construction contract management processes. I look forward to discussing this concept with our witnesses today.

While DOD remains focused on implementing the recommendations for the 2005 round of BRAC and undertaking significant movement of personnel related to transformation, the DOD and this subcommittee must also ensure that our forces continue to

maintain ready for combat and difficult noncombat missions through rigorous and realistic training. The DOD has shown it is committed to both effective combat training and its responsibility to be a good steward of the environment. I invite each of the witnesses to discuss the challenges they face in complying with environmental laws and regulations and the impact of encroachment on their ability to carry out realistic combat training.

Congress has recently provided clarification and added flexibility to some environmental laws. I invite the witnesses to discuss their views of the impact of these changes, whether they have been helpful, and any concerns they may have. Witnesses should discuss any new problems or changes in the law they believe Congress should consider.

Senator Akaka, I turn the floor over to you now for any opening comments that you have.

[The prepared statement of Senator Ensign follows:]

PREPARED STATEMENT BY SENATOR JOHN ENSIGN

The fiscal year 2007 budget request for military construction (MILCON) and family housing programs represents a truly staggering testimony to the wide range of substantial changes and transformation underway within the Department of Defense (DOD). Totaling over $16 billion, the DOD has proposed up to $6 billion for the first major construction required by the decisions of the 2005 Base Closure and Realignment (BRAC) round. At the same time, the Army has embarked on significant investment plans for new construction and infrastructure to support the return to the U.S. from overseas locations of over 100,000 military personnel and their families. In addition, both the Army and the Marine Corps have requested over $2 billion of new construction to provide the facilities necessary for a fundamental reorganization of fighting units within each Service. Of the Air Force's request of $1 billion for MILCON, over 60 percent is dedicated to transformation and new mission projects, doubling last year's request for new mission MILCON. Our witnesses are to be commended for the wide array of facility initiatives they are working every day to improve our military, while at the same time supporting combatant forces in the global war on terror.

While it is clear what the DOD wants to spend in fiscal year 2007, we also recognize that, for many of the construction programs supporting change and transformation, this budget request represents just a first installment of long-term investment plans. In order to be sure that taxpayer dollars are being invested in smart ways that will yield substantial dividends for our military, we must know the total plan and all expected costs to complete the plan. Also, I am concerned that the MILCON priorities established by the Services for new missions and transformation will result in deferring repair and modernization of existing facilities. I look forward to hearing from our witnesses today on the impact of the fiscal year 2007 program, where we are headed with these construction programs, and how we plan to sustain investment in our existing facilities.

This subcommittee also remains dedicated to improving the efficient and effective management of the resources we have already provided to the DOD. We continue to support their efforts to leverage the interests and contributions of others to upgrade our infrastructure, provide excellent housing for military personnel and their families, and satisfy other critical mission requirements. I am also convinced that the DOD can improve efficiencies in contracting by using technology to improve the review, transparency, and innovation in construction contract management processes. I look forward to discussing this concept with our witnesses. While the DOD remains focused on implementing the 2005 BRAC recommendations, and undertaking the significant movement of personnel related to transformation, we must also ensure that our forces continue to maintain ready for combat and difficult noncombat missions through rigorous and realistic training. The DOD has shown that it is committed to both effective combat training and its responsibility to be a good steward of the environment.

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discuss their views of the impact of these changes, whether they have been helpful, and any concerns they may have. Witnesses should discuss any new problems or changes in the law they believe Congress should consider.

STATEMENT OF SENATOR DANIEL K. AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. I enjoy working with you and look forward to these hearings. I join you in welcoming our witnesses, Mr. Grone and Secretary Penn. I want to welcome you back. To Secretary Eastin and Secretary Anderson, I welcome you to your first appearance before our subcommittee.

Mr. EASTIN. Thank you, sir.

Senator AKAKA. We are here today to discuss the DOD's MILCON, family housing, and environmental programs, as well as the implementation of the 2005 BRAC round. As we meet today, our forces are very busy and the Services will soon begin implementing the 2005 BRAC round while conducting operations in Iraq and Afghanistan, on top of all the normal work of the DOD.

The Army, which is bearing the brunt of our current operations, also has the most challenging task in installations as well. In addition to implementing the 2005 BRAC round, the Army has to plan for the relocation of tens of thousands of forces from overseas, while also converting the structure of your brigades to the new modular format and creating new combat brigades.

Secretary Eastin, this will require sustained effort and leadership from you and the entire civilian and military leadership of the Army. This subcommittee stands ready to do our part to make this work.

The Army is not the only Service with major changes in the works. The Marine Corps will be moving thousands of personnel from Okinawa to Guam over the next several years. As with the Army's plan to return forces from overseas, this proposal raises a host of issues, including our ability to execute war plans, regional security and stability, airlift and sealift requirements, burden-sharing, and of course the cost and schedule of construction needed to accommodate such moves. As with the Army's proposed moves, I believe it is important to do this right.

DOD and Congress have made a big investigation in the quality of life of our personnel over the past decades. These moves should continue in that tradition. We will be examining these proposals as details become available. We do not want our military families to have to move thousands of miles only to find themselves living and working in trailers at a new base where the local schools have no room for their children. I know that is not what the DOD wants either. So I hope we will be able to work together to get this done right.

There are other changes being considered that we expect to be discussing with you in the coming months. Of great interest is the Department's plan for my State, as stated in the Quadrennial Defense Review (QDR), to increase the Navy's presence in the Pacific. According to the QDR, the Navy will—and I am quoting—"adjust its force posture to provide at least six operationally available sustainable carriers and 60 percent of its submarines in the Pacific."

Neither the 2005 BRAC round nor the 2007 budget request makes any specific proposal on forward basing of an additional carrier in the Pacific. I believe that basing an aircraft carrier in Ha-

waii co-located with our nuclear-capable shipyard is in the strategic interest of our Nation. Furthermore, the proposed increases in Air Force, Marine Corps, and Navy submarine force structure on Guam are going to severely tax their ability to support such a substantial increase in force structure. I believe basing a carrier in Hawaii will prove to be the best option from an economic and quality of life standpoint, in addition to its strategic benefits.

I hope that Secretary Penn will be able to enlighten us as to when the Navy plans to move forward on implementing the QDR's decisions.

Finally, we are aware that the detailed material to explain the $5.6 billion request for 2007 to implement the BRAC round and relocate forces from overseas is still being developed. We understand that this detailed justification material should be ready by the end of this month. This committee and indeed Congress has a tradition of not intervening in the BRAC disposal and reuse process by accelerating construction or cleanup efforts at one particular base over another. At the same time, this committee cannot in good conscience approve the use of such a substantial sum of money for which no details or plan have been provided. So it is essential that this material be delivered in time for our committee to review it prior to our markup.

Thank you, Mr. Chairman, and I look forward to hearing from our witnesses.

[The prepared statement of Senator Akaka follows:]

PREPARED STATEMENT BY SENATOR DANIEL K. AKAKA

Thank you, Mr. Chairman. I join you in welcoming our witnesses. Mr. Grone and Secretary Penn, it is good to have you back with us this year. Secretary Eastin and Secretary Anderson, I welcome you to your first appearance before our subcommittee.

We are here today to discuss DOD's military construction, family housing, and environmental programs, as well as the implementation of the 2005 base realignment and closure (BRAC) round.

As we meet today, our forces are very busy, and the Services will soon begin implementing the 2005 base closure round while conducting operations in Iraq and Afghanistan, on top of all the normal work of the Department of Defense (DOD).

The Army, which is bearing the brunt of our current operations, also has the most challenging task in the installations world. In addition to implementing the 2005 BRAC round, the Army has to plan for the relocation of tens of thousands of forces from overseas, while also converting the structure of your brigades to the new "modular" format and creating new combat brigades. Secretary Eastin, this will require sustained effort and leadership from you and the entire civilian and military leadership of the Army. This subcommittee stands ready to do our part to make this work.

The Army is not the only Service with major changes in the works. The Marine Corps will be moving thousands of personnel from Okinawa to Guam over the next several years. As with the Army's plan to return forces from overseas, this proposal raises a host of issues, including our ability to execute war plans, regional security and stability, airlift and sealift requirements, burdensharing, and of course, the cost and schedule of construction needed to accommodate such moves.

As with the Army's proposed moves, I believe it is important to do this right. DOD and Congress have made a big investment in the quality of life of our personnel over the past decade. These moves should continue in that tradition. We will be examining these proposals as details become available. We do not want our military families to have to move thousands of miles only to find themselves living or working in trailers at a new base where the local schools have no room for their children. I know that is not what the DOD wants either, so I hope we will be able to work together to get this right.

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the Pacific. According to the QDR, the Navy will "adjust its force posture to provide at least six operationally available and sustainable carriers and 60 percent of its submarines in the Pacific."

Neither the 2005 BRAC round or the 2007 budget request makes any specific proposal on forward basing of an additional carrier in the Pacific. I believe that basing an aircraft carrier in Hawaii, co-located with our nuclear capable shipyard, is in the strategic interest of our Nation. Furthermore, the proposed increases in Air Force, Marine Corps, and Navy submarine force structure on Guam are going to severely tax their ability to support such a substantial increase in force structure. I believe basing a carrier in Hawaii will prove to be the best option from an economic and quality of life standpoint, in addition to its strategic benefits. I hope that Secretary Penn will be able to enlighten us as to when the Navy plans to move forward on implementing the QDR's decisions.

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At the same time, this committee cannot in good conscience approve the use of such a substantial sum of money for which no details or plan have been provided, so it is essential that this material be delivered in time for our committee to review it prior to our markup.

Thank you, Mr. Chairman. I look forward to hearing from our witnesses.

Senator ENSIGN. Thank you.

Any other statements by members will be made part of the record. But because we have a vote, we need to get started by the witnesses, if that is okay. We will start with Mr. Grone.

STATEMENT OF HON. PHILIP W. GRONE, DEPUTY UNDER SECRETARY OF DEFENSE, INSTALLATIONS AND ENVIRONMENT

Mr. GRONE. Chairman Ensign, Senator Akaka, and distinguished members of the Subcommittee on Readiness and Management Support: I am pleased to appear before you today to discuss the budget request for the DOD for fiscal year 2007, particularly for those programs that support the management of installation assets.

The President's budget request continues the DOD's efforts to reposition, to reshape, and to sustain the Nation's military infrastructure. As this subcommittee is aware, the real property and asset management responsibilities of DOD are extensive. The DOD currently manages nearly 507,000 buildings and structures, with a plant replacement value of over $650 billion, and more than 46,000 square miles of real estate.

The President's management agenda and Executive Order 13326 have placed considerable emphasis on the stewardship and management of those assets. The budget request supports a number of key elements of the DOD's comprehensive asset management strategy. The budget request supports a recapitalization rate of 72 years, nearly achieving the goal of a 67-year recapitalization cycle for the DOD's real property assets. In 2001 that rate stood at 192 years.

The request provides 90 percent of the need to sustain our military facilities. If enacted, this budget will fulfill our commitment to eliminate inadequate military family housing in the United States and we remain on track to achieve the elimination of such units overseas by fiscal year 2009. Military housing privatization remains central to our strategy and in the end state we expect 89 percent of the DOD's family housing inventory to be privatized.

Through program efforts such as the Readiness and Environmental Protection Initiative and our outreach to the States, local communities, private and nonprofit land trusts, and the environmental community, DOD's efforts to preserve and enhance military test and training ranges are achieving results.

DOD continues its aggressive approach to energy conservation and the purchase and development of renewable sources of energy. Similarly, the DOD is aggressively implementing environmental management systems at our installations.

The DOD's business practices and real property inventory controls are being fundamentally transformed through the business management modernization program.

Each of the foregoing are important initiatives that improve the management of defense installations. Beyond improved management and from a strategic perspective, the implementation of the 2005 BRAC round, as well as the DOD's global defense posture review, serve as a foundation for significant transformation of the Armed Forces.

As this subcommittee knows, the DOD developed over 220 BRAC recommendations for consideration by the independent BRAC Commission, with emphasis on those actions that would support mission transformation across the total force, enhanced efficiency in the business and support operations of the DOD, improve jointness and interoperability, and the conversion of unneeded assets to warfighting requirements.

The DOD will carry out 25 major base closures, 24 major realignments, and 765 other actions. The scope of implementation in terms of the actions to be undertaken and the number of installations affected is nearly twice those undertaken in all prior rounds of BRAC combined. In addition, 40 percent of the recommendations affect more than one component, placing a premium on coordination and joint approaches.

Through BRAC, the DOD will also facilitate the return of forces stationed abroad to new stationing in the United States. Our efforts in BRAC and the broader global defense posture initiative are linked, and nowhere is that more true than for the Army, which will have fully one-third of the Army in motion due to repositioning through BRAC, global defense posture realignment, and the Army modular force initiative.

After BRAC implementation is complete, we expect approximately $4 billion in annual recurring savings to accrue from the effort and another $1 billion from the BRAC-related global defense posture moves. Through BRAC and all of our global defense posture efforts, we will shed assets amounting to approximately $45 billion in plant replacement value.

The investment required in fiscal year 2007 for BRAC is significant. When combined with the funds provided by Congress for this fiscal year, this investment will permit us to complete planning and to initiate construction activities to ensure facilities are ready in a timely manner for the extraordinary transformation of military infrastructure in which we are now engaged and for which we have a legal obligation to complete by September 2011.

Mr. Chairman, DOD is working hard to reposition, to reshape, and to sustain our installations for the future. We appreciate your

previous support for our efforts and look forward to continuing to work with this subcommittee to conclude these initiatives successfully.

[The prepared statement of Mr. Grone follows:]

PREPARED STATEMENT BY HON. PHILIP W. GRONE

Chairman Ensign, Mr. Akaka, and distinguished members of the subcommittee, I appreciate the opportunity to appear before you today to address the President's budget request for fiscal year 2007 and the management approach the Department of Defense (DOD) has undertaken to reposition, to reshape, and to sustain the Nation's military installation assets.

In 2001, the Department issued its first ever Defense Facilities Strategic Plan. Three years later, in September 2004, a comprehensive, capabilities-based, and performance-oriented Defense Installations Strategic Plan was in place. The 2004 plan addressed recommendations made by the Government Accountability Office (GAO) and was approved by the Office of Management and Budget (OMB) as being consistent with the guiding principles of the Federal Real Property Council in meeting the objectives of the President's Management Agenda. An update in 2005 reflected ongoing efforts, recent progress, and the changes resulting from decisions that produced the fiscal year 2006 President's budget. The next full issue of the plan will be published in the fall of 2006. This new plan will more fully integrate environmental management systems, safety, and occupational health into a comprehensive approach to asset management.

For the past several years, DOD has been vigorous in its pro-active efforts in managing the Department's facilities and infrastructure. DOD's infrastructure investment strategy rigorously utilizes key metrics to provide the quality facilities that directly support mission and readiness. To that end, DOD developed advanced business processes that align more closely to warfighter mission area requirements. The rigor provided by these practices in planning, managing, and maintaining DOD installations improves overall efficiency while improving investment decision-making.

The President's budget request for fiscal year 2007 will permit the Department to continue its efforts to manage installation assets comprehensively and efficiently. Along with continued improvement in business practices and a focus on environmental sustainability, the Department is improving the quality of military installations.

Global Defense Posture Realignment

While the Department addresses better business practices, it is also working to realign infrastructure to effectively address military transformation and 21st century security challenges. The Defense posture of the past 50 years reflected the Cold War strategy, with U.S. forces forward deployed primarily to fight near where they were based. Today's challenges require a more agile, faster, and leaner force that can project power into areas further from where they are based. This agility requires not only a shift in military forces, capabilities and equipment, but also a new strategy for U.S. global defense posture.

In September 2004, the Department completed a 2-year comprehensive review of its global posture strategy. This review led to the most thorough restructuring of U.S. military forces overseas since the major elements of the U.S. Cold War posture were set in 1953. The new posture will enable the Department to respond more quickly to worldwide commitments and make better use of its capabilities.

The Department has already begun the process of realigning or closing a number of large permanent bases in favor of small and more scalable installations better suited for rapid deployments. In July 2005, the return of 11 Army bases in Germany was announced as part of the 1st Infantry Division headquarters' redeployment plan, scheduled to occur in the summer of this year. The United States signed an agreement with the Government of Romania in December 2005 that will allow access for U.S. forces to Romanian training facilities. The United States and Japan issued the Security Consultative Committee document titled, "U.S.-Japan Alliance: Transformation and Realignment for the Future," on October 29, 2005, outlining several initiatives, including posture realignments that will adapt the Alliance to today's regional and global security environment. In Korea, we are working closely with our partner to implement the 2004 Amended Land Partnership Plan and the Yongsan Relocation Plan. These efforts are reshaping U.S presence on the peninsula significantly in recognition of the Republic of Korea's (ROK) increasing lead in the conventional defense of the ROK and the evolving role of U.S. forces.

The Global Defense Posture realignment identified an overall plan for returning overseas forces back to military installations in the U.S. This plan was integrated into the Base Realignment and Closure (BRAC) process regarding relocations from overseas to domestic bases during the prescribed BRAC time period. All Services factored requirements of returning forces into their domestic infrastructure requirements and this resulted in recommendations to accommodate forces at U.S. installations. Some overseas changes have already been implemented in accordance with ongoing Service transformation efforts and within the framework of negotiations with host nations. In many cases, the changes involve units that are inactivating or transforming with no significant BRAC impact. As we begin implementing the BRAC recommendations there are overseas changes still being developed or being phased to be implemented after the BRAC implementation period. DOD will continue to consult with Members of Congress on its plan and will seek your support as we implement these far-reaching and enduring changes to strengthen America's global defense posture.

BASE REALIGNMENT AND CLOSURE 2005

The Department has effectively accounted for the domestic implications of the global posture review—with forces and personnel either returning to or moving forward from U.S. territory—within the BRAC decisionmaking process. Even though global posture changes will be executed over several years and will continue to be adjusted as strategic circumstances change, the Department will incorporate projected overseas posture changes into the BRAC implementation process.

The 2005 BRAC process was designed to rationalize the Department's base infrastructure within the United States in support of the Department's long-term strategic capabilities. The Department's BRAC process addressed five key goals:

- Transforming the current and future force and its support systems to meet new threats,
- Eliminating excess physical capacity,
- Rationalizing the base infrastructure with defense strategy,
- Maximizing both warfighting capability and efficiency; and
- Examining opportunities for joint activities.

The Secretary of Defense transmitted his recommended closures and realignments to the 2005 Defense Base Closure and Realignment Commission and to Congress on May 13, 2005, and published them in the Federal Register on May 16, 2005, pursuant to Public Law 101–510, as amended. The recommendations strengthen national security by reshaping the domestic installations at which U.S. military forces perform their assigned missions and aligns the Department's base structure with the force structure that is expected to be needed over the next 20 years, an unprecedented long view. Additionally, the recommendations accommodate the Department's global reposturing of its forces; facilitate the ongoing transformation of U.S. forces to meet the challenges and opportunities of the 21st century; and restructure important support functions to capitalize on advances in technology and business practices.

The BRAC Commission reviewed the 222 recommendations submitted by the Secretary and accepted, without change, about 65 percent. The Commission's resulting recommendations will affect over 800 locations through 25 major closures, 24 major realignments, and 765 lesser actions. On November 9, 2005, the Department became legally obligated to close and realign all installations so recommended in the Commission's report to the President because the President accepted those recommendations and the congressional review period lapsed without enacting a resolution of disapproval. Although these recommendations are estimated to save the Department tens of billions of dollars over 20 years and significant amounts annually after implementation, the investment needed to support the transformation of domestic military infrastructure in support of the Total Force is substantial—estimated, based on our COBRA-based assessment of the Commission's actions, at $22.8 billion.

BRAC IMPLEMENTATION

The large number of transformational recommendations, particularly recommendations to establish joint operations, present significant implementation challenges. To meet these challenges, the Department initiated a process to develop Business Plans that lay out the requisite actions, timing of those actions, and associated costs and savings associated with implementing each recommendation. The Business Plans will serve as the high level foundation for the complex program management necessary to ensure BRAC 2005 recommendations are implemented efficiently and effectively.

The Department recently delivered its report describing the specific programs, projects, and activities for the $1.46 billion appropriated in fiscal year 2006 to begin implementing the BRAC recommendations. This initial spending plan will begin the planning and design and environmental studies that serve as the foundation for constructing and renovating facilities to accommodate missions at receiving sites. For fiscal year 2007, the Department is requesting $5.62 billion for BRAC 2005 implementation and $191.22 million for previous rounds.

The Department recognizes it has an obligation to assist communities affected by BRAC 2005; communities that have an honored heritage of support to the Armed Forces. The Defense Economic Adjustment Program will continue to assist communities to plan for the civilian redevelopment of available real and personal property; and implement local adjustment actions to assist impacted workers, businesses, and other affected community interests. The Department actively partners with affected communities as we both seek opportunities for quick civilian reuse of former military installations. For communities engaged with installations that will receive new missions, the Department also recognizes the importance of ensuring communities have the capacity to support the Defense mission with adequate planning, housing, education, infrastructure, and community services, and the Department is working with these communities to enhance their ability to support DOD installations and our men and women in uniform. To facilitate these actions, resources from 22 Federal agencies have been drawn together through the coordination of the Economic Adjustment Committee (EAC). For these purposes, the budget request contains $60 million for the Department's Office of Economic Adjustment to enable affected communities to plan and carry out adjustment strategies, engage the private sector in ventures to plan and undertake economic and base redevelopment, and partner with the military departments as they implement BRAC actions. An important undertaking for the upcoming year is the OSD/Military/Community conference in May that will serve as a conduit for information exchange regarding BRAC implementation.

MANAGING INFRASTRUCTURE

Managing DOD real property assets is an integral part of comprehensive asset management. The Department currently manages nearly 507,000 buildings and structures with a plant replacement value of over $650 billion, and more than 46,000 square miles of real estate.

The quality of infrastructure directly affects training and readiness. To that end, the Department is incorporating installations more fully into the Defense Readiness Reporting System. This will allow us to measure the capability of defense installations and facilities and other elements of our infrastructure to provide appropriate support to forces in the conduct of their wartime missions. To better manage infrastructure investments, the Department developed models and metrics to predict funding needs: Sustainment and Recapitalization.

Facilities sustainment provides funds for maintenance and major repairs or replacement of facility components that are expected to occur periodically throughout the life cycle of facilities. Sustainment prevents deterioration, maintains safety, and preserves performance over the life of a facility. To forecast funding requirements, DOD developed the Facilities Sustainment Model using standard benchmarks for sustainment unit costs by facility type (such as cost per square foot of barracks) drawn from the private and public sectors. This model has been used to develop the Service budgets since fiscal year 2002 and for several Defense agencies since fiscal year 2004. On January 24, 2006, DOD joined 16 other Federal agencies in signing a Memorandum of Understanding (MOU) for Federal Leadership in High Performance and Sustainable Buildings. The MOU indicates a commitment to incorporate sustainable design principles through a comprehensive approach to infrastructure management.

Full funding of facilities sustainment has been and continues to be the foundation of long-term facilities strategy and goal. In fiscal year 2006, the Department-wide sustainment funding rate is 92 percent. In balancing risk across the Department's program, the fiscal year 2007 budget request reflects a slight decrease in the department-wide sustainment funding rate to 90 percent. Our long-term goal remains a department-wide sustainment funding rate of 100 percent to optimize our investment in facilities.

Recapitalization, which includes restoration and modernization, provides resources for improving facilities, and is the second element of our facilities strategy. Recapitalization is funded primarily with either operations and maintenance or military construction appropriations. Restoration includes repair and replacement work to restore facilities damaged by inadequate sustainment, excessive age, natural dis-

aster, fire, accident, or other causes. Modernization includes alteration of facilities solely to implement new or higher standards, to accommodate new functions, or to replace building components that typically last more than 50 years.

Similar private sector industries replace their facilities every 50 years, on average. The current DOD goal is 67 years, based upon an assessment of the Department's inventory in the late 1990s. In fiscal year 2001, the Department's recapitalization rate was 192 years. This budget request supports a recapitalization rate of 72 years, and includes investments associated with BRAC and Global Defense Posture realignment. The Defense Department remains committed to achieving a rate of investment in facilities recapitalization that will improve, modernize, and restore its facilities consistent with expected future service lives. Currently, DOD is in the process of developing and fielding a new recapitalization model for assessing the replacement cycle that will improve upon the existing recapitalization metric through the inclusion of depreciation schedules and other benchmark improvements.

SUSTAINMENT AND RECAPITALIZATION REQUEST

[President's budget in millions of dollars]

	Fiscal Year 2006 Request	Fiscal Year 2007 Request
Sustainment (O&M-like) [1]	6,529	6,267
Restoration and Modernization (O&M-like) [1]	1,008	984
Restoration and Modernization (MilCon)	3,474	6,093
TOTAL SRM	11,011	13,344

[1] Includes O&M as well as related military personnel, host nation, and working capital funds.

In 1998, the Department undertook a 6-year program to eliminate 80 million square feet of obsolete and excess facilities. Six years later, DOD concluded that effort by exceeding its target—removing a total of 86 million square feet. In a continuation of that effort, the Department completed a survey of disposal requirements in December 2004. Based on that survey, the military services and selected Defense agencies have established new targets to rid the Department of an additional 50 million square feet of unneeded facilities by 2013. These demolition targets are not included as part of BRAC disposal.

The Department has established a common definition for Facilities Operation, formerly referred to as "Real Property Services." The budget request includes $6.06 billion for this program, to address utilities, leases, custodial services, ground maintenance, and other related functions. A prototype model for Facilities Operation will be fielded in the coming year.

INSTALLATIONS SUPPORT

The Defense Installations Strategic Plan articulates the need to define common standards and performance metrics for managing installation support. Our objective is to introduce capabilities-based programming and budgeting within a framework for the Common Delivery of Installations Support framework which will link installation support capabilities to warfighter requirements. To that end, we are developing common definitions for Facilities Operation.

The Common Delivery of Installations Support will form the basis for implementing guidance for 12 Joint Base sites identified in BRAC 2005. Guidance for implementing Joint Basing is being developed in coordination with the military components and using input from installation level leadership.

During the past year, DOD made significant progress toward developing Common Output Level Standards for all other functions of Installations Support to include Environment, Family Housing Operations and Services, which were formerly knows as Base Operations Support. This effort is yielding common definitions and tiered performance output levels. These metrics are currently being further refined and a costing model initiative will soon be underway.

The Military Construction appropriation is a significant source of facilities investment funding. The Fiscal Year 2007 Defense Military Construction and Family Housing appropriation request totals $16.7 billion. This budget request will enable the Department to rapidly respond to warfighter requirements, enhance mission readiness, and provide for our people. This is done, in part, by restoring and modernizing enduring facilities, acquiring new facilities where needed, and eliminating those that are excess or obsolete.

COMPARISON OF MILITARY CONSTRUCTION AND FAMILY HOUSING REQUESTS

[President's budget in millions of dollars—budget authority]

	Fiscal Year 2006 Appropriation	Fiscal Year 2007 Request
Military Construction	6,161	6,385
NATO Security Investment Program	177	221
Base Realignment and Closure IV	255	191
Base Realignment and Closure 2005	1,504	5,626
Family Housing Construction/Improvements	1,811	2,092
Family Housing Operations & Maintenance	2,206	1,990
Chemical Demilitarization		131
Family Housing Improvement Fund	3	3
Energy Conservation Investment Program	50	60
TOTAL	12,167	16,698

HOUSING REVITALIZATION

At the outset of this administration, the President and Secretary Rumsfeld identified elimination of inadequate family housing and revitalizing housing, largely through privatization, as a central priority for the Department. An aggressive target of 2007 was established to meet that goal. The administration has relied on three pillars to improve housing thereby, enhancing the quality of life for our servicemembers: (1) Provide the basic allowance for housing (BAH) at zero-out-of-pocket expense for the average servicemember living in private sector housing (achieved in 2005, now maintaining); (2) Privatization of family housing, where feasible; and, (3) Military Construction funding for all other domestic and all overseas locations. Sustaining the quality of life for our military families is vital to recruitment, retention, readiness, and morale.

Through the expanded use of the privatization authorities granted under the Fiscal Year 1996 Military Housing Privatization Initiative, the Department has achieved the elimination of inadequate housing at U.S. based installations where those authorities apply. The fiscal year 2007 budget funds elimination of all inadequate domestic family housing by 2007, and eliminates remaining inadequate houses overseas by 2009.

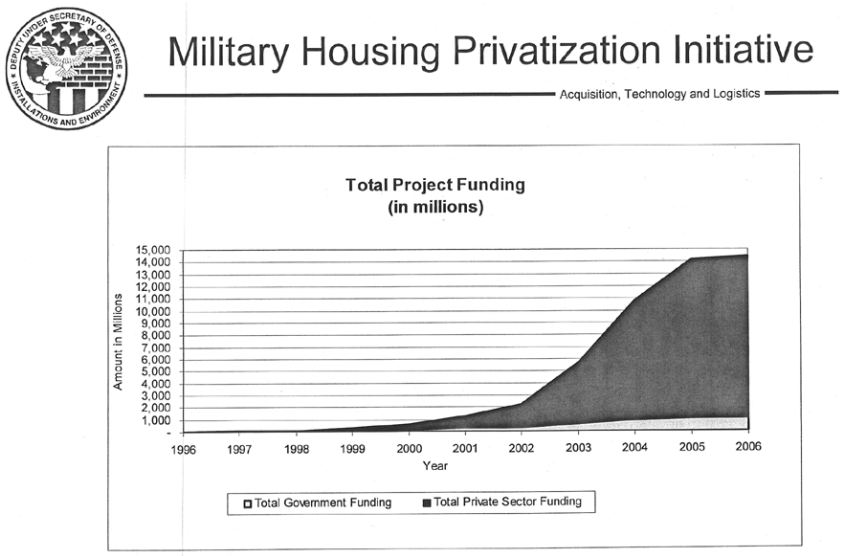
The Department relies on a "community first" (private sector) policy to provide quality housing to its members and their families. Only when the private market demonstrates that it cannot supply sufficient levels of quality, affordable housing does the Department provide housing to our military families; first through the use of privatization, and where that is not feasible through government-owned and leased housing. For example, in the absence of privatization authorities overseas, we address our housing needs there through military construction and leasing.

To ensure the Department is making the best investment decisions when determining the appropriate level of housing, the government provides a single and consistent methodology for calculating its housing requirement. This methodology was introduced in January 2003 and is being utilized extensively by the Services. Currently, 75 percent of military families living in the continental United States, Alaska, and Hawaii receive Basic Allowance for Housing (BAH) (with 60 percent living in the local community, and 15 percent in privatized housing). An additional 22 percent of our military families are provided government-owned housing and 3 percent live in leased housing.

The Department has skillfully used privatization to more quickly eliminate inadequate housing and to provide additional housing where shortfalls existed. As of January 2006, the Department has awarded 56 privatization projects. This includes over 118,000 military family housing units, which is a 30-percent increase since January 2005. DOD policy requires that privatization yield at least three times the amount of housing as traditional military construction for the same amount of appropriated dollars. The 56 awarded projects have permitted the Department, in partnership with the private sector, to provide housing for about $1 billion in military construction investment. The same level of construction activity would otherwise have required over $14 billion if the traditional military construction approach was utilized. This reflects an average ratio of over 14 to 1, well exceeding program expectations.

Additionally, the private sector's cumulative contribution to the 56 awarded deals totals over 90 percent of the $15 Billion in total project costs. Prudent business practice requires the private sector to be committed to each project with a significant

financial investment in the project's ultimate success. The Services have funded the remaining $1 billion in development costs primarily through equity investment or government direct loans. (The Total Project Funding graph (Enclosure 1) depicts the cumulative total contribution of the private sector and government.)



Enclosure 1

The Department's privatization plans in the fiscal year 2007 budget will ultimately result in the privatization of 87 percent of its domestic family housing inventory, or roughly 186,000 units privatized by the end of fiscal year 2007. By the end of fiscal year 2006, we will have privatized 153,000 housing units. The overall goal is to privatize 89 percent of the domestic housing inventory or about 195,000 housing units by the end of fiscal year 2010.

For fiscal year 2007, the Department requests $4.081 billion in new budget authority for family housing construction and operations and maintenance:

- 1.94 billion to construct 3,073 new/replacement units and improve 3,330 existing units.
- 1.99 billion to operate and maintain approximately 95,052 government-owned family housing units, and lease another 25,935 units worldwide.

Funding to support the privatization of family housing is programmed and budgeted in the family housing construction appropriations and is transferred to the DOD Family Housing Improvement Fund (FHIF) when the privatization projects are executed. The fiscal year 2007 construction account requests a total of $154 million in funding for privatization. This amount, anticipated to be transferred to the FHIF during fiscal year 2007 along with $261 million in previously appropriated construction funds. This $415 million will be used to finance the privatization of approximately 32,377 units.

COMPETITIVE SOURCING

The Department of Defense continues to strongly support the President's Management Agenda Initiative for Competitive Sourcing. Introducing private sector competition into commercial functions performed by the Department improves business efficiency and reduces cost to the taxpayer. Public/private competitions using the procedures of OMB Circular A–76 have demonstrated substantial savings whether the in-house or private sector wins the competition. During the fiscal years 2000 through 2005, the Department completed 848 such competitions encompassing about 87,018 positions. These competitions will have resulted in over $10 billion in savings

(cost avoidance) over the life of the resulting performance periods, normally about 5 years. The Department currently has an additional 2,800 positions undergoing competition and expects to increase competitions in fiscal year 2006.

These new competitions use the procedures of the revised OMB Circular A–76, which evaluates public and private proposals concurrently using the Federal Acquisition Regulations. As the Department's designated Competitive Sourcing Official (CSO), my office is working to improve the competition process. For example, competitions that used to take up to 48 months to complete should now be completed in as little as 12 months. Such improvements will reduce stress on our workforce and will make savings available earlier to reinvest in priorities for our war fighters.

UTILITIES PRIVATIZATION AND ENERGY MANAGEMENT

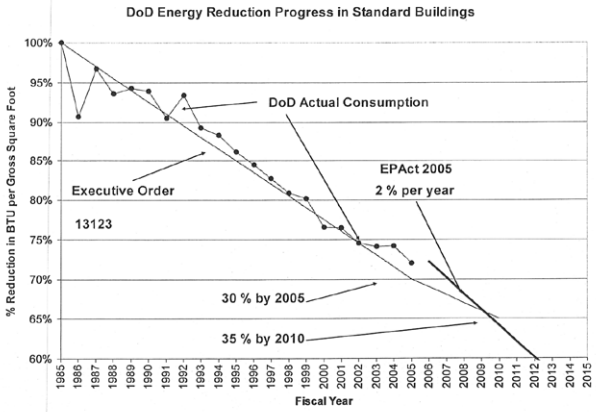
The Department seeks to reduce its energy consumption and associated costs, while improving utility system reliability and safety. To that end, DOD developed a comprehensive energy strategy and issued updated policy guidance incorporating the new provisions and goals of the Energy Policy Act of 2005. This strategy will continue to optimize utility management by conserving energy and water usage, improve energy flexibility by taking advantage of restructured energy commodity markets when opportunities present themselves, and modernize our infrastructure by privatizing deteriorated and outdated utilities infrastructure where economically feasible.

DOD, as the largest single energy consumer in the Nation, consumed over $2.97 billion of facility energy in fiscal year 2005. Conserving energy and investing in energy reduction measures makes good business sense and frees up resources for higher DOD priorities, such as readiness and modernization. Our program includes investments in cost-effective renewable energy sources or energy efficient construction designs, and aggregating bargaining power among regions and the Services to achieve more effective buying power.

The Department's efforts to conserve energy are paying off. In fiscal year 2005, military installations reduced consumption by 3.3 percent despite a 6-percent increase in the cost of energy commodities from fiscal year 2004. With a 28.3-percent reduction in standard building energy consumption in fiscal year 2005 from a 1985 baseline, the Department fell just short of the 2005 and 2010 facility energy reduction goals stipulated by E.O. 13123 (see Energy Progress Chart, Enclosure 2). This is mostly attributable to the lapse of Energy Savings Performance Contract (ESPC) authority in fiscal year 2004. Energy conservation projects accomplished through ESPC contracts typically account for more than half of all facility energy savings. However, with ESPC authority reauthorized in the fiscal year 2005 National Defense Authorization Act and extended for an additional 10 years in the Energy Policy Act of 2005, DOD has launched an aggressive awareness campaign and is well on its way to meeting the new goals established in the Energy Policy Act of 2005. DOD reduced energy consumption in energy intensive and industrial facilities by 21.6 percent from the 1990 baseline, exceeding the 20-percent goal of E.O. 13123 (See Energy Progress Chart, Enclosure 3).

Standard Building Energy Reduction

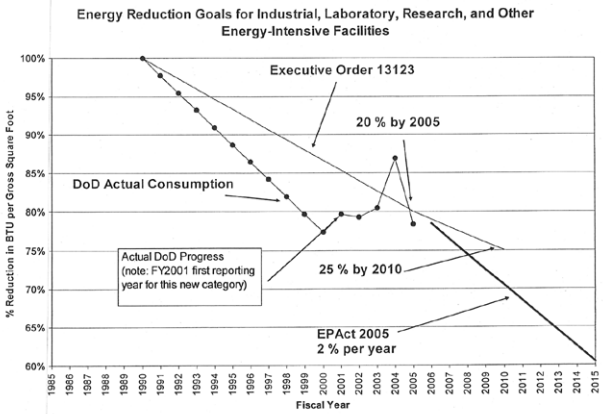
Acquisition, Technology and Logistics



Enclosure 2

Industrial Facility Energy Reduction

Acquisition, Technology and Logistics



Enclosure 3

DOD has significantly increased its focus on purchasing renewable energy and developing resources on military installations. The Department has increased the use of Energy Conservation Investment Program (ECIP) funds for renewable energy projects from $5 million and $11 million in fiscal year 2003 and fiscal year 2004,

respectively, to $13 million in fiscal year 2005, $17 million in fiscal year 2006, and $17 million in fiscal year 2007. The fiscal year 2007 program for ECIP also contains $2.6 million in hydrogen fuel cell projects. The Department easily exceeded the E.O. 13123 renewable energy goal of 2.5 percent in fiscal year 2005. The Department's total renewable energy purchases and generation accounted for 8.3 percent of all electricity use. Also, while E.O. 13123 did not articulate a specific water reduction goal, the Department has saved an impressive 28.3 percent since the fiscal year 2000 baseline year.

To improve utility systems, the Department has reaffirmed its preference to modernize military utility systems through privatization. The DOD Utilities Privatization Program has made solid progress over the past 2 years. The Services have greatly simplified and standardized the solicitation process for obtaining industry proposals. Of 2,601 utility systems serving the DOD, the Department has privatized 512 systems. When taken together with the 736 systems that were already owned by other entities, that reflects a significant portion of systems serving the Department that benefit from private sector ownership. Over 475 additional systems are currently under evaluation as each Service and the Defense Logistic Agency continue aggressive efforts to reach privatization decisions on all systems.

ENVIRONMENTAL MANAGEMENT

The Defense Department continues to lead in every aspect of environmental management. The Department is proud of and committed to its environmental program in support of the global basing mission. Developing natural infrastructure capacity tools and models for installation planning and sustainment is a priority.

Environmental Management Systems

DOD is implementing environmental management systems (EMS) as required by Executive Order 13148 at all appropriate facilities, except for six installations affected by hurricane Katrina. This transformation embeds environmental management as a systematic process, fully integrated with mission planning and sustainment and is essential for continued successful operations at home and abroad. Implementing EMS will help preserve range and operational capabilities by creating a long-term, comprehensive program to sustain capability while maintaining healthy ecosystems.

ENVIRONMENTAL PROGRAM—SUMMARY OF REQUEST [1]

[President's budget in millions of dollars—budget authority]

	Fiscal Year 2006 Request	Fiscal Year 2007 Request
Environmental Restoration	1,370	1,403
BRAC Environmental [2]	449	475
Compliance	1,561	1,527
Pollution Prevention	143	128
Conservation	205	191
Technology	206	200
International [3]	3	3
TOTAL	3,934	3,924

[1] Includes operations and maintenance, procurement, RDT&E, and military construction funding.
[2] Funding levels reflect total requirement
[3] International is included in Pollution Prevention and Compliance.

For fiscal year 2007, DOD's budget request includes $3.924 billion for environmental programs. This includes $1.403 billion for cleanup, $0.475 billion for BRAC environmental, $1.527 billion for compliance; about $0.1 billion for pollution prevention, and about $ 0.2 billion each for conservation and environmental technology.

Managing Cleanup

The Department is committed to cleaning up property that, as the result of past military activities, is contaminated with hazardous substances, pollutants, or military munitions. DOD has achieved "remedy in place" or "restoration complete" status at 78 percent (16,591 out of 21,192) of its contamination sites on active installations. As of the end of fiscal year 2005, 83 percent (4,287 out of the 5,183) of the contamination sites at BRAC locations closed or realigned by the first four rounds of BRAC have a cleanup remedy constructed and in place and operating successfully, or have had all necessary cleanup actions completed in accordance with Com-

prehensive Environmental Response, Compensation, and Liability Act (CERCLA) standards. Hazardous waste cleanup at Formerly Used Defense Sites (FUDS) has achieved "remedy in place" or "restoration complete" status at 49 percent (2,263 out of the 4,668) of known sites.

Leading Compliance through Pollution Prevention

The Department continues its commitment to going beyond compliance in executing its environmental initiatives. Using compliance as the baseline the Department has instituted processes that effectively and efficiently execute compliance using pollution prevention (P2) strategies and focusing on sustaining the warfighter mission. The Department issued DOD Directive 4715.1E on Environment, Safety, and Occupational Health (ESOH) Management, delineating policies and responsibilities that enable the Department to invest in initiatives that support mission accomplishment, enhance readiness, reduce future funding needs, prevent pollution, prevent illness and injury, and ensure cost-effective compliance.

One example is the Department's risk management approach to integrating ESOH considerations into systems acquisitions. DOD successfully integrated MIL-STD 882D (Standard Practice for System Safety) into the acquisition process to ensure that Program Managers identify know their ESOH risks and take the measures necessary to manage or mitigate those risks early in the design process, reducing environmental burdens and mission impacts throughout the life-cycle of the system.

Another example is the DOD Green Procurement Program. The DOD Green Procurement Program was established to ensure DOD compliance with federally mandated green procurement programs, yet DOD enlarged its program to consider such factors as energy use, conservation of resources, price, performance, and safety to support both DOD's mission and protection of the environment. DOD demonstrated its commitment to going beyond mere compliance by signing the Federal Agency Memorandum of Understanding on electronic stewardship; actively participating in the Federal Electronics Challenge; and participating in the Green Suppliers Network to incorporate process, energy, and material efficiencies into the supply chain—all of which can lead to substantial environmental benefits and reductions in costs.

Range Sustainment

The sustainability of military installations, particularly testing and training ranges, is critically important to readiness. The often accelerating pace of development in the vicinity of our installations and ranges poses ongoing challenges and leads to secondary effects including loss of habitat for endangered species; more noise complaints from new neighbors; diminished usable airspace due to new structures or increased civil aviation; and a compromised ability to test and train with the frequency resources needed in time of war.

Exacerbating the encroachment challenge, the demands of the military mission are not static in nature and a number of factors are changing the way the Department will need to test and train in the future. Upcoming mission adjustments and relocations associated with the recent BRAC decisions and the return of large numbers of troops and their families to bases in the U.S. as a part of global rebasing will require expanded training opportunities and place a growing demand on receiving installations. The integration of training opportunities necessary to satisfy joint mission requirements, combined with the increasing testing and training battlespace needs of new weapons systems and evolving tactics associated with force transformation, point to a military need for more, rather than less range space. The confluence of these competing trends makes it clear that encroachment remains a powerful challenge to military readiness, and requires a comprehensive and continuing response.

Sustainable Ranges Initiative: The White House Conference on Cooperative Conservation, held last summer in St. Louis, Missouri, brought together land managers and conservation advocates from Federal agencies, States, academia, and industry to look for a new path towards collaborative conservation of the Nation's natural resources.

Consistent with its desire to balance its duty to conduct life-saving military training with its stewardship responsibilities, the Department has been very active in its efforts to mitigate encroachment effects and to ensure the long-term sustainability of both its military test and training missions and the natural resources entrusted to DOD's care. In 2006, DOD's range sustainment initiative will focus on addressing emerging encroachment issues and taking advantage of opportunities to extend our outreach and partnering gains. At the same time, DOD will build on past

efforts to institutionalize capabilities, tools, and processes that will support range sustainment goals well into the future.

- Conservation Partnering and Buffer Program Expansion. Congressional support for DOD's Readiness and Environmental Protection Initiative has enabled DOD to establish an effective and growing program to partner with conservation entities to protect key lands in the vicinity of military ranges that offer the dual promise of preserving natural resource values and allowing more flexible use of DOD lands inside the fence line. In 2005, the first year of this funded program, DOD used the $11.5 million appropriated by Congress to execute a number of landmark conservation buffer projects near Army and Marine Corps ranges and installations. Buffering successes at Fort Carson, CO; Marine Corps Base Camp Lejeune, NC; and the Navy's La Posta Mountain Warfare Training Facility, CA, are notable 2005 program accomplishments. Congress has allocated $37 million to expand the Conservation partnering program in fiscal year 2006. Projects are still being finalized, but will include a significantly greater number of projects supporting Army, Marine, and Navy buffering priorities across the U.S.
- Regional Partnering Initiatives. In 2005, the Department participated in a pilot partnership effort called the Southeast Regional Partnership for Planning and Sustainability. Teaming Service flag officers with leaders from the State governments of Florida, Georgia, South Carolina, and North Carolina, this effort has demonstrated potential as a vehicle for effective communication and joint action to identify issues and implement solutions of mutual benefit to the partners. This pilot offers promise not only in the Southeast, but as a model for regional action elsewhere.
- Range Assessments. Military use of munitions on its ranges is an elemental aspect of effective testing and training. However, to ensure that the effects of our ongoing and legacy use of munitions do not harm public health or the environment, DOD is actively assessing all its ranges to ensure there is no off-range migration of munitions' constituents into surrounding lands or waters.

Warfighter Support through Safety and Health

The Nation's leading businesses see the prevention of injuries and illnesses as a core business value that reduces human, social, financial, and productivity costs and improves the bottom line. DOD also has a bottom line: operational readiness.

The Department's efforts to integrate safety and health into every aspect of the mission, gives commanders the flexibility they need to make informed risk decisions—decisions that enable them to eliminate, modify, or accept risks based on the situation they are encountering. In March 2005 DOD published policy requiring safety and occupational health management systems at all management levels. This industry proven approach horizontally integrates safety across all of our business areas. The Department is accelerating this initiative by partnering with the Defense Safety Oversight Council (DSOC) to establish a Center of Excellence to help installations achieve OSHA Voluntary Protection Program (VPP) recognition. DOD has also issued policy to include Military Flight Operations Quality Assurance. This process, gives pilots the ability to "review the game tape" of virtually every mission they fly and identify potentially dangerous tendencies that can be corrected before they become habits.

The Department is also transforming explosives safety. The Department of Defense Explosives Safety Board (DDESB) continually assesses and improves explosives safety throughout the ammunition and explosives life cycle, proactively seeking early awareness and consideration of explosive safety in operational and contingency planning activities. This year DOD updated its policy to assist commanders in making informed risk decisions involving explosives while ensuring maximum operational capabilities and the protection of personnel, property, and the environment from the damaging effects of explosives.

INTEGRATING THE BUSINESS ENTERPRISE

As our Nation's security challenges become more complex, our military must become an increasingly agile joint force that is dominant across the full spectrum of operations. The highly flexible, yet precise, Armed Forces of the 21st century require an equally flexible and responsive business and financial support infrastructure that can adapt to rapidly changing conditions in both peace and war.

Defense Business Transformation is being driven by a series of strategic objectives, which include: supporting a joint warfighting capability; enabling rapid access

to information for strategic decisions; reducing the cost of Defense business operations; and improving the financial stewardship of assets.

To support the Department's process of identifying joint needs, analyzing capability gaps, and implementing improvements, the DOD Business Mission Area is aligned with the warfighting mission. This new unifying framework, documented in the DOD's roadmap for transformation, (the Enterprise Transition Plan), is a capabilities and lifecycle-based approach to enterprise business planning and execution, and consists of five integrated Core Business Missions, or CBMs: Human Resources Management; Weapon System Lifecycle Management; Real Property & Installations Lifecycle Management; Material Supply & Service Management; and Financial Management. The Deputy Under Secretary of Defense (Installations & Environment) is the leader of the Real Property & Installations Lifecycle Management CBM. Working with the Military Components, considerable progress has been made in transforming business processes over the last 2 years.

Last year, we completed a Business Process Reengineering (BPR), effort for managing the Department's real property inventory. The inventory reform effort will provide the DOD warfighter and business mission with relevant access to needed information on real property. The Services and Defense agencies have begun to rearchitect their business processes and systems to ensure that they will be able to provide the standard business processes and data elements identified during the BPR. Together, these processes and data elements will enable greater visibility of real property assets and associated financial resources. The Department has also completed a thorough assessment of information systems that will support the inventory. The military components are developing plans for economic and timely investment in, and achievement of, this new information environment.

In addition to the inventory, these efforts led to development of a site-unique identifier (UID) registry that will improve the visibility of our real property assets. The process of assigning UID to sites has already begun and this year UIDs will be assigned to all assets, such as facilities, runways, and piers. Ultimately, this registry will provide a link between real property resources and their locations to our warfighting and business personnel and the property they operate.

Organizing the Department's extensive geospatial and imagery assets through the Defense Installation Spatial Data Infrastructure (DISDI) program has enabled business transformation on many fronts. For example, the innovative use of commercial satellite imagery combined with locally validated mapping features significantly heightened the quality of the Fiscal Year 2005 BRAC, deliberations. During this first year of operations, DISDI saved more than $20 million across the business mission simply by sharing commercial satellite imagery across the Department. 2005 also saw DISDI completing the first worldwide inventory of geospatial assets. This, in turn, is enabling Defense-wide software licensing agreements which will reduce future software costs by more than 25 percent.

Reengineering of environment, safety, and occupation health focused on two initiatives. First, DOD completed reengineering associated with recognizing, valuing, and reporting environmental liabilities, and created a standard data model for the majority of these liabilities. The Department will finish the remaining environmental liabilities this year, resulting in a complete, accurate, and visible inventory of environmental liabilities reconciled with asset records. Completion of this project will also eliminate a material weakness. Second, DOD began re-engineering the management of hazardous materials throughout the Department. Although the Services and Agencies handle many hazardous materials, different processes are in place to manage the products and their support information. These reengineering efforts are designed to eliminate the costly, redundant, and ultimately unsafe practices associated with these multiple processes.

The Department's plans for this fiscal year, also documented in the Enterprise Transition Plan, will see the continuation of the unique identification implementation through the continued population of the site registry, and, of greater significance, the employment of the asset UID concept. The Department will build and deploy the infrastructure to manage asset UIDs, and begin the process of assigning them to facilities in our portfolio. The DISDI program will complement the inventory development effort, focusing on the physical mapping of DOD's real property inventory, and begin a new reengineering effort focusing on construction in progress.

CONCLUSION

In closing, Mr. Chairman, I sincerely thank you for this opportunity to highlight our successes and outline our plans for the future. I appreciate your continued support of our installations and environment portfolio, and I look forward to working with you as we transform our plans into actions.

Senator ENSIGN. Secretary Eastin.

STATEMENT OF HON. KEITH E. EASTIN, ASSISTANT SECRETARY OF THE ARMY FOR INSTALLATIONS AND ENVIRONMENT

Mr. EASTIN. Thank you, Mr. Chairman, Senator Akaka, Senator Thune. It is a pleasure to be here today. I will try to make my remarks short, given the time. I have provided a written statement that details our fiscal year 2007 budget request and I would ask that it be put in the record.

Senator ENSIGN. All of the statements will be made part of the record, and especially because we are probably going to go until about 3:10. We are going to try to wrap things up by about then because we have a vote starting at 3:00. So whatever you can summarize so we can get to as many questions as possible would be great.

Mr. EASTIN. Yes, sir.

As you are aware, the Army is very busy these years. Concurrent with fighting the long war on terrorism, we are in the midst of transforming our Army to better meet the national security challenge. We are changing from a division-centric force to a brigade-centric force. In addition, we are on the verge of repositioning our forces worldwide through both BRAC and the Integrated Global Presence and Basing Strategy initiative.

Our plan integrates these three and allows us to divest Cold War assets and infrastructure and create the infrastructure required for the foreseeable future. All of these changes require a large commitment of resources. This consolidation will yield tremendous savings over time. We will reduce overhead costs by streamlining the installation staffs, contract support and infrastructure that will support units and activities in their new locations. We are exploiting this opportunity to become more efficient and more effective as we implement our stationing plan.

We continue to make significant measurable progress towards our goal of eliminating inadequate housing both for our single and married soldiers and their families. If enacted, this budget request will achieve almost 90 percent of our pre-transformational goal of eliminating inadequate permanent party barracks. It puts us on a glide path to provide barracks to house soldiers returning to the U.S. all by 2011.

Similarly, for family housing we continue to invest dollars in our Residential Communities Initiative. By the end of fiscal year 2007, we will have privatized over 76,000 homes. At the end state over 90 percent of our housing inventory will be privatized.

These improvements provide soldiers and families with a quality of life that recognizes their service to the Nation. These programs have a positive and enduring effect on our soldiers' morale and contribute immeasurably to our ability to sustain our volunteer force.

Under BRAC we will carry out 12 major and one minor base closure, conduct 53 alignments, close 387 Reserve component facilities, and construct in their place 125 new Armed Force Reserve Centers. All in all, this BRAC round will cause the Army to have more than 820 discrete individual actions to take place. Many of

these actions are joint, requiring close coordination with the other Services.

Through Integrated Global Presence and Basing Strategy (IGPBS) and other overseas consolidations, we will also return more than 50,000 soldiers and their families from Germany and Korea to the U.S. In addition, IGPBS is also repositioning forces within our overseas areas, actions that will also require a significant resource effort. This repositioning will allow the efficient return of overseas forces and enable our installation commanders to focus their efforts on enduring installations.

Mr. Chairman, with the generous help of this committee and Congress we have made tremendous progress in enhancing training and generating combat power in time of war. However, despite these major improvements, the Army still requires significant resources to overcome years of insufficient investments in its installations and infrastructure. If resourced, our stationing plan will produce installations better able to train and prepare our forces for future missions. Our plan will also provide a quality of life that our soldiers and families deserve and will help to sustain the all-volunteer force.

We thank you for your continued support and hope you will consider our budget request.

[The prepared statement of Mr. Eastin follows:]

PREPARED STATEMENT BY HON. KEITH E. EASTIN

INTRODUCTION

Mr. Chairman and members of the subcommittee, it is a pleasure to appear before you to discuss the Army's Military Construction budget request for fiscal year 2007. We have a robust budget that is critical to the success of the Army's new initiatives and sustainment of ongoing programs of critical importance to the Army. We appreciate the opportunity to report on them to you. We would like to start by thanking you for your unwavering support to our soldiers and their families serving our Nation around the world. They are and will continue to be the centerpiece of our Army, and they could not perform their missions so successfully without your steadfast support.

OVERVIEW—TRANSFORMING INSTALLATIONS WHILE THE ARMY IS AT WAR

Installations are the home of combat power—a critical component of the Nation's force capabilities. Your Army is working to ensure that we deliver cost-effective, safe, and environmentally sound capabilities and capacities to support the National defense mission.

The tremendous changes in our national security environment since the terrorist attacks on our Nation clearly underscore the need for a joint, integrated military force ready to defeat all threats to U.S. interests. To meet these security challenges, we require interrelated strategies centered on people, forces, quality of life, and infrastructure. Regarding infrastructure, we need a global framework of Army installations, facilities, ranges, airfields, and other critical assets that are properly distributed, efficient, and capable of ensuring that we can successfully carry out our assigned roles, missions, and tasks that safeguard our security at home and abroad.

Army infrastructure must enable the force to fulfill its strategic roles and missions in order to generate and sustain combat power. As we transform our operational forces, so too must we transform the institutional Army and our installation infrastructure to ensure this combat power remains relevant and ready.

Stationing

To transform from a forward-deployed to a U.S.-based power projection force, we are consolidating overseas units at enduring locations and bringing back units to the United States through the effort we collectively call "stationing." Our stationing effort is an integrated plan driven by the convergence of three distinct initiatives: Base Realignment and Closure (BRAC) 2005, Integrated Global Presence and Bas-

ing Strategy (IGPBS), and the Army Modular Force (AMF) Initiative. Stationing will allow the Army to focus its resources on installations that provide the best military value and to best posture units for responsiveness and readiness. Eliminating Cold War era infrastructure and employing modern technology to consolidate activities allows the Army to free financial and human resources that we can then focus on our core warfighting mission. The stationing initiative is a massive undertaking, requiring the synchronization of base closures, realignments, military construction and renovation, unit activations and deactivations, and the flow of forces to and from current global commitments. Our decisions to synchronize activities associated with restationing and realigning our global basing posture have been guided by the following key criteria:

- Meeting operational requirements
- Providing economic benefits
- Using existing infrastructure to reduce cost and excess capacity
- Funding critical requirements to achieve unit mission
- Compliance with applicable laws
- Minimizing the use of temporary facilities
- Giving facility priority to ranges, barracks, housing, vehicle maintenance shops, headquarters and operations, dining and instruction facilities

The completion of this combined set of stationing initiatives will result in an Army that is better positioned to respond to the needs and requirements of the 21st century security environment, with our soldiers and families living at installations that are truly "Flagships of Army Readiness."

Infrastructure Quality

In addition to mission support, our installations provide the base of support for soldiers and their families. The environment in which our soldiers train, our civilians work, and our families live plays a key role in recruiting and retaining the high quality people the Army needs. Through efforts such as Barracks Modernization and the Residential Communities Initiative (RCI), the Army has made tremendous progress in improving the quality of life for soldiers and their families. These efforts will combine with the Army's stabilization of the force to forge greater bonds between units, soldiers, families, and the communities in which they live.

The quality of our installations is critical to the support of the Army's mission, its soldiers, and their families. Installations serve as the platforms we use to train, mobilize, and rapidly deploy military power. When forces return from deployments, installations enable us to efficiently reset and regenerate combat power for future missions. In the past year, the Army has made tremendous progress in enhancing training and improving its ability to generate and reset the force. Through its stationing plans, the Army will be able to focus future resources on key installations that provide the most value to our mission and provide the quality of life that our soldiers and families deserve.

Base Realignment and Closure (BRAC) 2005

BRAC 2005 is the fifth round of BRAC actions that is now approved for implementation beginning in fiscal year 2006. BRAC 2005 actions are designed to optimize the Army's infrastructure assets in concert with, and in support of, the operational capacity and warfighting capabilities of the Army. BRAC 2005 is also designed to enhance the opportunities for joint activities with the creation of joint installations and joint operations that create more efficient and effective common business-oriented functions within the Department of Defense (DOD). As with prior rounds, the Army will achieve savings by divesting of installations that are no longer needed and are less efficient and effective in supporting a Joint and Expeditionary Army. BRAC 2005 goes beyond savings and provides transformational facilities and new opportunities for Joint operations and Joint business functions. As we reposition forces from overseas, our installations must support a Joint and Expeditionary Army.

BRAC recommendations became law on November 9, 2005, and by law, all recommendations must be completed by September 14, 2011. DOD and the Army recommended 12 major and 1 minor Army base closures and 53 Army base realignments. In addition, 176 Army Reserve and 211 National Guard facilities will close across 39 states and territories whose units will relocate to 125 new Armed Forces Reserve Centers.

BRAC execution should contribute to the following Army goals:

- Reducing cost and generate savings which can be reinvested
- Optimizing military value
- Advancing the Army Modular Force Initiative
- Accommodating the rebasing of overseas units

- Enabling the transformation of both the Active and Reserve components as well as rebalancing the forces
- Contributing to joint operations

Integrated Global Presence and Basing Strategy (IGPBS)

IGPBS will relocate over 50,000 soldiers and their families from Europe and Korea to the United States over the next 5 to 6 years. These moves are critical to ensure Army forces are properly positioned worldwide to respond in support of our National Military Strategy. The majority of the moves/restationing actions are incorporated within the BRAC budget, but IGPBS also includes intratheater moves. These include moves within Korea relocating units from north of Seoul to Camp Humphreys; within Germany from numerous installations to our major hub at Grafenwoehr/Vilseck, and moves from Germany to Italy to support the standup of a full Airborne Brigade Combat Team in Vicenza.

Army Modular Force

The fiscal year 2007 budget includes projects to ensure that our facilities continue to meet the demands of force structure, weapons systems, and doctrinal requirements. As of fiscal year 2006, we have funded 93 percent of the military construction requirements for the Stryker Brigade Combat Teams, including National Guard requirements in Pennsylvania. Remaining construction funding for both the active Army and Army National Guard will be requested in future budget requests.

The Army Modular Force (AMF) initiative transforms the Army from units based on the division organization into a more powerful, adaptable force built on self-sufficient, brigade-based units that are rapidly deployable. These units, known as Brigade Combat Teams (BCTs), consist of 3,500 to 4,000 soldiers. BCTs increase the Army's combat power while meeting the demands of global requirements without the overhead and support previously provided by higher commands.

New facility requirements for transforming units are being provided, where feasible, through the use of existing assets. Where existing assets are not available, the Army is programming high-priority projects to support soldiers where they live and work. The Army is requesting $242 million in fiscal year 2007, to support BCTs. The remaining AMF requirements will be addressed in future budgets.

BRAC 2005 Implementation Strategy

The Army will execute BRAC 2005 by implementing interrelated events starting with realignment of the operational forces of the active Army, both inside and outside the United States, at installations DOD-wide, capable of training modular formations at home station. The Army will create Joint and Army Training Centers of Excellence to enhance coordination, doctrine development, training effectiveness, and improve operational and functional efficiencies.

The Army will transform the Reserve components by realigning and closing facilities to reshape the command and control functions and force structure and to create Joint or multi-functional installations. The Army will close 387 Army Reserve and National Guard facilities and build 125 new multi-component Armed Forces Reserve Centers distributed throughout the United States and Puerto Rico. The new Armed Forces Reserve Centers will improve the readiness and ability of Reserve and National Guard units to train, alert, and deploy in support of current and future contingency operations, including homeland defense. In addition, the Army will disestablish 10 Army Reserve Regional Readiness Commands and establish 4 Regional Readiness Sustainment Commands and 6 new deployable warfighting units.

In the United States, the Army will consolidate four Installation Management Agency regions into two and also consolidate the Installation Management Agency, Army Community and Family Support Center, and the Army Environmental Center in San Antonio, Texas.

The Army will partner with DOD to consolidate DOD Research, Development, Test, and Evaluation organizations to enhance support of DOD transformation and Joint Operations and realign or close installations to co-locate headquarters with subordinate commands or to station organizations with their service counterparts to provide responsive, quality, and cost-effective medical and dental care. Finally, the Army will transform materiel and logistics operations by realigning or closing installations to integrate critical munitions production and storage, manufacturing, depot-level maintenance, and materiel management to enhance joint productivity and efficiency and to reduce cost.

BRAC 2005 Budget

The Army will apply all the necessary resources to accomplish the BRAC 2005 mission. In fiscal year 2006, the Army will execute over $865 million to initiate both BRAC and IGPBS, and begin required National Environmental Policy Act actions

for all BRAC 2005 requirements. The Army will begin planning and design for projects in fiscal years 2006, 2007, and 2008, and begin construction of 10 projects in fiscal year 2006. The Army will execute $3,608 million to continue actions for BRAC 2005 requirements in fiscal year 2007.

Prior BRAC

In 1988, Congress established the Defense Base Realignment and Closure Commission to ensure a timely, independent, and fair process for closing and realigning military installations. Since then, DOD has successfully executed four rounds of base closures to reduce infrastructure and align the military's infrastructure to the current security environment and force structure. Through this effort, the Army estimates approximately $10.7 billion in savings through 2006—more than $900 million annually from previous BRAC rounds.

The Army is requesting $51.3 million in fiscal year 2007 for prior BRAC rounds ($6.2 million to fund caretaking operations of remaining properties and $45.1 million for environmental restoration). In fiscal year 2007, the Army will complete environmental restoration efforts at two installations, leaving eight remaining BRAC installations requiring environmental restoration.

To date, the Army has spent $2.5 billion on BRAC environmental restoration. We have disposed of 229,129 acres (89 percent of the total acreage disposal requirement of 258,607 acres), with 29,478 acres remaining to dispose of at 15 installations.

THE WAY AHEAD

To improve the Army's facilities posture, we have undertaken specific initiatives or budget strategies to focus our resources on the most important areas—Range and Training Lands, Barracks, Family Housing, and Workplaces.

Range and Training Lands. Ranges and training lands enable our Army to train and develop its full capabilities to ensure our soldiers are fully prepared for the challenges they will face. Our Army Range and Training Land Strategy supports Army transformation, and the Army's Sustainable Range Program. The Strategy identifies priorities for installations requiring resources to modernize ranges, mitigate encroachment, and acquire training land.

Barracks. Providing safe, quality housing is a crucial commitment the Army has made to its soldiers. We owe single soldiers the same quality housing that is provided to married soldiers. Modern barracks are shown to significantly increase morale, which positively impacts readiness and quality of life. The importance of providing quality housing for single soldiers is paramount to success on the battlefield. The Army is in the 14th year of its campaign to modernize barracks to provide 136,000 single enlisted permanent party soldiers with quality living environments. The new complexes meet DOD "1+1" or equivalent standard by providing two-soldier suites, increased personal privacy, larger rooms with walk-in closets, new furnishings, adequate parking, landscaping, and unit administrative offices separated from the barracks.

Family Housing. This year's budget continues our significant investment in our soldiers and their families by supporting our goal to have contracts and funding in place to eliminate inadequate housing at enduring installations by fiscal year 2007 in the U.S. and by fiscal year 2008 overseas. For families living off-post, the budget for military personnel maintains the basic allowance for housing that eliminates out-of-pocket expenses.

Workplaces. Building on the successes of our family housing and barracks programs, we are moving to improve the overall condition of Army infrastructure by focusing on revitalization of our workplaces. Projects in this year's budget will address requirements for operational, administration, instructional, and maintenance facilities. These projects support and improve our installations and facilities to ensure the Army is deployable, trained, and ready to respond to meet its national security mission.

Leveraging Resources

Complementary to these budget strategies, the Army also seeks to leverage scarce resources and reduce our requirements for facilities and real property assets. Privatization initiatives such as the Residential Communities Initiative (RCI), Utilities Privatization, and build-to-lease family housing in Europe and Korea represent high-payoff programs which have substantially reduced our dependence on investment funding. We also benefit from agreements with Japan, Korea, and Germany where the Army receives host nation funded construction.

In addition, Congress has provided valuable authorities to utilize the value of our non-excess inventory under the Enhanced Use Leasing program and to exchange facilities in high-cost areas for new facilities in other locations under the Real Prop-

erty Exchange program. In both cases, we can capitalize on the value of our existing assets to reduce unfinanced facilities requirements.

The Army is transforming military construction by placing greater emphasis on installation master planning and standardization of facilities as well as planning, programming, designing, acquisition, and construction processes. Looking toward the immediate future, we are aggressively reviewing our construction standards and processes to align with industry innovations and best practices. In doing so, we expect to deliver quality facilities at lower costs while meeting our requirements more expeditiously. By encouraging the use of manufactured building solutions and other cost-effective, efficient processes, the Army will encourage non-traditional builders to compete. Small business opportunities and set-aside programs will be addressed, as well as incentives for good performance. Work of a repetitive nature coupled with a continuous building program will provide the building blocks for gaining efficiencies in time and cost.

MILITARY CONSTRUCTION

The Army's fiscal year 2007 budget request includes $7.63 billion for Military Construction appropriations and associated new authorizations, Army Family Housing, and Base Realignment and Closure.

Military Construction Appropriation	Authorization Request	Authorization of Appropriations Request	Appropriation Request
Military Construction Army (MCA)	$1,982,432,000	$2,059,762,000	$2,059,762,000
Military Construction Army National Guard (MCNG)	N/A	$473,197,000	$473,197,000
Military Construction Army Reserve (MCAR)	N/A	$166,487,000	$166,487,000
Army Family Housing Construction (AFHC)	$594,991,000	$594,991,000	$594,991,000
Army Family Housing Operations (AFHO)	$676,829,000	$676,829,000	$676,829,000
BRAC 95 (BCA)*	$51,340,000	$51,340,000	$51,340,000
BRAC 2005 (BCA)*	$3,608,234,000	$3,608,234,000	$3,608,234,000
TOTAL	**$6,913,826,000**	**$7,630,840,000**	**$7,630,840,000**

*BRAC Fiscal Year 2007 Budget will be submitted by OSD in March 2006

MILITARY CONSTRUCTION, ARMY (MCA)

The Active Army Fiscal Year 2007 Military Construction budget request is $1,982,432,000 for authorization and $2,059,762,000 for authorization of appropriations and appropriation. These projects will provide the infrastructure necessary to ensure continued soldier readiness and family well-being.

Soldiers as our Centerpiece Projects. The well-being of our soldiers, civilians, and families is inextricably linked to the Army's readiness. We are requesting $934 million or 46 percent of our MCA budget for projects to improve well-being in significant ways.

The Army continues to modernize and construct barracks to provide enlisted single soldiers with quality living environments. This year's budget request includes 24 barracks projects to provide improved housing for 5,450 soldiers and new barracks in support of major stationing moves. With the approval of $840 million for new barracks in this budget, 89 percent of our requirement will be funded at the "1+1" or equivalent standard.

We are requesting the second increment of funding, $135 million, for four previously approved, incrementally funded, multiple-phased barracks complexes. In addition, we are requesting full authorization of $408 million for an incrementally funded brigade complex, but only requesting $102 million in appropriations for this project in fiscal year 2007. Our plan is to award this complex subject to subsequent appropriations, as single contracts to gain cost efficiencies, expedite construction, and provide uniformity in like facility types. The fiscal year 2007 budget also includes a $26 million physical fitness center, which incorporates a child development center, and eight additional child development centers for $68 million. This will provide more than 1,800 child spaces to allow soldiers to focus on their missions, knowing their families are being provided for.

Overseas Construction. Included in this budget request is $526 million in support of high-priority overseas projects. In Germany, we continue our consolidation of units to Grafenwoehr as part of our Efficient Basing—Grafenwoehr initiative. This

is our fifth and next to last year of funding. Funding requested this year will bring us to 89 percent funded for this initiative. This initiative allows us to close numerous installations as forces relocate to the U.S. and within Europe saving base support and enhancing training. In Korea, we are again requesting funds to further our relocation of forces on the peninsula. This action is consistent with the Land Partnership Plan agreements entered into by the U.S. and Republic of Korea Ministry of Defense. Our request for funds in Italy is IGPBS related and relocates forces from Germany to Vicenza to create a full Airborne BCT as part of the Army's transformation to a modular force. The Airborne BCT complex also includes new barracks to house 570 soldiers. Additional locations in Germany will close as construction is completed.

Current Readiness Projects. Projects in our fiscal year 2007 budget will enhance training and readiness by providing deployment and maintenance facilities, brigade complexes and headquarters, other operational and administration facilities, and an overseas Forward Operating Site base camp for $34.8 million that will provide a brigade (minus)-sized operational facility to support rotational training, allow for increased U.S. partnership training, and promote new military to military relationships.

We will also construct a battle seminar facility, combined arms collective training facilities, shoot houses, digital multipurpose training ranges, and purchase land to support collective training. These facilities will provide our soldiers realistic, state-of-the-art live-fire training. We are requesting a total of $613 million for these high-priority projects. We are also requesting the second and final phase of funding of $13 million for a defense access road.

Army Modular Force Projects. Our budget supports transformation of the Army to a modern, strategically responsive force. Our budget request contains $276 million for five brigade complexes and other facilities. Additionally, there are eight child development centers, and new barracks to house 1,130 soldiers in support of the Army Modular Force.

Other Support Programs. The Fiscal Year 2007 MCA budget includes $192 million for planning and design of future projects. As executive agent, we also provide oversight of design and construction for projects funded by host nations. The fiscal year 2007 budget requests $21 million for oversight of approximately $800 million of host nation funded construction for all Services in Japan, Korea, and Europe.

The fiscal year 2007 budget also contains $23 million for unspecified minor construction to address unforeseen critical needs or emergent mission requirements that cannot wait for the normal programming cycle.

MILITARY CONSTRUCTION, ARMY NATIONAL GUARD

The Army National Guard's Fiscal Year 2007 Military Construction request for $473,197,000 (for appropriation and authorization of appropriations) is focused on Current Readiness, Transformation, and other support and unspecified programs.

Current Readiness. In fiscal year 2007, the Army National Guard has requested $161 million for eight projects to support current readiness. These funds will provide the facilities our soldiers require as they train, mobilize, and deploy. Included are four maintenance facilities, two training projects, one Readiness Center, and an Armed Forces Reserve Center.

Army Modular Force. This year, the Army National Guard is requesting $234 million for 32 projects in support of our new missions. There are 12 projects for the Stryker Brigade Combat Team initiative, 8 for our Army Division Redesign Study, 7 Range projects to support the Army Range and Training Land Strategy, and 5 Aviation Transformation projects to provide facilities for modernized aircraft and change unit structure.

Other Support Programs. The Fiscal Year 2007 Army National Guard budget also contains $57 million for planning and design of future projects and $21 million for unspecified minor military construction to address unforeseen critical needs or emergent mission requirements that cannot wait for the normal programming cycle.

MILITARY CONSTRUCTION, ARMY RESERVE

The Army Reserve's Fiscal Year 2007 Military Construction request for $166,487,000 (for appropriation and authorization of appropriations) is for Current Readiness and other support and unspecified programs.

Current Readiness. In fiscal year 2007, the Army Reserve will invest $125.1 million to construct five new Army Reserve Centers and two Armed Forces Reserve Centers; and invest $13.7 million to construct a general purpose warehouse—for a total facility investment of $138.8 million. Construction of the seven Reserve Centers will support over 3,800 Army Reserve soldiers and civilian personnel. In addi-

tion, the Army Reserve will invest $5.2 million to construct three training ranges, which will be available for joint use by all Army components and military services.

Other Unspecified Programs. The Fiscal Year 2007 Army Reserve budget request includes $19.5 million for planning and design for future year projects and $3.0 million for unspecified minor military construction to address unforeseen critical needs or emergent mission requirements that cannot wait for the normal programming cycle.

ARMY FAMILY HOUSING CONSTRUCTION (AFHC)

The Army's fiscal year 2007 family housing request is $594,991,000 (for authorization, authorization of appropriation, and appropriation). It continues the successful Whole Neighborhood Revitalization initiative approved by Congress in fiscal year 1992 and our Residential Communities Initiative (RCI) program.

The fiscal year 2007 new construction program provides Whole Neighborhood replacement projects at five locations in support of 538 families for $241.8 million using traditional military construction.

The Construction Improvements Program is an integral part of our housing revitalization and privatization programs. In fiscal year 2007, we are requesting $180.1 million for improvements to 1,084 existing units at 4 locations in the United States and 3 locations in Europe, as well as $156.8 million for scoring and direct equity investment in support of the privatization of 1,615 units at 5 RCI locations.

In fiscal year 2007, we are also requesting $16.3 million for planning and design for future family housing construction projects critically needed for our soldiers.

Privatization. RCI, the Army's Family Housing privatization program, is providing quality, sustainable housing and communities that our soldiers and their families can proudly call home. This highly successful program is a critical component of the Army's effort to eliminate inadequate family housing in the United States. The fiscal year 2007 budget request of $156.8 million provides equity investment to privatize housing at two installations and revise development plans to build new housing at three previously privatized installations.

We are leveraging appropriated funds and Government assets by entering into long-term partnerships with nationally recognized private sector real estate development/management and homebuilder firms to obtain financing and management expertise to construct, repair, maintain, and operate family housing communities.

The RCI program currently includes 43 installations with a projected end state of over 82,000 units—over 90 percent of the family housing inventory in the United States. The Army has privatized over 60,000 homes through December 2005, and by the end of fiscal year 2007, we will have privatized housing at 36 installations with an end state of more than 76,000 homes.

ARMY FAMILY HOUSING OPERATIONS (AFHO)

The Army's fiscal year 2007 family housing operations request is $676,829,000 (for appropriation and authorization of appropriations), which is approximately 53 percent of the total family housing budget. This account provides for annual operations, municipal-type services, furnishings, maintenance and repair, utilities, leased family housing, demolition of surplus or uneconomical housing, and funds supporting management of the Military Housing Privatization Initiative.

Operations ($125 million). The operations account includes four subaccounts: management, services, furnishings, and a small miscellaneous account. All operations subaccounts are considered "must pay accounts" based on actual bills that must be paid to manage and operate family housing.

Utilities ($106 million). The utilities account includes the costs of delivering heat, air conditioning, electricity, water, and wastewater support for family housing units. While the overall size of the utilities account is decreasing with the reduction in supported inventory, per-unit costs have increased due to general inflation and the increased costs of fuel.

Maintenance and Repair ($205 million). The maintenance and repair (M&R) account supports annual recurring projects to maintain and revitalize family housing real property assets. Since most Family Housing operational expenses are fixed, M&R is the account most affected by budget changes. Funding reductions result in slippage of maintenance projects that adversely impact soldier and family quality of life.

Leasing ($215 million). The leasing program provides another way of adequately housing our military families. The fiscal year 2007 budget includes funding for 12,091 housing units, including existing Section 2835 ("build-to-lease"—formerly known as 801 leases) project requirements, temporary domestic leases in the United States, and 6,387 units overseas.

RCI Management ($26 million). RCI management program provides operating funds for the privatization of military family housing. RCI costs include pay and travel of Army personnel, selection of private sector partners, environmental studies, real estate surveys, consultants to assist with developing and implementing projects, and oversight and analyses of the privatized housing portfolio.

OPERATION AND MAINTENANCE

The Fiscal Year 2007 Operation and Maintenance budget includes $2.384 billion in funding for Sustainment, Restoration, and Modernization (S/RM), $30.6 million for demolition, and $6.396 billion in funding for Base Operations Support (BOS). The S/RM and BOS accounts are inextricably linked with our Military Construction programs to successfully support our installations. The Army has centralized the management of its installations assets under the Installation Management Agency to best utilize this funding.

Sustainment, Restoration, and Modernization (S/RM). S/RM provides funding for the Active and Reserve components to prevent deterioration and obsolescence and restore the readiness of facilities on our installations.

Sustainment is the primary account in installation base support funding responsible for maintaining the infrastructure to achieve a successful readiness posture for the Army's fighting force. It is the first step in our long-term facilities strategy. Installation facilities are the mobilization and deployment platforms of America's Army and must be properly maintained to be ready to support current missions and future deployments.

The second step in our long-term facilities strategy is recapitalization by restoring and modernizing our existing facility assets. Restoration includes repair and restoration of facilities damaged by inadequate sustainment, excessive age, natural disaster, fire, accident, or other causes. Modernization includes alteration or modernization of facilities solely to implement new or higher standards, including regulatory changes to accommodate new functions, or to replace building components that typically last more than 50 years, such as foundations and structural members.

Base Operations Support. This account funds programs to operate the bases, installations, camps, posts, and stations for the Army worldwide. The program includes municipal services, government civilian employee salaries, family programs, environmental programs, force protection, audio/visual, base communication services, and installation support contracts. Army Community Service and Reserve component family programs include a network of integrated support services that directly impact soldier readiness, retention, and spouse adaptability to military life during peacetime and through all phases of mobilization, deployment, and demobilization.

HOMEOWNERS ASSISTANCE FUND, DEFENSE

The Army is the DOD Executive Agent for the Homeowners Assistance Program (HAP). This program provides assistance to eligible military and civilian employee homeowners by providing some financial relief when they are not able to sell their homes under reasonable terms and conditions as a result of DOD announced closures, realignments, or reduction in operations when this action adversely affects the real estate market. For fiscal year 2007, HAP will maintain a baseline program. The fiscal year 2007 baseline program will be sustained with prior year unobligated funds and revenue from sales of acquired properties. The HAP baseline program assistance will be continued for personnel at installations that are impacted by non-BRAC DOD closure or realignment activities resulting in adverse economic effects on local communities.

SUMMARY

Mr. Chairman, our fiscal year 2007 budget is a balanced program that supports our soldiers and their families, the global war on terrorism, Army transformation, readiness, BRAC 2005, and DOD installation strategy goals. We are proud to present this budget for your consideration because of what this $7.63 billion fiscal year 2007 budget will provide for our Army:

- New barracks for 7,150 soldiers
- New housing for 1,622 families
- Management of 76,668 privatized homes
- Operation and sustainment of 45,454 government-owned and leased homes
- New or improved Readiness Centers for over 3,300 Army National Guard soldiers

- New Reserve Centers for 3,800 Army Reserve soldiers
- $175 million investment in training ranges
- Facilities support for two Stryker Brigades
- Facilities support for the Integrated Global Presence and Basing Strategy, European Theater
- Facilities support for six Modular Force Transformations

Our long-term strategies for installations will be accomplished through sustained and balanced funding, and with your support, we will continue to improve soldier and family quality of life, while remaining focused on Army and Defense transformation goals.

In closing, we would like to thank you again for the opportunity to appear before you today and for your continued support for America's Army.

Senator ENSIGN. Thank you.

Secretary Penn.

STATEMENT OF HON. B.J. PENN, ASSISTANT SECRETARY OF THE NAVY FOR INSTALLATIONS AND ENVIRONMENT

Mr. PENN. Thank you. Mr. Chairman, distinguished members of the subcommittee: I am honored to represent the sailors, marines, and civilians who serve in harm's way, along with those who provide critical support roles to defend our freedom in far away places in difficult conditions.

Sir, you asked for brevity, so I am going to be very brief. I recognize the concern by some Members of Congress and communities regarding whether the substantial revenues DOD has obtained from the sale of prior BRAC property, that is property closed under the four previous BRAC rounds in 1988, 1991, 1993, and 1995, will lead us to seek property sale as a primary or exclusive disposal method for BRAC 2005. I want to emphasize that we will tailor a disposal strategy for each individual closing base in close consultation with the local community. We will not resort to an exclusive one-size-fits-all pursuit and public sale.

I look forward to working with the members of this committee on issues of mutual concern.

[The prepared statement of Mr. Penn follows:]

PREPARED STATEMENT BY HON. B.J. PENN

Mr. Chairman and members of the subcommittee, I am pleased to appear before you today to provide an overview of the Department of Navy's shore infrastructure.

The Navy-Marine Corps team continues to operate in a complex, uncertain, and threatening global security environment. We must capitalize on our strengths as a rotational, forward-deployed, surge-capable force if we are to meet the challenges of a new era. We demonstrated our capabilities last year as we continued efforts to win the global war on terror while responding to major natural disasters, the Indonesian Tsunami and Hurricane Katrina, while continuing recovery efforts from Hurricane Ivan in 2004. We have a well skilled, highly motivated military, civilian, and contract workforce; with the help of this committee, we must provide them the necessary tools to accomplish the mission.

HURRICANE RECOVERY EFFORTS

Hurricane Ivan

Ivan ravaged the Florida panhandle in mid-September 2004, damaging 570 housing units, 850 structures, and destroying 100 buildings across Naval Air Station (NAS) Pensacola and NAS Whiting Field. A facilities task force, led by Rear Admiral Shear, worked rapidly to restore critical mission capabilities and initiated the deliberate planning required to restore both bases.

As we look back, the Hurricane Ivan recovery is a tremendous success story. In parallel with initial recovery actions, we sought not simply to rebuild, but to reshape our facilities footprint to improve operational effectiveness, consolidate functions, and eliminate on-base excess capacity. Using the Navy Ashore Vision 2030 as

a guiding vision and other strategic host and tenant planning documents, we project an overall 900,000 square foot reduction, along with reduced operating and maintenance costs, and efficiency improvements such as consolidating like functions from damaged facilities, and relocating destroyed facilities to more storm resistant locations.

The Fiscal Year 2005 Disaster Supplemental provided $468 million in operations and maintenance (O&M) and $139 million military construction funds for our recovery efforts. We have obligated all O&M funds, and five of the eight planned construction projects. We plan to award the remaining three construction projects by May 2006. Despite additional damage from Hurricane Katrina, NAS Pensacola and Whiting Field are fully mission capable.

Hurricane Katrina

Hurricane Katrina and subsequent storms severely impacted seven major bases, destroying buildings, rendering thousands homeless, and effectively shutting down operations for weeks while recovery began in earnest. Less than 20 percent of the 1,160 buildings across the seven affected bases escaped damage. Using techniques developed after Hurricane Ivan, we were prepared to promptly initiate recovery actions to ensure mission requirements were met while being good stewards of taxpayer funds.

The Department of Navy has received $1.5 billion in O&M funds, of which $853 million provided immediate facility and base support needs. Over 60 percent of these funds have been obligated to date. We have received an additional $411 million in military construction to support 34 construction projects. We expect to award all of these construction projects by the end of this fiscal year and I am confident that our facility execution is on pace to meet requirements and support recovery efforts.

The administration recently requested a fourth Supplemental for Hurricane Recovery, which included $43 million in O&M and $78 million military construction. These funds will replace collateral equipment, complete facility repairs, and provide military construction funds at Naval Air Station Joint Reserve Base, Belle Chase, LA; Construction Battalion Center, Gulfport, MS; and John C. Stennis Space Center, MS. This supplemental request also includes important fund transfer authority that will allow us to more effectively use available funds as we continue recovery efforts.

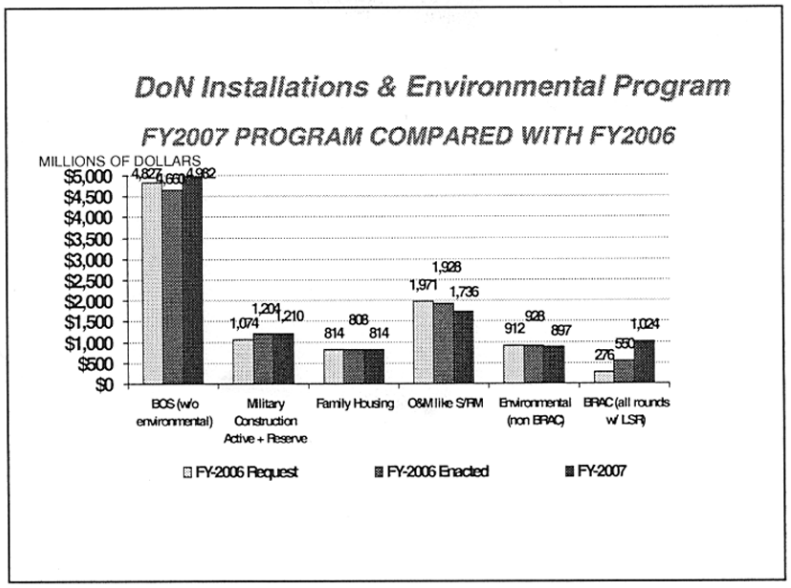
Task Force Navy Family

The devastation to our infrastructure wrought by the recent spate of hurricanes has also left a wide swath of devastation in the personal lives of our military, civilian, retirees and their families as they tackle their own recovery efforts. The Navy established Task Force Navy Family immediately after the hurricane to provide personalized assistance to help our Navy family members return to a sense of normalcy. A case manager helps family and service members on all aspects of personal recovery, from securing accommodations, replacing vital documents, filing insurance claims, or reuniting with their pets. As we transition Task Force Navy Family functions into our existing Navy personnel support architecture, we will continue to help each member and family through this time of crisis until all needs are met.

THE NAVY'S INVESTMENT IN FACILITIES

The Department of Navy's shore infrastructure is a critical factor in determining our operational capabilities and shaping our security posture. It's where we train and equip the world's finest sailors and marines, while developing the most sophisticated weapons and technologies. The Department of Navy manages a shore infrastructure with a plant replacement value of $180 billion on 4 million acres. Our fiscal year 2007 shore infrastructure budget totals $10.3 billion, representing about 8 percent of the Department of Navy's fiscal year 2007 request of $127 billion.

The Base Operating Support request of $5.0 billion, excluding environmental, comprises the largest portion of the Navy's facilities budget request. This account funds the daily operations of a shore facility, e.g., utilities, fire and emergency services; air and port operations; community support services; and custodial costs.



Our request for fiscal year 2007 of $5.0 billion reflects a $321 million increase from the enacted fiscal year 2006 level. This change is due in part to pricing changes as well as transfer of Norfolk and Portsmouth Naval Shipyards to mission funding.

Fiscal year 2007 military construction request of $1.2 billion is the same as the enacted fiscal year 2006 level. The request includes $48 million for Navy and Marine Corps Reserve construction efforts. This level of funding keeps us on track to eliminate inadequate bachelor housing, and provides critical operational, training, and mission enhancement projects.

While our fiscal year 2007 Family Housing request of $814 million is about the same as fiscal year 2006 enacted level of $808 million, there are substantial changes within the account: construction funds increase, including seed funds for Navy and Marine Corps privatization, and O&M funds decline as Government-owned inventory falls by 4,820 homes due to privatization.

Sustainment, Restoration, and Modernization (S/RM) includes military construction and operation and maintenance funds. Our fiscal year 2007 request of $1.7 billion represents only the amount of S/RM funded with O&M, and is $192 million below the enacted fiscal year 2006 level due to efficiencies.

Our $897 million environmental program at active and Reserve bases is comprised of operating and investment appropriations, which combined are $31 million below the fiscal year 2006 enacted level. Most of the reduction is due to reduced shipboard procurement needs and not continuing one-time congressional adds in research and technology development.

Our BRAC program consists of environmental cleanup and caretaker costs at prior BRAC locations, and implementation of BRAC 2005 recommendations.

- Our prior BRAC request is $334 million, an increase of $31 million over our fiscal year 2006 program of $303 million. The entire prior BRAC effort is financed with revenue obtained from the sale of prior BRAC properties.
- This fiscal year 2007 budget continues to implement the BRAC 2005 recommendations. The Department of Defense (DOD) recently submitted the fiscal year 2006 plan to Congress, including $247 million for the Department of Navy. The fiscal year 2007 request rises to $690 million.

Here are some of the highlights of these programs.

Military Construction Projects

The Department of Navy's fiscal year 2007 Military Construction program requests appropriations of $1.2 billion including $67.8 million for planning and design and $9 million for Unspecified Minor Construction. The authorization request totals $825.6 million. The Navy and Marine Corps Reserve Military Construction appropriation request is $48.4 million.

The active Navy program consists of:

- $85 million for four quality of life projects for Homeport Ashore, Great Lakes Recruit Training Command recapitalization and the Naval Academy.
- $348 million for 10 waterfront and airfield projects. $207 million of this is for six projects supporting new weapons platforms such as H60R/S, SSGN, F/A 18 E/F/G, and T–AKE.
- $48 million for four special weapons protection projects.
- $88 million for six Operational Support projects such as the Joint Deployment Communications Center in Norfolk, VA.
- $29 million for two Research, Development, Testing, and Evaluation (RDTE) projects supporting new VXX and MMA weapons platforms; and
- $30 million for three training facilities supporting simulators for MH60 and a Damage Control Wet Trainer.

The active Marine Corps program consists of:

- $180 million for five bachelor quarters, three dining facilities, and a battle aid station;
- $85 million for seven operations and training facilities;
- $33 million for continuing an environmental compliance project at Marine Corps Base Camp Pendleton;
- $60 million to provide six maintenance facilities at Marine Corps Air Station New River, Camp Pendleton, CA; and Marine Corps Air Ground Task Force Center Twentynine Palms, CA;
- $51 million for a variety of projects including land acquisition, armories, a missile magazine, ammunition supply point upgrades, and a fire station; and
- $62 million for the final settlement for acquiring Blount Island property.

The Navy and Marine Corps Reserve program consists of two Administrative and Boat Storage Facilities for Inshore Boat Units, five Reserve Centers, and an Aviation Joint Ground Support Facility.

Incremental funding of Military Construction Projects

Military construction projects are said to be incrementally funded when full authorization and only partial appropriation is sought in the first year. None of the annual appropriation requests provide a "complete and usable" portion of the facility. The Office of Management and Budget directed a new policy beginning with the fiscal year 2007 budget submission that permits incremental funding of new construction projects only on an exception basis. Previously approved incrementally funded projects, and construction projects for BRAC are exempted. This new policy replaces the previous policy, which allowed incremented projects in part if the cost exceeded $50 million and construction was expected to exceed 2 years. Our fiscal year 2007 budget request includes only one new incrementally funded project, the National Maritime Intelligence Center.

Marine Corps Special Operations Command (MARSOC)

On 28 October 2005, the Secretary of Defense approved a Marine component within the Special Operations Command. The new Marine component will provide approximately 2,600 Marine and Navy billets within U.S. Special Operations Command (SOCOM), led by a Marine Brigadier General. The MARSOC will conduct direct action, special reconnaissance, counterterrorism and foreign internal defense. MARSOC will have an initial operational capability this fall and full operational capability by 2010. The budget request includes $152 million for construction projects at Camp Lejeune and Camp Pendleton for the standup of MARSOC.

Certification of fiscal year 2007 construction costs

The conference report accompanying the Military Quality of Life and Veterans Affairs Appropriations Act of 2006 directed each assistant secretary with responsibility for installations to certify that the impact of natural disasters on project costs had been considered in preparing the budget submission. Our fiscal year 2007 military construction request includes a directed 3.1 percent inflation cost adjustment. While we have been experiencing up to a 30-percent cost increase for construction costs

in the Southeast and Gulf Coast, our fiscal year 2007 request contains relatively few projects in this area. We expect that labor and material costs will stabilize by the time these projects are ready to be executed in fiscal year 2007.

FACILITIES MANAGEMENT

Facilities Sustainment, Restoration, and Modernization (SRM)

DOD uses a sustainment model to calculate life-cycle facility maintenance and repair costs. These models use industry-wide standard costs for various types of building and geographic areas and are updated annually. Sustainment funds in the operation and maintenance accounts are used to maintain facilities in their current condition. The funds also provide for preventative maintenance, emergency responses for minor repairs, and major repairs or replacement of facility components (e.g. roofs, heating and cooling systems) that have reached the end of their service life. Both the Navy and the Marine Corps are budgeting and nearly achieving the DOD goal of 95 percent sustainment.

% Sustainment	FY-05	FY-06	FY-07
USN Budget	95%	95%	95%
USN Actual/Plan	90%	92%	
USMC Budget	95%	94%	93%
USMC Actual/Plan	94%	92%	

Restoration and modernization provides major recapitalization of our facilities using Military Construction, Operation and Maintenance, Navy Working Capital Fund, and Military Personnel funds. The "recap" metric is calculated by dividing the plant replacement value by the annual investment of funds and it is expressed as numbers of years. The DOD goal is to attain a 67-year rate by fiscal year 2008. This is a relatively coarse metric, as demonstrated by the dramatic improvement in execution from the substantial investment of the fiscal year 2005/2006 Hurricane Supplemental, which substantially improved only those bases affected by the storm. We are working with the Office of the Secretary of Defense and the other components to develop a recap model similar to the sustainment model.

Recap years	FY-05	FY-06	FY-07
USN Budget	136	105	83
USN Actual/Plan	78	56	
USMC Budget	95	102	112
USMC Actual/Plan	72	94	

Base Operating Support Models

The Navy uses business-based models and capabilities based approach to budget for Base Operating Support costs. The models use defined metrics and unit costs that are benchmarked against historic performance and industry standards, and link resources to definable, variable levels of outputs. Funding requirements are identified for at least three levels of output (or capability level) for each major shore service and support function, and the cost and risk of each output level. This new CBB process allows us to set funding levels on needed output levels, deliverables, and associated risks rather than prior funding levels. In a resource-constrained environment, it is imperative that we program, budget and execute the right resources at the right time for the right service.

Naval Safety

Navy Secretary Winter has continued former Navy Secretary England's commitment to making mishap reduction one of the top five Department of Navy performance objectives. We want safety to be an active—not passive—aspect of our work and play. In addition to keeping our people safe, there are substantial cost avoidance through robust risk management. Fiscal year 2005 produced solid progress in

Navy and Marine Corps mishap reduction. At the end of fiscal year 2005, we performed better than the 5-year average in two-thirds of the mishap categories.

One very successful effort has been the Occupational Safety and Health Administration (OSHA) Voluntary Protection Program (VPP), which focuses on management leadership and employee involvement teaming together to improve safety. Portsmouth, VA; Norfolk, VA; and Puget Sound, WA, naval shipyards have successfully achieved VPP STAR recognition from OSHA, while Pearl Harbor Naval Shipyard's application is under review. Lost workday rates due to injury have been reduced by 50 percent at Norfolk and 60 percent at Puget Sound in 3 years, 37 percent at Pearl Harbor in 2 years, and Portsmouth has consistently exceeded the DOD 50 percent mishap reduction goal.

Facilities Management Consolidation

Commander, Navy Installations (CNI) has now successfully completed its second year and has made significant improvements to Navy shore services. Among the many significant CNI efforts this year was the hurricane disaster recovery response in the Gulf Coast Region. Recovery and assessment teams responded promptly to restore infrastructure, make immediate repairs and capture critical data to plan for long-term rebuilding of devastated bases like the Seabee Base in Gulfport, MS; Stennis Space Center in Bay St. Louis, MS; naval bases in New Orleans as well as several Reserve centers in the Gulf Region.

Similarly, the Marine Corps is transforming its bases from singularly managed and resourced entities to ones strategically managed in geographic regions. Our bases and stations (except recruit training depots) will fall under the direction of five Marine Corps Installation Commands with the majority of the installations under the oversight of Marine Corps Installation Command—East and Marine Corps Installation Command—West. Regionalization will enhance warfighter support, improve alignment, enhance the use of regional assets, return Marines to the Operating Forces, and reduce costs.

Encroachment mitigation

We are successfully applying the recent authority to enter into agreements with state and local governments and eligible non-government organizations to address potential development near our installations and ranges that could limit our ability to operate and train. In the past 2 years, we have acquired restrictive easements from willing sellers covering over 3,360 acres in the vicinity of Marine Corps Base, Camp Lejeune, NC; Marine Corps Air Station, Beaufort, SC; Mountain Warfare Training Facility, La Posta, CA; Naval Air Station, Pensacola, FL; and Outlying Landing Field, Whitehouse, FL. We have used our operation and maintenance funds and DOD Readiness and Environmental Protection Initiative (REPI) funds. Our partners have used our contributions together with their own resources to acquire property interests from willing sellers and re-conveyed restrictive easements to us.

We expect that this program will continue to grow. Navy and Marine Corps are developing service-wide encroachment management programs to guide future priorities. Marine Corps is participating in conservation forums across the country with a variety of state and local governments and conservation organizations. The fiscal year 2007 President's budget includes $8.5 million for Navy and $5 million for Marine Corps encroachment protection initiatives, and we expect allocation of a share of the fiscal year 2007 $20 million REPI funds.

Energy

Through the end of fiscal year 2005, the Department of Navy reduced its energy consumption, compared to a fiscal year 1985 baseline, by nearly 30 percent, thus meeting Executive Order 13123 goals.

Last year the Navy opened a wind/diesel power plant at Naval Station Guantanamo Bay, Cuba. The four—950 KW windmills generate 30 percent of the base's electrical needs. The Navy also awarded a geothermal power plant at NAS Fallon, NV, that will generate a minimum of 30 MW of power. Similar to the Navy's existing 270 MW geothermal power plant at Naval Air Warfare Center, China Lake, CA, these power plants generate electricity from the earth's heat without creating pollution. The Navy is testing a wave power buoy off Marine Corps Base, Kaneohe, HI, and is finalizing the design of an Ocean Thermal Energy Conversion (OTEC) plant off Diego Garcia that will produce the island's electrical and potable water requirements using the temperature difference between warm surface water and cold, deep ocean water. These projects will reduce the Department of Navy's use of foreign oil, reduce greenhouse gas production, and improve energy security.

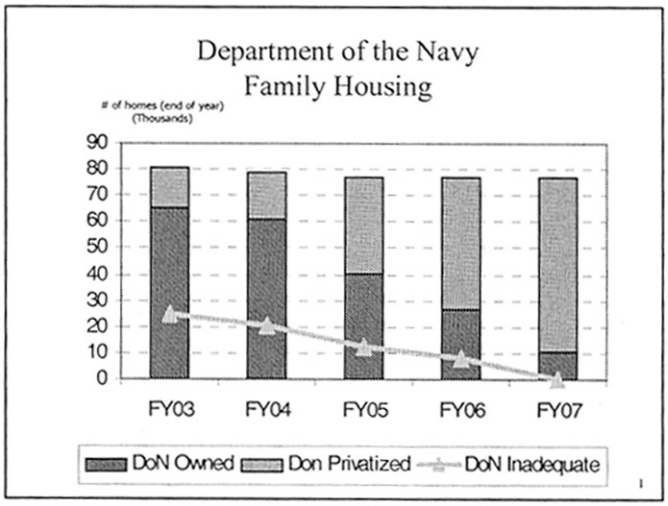
HOUSING

Our fiscal year 2007 budget continues progress in improving living conditions for sailors, marines, and their families. We have programmed the necessary funds and expect to have contracts in place by the end of fiscal year 2007 to eliminate all of our inadequate family and virtually all inadequate unaccompanied housing.

Family Housing

Our family housing strategy consists of a prioritized triad:

- Reliance on the Private Sector. In accordance with longstanding DOD and DoN policy, we rely first on the local community to provide housing for our sailors, marines, and their families. Approximately three out of four Navy and Marine Corps families receive a Basic Allowance for Housing and own or rent homes in the community.
- Public/Private Ventures (PPVs). With the strong support from this Committee and others, we have successfully used statutory PPV authorities enacted in 1996 to partner with the private sector to help meet our housing needs through the use of private sector capital. These authorities allow us to leverage our own resources and provide better housing faster to our families.
- Military Construction. Military construction will continue to be used where PPV authorities don't apply (such as overseas), or where a business case analysis shows that a PPV project is not financially sound.



As of March 1, we have awarded 19 projects totaling over 38,000 units. As a result of these projects, over 24,000 homes will be replaced or renovated. Additionally, close to 3,000 homes will be constructed for Navy and Marine Corps families. Through the use of these authorities we have secured about $4 billion in private sector investment from $453 million of our funds for the 19 projects. This represents a leverage ratio of over nine to one.

During fiscal year 2006 and 2007, we plan to award 10 Navy and Marine Corps family housing privatization projects totaling almost 28,000 homes. By the end of fiscal year 2007, the Navy and Marine Corps will have privatized 97 percent and 98 percent, respectively, of their U.S. housing stock.

Our fiscal year 2007 family housing budget request includes $305 million for family housing construction and improvements. This amount includes $175 million proposed for use as a Government investment in family housing privatization projects planned for fiscal year 2007 award. It also includes the replacement or revitalization of inadequate housing located at locations where privatization is not planned, most notably Guam and Japan. Finally, the budget request includes $509 million for the operation, maintenance, and leasing of Government-owned inventory.

Planned Privatization Awards

Location	# homes
Fiscal Year 2006	
San Diego (Phase 3)	4,268
Navy Hawaii (Phase 2)	2,520
Marine Corps Base Hawaii	1,175
Camp Lejeune/Cherry Pt (Phase 2)	960
Camp Pendleton (Phase 4)	3,359
FY 2006 Total	12,282
Fiscal Year 2007	
Southeast Region	8,038
Southwest Region	3,959
MCB Hawaii (Phase 2)	917
Camp Lejeune/Cherry Pt (Phase 3)	2,477
Camp Pendleton (Phase 5)	147
FY 2007 Total	15,538
Total FY 2006-2007	**27,820**

Unaccompanied Housing

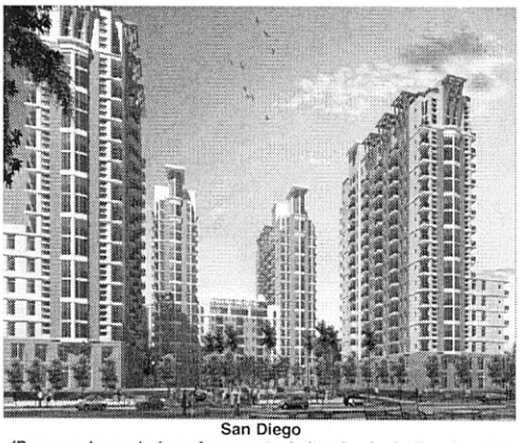
Our budget request of $207 million for unaccompanied housing construction projects continues the emphasis on improving living conditions for our unaccompanied sailors and marines. There are three challenges:

1. Provide Homes Ashore for our Shipboard Sailors. There are approximately 13,000 E1–E3 unaccompanied sailors worldwide who live aboard ship even while in homeport. The Navy's goal remains to program funding through fiscal year 2008 to achieve its' "homeport ashore" initiative by providing ashore living accommodations for these sailors. We intend to achieve this goal through a mix of military construction, use of privatization authorities and, for the interim, more intensive use of our unaccompanied housing capacity by assigning two or more sailors per room. Our fiscal year 2007 budget includes one "homeport ashore" construction project for $21 million to complete Naval Station Everett, WA (410 spaces).
2. Ensure our Barracks Meet Today's Standards for Privacy. We are building new and modernizing existing barracks to increase privacy for our single sailors and marines. The Navy uses the "1+1" standard for permanent party barracks. Under this standard, each single junior sailor has a private sleeping area and shares a bathroom and common area with another member. To promote unit cohesion and team building, the Marine Corps was granted a waiver to adopt a "2+0" configuration where two junior marines share a room with a bath. The Navy will achieve these barracks construction standards by fiscal year 2016; the Marine Corps by fiscal year 2012. We have also been granted a waiver to the "1+1" standard to allow us to build an enlisted unaccompanied housing project in Norfolk to private sector standards. We believe this will provide better housing for unaccompanied sailors without increasing the average housing cost.
3. Eliminate gang heads. The Marine Corps has programmed all necessary funding, through fiscal year 2005, to eliminate inadequate unaccompanied housing with gang heads [1] for permanent party personnel. The Navy will achieve over 99 percent of this goal by fiscal year 2007.

Unaccompanied Housing Privatization

We continue to pursue unaccompanied housing pilot privatization. We are in exclusive negotiations with a private partner for our first pilot project at San Diego. This project would build 700 apartments for unaccompanied E4s and above and privatize 254 existing Government-owned unaccompanied housing modules. Although the construction of new units does not directly target the Homeport Ashore requirement (unaccompanied E1–E3s assigned to sea duty), it will help by freeing up existing rooms as other sailors move out of Government-owned unaccompanied housing and move into privatized housing. We expect to award this project this spring.

[1] Gang heads remain acceptable for recruits and trainees.



San Diego
(Proposer's rendering of conceptual site plan including the pilot project scope)

We have also started procurement for a second pilot project at Hampton Roads, Virginia. This project would build 725 apartments at up to 3 different sites and privatize 806 existing unaccompanied housing modules. All housing will be targeted to unaccompanied shipboard E1–E3 personnel. We recently selected four highly qualified teams and invited them to submit detailed technical and financial proposals. We expect to award this project in April 2007.

Last year we were evaluating the Pacific Northwest as a third pilot site. We have since concluded that the Pacific Northwest is not viable because the requirement is linked with one large ship (unlike San Diego and Hampton Roads which are fleet concentration areas), the private partner cannot recapitalize the housing over the long-term given projected cash flows. We will now proceed to use the fiscal year 2005 appropriated and authorized funds as a MILCON project at Bremerton. We are evaluating opportunities at other locations.

ENVIRONMENT

Marine Mammals/Sonar R&D investments

The Navy recognizes the need to protect marine mammals from anthropogenic sound in the water and has budgeted $10 million in fiscal year 2006 and 2007 for research and development efforts. Funding will focus on techniques to track the location of marine mammals, their abundance and movement (particularly beaked whales); determining sound criteria and thresholds; and developing new mitigation and monitoring techniques. The Navy has expanded its research on the effects of mid-frequency sonar to include effects on fish. Navy's Protective Measures Assessment Protocol (PMAP) has become a routine operating procedure during all exercises. PMAP measures include surface vessels using trained look-outs in marine mammal areas, and submarines monitoring passive acoustic detection for vocalizing marine mammals.

Shipboard Programs

The Navy continues to convert air conditioning and refrigeration plants on its surface fleet from ozone depleting CFCs to environmentally friendly coolants. We plan to spend a total of $400 million on this effort, including $22 million in fiscal year 2007. We expect to complete the conversion of nearly 900 CFC–12 plants by 2008, and over 400 CFC–114 plants by 2014.

The Navy has also been installing pollution prevention equipment on 16 ship classes. We will have spent $35 million to install suites of pollution prevention equipment (e.g., aqueous parts washers, cable cleaners/lubricators, paint dispensers) on ships upon completion this September.

Natural and Cultural Resources

The Department spends about $30 million per year on natural and cultural resources at Navy and Marine Corps installations. Resources are invested in pre-

paring, updating, and implementing Integrated Natural Resources Management Plans (INRMPs). Protecting threatened and endangered species and their habitats is a major aspect of the INRMPS at many bases. The National Defense Authorization Act for Fiscal Year 2004 included a provision that allowed the Secretary of Interior to forgo designation of critical habitat on military lands upon a determination that the INRMP provided sufficient species and habitat protection. I am pleased to report that all final critical habitat designations since 2004 have excluded designations on Navy and Marine Corps property.

Our cultural resources provide a tangible link with our past while supporting the mission of today's Navy and Marine Corps warfighters. Both Navy and Marine Corps are developing Cultural Resources Management Plans similar to INRMP. A major effort is to prepare broad based programmatic alternatives to case-by-case consultation similar to the highly successful program comments on Capehart-Wherry era family housing. DON is also working to expand its efforts to make cultural resources management an integral part of our broader asset management program.

Alternative Fuel Vehicles

In fiscal year 2005 the Department of the Navy (DoN) met or exceeded the Alternative Fuel Vehicle (AFV) acquisition mandates from the Energy Policy Act and Executive Order 13149. The DoN was named winner of the National Biodiesel Board's National Energy Security Award and the U.S. Marine Corps won a White House Closing the Circle Award for meeting Executive Order 13149 requirements 3 years earlier than required. Among the AFV related initiatives are increased use of Biodiesel (B–20), increased fleet fuel economy, increased procurement of hybrid vehicles and increased use of neighborhood vehicles. Ethanol (E–85) is becoming a more significant alternate fuel. The Navy has approximately 7,000 vehicles capable of operating on E–85. We are also investigating the use of hydrogen fuel cell vehicles.

Installation Restoration Program (IRP)

The DoN has completed cleanup or has remedies in place at 75 percent of our 3,700 contaminated sites. We plan to complete the program by 2014. The cost-to-complete the installation restoration program continues a downward trend with efficiencies of $600 million over the past 10 years. Use of new technologies, land use controls, remedy optimizations, contract efficiencies, and a dedicated professional staff has contributed to these efficiencies. Our fiscal year 2007 request of $304 million consists of $219 million for IRP, $41 million for program management, and $44 million for Munitions response.

Munitions Response Program (MRP)

This relatively new program provides cleanup actions for Munitions and Explosives of Concern (MEC) and Munitions Constituents (MC) at all DoN locations other than operational ranges. We plan to complete preliminary assessments at all 213 known sites on 56 active installations by 2007. Site inspections (which include sampling) will be completed by 2010. We will not have credible cleanup cost estimates until these assessments are completed in 2010. We are conducting major cleanups at the former range on Vieques, Puerto Rico and at Jackson Park Housing Complex in Washington State, in addition to efforts at prior BRAC locations.

PRIOR BRAC CLEANUP & PROPERTY DISPOSAL

The BRAC rounds of 1988, 1991, 1993, and 1995 were a major tool in reducing our domestic base structure and generating savings. The DoN has achieved a steady state savings of approximately $2.7 billion per year since fiscal year 2002. All that remains is to complete the environmental cleanup and property disposal on portions of 17 of the original 91 bases.

Last year we conveyed the last 427 acres at the former Naval Complex, Charleston, SC, and the last acre at Naval Air Station, Key West, FL. Additionally, at the former Hunters Point Naval Shipyard in San Francisco, the DoN conveyed the first parcel of 75 acres to the San Francisco Redevelopment Agency. Of the original 161,000 acres planned for disposal from all four prior BRAC rounds, we expect to have less than 5 percent (about 8,000 acres, excluding Roosevelt Roads) left to dispose by the end of this fiscal year.

Land Sale Revenue

We have continued our success in using property sales to assist in environmental cleanup and property disposal as well as recover value for taxpayers. We have used General Services Administration (GSA) onsite auctions, GSA Internet auctions, and Internet auctions using commercial real estate brokers. Through a combination of

cost Economic Development Conveyances, Negotiated Sales, and Public Sales, the DoN has received over $1.1 billion in revenues. We have applied these funds to finance and accelerate our entire fiscal year 2006 and fiscal year 2007 environmental cleanup at the remaining prior BRAC locations.

Last year the DoN completed its largest public sale via Internet auction consisting of four parcels totaling 3,720 acres at the former Marine Corps Air Station, El Toro in Irvine, CA, for a total of $649.5 million. The Internet auction public sale of 62 acres at the former San Pedro housing site in Los Angeles, CA, sold for $88 million. We also completed a GSA internet auction for the former Naval Hospital Oakland, CA. Known as Oak Knoll, we anticipate closing escrow for $100.5 million in early March 2006. These sales have provided the communities with taxpayer and community benefits by getting the property onto local tax rolls and redeveloped more quickly, with the local community controlling that development through traditional land use planning and zoning. It benefits DOD and the Federal taxpayer by divesting unneeded property sooner and reducing the environmental cleanup time and expense incurred by DOD. These sales enabled the buyers to work with the homeless assistance organizations to provide the type of services needed in that community, either in land and buildings or funds for needed programs. In addition, the El Toro sale enabled the community to fulfill its vision of creating a public park without using local tax dollars.

We are pursuing disposal of the former Naval Station Roosevelt Roads through a mix of public benefit, economic benefit, property transfer to Army, as well as property sale planned for late 2007.

Prior BRAC Environmental Cleanup

The DoN has spent over $2.6 billion on environmental cleanup at prior BRAC locations through fiscal year 2005. We estimate the remaining cost to complete cleanup at about $482 million for fiscal year 2008 and beyond, most of which is concentrated at fewer than 20 remaining locations and includes long-term maintenance and monitoring obligations for remedies already installed and operating at many locations. As we have done previously, the DoN will use any additional land sale revenue beyond that projected in our fiscal year 2006 budget to further accelerate cleanup at these remaining prior BRAC locations, which are primarily former industrial facilities that tend to have the most persistent environmental cleanup challenges.

Significant environmental progress is planned for fiscal year 2006/2007, with nearly half of the funding planned for three bases. At Alameda Naval Air Station, progress will include funding environmental planning, design, and construction activities for the majority of active sites. Hunters Point Shipyard's progress will include completion of the radiological program for all land parcels and completion of all Remedial Investigations and Feasibility Studies. Progress at the former Moffett Federal Air Field includes completion of all remaining environmental construction activities.

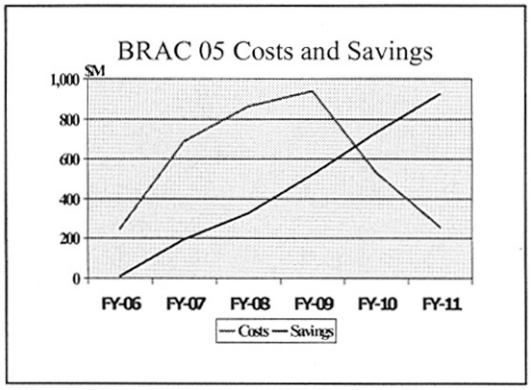
BRAC 2005 IMPLEMENTATION

The BRAC 2005 Commission recommendations became legally binding on the DOD on 9 November 2005. In contrast to prior BRAC commissions, the BRAC 2005 recommendations have fewer closures and more realignments, particularly realignments that involve more than one military service or Defense agency. The Department of Navy has 6 "fence line" closures and 81 realignment recommendations involving 129 bases.

BRAC 2005 Implementation Funds

I am pleased to report that the DoN has fully financed its BRAC 05 implementation plans across the FYDP. We have put in place the management structure, oversight, and funding to accomplish all closure and realignment actions within the 6-year statutory time frame.

We are financing our implementation plans through a combination of (1) funds previously set aside by OSD for this purpose and recently allocated in all years of the FYDP (i.e., the BRAC wedge); (2) identification, capture, and reinvestment into the BRAC account of savings (primarily infrastructure and civilian personnel savings) generated by closure and realignment actions; (3) investment of $500 million in Navy funds. Additional savings, notably MILPERS savings and realignment of Fleet Readiness Centers, are being used to finance other Department of the Navy priorities. Annual savings exceed annual costs in fiscal year 2010. The budget reflects only modest savings in fiscal year 2007, but it is expected that overall savings will exceed $1 billion annually after fiscal year 2011.



Preparing to Implement BRAC 2005

Due to the complexity of the many joint recommendations, DOD is using detailed business plans for each BRAC recommendation to ensure consistent, timely execution and all necessary coordination across the components. Each of our business plans, which averages 40 pages in length, includes extensive details on costs and savings, schedules, and supporting Form DD1391s for each construction project. Each business plan must be reviewed and approved by the Infrastructure Steering Group[2] prior to any expenditure of funds for a given recommendation. We expect approval of the first Navy business plans in the near future. In the meantime, the first BRAC 2005 funds are being released by OSD to begin formal planning efforts, beginning construction design and prepare contracting documents, and initiate National Environmental Policy Act (NEPA) studies for disposal and receiver sites.

We prioritized our fiscal year 2006 and fiscal year 2007 implementation plans to give priority to actions with higher savings, funding all NEPA requirements, initiating the necessary military construction planning and design, and incrementally funding larger MILCON projects based on how much work can be accomplished in each fiscal year. All construction projects in fiscal year 2006 use design/build as the acquisition methodology and qualify as a NEPA categorical exclusion. Fiscal year 2007 projects are primarily design build, and require no more than a NEPA Environmental Assessment before construction can begin. We are working closely with the other components to establish firm requirements, schedules, and the scope and funding for required military construction for implementing joint recommendations.

The table below depicts our fiscal year 2006 and fiscal year 2007 plans. At several receiver sites, design and construction will begin in fiscal year 2006 in conjunction with planning of closure actions at the respective closing installations. Realignments of several commands from leased space to owned space in the National Capital Region will begin in fiscal year 2006. Five major realignments will start in fiscal year 2007. Other smaller closure and realignments begin in fiscal year 2006 and continue in fiscal year 2007.

[2] The Infrastructure Steering Group is chaired by the Under Secretary of Defense for Acquisition and Technology and Logistics, and includes the Deputy Under Secretary of Defense and Service Assistant Secretaries for Installations and Environmental, and the Service Vice Chiefs of Staff.

Significant Action	*FY-06 ($M)*	*FY-07 ($M)*
BRAC planning, design and management	60	59
NEPA environmental planning & cleanup	17	6
Design/build MILCON & closure efforts		
Naval Air Station Brunswick, ME	23	95
Naval Support Activity New Orleans, LA	55	125
Naval Station Pascagoula, MS	17	2
Naval Station Ingleside, TX	5	103
Closure efforts at Naval Air Station Atlanta, GA		36
Closure efforts at Naval Supply Corps School Athens, GA		23
Initiate relocations from leased space in National Capitol Region	23	
Initiate realignments		
Fleet Readiness Centers at various locations	1	36
NAVFAC EFD/EFAs, various locations	14	37
Naval Station Newport, RI		28
San Antonio Regional Medical Center, TX		49
Naval Integrated Weapons & Armaments RDAT&E Center		42
Other closure/realignment efforts	23	49
TOTAL	247	690

BRAC 2005 Significant Actions

We are building on our experience with cleanup and property disposal from prior BRAC rounds. A BRAC Program Management Office has overall responsibility for coordination of BRAC actions, as well as for completing cleanup and disposal of the remaining property from all BRAC rounds.

Much has changed since the last BRAC round in 1995. Environmental contamination at remaining bases has largely been characterized, and cleanup has been completed or is now well underway. In contrast to prior BRAC, the cost to cleanup environmental contamination at BRAC 2005 locations is about $60 million. Private sector capabilities have emerged and matured for "brownfield" redevelopment and insurance industry products to address environmental liabilities when there is a CERCLA early transfer of contaminated property. We expect to take advantage of these private sector capabilities.

The Department will use a mix of public and economic benefit conveyances, transfers to other components or Federal agencies, as well as public sale for property disposal. We expect developers with the experience and expertise to complete the cleanup during redevelopment. Communities get the property onto local tax rolls and redeveloped more quickly, and controls development through traditional land use planning and zoning.

MEETING THE EXECUTION CHALLENGE

The ambitious programs I have outlined above, encompassing military and family housing construction, continuing recovery efforts in the Gulf Coast, and BRAC-related construction, represent an execution effort of over $3.4 billion over the fiscal year 2006/2007 timeframe. A daunting challenge, but one that the Navy is well-positioned to meet. The global pre-positioned presence of a highly trained workforce that offers the full spectrum of products and services allows us to shift execution outside of traditional regional boundaries to balance spikes in workload caused by events such as the natural disasters of 2004 and 2005 and BRAC. The Navy has a wide array of contracting tools and in-place capacity to efficiently address substantial workload increases. We will work to master the challenges with the supply of a competitive contractor workforce, and market conditions affecting costs of materials and equipment.

CONCLUSION

The Navy cannot meet the threats of tomorrow by simply maintaining today's readiness and capabilities of our physical plant. We must continue to transform and recapitalize for the future without jeopardizing our current readiness and the strides we have made—and continue to make—in managing our shore infrastructure. With our partners in industry, the acquisition community, and with the continuing support of Congress, the Department of Navy will build and maintain installations that are properly sized, balanced—and priced for tomorrow.

Senator ENSIGN. Wow.
Secretary Anderson.

STATEMENT OF HON. WILLIAM C. ANDERSON, ASSISTANT SECRETARY OF THE AIR FORCE FOR INSTALLATIONS, ENVIRONMENT, AND LOGISTICS

Mr. ANDERSON. Good afternoon, Mr. Chairman, Senator Akaka, Senator Thune. It is a pleasure to be here, and I also will keep my remarks brief.

The Air Force has three main challenges. The first challenge is winning the long war on terror. As I testify today, there are airmen accomplishing the traditional Air Force missions, supporting Operations Iraqi Freedom and Enduring Freedom. I am sure all of you are familiar with those contributions.

But let me share some things that the Air Force is doing that you may not know about. The Air Force has over 3,000 airmen deployed in lieu of other U.S. forces, performing critical outside the wire duties like security, explosive ordnance disposal, construction, and convoy. To date over 1,000 Air Force civil engineers have overseen repair of schools, clinics, rebuilding of airports, managed construction of 147 police stations, border forts, and numerous other military facilities.

Our second challenge is developing and caring for our airmen. With your help, the Air Force is on track to eliminate all inadequate dorms and the budget request that we have before you will fully fund that effort.

Another success story is family housing. The Air Force budget request completes funding to eliminate inadequate housing stateside and continues our progress overseas.

Our installations restoration program is on track to have all of our cleanup remedies in place by 2012, which is 2 years earlier than the DOD goal. We are going to do that while saving scarce resources through cutting edge processes and new technologies.

Because our most valuable asset is our people, we are implementing a comprehensive environmental safety and occupational health program. By benchmarking against industry programs to leverage our own experience, the Air Force is reducing the risk of injuries and keeping the environment clean.

The readiness of our airmen and the capabilities of our weapons systems depend upon the infrastructure we support. We appreciate your support in the past and your continuing support, and I welcome any questions you might have.

[The prepared statement of Mr. Anderson follows:]

PREPARED STATEMENT BY HON. WILLIAM C. ANDERSON

Mr. Chairman, Senator Akaka, and distinguished members of the committee, as the Air Force continues to transform, we have three major priorities: winning the war on terror, developing and caring for our airmen, and recapitalizing and modernizing our air and space systems. The Quadrennial Defense Review (QDR) guides and supports Air Force transformation and enables us to deliver more sovereign options for the defense of the United States of America and its global interests. We will fund transformation through organizational efficiencies, process efficiencies, and reduction of legacy systems, which will ultimately reduce our manpower requirements. Our military construction (MILCON) and Base Realignment and Closure (BRAC) programs are vital to achieving our vision to develop and care for our airmen, as

well as optimizing our weapon systems' capabilities and effects. Quality bases, facilities, and homes are the foundation of developing and caring for our airmen.

The Air Force fiscal year 2007 MILCON submission represents our commitment to these three priorities. A key and essential enabler in Air Force transformation, MILCON continues critical weapon system beddowns and improves the Quality of Life (QOL) of our airmen. This year's Air Force MILCON budget request is the largest in 15 years, over $1.3 billion, with increases across the spectrum of air and space operations and throughout our Total Force. Our fiscal year 2007 family housing submission will keep us on target to eliminate inadequate housing and enables us to exceed the OSD goal to privatize 60 percent of our CONUS housing by the end of fiscal year 2007. We are accepting risk in both facility recapitalization and facility sustainment in fiscal year 2007. We will narrowly miss the OSD goal of a 67-year facility recapitalization rate in fiscal year 2008. The risk taken in facility recapitalization and facility sustainment allows the Air Force to better fund other priorities in transformation and weapons modernization.

Sound investment in our installations allows us to take care of our people and their families through quality of life and work place improvements. We believe the fiscal year 2007 President's budget proposal will provide the construction bedrock for continued success of our mission.

INTRODUCTION

Air Force facilities, housing, and environmental programs are key components of our support infrastructure. At home, our installations provide a stable training environment and a place to equip and reconstitute our force. Both our stateside and overseas bases provide force projection platforms to support combatant commanders. Because of this, the Air Force has developed an investment strategy focused on supporting QDR transformational decisions, providing quality dorms for airmen, providing quality family housing for our families, implementing BRAC, proactively supporting the environment, properly sustaining our infrastructure, striving to recapitalize our aging infrastructure, and working to build an appropriate installation support baseline. Our total force MILCON, family housing, and sustainment, restoration, and modernization programs are paramount to supporting operational requirements and maintaining a suitable quality of life for our men and women in uniform and their families.

The Air Force fiscal year 2007 President's budget request of just over $1.3 billion for Total Force MILCON reflects our highest construction priorities. It balances transformation, QOL improvements, new mission requirements, future project designs, and limited funding for emergency requirements. This request includes $1.16 billion for active MILCON, $126 million for the Air National Guard, and more than $45 million for the Air Force Reserve.

The Air Force's fiscal year 2007 President's budget request of $1.18 billion for the Military Family Housing investment program balances new construction, improvements, and planning and design work. Combined with our highly successful privatization program, we think this is a good news story for airmen and their families. While we continue to strive to eliminate inadequate housing, we cannot allow more housing to fall into disrepair. We need your support to keep our housing operations and maintenance submission intact.

In fiscal year 2007, we will bolster our operation and maintenance (O&M) investment in our facilities infrastructure. This investment has two components: Sustainment, (S) and Restoration, and Modernization (RM), which we refer to together as our SRM program. Sustainment funds are necessary in order to keep "good facilities good." R&M funding is used to fix critical facility deficiencies and improve readiness. In this request we have dedicated $1.68 billion to Total Force sustainment. That is 86 percent of the requirement from OSD's Facilities Sustainment Model. Additionally, in fiscal year 2007 the Air Force's Total Force RM funds is only $310 million. This means we must defer some RM requirements, which has a cumulative effect on Air Force facilities and infrastructure that we must reverse. In the out years we hope to invest more heavily in critical infrastructure maintenance and repair through our O&M program in order to achieve the Department of Defense (DOD) goal of a facility recapitalization rate of 67 years by 2008 and to fully fund facility sustainment by 2008.

ACCOMMODATE TRANSFORMATION

Our airmen are without a doubt the best in the world, but superior weapons have also played a key role in recent joint warfighting successes in the global war on terror. Transformational and advanced weapon systems enable our combatant commanders to respond quickly in support of national security objectives, and the mili-

tary construction budget directly supports many of the transformational QDR decisions. The fiscal year 2007 Total Force military construction program consists of 29 projects that are essential to transformation, totaling $544 million. The Global Hawk beddowns in Guam and Europe, and Predator beddowns at Creech AFB, Nevada; March ARB, California; Ellington Field, Texas; and Hector IAP, North Dakota, support QDR decisions to vastly increase Unmanned Aerial Vehicle coverage and to boost Intelligence, Surveillance and Reconnaissance (ISR) capabilities to identify and track moving targets in denied areas. The Combat Search and Rescue Group headquarters at Davis-Monthan AFB, Arizona helps to enable our Special Operations Forces to perform the most demanding and sensitive missions worldwide. The Distributed Common Ground Systems at Langley AFB, Virginia; Beale AFB, California; and Osan AB, Korea harness the power of information and allow us to conduct integrated, net-centric warfare that our enemies cannot match. The C–130J tactical airlift beddown at Ramstein AB, Germany improves our Joint Mobility capability to operate in irregular warfare environments. Depot Maintenance Reengineering and Transformation at Hill AFB, Utah, and Robins AFB, Georgia is transforming our industrial base to support warfighter requirements more effectively. Integrated Global Presence and Basing Strategy projects at Andersen AFB, Guam provide the foundational infrastructure for our joint air strike and reconnaissance capabilities in the Pacific. F–22A Raptor aircraft beddown at Elmendorf AFB, Alaska; Hill AFB; and Tyndall AFB, Florida ensures fifth generation stealth capabilities are available when and where they are needed.

The global war on terror has changed the role of airmen in how we provide effects and capabilities to combatant commanders. Our airmen now work and live "outside the wire", and to ensure our airmen have the right skills and more efficiently wage the war on terrorism we are standing up the Common Battlefield Airmen Training Complex. Training will include weapons proficiency, land navigation, small units tactics, physical conditioning, and further instill the warrior mindset in our pararescuemen, combat controllers, tactical air control party personnel, battlefield weathermen, and other battlefield airmen career fields. Additionally, to ensure seamless integration into the joint battlefield, we are constructing Tactical Aircraft Control Program facilities at Fort Bliss, Texas, and Fort Knox, Kentucky.

A significant portion of our 2007 MILCON budget goes toward expediting our transformation into a fully integrated (joint and coalition) planning and operational environment. These facilities enable and enhance QDR requirements for improved Joint Command and Control capabilities. Strategic Planning facilities at Hurlburt Field, Florida for Air Force Special Operations Command, and Andrews AFB, Maryland for the National Capital Region are key links to our highly networked, virtual environment that enables real-time collaboration and rapid production of high quality planning products. At MacDill AFB, Florida, the Air Force is constructing a consolidated Joint Intelligence Center for United States Central Command (CENTCOM). CENTCOM's area of responsibility is the geographic and ideological heart of the global war on terror. A war without borders, it spans 27 countries in the Central Asian region of the world. The Joint Intelligence Center provides the CENTCOM Commander with the situational awareness and long range analysis needed to defeat adversaries within the AOR, promote regional stability, support allies, and protect U.S. national interests.

BEDDOWN NEW MISSIONS

In addition to the transformational new missions, we continue to beddown missions that capitalize on existing capabilities. One of the key enablers of the national defense is our strategic airlift capability. We are continuing our investment to beddown C–5s at Memphis IAP, Tennessee, and Martinsburg, West Virginia. The extensive beddown program for the C–17s continues at Elmendorf AFB; Travis AFB and March ARB, California; Dover AFB, Delaware; Hickam AFB, Hawaii; Jackson Air Guard Station, Mississippi; and Lakehurst Naval Air Station, New Jersey. Thanks to your support, the construction funding requirements for Charleston AFB, South Carolina, and McChord AFB, Washington are complete. The request for fiscal year 2007 includes 13 C–17 beddown projects worth over $184 million.

CONTINUE TO INVEST IN QUALITY OF LIFE IMPROVEMENTS

The Air Force sees a direct link between readiness and quality of life. We strive to provide quality family housing for our families, quality Dorms-4-Airmen, functional fitness centers, and safe child development centers. When airmen deploy, time spent worrying whether their families are safe and secure is time not spent focusing on the mission. Our QOL initiatives are critical to our overall combat readi-

ness and to recruiting and retaining our country's best and brightest. Our QOL initiatives reflect our commitment to our airmen.

Family Housing

The Air Force Family Housing Master Plan details our housing MILCON, O&M, and privatization efforts. It is designed to ensure safe, affordable, and adequate housing for our members. To implement the plan, our fiscal year 2007 budget request for the family housing investment program is $1.9 billion, the largest in Air Force history. DOD Strategic Planning Guidance is to eliminate inadequate family housing units in the United States by 2007 and overseas family housing units by 2009. The fiscal year 2007 budget request completes our efforts to meet the goal in the CONUS, and continues our progress overseas. In fiscal year 2007 our installations in Germany, Japan, and the United Kingdom have housing projects that not only support our airmen directly, but also spur additional private investor interest to provide quality housing for years to come. We thank you for your assistance in helping keep us on the path to meet these goals.

For fiscal year 2007, the $1.18 billion requested for our housing investment program will provide approximately 2,300 new homes at 10 bases and improve more than 2,200 homes at 13 bases. An additional $755 million will be used to pay for operations, maintenance, utilities and leases to support the family housing program.

Dormitories

We are just as committed to providing adequate housing for our unaccompanied junior enlisted personnel. We are making great progress in our Dormitory Master Plan, a three-phased dormitory investment strategy. Phase I, eliminating central latrine dormitories, is complete and we are now concentrating on the final two phases of the investment strategy. In Phase II, we are building new dormitories to eliminate our room shortage. In Phase III, we will replace existing dormitories at the end of their useful life with a standard Air Force-designed private room to improve the QOL of our young airmen.

The total Air Force requirement for dormitory rooms is 60,200. With the fiscal year 2007 proposal, we are on track to replace all inadequate permanent party dormitory rooms by fiscal year 2007 and all inadequate technical training dormitories by fiscal year 2009. This request includes $159 million for nine dormitory projects—creating 1,426 new rooms for unaccompanied personnel at both stateside and overseas bases. We anticipate our requests in fiscal year 2008 and fiscal year 2009 to only include technical training dormitories.

Community Support

Our MILCON program also supports the Air Force holistic approach to wellness. The four pillars of Air Force Wellness are social, emotional, physical and spiritual aspects of life. Our "Dorms-4-Airmen" design underpins on our wingman concept by keeping our dorm residents socially and emotionally fit. Our fitness centers are a critical component of the Air Force's QOL and mission accomplishment. Our expeditionary nature requires that airmen deploy to all regions of the world, and into extreme environments, and they must be physically prepared to deal with these challenges. In 2007, we will construct a fitness center at Eielson AFB, Alaska. Spiritual wellness is the fourth pillar of wellness. We are keenly aware of the establishment clause in the Declaration of Independence, which prohibits endorsement of any religion; however, we are committed to "free exercise" clause as well. Many of our airmen and their families find spiritual fulfillment through our chapel programs. The 2007 MILCON submittal includes a project to replace the chapel center at Eielson AFB.

SUSTAIN, RESTORE, AND MODERNIZE OUR INFRASTRUCTURE

The Air Force remains focused on sustaining, restoring, and modernizing our infrastructure. As I stated previously, in 2007, we have focused sustainment funding on preserving our existing investment in facilities and infrastructure and targeted limited R&M funding to fix critical facility deficiencies to maintain readiness.

Our sustainment program is aimed at maximizing the life of our infrastructure and preserving our existing investment. Without proper sustainment, our infrastructure wears out more rapidly. In addition, commanders in the field use O&M accounts to address facility requirements that impact their mission capabilities.

When facilities require restoration or modernization, we use a balanced program of O&M and MILCON funding to make them "mission ready." Unfortunately, R&M requirements in past years exceeded available O&M funding, causing us to defer much-needed work. It is important for us to steadily increase the investment in res-

toration and modernization in order to halt the growth of this backlog, while fully funding sustainment to maximize the life of our good infrastructure.

The Air Force Total Force fiscal year 2007 sustainment funding is $1.68 billion andR&M funding is $310 million. This budget carefully balances SRM, and MILCON programs to make the most effective use of available funding in support of the Air Force mission.

I am concerned about the potential impact of a change in the appropriation acts that separates the SRM Account from the rest of the O&M appropriation. This would, in effect, create a fence around SRM. In past years, all O&M was funded from the Defense Appropriation. Commanders used the flexibility to move money between O&M accounts to effectively manage budget shortfalls and unexpected requirements such as utility rate increases, natural disasters, infrastructure failures, or mission-driven requirements. Without legislation that would permit the movement of funds between all O&M accounts, commanders would face serious challenges addressing these emergent requirements. Let me say, I share the concern expressed by Members of Congress about the use of SRM or Base Support accounts as "bill payers." However, for 19 of the past 21 years the Air Force has obligated more in SRM than was requested in the President's Budget. Air Force commanders are committed to taking care their mission, people, and facilities. Accordingly, I believe combining legislative language allowing free movement of funds among all O&M accounts, with obligation floors for SRM and Base Support is the most effective solution. In this way, commanders will have the ability to manage their O&M requirements to meet mission needs, including support for critical facility repairs.

CONTINUE DEMOLITION OF EXCESS, OBSOLETE FACILITIES

In addition to modernizing and restoring worn out facilities, we also demolish excess and obsolete facilities. This ensures funds are focused on facilities we need, not on sustaining ones we do not. For the past 8 years, the Air Force has aggressively demolished or disposed of facilities that were unneeded or no longer economically viable to maintain. From fiscal year 1998 through fiscal year 2005, we demolished 20.3 million square feet of non-housing facilities and infrastructure at a cost of $238 million in O&M funding. This is equivalent to demolishing more than three average size Air Force installations and has allowed us to target our infrastructure funding on facilities we need for the long-term mission. For fiscal year 2007 and beyond, the Air Force will continue to aggressively identify opportunities to eliminate excess and obsolete facilities.

MISSION SUPPORT

The Air Force MILCON program is carefully shaped to reflect the most urgent priorities. We have decentralized the process for existing mission projects so that MAJCOM commanders have more input into which construction priorities get executed. We provide them a funding target based on their percentage of Air Force Plant Replacement Value, and they have flexibility in prioritizing the projects which are most important to their mission. This is appropriate because they are closer to the missions and uniquely situated to determine priorities. The 2007 MILCON program has 16 mission support projects worth $155.3 million. These projects range from the most basic electrical and water distribution infrastructure on one end of the spectrum to high tech space test and evaluation facilities on the other end of the spectrum.

PLANNING AND DESIGN/UNSPECIFIED MINOR CONSTRUCTION

This year's Air Force MILCON request includes $124.6 million for planning and design (P&D), of which $13.2 million is for military family housing. The request includes $87.5 million for Active-Duty, $18.8 million for the Air National Guard, and $5.1 million for the Air Force Reserve. These funds will allow us to complete the design work for fiscal year 2007 construction programs and to start the designs for fiscal year 2008 projects, allowing us to award contracts in the year of authorization and appropriation.

This year's request also includes $25.5 million for the Total Force unspecified minor construction program which is our primary means for funding small, unforeseen projects that cannot wait for the normal military construction process. Because these projects emerge over the course of the year, it is not possible to predict the total funding requirement. When unspecified minor construction requirements exceed our funding request, we augment them by reprogramming available MILCON construction funds.

OPTIMIZE USE OF PUBLIC AND PRIVATE RESOURCES

Housing Privatization

Air Force airmen and their families appreciate your staunch commitment to their quality of life. We have used privatization authorities to accelerate our housing program. To date, we have awarded 17 privatization projects providing 16,200 privatized homes for our Air Force families. That translates to the Air Force leveraging an investment of $209 million with private sector funding to provide $2.4 billion in total development, yielding a leverage of approximately eleven dollars of private investment for each public tax dollar.

Since last year, the Air Force completed construction of our fifth privatization project, Phase I of the Wright-Patterson AFB, Ohio, privatization project, joining the four previously completed projects at Dyess AFB, Texas; Elmendorf AFB (Phase I); Lackland AFB (Phase I), Texas; and Robins AFB (Phase I), providing a total of 3,856 homes for our Air Force families. Additionally, the Air Force has eight projects under various stages of construction at Buckley AFB, Colorado; Elmendorf AFB (Phase II); Hanscom AFB, Massachusetts; Hickam AFB (Phase I); Kirtland AFB, New Mexico; Little Rock AFB, Arkansas; Moody AFB, Georgia; and Patrick AFB, Florida. When these 8 ongoing projects are complete, we will have 12,352 more new homes available for families. Recently, the Air Force awarded four more privatization projects at Dover AFB, Hill AFB, Offutt AFB, Nebraska, and Scott AFB, Illinois, which are mobilizing for construction this Spring.

Three years ago the Air Force committed to a goal of privatizing 60 percent of U.S.-based family housing by 2007; we are proud to say we will eclipse that mark by an additional 15 percent and will privatize 75 percent of our (Government-owned) housing in the United States and its territories. In total, the Air Force will leverage $575 million in MILCON dollars, yielding total construction development expenditures on and around Air Force installations exceeding $7.9 billion and providing over 47,000 quality homes for our Air Force families.

Utility Privatization

In addition to privatizing housing, the Air Force is interested in privatizing utilities where it makes economic sense and does not adversely affect readiness, security, or mission accomplishment. Our installations are key to our operational capabilities. Our network of bases provides necessary infrastructure for deploying, employing, and sustaining air and space operations and re-deploying and reconstituting the force afterwards. Our bases are also the training platforms from which skilled airmen learn their trades and prepare for deployment. Reliable utility services are essential to operations at every Air Force base.

To date, the Air Force has conveyed 16 utility systems: 10 under OSD's utilities privatization program (10 U.S.C. 2688) and 6 under previous efforts. Some 275 systems are currently in the competitive process. By the time the program is complete, we anticipate as many as 100 of about 500 systems could be privatized. During the course of this process, we expect that many competitive solicitations will end up as sole source procurements from local utility companies.

BASE REALIGNMENT AND CLOSURE 2005

The Secretary of Defense transmitted his recommended closures and realignments, to include those recommendations developed by and affecting the Department of the Air Force, to the Defense Base Closure and Realignment Commission and to Congress on May 13, 2005, and published them in the Federal Register on May 16, 2005, pursuant to Public Law 101–510, as amended. The Air Force recommendations reaffirmed DOD's commitment to defend the homeland, to establish a capabilities-based defense strategy, and to challenge the military departments to transform themselves to better meet new threats in a changed security environment. Consistent with the goals outlined by the Secretary of Defense, the Department of the Air Force established four BRAC goals to support right-sizing of its force and to enhance its capabilities:

- Maximize warfighting capability efficiently,
- Transform the Total Air Force by realigning infrastructure to meet future defense strategy,
- Maximize operational capability by eliminating excess physical capacity, and
- Capitalize on opportunities for joint activity.

These goals were formulated with a Total Force perspective—Active-Duty, Air Force Reserve, and Air National Guard—to optimize operational capability in response to a projected declining force structure given a 20-year view. In turn, these

facilitated ongoing transformation within the Air Force to meet the challenges and opportunities of the 21st century, and restructure important support functions that capitalize on advances in technology and business practices. Of the 222 recommendations submitted by the Secretary of Defense, the BRAC Commission accepted, without change, about 65 percent. In all, the Commission revised 34 percent of the recommendations regarding the Air Reserve component, and 37 percent of the Joint Cross-Service Group recommendations that affected Air Force installations. While the Commission's final decisions fell short of the Air Force's overall goals for BRAC—particularly in eliminating excess physical capacity—they did, however, help us take a major step towards reshaping our Total Force structure. For example, as a result of BRAC, Air Reserve component flying squadrons are increased to a more effective operational size, such as from 15 aircraft per fighter squadron to 18 per squadron after BRAC, and from 8 aircraft per mobility squadron to 12 after BRAC. This increases the percentage of Reserve component squadrons that are optimally-sized from the current 4 percent to 59 percent. Additionally, the Air Force will cease flying operations at 23 locations in response to a declining fighter and mobility force, and the Air Force will realize new operational synergies through joint recommendations that pair Air Force and Army forces at locations such as Eglin AFB, Florida and Shaw AFB, South Carolina. As the Air Force continues to transform, BRAC is but one tool we will use to align our force to future defense strategy.

BRAC IMPLEMENTATION

The Air Force has begun to develop an implementation schedule for its BRAC 2005 recommendations, and is working in close partnership with the Air National Guard, the Air Force Reserve, and our Active-Duty major commands to further develop and refine this schedule. In the previous four rounds of BRAC, the Commission recommended 22 major closure and 17 major realignment actions of Air Force installations. In comparison, the 2005 BRAC Commission recommended 5 major closures and 12 major realignments of Air Force installations. Additionally, there were numerous other smaller realignment actions at Air Force installations, many of which were transformational in nature. Given the transformational nature of this BRAC round, these types of recommendations, particularly those that consolidate or co-locate joint activities, or those that establish joint operations, pose new implementation challenges for the Air Force. To implement these joint recommendations, and to best realize their full intent and operational payoff, we are working hand-in-hand with our sister Services, the affected Defense agencies, and the Office of the Secretary of Defense. As directed by the Under Secretary of Defense (Installations and Environment), we are developing 64 BRAC Business Plans to effect those actions for which the Air Force was designated as the lead military department for implementation. These Business Plans serve as a high-level foundation to outline required actions, the timing of these actions, and the associated costs and savings associated with implementing each recommendation, and will ensure our BRAC 2005 recommendations are implemented efficiently and effectively.

DOD recently delivered its budget justifications reports describing the specific programs, projects, and activities for the $1.46 billion appropriated in fiscal year 2006 to begin implementing its BRAC actions. This figure includes $231 million for Air Force BRAC 2005 activities during fiscal year 2006, which will begin the P&D phases and requisite National Environmental Policy Act (NEPA) environmental studies that precede the construction and renovation of facilities needed to relocate functions, missions, and weapons systems

Our fiscal year 2007 BRAC MILCON program includes a robust 77 projects totaling $508.8 million for fiscal year 2007, including P&Dand the Air Force share of Joint Cross-Service Group projects,

With respect to the BRAC Commission's language on Cannon AFB, New Mexico, the Air Force is leading the DOD's review on potential reuse of the installation. This action is consistent with the Commission's recommendation that Cannon "shall remain open until December 31, 2009 during which time the Secretary of Defense shall seek other newly-identified missions with all military services for possible assignment to Cannon Air Force Base." The Air Force has aggressively pursued the Commission's direction to seek re-use, and expects to provide the Secretary of Defense with its findings and recommendations this summer.

As the Air Force begins to gauge the impact of other processes external to BRAC, such as the results of the QDR and the Air Force's Total Force Integration implementation plan, it will continue to refine its facility requirements needed to implement BRAC actions as a direct result of these and other transformational influences. While it is yet unknown what impact the projected end strength reductions might have, or the exact facility requirements that are needed for emerging Total

Force missions, be assured the Air Force will continue to adjust its infrastructure footprint to best align its infrastructure as efficiently for the future in full compliance with all statutory obligations.

Downsizing infrastructure during BRAC was a difficult task, as all Air Force bases are outstanding installations that stand as a credit to our Nation and to the exceptional communities that support them. However, we had to make hard infrastructure decisions to posture ourselves for new security challenges, and to preserve limited resources for readiness and modernization. As such, the Air Force recognizes it has an obligation to assist its partner communities affected by BRAC 2005. In previous rounds of BRAC, the Air Force established an excellent record of closing bases as quickly as possible. This aggressive approach provided the quickest savings to the Air Force and assisted local communities in their efforts to begin economic revitalization. The Air Force will continue to maximize savings at closure installations and work closely with local communities to facilitate a prompt transition and the best reuse opportunities. The Defense Economic Adjustment Program will continue to assist communities to plan for the civilian redevelopment of available real property, and implement local adjustment actions to assist impacted workers, businesses, and other affected community interests. The Air Force also recognizes the importance of ensuring that those communities whose Air Force installations gain new missions under BRAC have the capacity to support these new missions with adequate planning, housing, education, infrastructure, and community services. The Air Force is working with these communities to plan and carry out adjustment strategies that will enhance their ability to support both our airmen and other uniformed men and women at the receiving installations.

ENVIRONMENTAL CLEANUP AND PROPERTY TRANSFER

Environmental clean up and transfer of BRAC real property is often technically challenging and has involved extended timeframes to complete. At the end of fiscal year 2005, the Air Force has deeded approximately 75 percent of 87,000 acres of BRAC property. Our real property disposal efforts have led to the creation of over 54,000 reuse jobs in the affected communities. To complete the clean up and transfer of the remaining property, the Air Force is attempting to leverage private sector experience in developing former industrial property similar to Air Force facilities. Privatization and guaranteed fixed price contracting are two promising examples of this type of process innovation.

As we transfer BRAC real property for civic and private reuse, the Air Force has a continuing responsibility for environmental clean up from past industrial activities. The Air Force takes our responsibility to protect human health and the environment seriously, and, since 1991, we have spent more than $2 billion on environmental clean up at our BRAC installations. For fiscal year 2007, the Air Force is requesting $116 million for clean up activities.At our remaining non-BRAC facilities, the Air Force is reshaping our infrastructure to meet the demands of the 21st century. The Air Force will utilize new tools to optimize our resources and obtain value from our excess capacity. We are developing enhanced use leasing as a means of returning value from underused Air Force property and as a flexible alternative to property disposal or demolition.

ENVIRONMENTAL PROGRAM TRANSFORMATION

The Air Force continues to be a leader in environmental management by enhancing mission capability and sustaining the public trust through prudent environmental trusteeship. To date, the Air Force environmental program has been a good news story as our current processes have served us well. In the Installation Restoration Program, the Air Force is on pace to having 100 percent of its cleanup remedies in place by fiscal year 2012 while saving hundreds of millions of dollars through cutting-edge processes and technologies. The Air Force will have its cleanup remedies in place a full 2 years before the DOD goal of fiscal year 2014. In fiscal year 2005, the Air Force avoided over $60 million in waste disposal fees due to an aggressive solid waste diversion program, provided over 38 billion gallons of safe drinking water, and because of Eggerts Sunflower recovery efforts at Arnold AFB, Tennessee, the plant was removed from the Threatened and Endangered Plants List. At Hill AFB, the elimination of hexavalent chromium in aircraft pre-painting operations resulted in an EPA Award for Environmental Excellence. Through fiscal year 2005, the Air Force has reduced hazardous waste disposal by 57 percent, managed over 8 million acres of land including over 575,000 acres of forests, 234,000 acres of wetlands and habitat for over 70 threatened and endangered species, and conducted controlled burns of over 100,000 acres to reduce the risk of wildfires while improving the health of the ecosystem. However, emerging challenges such as increased

encroachment and significantly greater state emphasis on munitions related and unregulated contaminant issues suggest we need to build upon our success and transform our programs.

Therefore, the Air Force is transforming its environmental program to a more proactive approach, versus a past reactive system, that seeks to sustain, restore and modernize natural infrastructure to maximize mission capability. The ability of the Air Force to effectively train, test, and operate requires access to a finite set of natural infrastructure resources (land, air, water, air space, etc.). Our installations, ranges, and airspace are critical national assets that allow the Air Force to test equipment, develop new tactics, and train our forces to be combat-ready. While our primary focus is to manage this natural infrastructure asset base to support operational requirements, meeting environmental legal obligations is inherent in all our efforts. Throughout this transformation, Air Force efforts continue to maximize protection of human health and the environment while maximizing mission capability.

The U.S. Air Force Transformation Flight Plan defines this transformation as a process by which the military achieves and maintains advantage through changes in operational concepts, organization and/or techniques that significantly improve its warfighting capabilities or ability to meet the demands of a changing security environment. All airmen must frame their objectives in support of the larger goals of the Department, or face irrelevancy.

Our environmental programs, similarly, must be reframed to identify deficiencies and opportunities that either impede or must be seized upon to create military value for the Air Force warfighter. A construct the Air Force has developed is the recognition that there are key assets in the environmental management domain that provide critical access for Air Force test, training and operational needs, as part of a larger infrastructure vital to developing and maintaining a dominant military advantage for the Air Force, our Joint Forces, and coalition and allied partners. While built infrastructure assets and the capacities and capabilities they provide are more clearly recognized and identified, we are undertaking efforts to identify, inventory, and assess natural infrastructure assets and their capacities and capabilities in order to perform effective, efficient and comprehensive operational asset management.

The mutually beneficial relationship between the Air Force and the natural infrastructure within which it operates is easy to recognize. Measuring and managing the state of that relationship, however, is not as easy. We now understand the importance of directly relating environmental management to military capability.

We know that Air Force basing and training requirements often require significant land, air, and water resources in locations where there is significant competition or regulation constraining access to the natural infrastructure. This competition and regulation is increasing. At the same time, Air Force leadership is faced with difficult decisions concerning force structure and location as we transform, consolidate, and realign the Air Force. Now more than ever, the Air Force must be able to provide support for planning and decision-making with defensible cost/benefit, operational risk, and compliance risk analyses of different natural infrastructure asset management alternatives.

A SYSTEMS-BASED APPROACH TO AIR FORCE ENVIRONMENTAL MANAGEMENT

A systems approach to executing environmental programs allows the Air Force to view mission/environment interdependencies and intersects holistically, and to align and optimize environmental management program objectives to meet military mission strategic goals and objectives. In conjunction with this systems approach and through operational asset management, we are:

- inventorying natural infrastructure assets (to include regulatory- or procedurally-based rights-of-access to assets, such as permits and easements),
- assessing asset capacities, capabilities and values,
- comparing these assets with mission requirements to identify significant aspects and positive and negative impacts,
- benchmarking other asset managers' best practices,
- creating value propositions to address deficiencies and opportunities,
- prioritizing and selecting compelling value propositions, and
- making value-conscious investment decisions to sustain, restore and modernize assets in order to optimize military capability and value.

A COMMITMENT TO GOOD GOVERNANCE IN AIR FORCE ENVIRONMENTAL PROGRAMS

Our operational asset management, systems-based approach clearly supports the President's Management Agenda and Executive Order 13327 (Federal Real Property Asset Management) by improving our ability to deliver results that matter to the

American people, while promoting the efficient and economical use of America's real property assets. Integrating performance and budgeting, emphasizing results over process, allocating scarce resources to programs that deliver results—these hallmarks of good governance are the same hallmarks our systems approach reflects.

COMPLIANCE ASSURANCE IN AIR FORCE ENVIRONMENTAL PROGRAMS

Traditionally, our environmental programs have centered on achieving and maintaining compliance with statutory and regulatory requirements or other binding agreements. Commitment to and application of sound management principles for protecting human health and the environment have served us well as a military department, as a Federal agency, as a Federal land-manager, and as a neighbor to the communities and land-holders adjacent to our Air Force installations and ranges. We are proud of our record as an environmentally conscious, considerate, and compliant Air Force, and fully committed to sustaining and improving as we transform. Our commitment to environmental compliance assurance is not negated—it is in fact enhanced—by our transformation.

OPERATIONALIZING AIR FORCE ENVIRONMENTAL MANAGEMENT

The U.S. Air Force provides exceptional environmental management for over 800,000 Air Force Active-Duty, Reserve, Guard, and civilian personnel at over 180 installations worldwide. We are the proud trustee of over 8 million acres of Federal property, including forests, prairies, deserts, rivers, streams, wetlands, and coastal habitats.

The Air Force is proud of its successes in environmental management and is transforming to exceed past performance. The shift to natural infrastructure management will enable us to reduce environmental burdens and risks, and sustain and/or enhance mission capabilities while maintaining compliance assurance as the foundation of our programs.

By integrating environmental programs into the overall Air Force mission objectives, we strengthen our environmental performance. By recognizing the operational asset value in our natural infrastructure we strengthen our commitment to effective, efficient and compliant environmental management. By aligning environmental management objectives to help deliver Air Force military mission objectives, we operationalize Air Force environmental management. By defining mission requirements, inventorying and assessing capacities and capabilities, identifying deficiencies and opportunities, developing prioritized value propositions, then investing and managing assets to sustain, restore, and modernize our mission infrastructure—we create value for the Air Force warfighter, and deliver military capability.

AIRMEN SAFETY AND WORKFORCE HEALTH

In our discussion of infrastructure programs and sustainment, I would be remiss in not talking about our most valuable asset—our workforce. Just like our facilities, our workforce needs to be sustained and restored and our means to do that modernized. To this end, we are diligently implementing an Air Force-wide environment, safety, and occupational health management system by leveraging the great work already accomplished in establishing our environmental management system.

Our workforce must have the right skills and be available to support our mission. All of our workforce—civilian and airmen, deserve to be provided a working environment free from recognized hazards that are likely to cause death, injury or illness. Injuries and illnesses detract from workforce availability and hinder mission accomplishment. As we mature our ESOH management system, we will develop methods to holistically view safety, occupational health, and environmental risks to provide the knowledge needed to support our enterprise management process. In order to meet this objective, we strive to consistently anticipate, evaluate and control safety and occupational health and environmental hazards, both at home and when deployed. To this end, we are developing a fully integrated ESOH Management Information System to provide all levels of leadership and management the knowledge necessary to ensure the availability of our workforce by preventing illness and injury.

CONCLUSION

In conclusion, Mr. Chairman, I thank the committee for its strong support of our military construction, housing, transformational efforts, and environmental programs. The near and long-term readiness of our airmen depends upon this infrastructure. We will continue to be good stewards of our installations' assets and the environment and will continue to work hard to ensure Air Force infrastructure is

properly distributed to optimize military readiness as well as meet our Nation's defense needs. I would be pleased to take your questions.

Senator ENSIGN. Very good. I thank the witnesses and we will begin questioning.

Mr. Grone, at a recent meeting the two of us had in my office we discussed positive benefits of improving the transparency of MILCON contract execution. While I have seen, personally seen the success of this in my own State both in the private and public sector, can you provide this committee an update on the DOD's progress to date on meeting Congress's intent and goal for the implementation of this program and share with the committee your opinion on the potential benefits to be gained by the DOD by this program? What more also can be done to leverage the rapid advancement of technology toward the goal of efficient and effective contract management?

Mr. GRONE. Thank you, Chairman Ensign. I appreciate the opportunity to provide an update.

Consistent with the direction we received from Congress, we have established just within the last week or so a portal on the acquisition technology and logistics web page that we are currently testing for seamlessness, transparency. We are also working with the components to ensure that the same type of data is entered in the right way, that we understand definitions, construction management definitions, in the same manner. Our expectation is that we should have through the two next phases of testing an ability to have that capability stood up by the deadline requested by Congress in the middle of July 2006.

We will continue to do that. Our plan is to update the information in that system every month.

To your broader question, we have taken the opportunity from the dialogue that we have had to initiate a potential or a possible business process reengineering effort initiative within the domain that I have the privilege of chairing within the business management modernization program in real property to further extend business process reengineering in the construction in progress part of the portfolio, to either use technology and to standardize approaches and among the components to improve efficiency.

We believe there is a lot of potential efficiency and cost effectiveness to come out of programs like this and we will continue to work with the oversight committees to develop this further.

Senator ENSIGN. Thank you. This committee looks forward to continuing the work and the evaluation of how the transparency is working, cost savings, quality, the various measures. I think that the potential for improving the way things are done, especially when it comes to construction, is great. If things that are happening in the private sector around the country are any indications I think that the military is going to be very pleased as well as the public.

Also, the DOD has included in the fiscal year a request for $5.7 billion to carry out planning, MILCON, environmental actions related to the 2005 BRAC. This request for $5.7 billion is not accompanied at this time by any project-level detail or justification. DOD is still reviewing business plans submitted by the military depart-

ments, which includes updated cost and implementation schedules for each one of the recommendations.

Could you describe the challenges the DOD is experiencing in the review and approval of the business plans, and when exactly will the DOD inform this committee of the specific projects and business plans for the 2007 BRAC funds?

Mr. GRONE. Mr. Chairman, let me take the latter part of your question first. As the Comptroller, Tina Jonas and I have previously testified to the Appropriations Committee in the House, we expect to meet our internal milestones of a March delivery of the fiscal year 2007 budget justification for BRAC, as Senator Akaka indicated, this month. That is consistent with the standards for prior BRAC rounds in terms of second year budget justification. They came to Congress in about the March time frame.

Our challenge this time, frankly, has been that this round of BRAC ended about 3 months later than prior rounds of BRAC had ended. The recommendations became legally viable in November. The commission changed about 35 percent of the recommendations in ways large and small, which caused some shifting in the planning profile, as well as our budget request for fiscal year 2006 was reduced by about $370 million.

So we have had a little bit of a challenge in making those adjustments. But despite those challenges, we will be in position to deliver a complete justification book this month.

I would make a couple of points about the 2007 justification book if I have the opportunity at this point in time. Certainly, that project level detail will continue the emphasis in the 2006 project level detail, particularly with regard to the Army, supporting the Army modular force initiatives within BRAC, and certainly those projects that are necessary to accommodate the return of forces from abroad are critically important to the broader Army strategy and the broader national strategy of repositioning forces globally.

But more so in the 2007 than currently in the 2006, the report will be nearly three dozen MILCON projects that are directly related to moving missions from installations that are slated to be closed and moving those missions to their dedicated end base. That is an important aspect of the entire budget—will be an important aspect of the entire budget request, because our ability to get to the next phase in BRAC, the base reuse piece of this, to transition assets that we no longer require to communities for effective economic reuse is dependent upon our ability to move that mission.

So as we work with you on the budget request for fiscal year 2007, it will support a broad array of the DOD's initiatives, but certainly the criticality of those funds to being able to carry out those actions that then, in those cases where we have a base closure free up those assets for effective community reuse in the most expeditious way possible, is also a critically important part of the program.

But we look forward to dialoguing with you on it, discussing with you, as soon as we are able to deliver all the detailed 1391s and program profile here in the coming weeks.

Senator ENSIGN. I do not know if we will get to a second round of questions, but I have a lot of other questions that we will prob-

ably end up doing for the record. But my time has expired, so Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman.

Mr. Grone, last fall, there was a proposal that would have required DOD to convey all BRAC property to the local communities at no cost. The Senate rejected that proposal. This amendment was motivated in part by a concern that the DOD intends to auction most or even all of this property to the highest bidder rather than attempting to work with the local community to support their reuse plan.

I anticipate this issue will be raised again as DOD proceeds through the BRAC disposal process. Will you please describe how DOD intends to strike a balance between maximizing the return on the investment that the Federal taxpayers have made with supporting the reuse plans of the local communities, particularly with respect to decisions about when to seek fair market value for this property?

Mr. GRONE. Senator Akaka, I thank you for the question because it is a critically important one. For the information of the committee, DOD published its final rulemaking on certain aspects of base reuse policy earlier this week in the Federal Register. That was largely to conform the existing rule to changes in statute that had happened over a number of years.

We will release this week, likely tomorrow, a revision to our base reuse implementation manual that we traditionally have used as a framework for dialogue with communities, guidance to State and local government, guidance to our own people operating in the field. The fundamental thrust of that policy document is precisely along the lines that you suggested that we should pursue.

We are trying to design a very general framework within which to conduct disposal activity, but that framework allows for considerable discretion in recognizing that the ability for economic and effective economic reuse to take hold at the local level it requires tailored approaches in disposal. So in sum, all of the tools that we have that we emphasize in that document—public benefit conveyances, economic development conveyances at cost and no cost, conservation conveyances, forms of public sale and other conveyance authorities that we have—are all part of that tool basket, all part of that toolkit that we will work with local communities.

DOD will not dictate a reuse approach to a community. We will not dictate the form of disposal. It is a partnership and a collaboration.

At the Federal interagency level, I have the privilege to chair at the subcabinet level the economic adjustment committee for the Secretary of Defense, where 22 Federal agencies have come together and will continue to work on all of the various programs that the interagency can bring to bear to help communities in economic adjustment, both in the cases where we have a base closure, but also in those cases, as you and Senator Ensign have pointed out, where we have significant growth, where we must take into account those impacts that we will have, those effects that our activities will have on communities where we will have population and mission growth. So for the housing, the schools, the transportation, we all recognize that those communities that have supported us in

the past require a tailored approach to transition them to a strong economy; and for those communities where we will have assets enduring into the future, we have an obligation to continue our partnership arrangement.

So we will work with the oversight committees on this as we move forward and we certainly are going to work very closely with local communities in partnership, without going down the path of particular one size fits all approaches.

Senator AKAKA. Mr. Grone, I want to thank you for that reassurance as to how you will continue with that process.

Secretary Penn, the QDR released last month stated the DOD's intention to increase the Navy's presence in the Pacific. According to the QDR the Navy will "adjust the force posture to provide at least six operational, available, and sustainable carriers and 60 percent of its submarines in the Pacific."

DOD officials have stated that the QDR will be implemented beginning with the 2008 budget. Is the Navy going to make a decision about whether to base a carrier in Hawaii or Guam in the 2008 budget?

Mr. PENN. Sir, the Navy is evaluating the recently released QDR on global carrier laydown. We have no money in the budget for 2006 or for 2007 to relocate a carrier. So if a decision is made, then we will put it in 2008.

Senator AKAKA. Thank you.

Secretary Eastin, the Army has used emergency authorities and supplemental funding to temporary station new modular brigades on an expedited basis to help reduce the stress on the force. While this is a short-term goal Congress has supported, unfortunately for the taxpayers it means that over the long-term we will end up paying twice to station many of these brigades, first to establish temporary facilities and then second to build permanent facilities.

I would remind you that our fiscal year 2006 committee report required you to submit a report to us on this issue by the end of this month. Furthermore, the Army has stated that modularity is funded in the base budget beginning in 2007. I understand there are $276 million in modularity MILCON projects in this budget request. Will the MILCON to support modularity consist entirely of permanent facilities funded in the base budget from here on out? If not, please explain why not.

Mr. EASTIN. We at the Army have heard the message from Congress concerning temporary and relocatable facilities. We too do not like having to pay for these twice. This year starts the process of building permanent facilities to replace some of the temporary facilities we put in as the situation in the Mideast heated up.

We have two projects in this fiscal year, at Fort Lewis and at Fort Stewart, and they are basically for swing space, where we move people out of one particular activity, a barracks or a depot or a maintenance facility, move them over to temporary space and build on the space where they were. That is the only reason that we have any temporary facilities in this budget request. It is not our interest at all in proceeding with temporary facilities except in rather extreme cases.

Senator AKAKA. Thank you very much, Mr. Chairman. My time has expired.

Senator ENSIGN. Senator Thune.

Senator THUNE. Thank you, Mr. Chairman, and thank you to the panel. Secretary Anderson, I especially want to express my appreciation for the emphasis the Air Force and all the Services are placing on MILCON and particularly in the area of family housing and dormitory areas. I would say that I can attest personally to how nice the new base housing is for E–6 and below at Ellsworth Air Force Base (AFB), and if you have not been out to see it I would encourage you to do that, because these are 1,900 square foot homes with double-size or double garage, oversize two-car garages, covered patio, lots of storage room. In fact, when the last phase opened here recently a blinding snowstorm did not stop anybody from moving. I do not think there was a U-haul available in Rapid City for folks who were anxious to get into those new facilities.

I think it is important that we give the proper attention to make sure that we are providing the right accommodations for the people who are serving our country. The Air Force even got it right, including all the way down to the blinds. The blinds were installed by the builder. So I appreciate that, and the work that is going into some of the fitness centers that are being installed in various installations and what-not. So I want to compliment you for that.

I do want to raise one question that is raised with respect, and some mention has been made this morning and some of you have testified about the transitional issues that you are dealing with with respect to BRAC. That is something that is very much on my mind these days as well, and I would direct a question to Secretary Grone about that post-BRAC process. I would hope that the Services would invest as much energy in adding value and missions to the bases that survive the BRAC closing as they did to closing them in the first place.

I am particularly interested—in my situation in South Dakota we have a base and we are looking for some additional mission opportunities. But one of the things, one of the questions I posed this morning to Secretary Wynne, who was at the full committee, as well as General Moseley, had to do with air space. It seems to me at least the Federal Aviation Administration (FAA) has concluded that we do not have enough air space if you look at the different training ranges and the issues that have arisen with respect to congestion, lack of unfettered air space, especially restricted air space for unmanned aerial vehichle (UAV) operation.

What might be on your radar screen, either Secretary Anderson or Secretary Grone, with respect to finding additional air space and looking for training ranges that might be able to be expanded or improved upon or where we can get additional training opportunities for what I think, I am told at least, has gotten to be a lot of pressure on some of the current ranges?

Mr. ANDERSON. Specifically as related to air space, Senator—an excellent question. As we are configured at the moment, the air space is adequate to meet our needs. You allude to new missions, changes in where we bed down missions, as a result of not only BRAC, but the transformation and modernization of the Air Force. Those issues are being considered with the changes that we are contemplating.

I do not think I can give you a definitive answer at this point of where we may or may not have issues. It is under consideration. It is an important point and it is part and parcel with the overall transformation activity that we are considering right now.

Mr. GRONE. Senator Thune, certainly the effort, the emphasis we have placed on the sustainability of our ranges in a post-BRAC environment, if you assume that that is a 10, 15, 20, 25-year laydown of our installations, as mission sets change and as technology comes aboard, as you well know, we are increasingly challenged in the way in which the training box bumps up against at least the capabilities that are currently sort of on the board.

So our ability to sustain what we have and to continue to enhance it either through technology, expansion, redesign and particularly in the case of air space, as you well know, it is the width, it is the depth, it is the height, but it is also related to what we can do in relation to that air space to what is on the ground. So the notion of joint and combined operating areas, where ground forces and aviation assets can be utilized in combination, is something that is also of critical importance.

We recognize how precious these test and training range assets are, and I think it is a fair statement to say that all components of the DOD are looking for as much flexibility, sustainability, and interoperability of those ranges into the future as we can possibly have. We are certainly interested in working with members on ways to improve that, as we have over the last few years.

Senator THUNE. I know that the command will say that, or folks will say that the command sets requirements. But I just want to put on your radar screen as a matter of policy, it is your job to plan for the future, to identify obstacles to the challenges and the needs we have in the future. It is clear, I think, if you look at what the FAA is saying, and particularly in some of these metropolitan areas where you have more and more congestion in the air space, that areas that are wide open—and part of that is a function of, as you said, the height, the depth, the width, all those, if I say that right, but also the technology and the things that you can put on the ground. That is something that I want to explore more fully with you because I think there are some real assets out there that can be put to work for us.

So again, as I said, I brought this up earlier at the full committee hearing and I want to have you give some consideration to it as well. So thank you.

Thank you, Mr. Chairman.

Senator ENSIGN. Senator Inhofe.

Senator INHOFE. Thank you, Mr. Chairman.

Some of you might remember when we were contemplating this last BRAC round, there were several of us, and I was somewhat of a leader in that group, who felt it was not appropriate to have this last BRAC round. I did it for a different reason, not just the purgatory that my friend from Kansas always refers to, but that we had gone through the downsizing of the military and the squeeze of the 1990s and we were just really getting really desperate for money. While you have all kinds of projections as to how much money is going to be saved by a BRAC round, the one thing that is for certain and that is that in the first 2 or 3 years it is

going to cost more and we could not afford to go into it at that time.

There are some other reasons. Nonetheless, with my five major installations in Oklahoma, we only lost our effort to stop that round by, I think, two votes. But when we had the thing and it was inevitable, I went back to my places in Oklahoma and I said: Now, I was opposed to having this round, I think right now when we are going to be upsizing it does not make sense to bring our infrastructure down when we do not know for sure what we need in the future. But since they are going to do it anyway, even if it means a negative impact on my installations in Oklahoma, I am going to fight at the very front to make sure that those recommendations are carried out.

Now, I say that because in the last month we have had two occasions—one, Secretary Anderson, as you well know, in the Air Force, and then one was in the Army—where they are trying to change from the recommendations. Now, these are recommendations that have been signed into law by the President, so it is law today—to circumvent those just as if they were not current law.

One had to do with some 13 T–38s that were going to be transferred from Moody AFB to Vance AFB. The other was—and I think also 14 T–6s. The other had to do with the United States Army. Since then it has been worked out and I feel good about it.

But what I do not feel good about is that we do not know what to look for in the future. I guess what I want to extract from you folks is, you are not going to allow people to vary from this no matter how skillfully they try to do it; if a BRAC recommendation is now made into law, that you are going to stand behind that law and make sure that it is enforced. I would like to have each one of you respond to that.

Mr. GRONE. Senator, certainly from the perspective of the Office of the Secretary of Defense, we spent 2½ years in the development of comprehensive recommendations, most of which sustained the scrutiny of the commission, all of which in a post-commission environment sustained the scrutiny of the President of the United States and the Congress of the United States. From my perspective, one of our responsibilities is to ensure that they are effectively carried out and that the recommendations are carried out as they were designed to be carried out, and that we will follow the law.

Senator INHOFE. Do the rest of you agree with that?

Mr. PENN. Yes, sir.

Mr. EASTIN. Yes, sir.

Senator INHOFE. Good.

Then here is the other, borderline cases——

Senator SESSIONS. I did not hear Secretary Eastin say yes.

Mr. EASTIN. I am a lawyer. I cannot just say yes. You have to explain yourself.

Senator INHOFE. Oh yes you can.

Senator SESSIONS. Secretary Eastin, do you want to respond differently than Secretary Grone?

Mr. EASTIN. No, no, not at all.

Senator INHOFE. Okay. Then they have the cases where they can—and let me also say, I do not want you to misinterpret this.

General Moseley could not have been more cooperative and we went over this thing and it is taken care of now.

But then I happened to think, and one of the staff suggested this was a possibility, what if in this case or in any other case that they say there was a recommendation, it is signed into law, it is current law, you agree it should be done, but the military does not agree. In a case like this, instead of moving those functions from Moody AFB to Vance AFB, they would say: Fine, we will go ahead and send those 13 T–38s to Vance AFB, leave them there overnight, and then send them to someplace else, and we have complied with the law, with the letter of the law, but not the spirit of the law.

Now, if something like that should come up, could you depend on each one of you in your individual Services to evaluate that and say, we are not going to tolerate that, that is the same as breaking the law, even if you are circumventing it by just going there for 24 hours? That is just one case. It could happen in any other cases, too. In fact, we had one, Secretary Eastin, in the Army.

Mr. EASTIN. What I was going to expand upon before is that it is not just our obligation to live up to the law; I think we will do that clearly. But it is also the obligation of the Services and Office of the Secretary of Defense (OSD) to live up to the spirit of this thing and not try to chisel away at the edges. So if we have some parties that are trying to do that sort of thing, I think it is up to the policymakers in the Services and OSD to try to reason with them as to what the law intends.

Senator INHOFE. I think that is a very reasonable answer.

Yes, Mr. Secretary.

Mr. PENN. We also had to sign statements, sir, that we complied with the law, and none of us are going to jeopardize that.

Senator INHOFE. Okay, fine.

The other thing I wanted to get in, if I can squeeze this in real quick, Mr. Chairman: During the downgrading of the military in the 1990s, I was very much disturbed. At that time they called them Real Property Maintenance (RPM) accounts. I think they call them Sustainment, Restoration, and Modernization (SRM) accounts now. Anyway, it is RPM. These are the things, along with base ops, that had to be done. While we at that time did not have the ammunition we needed for training, we did not have the things—it was just a disaster that we faced in the military—they were taking money out of the RPM accounts and the base operations accounts.

I can remember at Fort Bragg, going down there, Senator Sessions, where it was raining and they were inside the barracks with water just coming right down through the roof, using their parkas to protect their weapons.

Now I see that we have the 90–90 plan. My question would be, why is 90–90 good enough, and in the case of the Air Force it actually was 86 percent on your SRM account. Number one, is that acceptable? Number two, why would it be that much lower than it was in previous years for other Services? Then for all of you to answer, why is 90–90 acceptable as opposed to 100–100?

Secretary Anderson?

Mr. ANDERSON. Yes, Senator, thank you. The 86 percent in our minds, of course, is not acceptable. We realize that that number does drive some risk and we are taking some bets here. We are try-

ing to push ourselves through this transformation and modernization process, which I know you are well aware of. Out of that we believe that there is going to be some fruits in terms of cutting down on operating and maintenance type costs as we transform the Air Force.

It is not where we want to be. We understand that this is an important issue. We are going to watch it very closely. There will be some tradeoffs. We hope that we retain the flexibility within the operating accounts to be able to move things back and forth as are necessary, especially in the case of natural disasters, where it is very important to be able to do that.

We are committed to make sure that our facilities are appropriate for the mission in every single base.

Senator INHOFE. Any others? [No response.]

I would only respond, Secretary Anderson, that it seems to me some things should be exempt from the tradeoffs, and perhaps if anything should be exempt it would be the RPM and the base ops accounts.

Thank you, Mr. Chairman. I have used more than my time.

Senator ENSIGN. Senator Sessions.

Senator SESSIONS. Thank you, Mr. Chairman.

We did indeed have an intense year of BRAC process. Senator Inhofe, I remember, opposed, and was really a key player in delaying another BRAC because the last BRAC did not go through like it was supposed to have, and there were some political manipulations of it, and it left a lot of hard feelings here. It took a number of years before we ever got back to getting up the votes to pass it again.

So I guess I want to share my thoughts. Our State loses, it gains some, but you do not want to end up losing and not getting your gain because there is not any money in the account to take care of the move. So I am concerned that there is not sufficient funds to execute the MILCON in the Future Years Defense Program (FYDP) to accomplish the realignment.

So Mr. Grone, I would ask, how much is DOD short over the FYDP by each year, if you would explain that? How are we going to meet the requirements of the realignment?

Mr. GRONE. Senator Sessions, from the perspective of—and I described earlier the situation with regard to the fiscal year 2006 and fiscal year 2007 budget request. We are comfortable that we have requested—and I know it sounds like a rather large, and it is a rather enormous sum—$5.7 billion for fiscal year 2007 to accommodate—$5.6 billion of that roughly is for future BRAC and just a little bit for environmental remediation and caretaker costs from prior BRAC. But $5.6 billion roughly for fiscal year 2007 for this round is an enormous sum.

I tried to describe some of what you will see in the 2007 budget request. We had laid in just as a matter of programmatic effort several years ago a long-term wedge to accommodate the cost, the then-unknown cost because we could not make any decisions, obviously, in advance. We tried to look at the experience of the 1993 and 1995 rounds and lay in a funding profile for BRAC across the program, and we did that. That had not been done by DOD previously.

We are also tracking savings very earnestly in a way that the DOD had not done previously, all of which is to try to improve, A: the management of the resources; but B: also to ensure that resources as we free them up can be put back on BRAC activity.

For overall in the program, when you see the FYDP you will see a number. It is somewhere near around $20 billion or so.

Senator SESSIONS. $20 billion for what?

Mr. GRONE. For the program. Our Cost of Base Realignment Actions (COBRA) estimated cost for all of BRAC is $23 billion, based on the assessment of the commission. One of the challenges we have now is working through the 2008 to 2011 profile on all the business plans as we work on cost and cost containment and to reposition savings as we develop them and put them back into the program.

Senator SESSIONS. Let us just talk about that, though. Let me just interrupt you because my time will be up and you will have talked the whole time and not answered my question. Is there sufficient funds in this budget over the FYDP to do the construction necessary to effect the BRAC? I understand there is not. How much are we short?

Mr. GRONE. I do not have today—and that is what we are working to close here, to provide you that information in the month of March. We do not have all the analysis complete to demonstrate what we expect that cost profile from here through 2011 to be, and that is what we are working on here, to close here in the month of March, to provide that to the committee.

I am convinced that there is sufficient savings that will be generated through this process and reapplying them that we will be able to fully fund our commitments and to legally—to fulfill all of our legal obligations by 2011.

Senator SESSIONS. But on the budgetary documents that we have seen over the FYDP, would you agree there is not sufficient funding to do the construction to house the transferred units and civilians in all aspects of the BRAC? Are you saying you are going to have to find some savings somewhere and that you will fill it in? Or are you saying that your budget request calls for sufficient funds to carry out the required moves?

Mr. GRONE. We have sufficient funds in fiscal year 2006. We would like to have had the $370 million Congress reduced the account in fiscal year 2006. We have sufficient funds in fiscal year 2007 to begin those critical actions to move out on implementation of BRAC.

Senator SESSIONS. What about 2008 and beyond? That is where I understand the FYDP does not have enough money set aside to complete the——

Mr. GRONE. I cannot tell you today, based on our assessment of costs, how short or imbalanced that amount is. That is what we are working to conclude today. But we have nearly $20 billion across the program for the implementation of BRAC and we know that we are going to have identified savings that we will be able to plow back into the program. But we are still working through the detail.

Senator SESSIONS. I think Senator Inhofe is correct that we all know that BRAC cost upfront.

Mr. GRONE. It does.

Senator SESSIONS. I think a bad decision was made the last BRAC to close Fort McClellan. Eight years went by and it still has not paid for itself. I understand you expected all of those base closings to pay for themselves in 3 to 5 years, and now this one may never pay for itself, frankly. So you cannot always count to have as much money as the rose-colored glasses people projected when they called for this. That is what I am concerned about.

Now, BRAC is now law, so it is now law and unamendable, as Secretary Eastin said. You agree with that, is that correct? I mean, it is amendable by Congress, but not by any commanders.

Mr. GRONE. Right, that is correct.

Senator SESSIONS. No commander, headquarters commander, can reverse the BRAC requirements because they have now decided it would be a better idea not to; is that correct?

Mr. GRONE. That is correct.

Senator SESSIONS. Each of you said you will try to work on that, because when you are moving civilians and all there is some pain. Some people do not want to do it until they know it is going to happen and they have a place to go, and as long as there is uncertainty, the longer this thing hangs out there, the more problems we have. Would you agree with that?

Mr. ANDERSON. Yes, sir.

Mr. PENN. Yes.

Senator SESSIONS. So if you do not have money people start saying: we will just save money, we just will not move, then you will save a lot of money. Then you have a morale problem that could be avoided.

The way we see it, for example, the Missile Defense Agency (MDA) is $100 million short in budget dollars in 2008 for the move there.

Mr. GRONE. Senator Sessions, I do not know whether that amount at the end of the day is going to be accurate or not. Those are the things we are working through today. One of the things that we see in implementation is we often see a lot of get-wellism in the field. Our requirement is that only those things that are truly attributable to BRAC requirements are those things that ought to be funded with BRAC dollars.

So we take very seriously our responsibility to the oversight committees and our responsibility to the taxpayer to ensure that the BRAC account only pays for those things that are directly related to the mission move requirement pursuant to law.

With the indulgence of the chairman, one additional point in relation to that cost question because I believe it to be very important. When we went through the analysis in BRAC, the Government Accountability Office has consistently suggested that COBRA-based assessment costs tend to be overstated, savings tend to be understated. Now, in a program profile that we have where in the past it was about one third, one third, one third between environmental cleanup, operations and maintenance, permanent change of station, and other moves, and MILCON, we are looking at a program profile that is probably somewhere going to end up between two-thirds and three-quarters MILCON—a significantly different program profile for a program that we estimated, based on our

COBRA-based assessment of the commission's changes, to be $20 billion.

We took as a Department significant management steps to Reserve the bulk of that, the funding that would be necessary to undertake that activity, very early in the administration. We had not done that as aggressively as we had in prior rounds of BRAC. It is not a criticism. It is just we tried to do what we could to reserve as much funds as we could, and that the record of the internal deliberations of the Department that were provided to the commission would suggest that, based on our assessment of costs and savings, that the funds that had been reserved, in combination with the savings that would be generated, are sufficient to pay for the program.

Senator ENSIGN. Senator Bill Nelson.

Senator BILL NELSON. Thank you, Mr. Chairman. I know you are trying to get to the vote, so I will make this quick.

Senator SESSIONS. Senator, would you yield just 1 second.

I ask if you would submit an MDA report cost within the month. Could you do that for me?

Mr. GRONE. We will provide you what is required on any recommendation, Senator.

[The information referred to follows:]

On March 31, 2006, the Department submitted the fiscal year 2007 budget justification books supporting the Base Realignment and Closure budget request. Included in that submittal are the cost and savings estimates for the Missile Defense Agency for that recommendation, by fiscal year.

Senator BILL NELSON. Mr. Chairman, thank you. I want to thank Secretary Grone. When we visited earlier, this Senator is trying to protect your largest training and testing area for the military, which is the eastern Gulf of Mexico off of Florida. Fortunately, the process all happened so that we ended up getting the letter from Secretary Rumsfeld that said it would be incompatible to have oil rigs out there where you are doing your testing and training, so we are going to take that from here. So I wanted to thank you on that.

What Senator Martinez and I have done, since that military mission line was set in the early 1980s, we have given you a 25-mile buffer to the west so that in the course of the next 5 years if you decide that you need that additional space where there would not be any drilling, that that would be the prerogative of the DOD. So I just wanted you to know that.

Just a couple quick questions. What we have—DOD had approved, but the Office of Management and Budget (OMB) killed, in this supplemental appropriations, appropriations for Eglin AFB and also for Naval Air Station (NAS) Key West. This was related to storm damage—Hurricane Katrina and before that Hurricane Dennis, which was the first hurricane in the year. Eglin AFB has all of that sophisticated equipment out there on Santa Rosa Island. In another hurricane, it is not going to survive. There is no development out there except the Air Force equipment and it needs beach renourishment or else that island is not going to survive.

That got axed by OMB. It was a request by DOD. So I hope that you have a plan to get this into the supplemental appropriation.

The same thing down in Key West. Key West NAS—Wilma, the last storm of the year, significant damage, and DOD came forth. I

bring that to your attention and you know what the amounts are: $150 million for beach renourishment on Santa Rosa Island and about $100 million for storm recovery at NAS Key West.

Now, Secretary Penn, there is starting an Environmental Impact Statement (EIS) relative to home porting a nuclear carrier at Mayport. This is under the policy set forth by the Chief of Naval Operations and the Secretary of the Navy, and today in the Budget Committee that policy reiterated by the Deputy Secretary of Defense, Secretary England, who says you do not want all your eggs in one basket, the lessons of Pearl Harbor. You want to disperse your nuclear assets.

Admiral Giambastiani said today here he remembered one time on Christmas that there were five nuclear carriers all lined up docked together on Christmas, and that is not a good position.

I will conclude with this, Mr. Chairman. I know we have to go vote. Navy has sent me notification to start another EIS, but there was an EIS in 1997, and I want to make sure that you build on that other EIS and that this thing does not get slow-walked. So this study is going to give you a benefit and analysis and a faster time line based on the work already done in the EIS in 1997.

Can you build on that EIS in 1997 and will you walk this thing through?

Mr. PENN. We will supplement it, yes, sir, and we are moving out. In fact, the Under Secretary may have mentioned that we are going to look at expanding it to include other vessels besides the nuclear carriers. We want to disperse as much as possible.

So yes, sir, we are proceeding.

Senator BILL NELSON. Do not let this thing get sidetracked.

Mr. PENN. No, sir.

Senator BILL NELSON. Okay.

Mr. GRONE. Mr. Chairman, in relation to the other issue that the Senator from Florida raised, I might for purposes of the record, the supplemental request also carries a request of the Appropriations Committee to allow us broad transfer authority between a number of different accounts in order to accommodate and flexibly accommodate other requirements that we may have. So we will continue to work with the committees on the questions that Senator Nelson raised and see if we can see a way to addressing it.

Senator BILL NELSON. Okay. Can you talk specific dollar amounts for transfer authority for the record?

Mr. GRONE. My understanding is it was special transfer authority. I do know that it was limited to specific amounts between and among bills. But we can clarify that for you for the record.

Senator BILL NELSON. Would you, please? I can tell you the commanders have their hair on fire down there because they are afraid they are going to lose that island.

[The information referred to follows:]

The Department requested for $300 million in transfer authority for hurricane-related funds, including transfers involving military construction appropriations. In addition, the Department requested a provision to expand the scope of existing transfer authority to include military construction (funds appropriated in the last hurricane supplemental). These provisions provide the Department with the flexibility needed to react to changing conditions and ensure that funds are appropriately allocated as estimates arc updated. Without these authorities, the Department's ability to respond to changes is severely limited.

Senator ENSIGN. I thank all the witnesses and thanks for the brevity today. We got to most of our questions and the rest of them will be submitted for the record. We would appreciate a timely response.

The hearing is adjourned.

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR JOHN WARNER

FORT MONROE, VIRGINIA CONSTRUCTION REQUIREMENTS

1. Senator WARNER. Secretary Eastin, the seawall flood protection system at Fort Monroe, Virginia, was destroyed by Hurricane Isabel on September 18, 2003. The Army received $30.3 million in 2004 emergency supplemental funds to make necessary repairs and improvements after citing the urgent requirement to, quoting the justification document received by Congress, "eliminate life, safety, and health deficiencies . . . associated with the piers and seawall." The Army also stated in the same document that "If this project is not provided, Fort Monroe will continue to operate, placing personnel, personal property, facilities, and infrastructure at risk. . . Failure to repair Fort Monroe may expose the government to future liabilities resulting in life, health, and safety issues." Unfortunately, despite the urgency of the requirement, the Army has not awarded a contract to complete the repairs and improvements to the seawall as of this date. Two years later in November 2005, a decision was made to close Fort Monroe under the authority of the Base Realignment and Closure (BRAC) process. Congress passed a legislative provision in 2005 which prohibited the military departments from obligating funds for military construction (MILCON) projects on installations that were to be closed as a result of BRAC 2005. Congress did include an exception to the prohibition, quoting the law, "this section shall not apply to MILCON projects. . . for which the project is vital to the national security or the protection of health, safety, or environmental quality." Clearly, Congress intended for the Department of Defense (DOD) to be able to carry out specific construction projects at military installations to be closed, if certain urgent circumstances warranted the investment. With this background, can you explain why this emergency requirement to protect life, safety, and health, for which funds were provided 2 years ago, has not been completed?

Mr. EASTIN. The design was initiated in early 2004 and completed in July 2005, which is a reasonable time to complete a design of this scope and magnitude. Concurrently, emergency repairs to stabilize the seawall were initiated in March 2004 and completed in May 2005. The design has been completed. The solicitation and award of this project was put on hold on July 22, 2005, due to the then-ongoing BRAC process. However, once we receive the required State Historical Preservation Office final approval, we will request an exception to the BRAC 2005 restrictions so we can proceed with solicitation, award, and project execution.

2. Senator WARNER. Secretary Eastin, what is the Army's plan to protect the personnel at Fort Monroe from catastrophic damage of a future storm?

Mr. EASTIN. Fort Monroe is vulnerable and will be until the improved seawall is constructed. However, the improved seawall will not guarantee protection against all categories of storms. Therefore, Fort Monroe plans to evacuate the garrison in the event of a destructive storm that would endanger the life, health, and safety of persons and property on Fort Monroe.

3. Senator WARNER. Secretary Eastin, were the improvements to the seawall proposed by the Army in 2004 intended to contribute to the elimination of life, safety, and health deficiencies in order to further protect personnel at Fort Monroe?

Mr. EASTIN. Yes. Without this project, conveyed property and historical value will be at risk for flooding that exceeds the 5-year flood event. The project is vital to correct deficiencies that threaten real property, including historical ambiance, and associated health, safety, or environmental concerns of the people living, working, and visiting Fort Monroe. This project is needed before property is disposed under BRAC 2005.

4. Senator WARNER. Secretary Eastin, does the Department of the Army plan to dispose of excess property resulting from BRAC that may be an immediate threat or risk to the life, safety, or health of the local community or other receiving entity?

Mr. EASTIN. The Army will comply with all Federal and State laws and regulations regarding condition and safety of property as we convey BRAC sites to the

local communities. There may be cases where a local community desires to receive property for immediate reuse opportunities before cleanup is completed. Such transfers would only be done with the concurrence of the State Governor, and safety of the local community would be protected by restricting use of the property until cleanup is complete.

MUSEUMS

5. Senator WARNER. Mr. Grone, I have been very concerned for some time that the DOD has been asked to divert critical readiness and training resources in order to support a proliferation of military museums sprouting up both on military installations and in local communities. I firmly support the efforts of the military Services to preserve their heritage, legacy, and history in order to serve as an educational opportunity as well as supporting pride and esprit de corps. To that effect, I have endorsed the concept of each military Service working with a nonprofit foundation to establish an official, national museum in a consolidated, efficient effort to build a world-class facility worthy of the sacrifice of our military personnel. All Services now have either an established museum, or are engaged in activities to complete a museum. To get an understanding of the impact of the remaining inventory of museums supported by the Department, Congress directed the Secretary of Defense to prepare a comprehensive report on that inventory to be provided to the congressional defense committees by March 15, 2005, and to update that report annually. As of the date of this hearing, the initial report has not been delivered to this committee. When will the DOD submit the museum report directed by Congress in Public Law?

Mr. GRONE. Ken Krieg, Under Secretary of Defense (Acquisition, Technology, and Logistics), signed the letters forwarding the report to Congress on March 20, 2006.

6. Senator WARNER. Secretary Eastin, the Army fiscal year 2007 MILCON budget request includes $27 million for a museum support center at Fort Belvoir, Virginia. For what requirement will this project satisfy?

Mr. EASTIN. The museum support center will replace leased space in Washington, DC. The leased space has over 15,000 pieces of Army art and 40,000 artifacts. The current leased facility does not have appropriate artifact storage, treatment, and restoration capabilities, or the ability to study historical collections. The museum support center at Fort Belvoir will provide a secure, museum-quality, climate controlled facility to house, process, and treat unique and priceless historical artifacts to meet the Army's current and future requirements.

7. Senator WARNER. Secretary Eastin, is this project intended to support the proposed National Museum of the United States Army or to support all archiving and preservation efforts of the Army Historian?

Mr. EASTIN. The federally-funded museum support center is a stand-alone facility; it will be helpful to have it located in proximity of the proposed privately funded National Museum of the United States Army campus, though not required. The museum support center project will be managed by Department of the Army civilian employees to meet Federal law, Army regulations, and professional preservation guidelines. The facility will support the Chief of Military History by storing and maintaining artifacts, material culture, and the Army art collection. Storage of Army artifacts is an Army responsibility. Display of artifacts may be accommodated in the Army Museum.

HOSPITALS IN VIRGINIA

8. Senator WARNER. Mr. Grone, two military hospitals were authorized by Congress in 2005 to be constructed in Virginia, the first a replacement costing $100 million for DeWitt Army Community Hospital at Fort Belvoir, and the second an addition and alteration to the hospital costing $50 million at Langley Air Force Base. Both of these projects were to have construction contracts awarded by March 2005 and construction completed by December 2007. As of this date, both of these projects do not even have designs completed. I understand that DeWitt was impacted in a positive way by the decisions of the 2005 BRAC process, but I find this delay to these critical care facilities to be completely unacceptable and not indicative of the support we provide to military members and their families. When will these projects be awarded?

Mr. GRONE. The design for the Fort Belvoir project was placed on hold in June 2005. The Fort Belvoir installation is affected by movement of medical personnel

and services to this location as a result of BRAC. The Fiscal Year 2005 Hospital Replacement project is too small to accommodate this action and the site is too constrained to consider an addition to meet the escalating requirements due to BRAC. The expanded health care requirement will be accomplished under BRAC. We intend to design and construct this hospital in an expeditious and cost-effective manner to meet the BRAC directed completion date of September 15, 2011, without any degradation of health care services to our eligible beneficiaries.

The Langley Air Force Base hospital was completely designed. However, when the project was advertised for construction, the bid results exceeded the appropriated amount of the project by more than 59 percent. The excessive costs were due largely to a lack of competition in the local market, exacerbated by a national and global problem of materials price escalation. The solicitation was canceled. The alteration of the existing hospital tower and main floor alteration work within the existing facility has been significantly reduced, resulting in a 32.4-percent scope reduction, overall. Congressional notice of this scope reduction was made on February 15, 2006. The new construction portion of the project has been reengineered and, if favorable bids are received, an award is expected in late April or early May.

9. Senator WARNER. Mr. Grone, what is the Department's plan to expedite the completion of the construction of these facilities in order to meet the original construction completion date provided in official documents to Congress?

Mr. GRONE. The new hospital at Fort Belvoir must be moved to a new site and redesigned as a result of BRAC. The current design cannot accommodate the volume of workload required by the BRAC solution. Other than to confirm that construction will be complete by September 15, 2011, it is too early to state the actual date when the new facility will open. The Langley Hospital project cannot meet the original completion date due to previous unfavorable bid results; however, the project design was repackaged and section 2853 notification was made in February 2006. A new solicitation for bids has been announced and the results are expected in late April or early May.

QUESTIONS SUBMITTED BY SENATOR JOHN ENSIGN

CLEANUP OF UNEXPLODED ORDNANCE

10. Senator ENSIGN. Mr. Grone, in the National Defense Authorization Act (NDAA) for Fiscal Year 2002, and in the Senate Report on the NDAA for Fiscal Year 2005, this committee expressed its concern with the problem of cleanup of unexploded ordnance (UXO) at the Department's active bases, formerly-used defense sites, and facilities closed by BRAC. What are the Department's goals for cleaning up UXO?

Mr. GRONE. For the cleanup of munitions response sites, which includes the cleanup of UXO, the Department has established the following near-term goals:

- Completion of all Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) preliminary assessments by the end of fiscal year 2007.
- Completion of all CERCLA site inspections by the end of fiscal year 2010.
- Remedy-in-place or response complete for munitions response sites at BRAC sites (first four rounds—not BRAC 2005) by the end of fiscal year 2009.

DOD is in the process of evaluating the inventory of munitions response sites to establish program end goals (i.e. remedy-in-place or response complete) at active installations and formerly-used defense sites. These goals are expected to be in place by the end of fiscal year 2006.

11. Senator ENSIGN. Mr. Grone, what is the time line to clean up UXO at all DOD sites?

Mr. GRONE. The timeline to clean up munitions response sites at other than operational ranges is directly related to the performance goals the DOD is currently developing. The DOD expects to have end-of-program goals established by the end of fiscal year 2006. These goals will bound the military munitions response program.

12. Senator ENSIGN. Mr. Grone, how much does the Department estimate this will cost?

Mr. GRONE. The Department's Cost-to-Complete estimates (fiscal year 2006 to completion) for the Military Munitions Response Program are as follows:

- Active Army installations - $4.3 billion

- Active Navy installations - $466 million
- Active Air Force installations - $1.3 billion
- BRAC Army installations - $1.1 billion
- BRAC Navy installations - $97.6 million
- Formerly Used Defense Sites - $16.4 billion

These estimates are site level costs only and do not include management and support costs.

BRAC ENVIRONMENTAL ACTIVITIES

13. Senator ENSIGN. Mr. Grone, how long does the Department estimate it will take to clean up facilities closed or realigned by the 2005 round of BRAC?

Mr. GRONE. The most recent estimated Response Complete (RC) data shows 98 percent of the major BRAC will be RC by 2012. For all BRAC actions, which include both facility closures and realignments, DOD estimates 91 percent RC by fiscal year 2012 in the Installation Restoration Program (IRP), and 85 percent RC by fiscal year 2017 in the Military Munitions Response Program (MMRP).

DOD estimates 100 percent RC by fiscal year 2057 for the IRP and by fiscal year 2035 for the MMRP. These RC dates include facilities that are closing as well as facilities that are realigning.

14. Senator ENSIGN. Secretary Eastin, the Army is engaged in a massive relocation of its troops from bases overseas, as well as moving forces as a result of BRAC 2005. In some cases, large numbers of troops will be moving to bases that are already challenged to comply with environmental laws without negatively impacting training. Other bases face serious issues of urban encroachment. How is the Army ensuring that its planned restationing of forces will not run into environmental problems when large numbers of relocated troops need to conduct local training in environmentally sensitive areas and be housed at bases that are already facing environmental challenges?

Mr. EASTIN. During the preparation of the BRAC 2005 recommendations, the Army performed preliminary environmental impact and encroachment assessments on all of the recommendations. These studies determined that there were no known environmental impediments to implementing the recommendations.

To prepare for the large relocation of troops associated with BRAC and Integrated Global Presence and Basing Strategy (IGPBS) initiatives, the Army initiated a number of comprehensive National Environmental Policy Act (NEPA) studies that focus on both the potential environmental impacts and mitigation measures. These ongoing specific NEPA studies are installation-specific and are meant to capture all of the potential cumulative, environmental, and social impacts caused by the incoming troops, training activities, and planned construction. These studies also identify specific mitigation measures, such as training restrictions, that are meant to protect sensitive areas and/or minimize the impacts on local communities.

In addition, the installations gaining troops will continue to abide by all applicable Federal, State, and local laws and regulations that are meant to protect environmentally sensitive areas and minimize impacts on local communities. The Army places a very high priority on environmental and urban encroachment issues and will continue to proactively minimize impacts as realignments occur. By actively engaging local communities and State regulatory authorities throughout the next 6 years, the Army will ensure that planned training and construction is compatible with the limitations that are specific to a particular installation.

15. Senator ENSIGN. Secretary Eastin, for overseas location such as Korea, what are the responsibilities of the United States to perform environmental cleanup and restoration of installations formerly used by U.S. forces?

Mr. EASTIN. Legally, these responsibilities are determined by negotiated international agreements which vary from nation to nation, and by guidance provided by Congress in subtitle C, section 321, of the NDAA for Fiscal Year 1999. Further, the DOD has an internal policy (DOD Instruction 4715.8, Environmental Remediation for DOD Activities Overseas) which authorizes remediation actions to eliminate known imminent and substantial endangerment to human health and the environment; to meet the requirements of an international agreement; or to maintain operations and protect human health and safety.

16. Senator ENSIGN. Secretary Eastin, specifically for installations in the Republic of Korea, how much will it cost and who will pay for the environmental cleanup and restoration of installations formerly used by U.S. forces?

Mr. EASTIN. These negotiations are currently in progress and extremely sensitive in nature. It is not appropriate to comment at this time regarding the outcome, or to speculate on any specific details.

17. Senator ENSIGN. Mr. Grone, should any agreement for the DOD to share the costs of environmental cleanup and restoration of installations formerly used by U.S. forces in Korea be considered a precedent for other host nations?

Mr. GRONE. As negotiations are currently in progress and extremely sensitive in nature, it is premature to speculate on the nature of the outcome on other relationships around the world. However, DOD is cognizant of potential impacts in this arena.

WEAPONS DUMPED AT SEA

18. Senator ENSIGN. Secretary Eastin, the Army has recently discovered chemical and other weapons that were dumped at sea—from as long ago as the period after World War I until as recently as the 1970s—in waters off Hawaii, New Jersey, and at other sites impacting at least 11 States. What is the Army doing to assess the number and location of all such sites and their danger to the public?

Mr. EASTIN. The Army and its sister Services are conducting an archive search of historical records on the disposal of military materials at sea. This review includes records at the National Archives and studies and survey reports on sea disposal sites. The Services are also working with the National Oceanic and Atmospheric Administration to review the historical information for the explosives disposal sites on that agency's nautical charts.

In the early 1970s, Navy conducted monitoring and data collection of deep water sea disposal sites in the Atlantic and Northern Pacific. This data collection effort included two sites that disposed of chemical warfare materiel. The Navy found no evidence of any environmental impact at any of these sites.

The Army is currently reviewing past scientific studies, both U.S. and international, on the effects of seawater on chemical munitions and the potential impacts of sea disposal on marine environments. This research will enable the DOD to: (a) better understand the current condition of sea disposed materiel; (b) the effects of seawater on chemical warfare material; (c) the potential impacts of sea disposal on marine environments; and (d) the current condition of disposal sites. Our preliminary information suggests that these disposal sites do not pose an imminent or substantial threat to public health, safety, or the environment.

19. Senator ENSIGN. Secretary Eastin, do you commit to keep this subcommittee informed of the Army's actions and any needs that may arise from this situation?

Mr. EASTIN. Absolutely.

MID-FREQUENCY SONAR

20. Senator ENSIGN. Secretary Penn, the Navy is currently involved in litigation challenging the Navy's compliance with environmental laws regarding use of mid-frequency sonar. Mid-frequency sonar is the most common form of active sonar used by surface ships, submarines, and helicopters. What is the status of this litigation and its potential impact on the Navy's ability to use sonar?

Mr. PENN. On October 19, 2005, the Natural Resources Defense Council and other nongovernmental organizations filed suit in the Central District of California alleging that the Navy's use of mid-frequency active (MFA) sonar during testing and training activities violates the NEPA, the Marine Mammal Protection Act, and the Endangered Species Act. Plaintiffs have asked the court to declare the Navy in violation of the law and to order Navy to propose a plan to remedy the alleged violation, including a mitigation plan for all uses of MFA sonar during testing and training activities. Plaintiffs have not asked for injunction to halt any training activities, but they could still do so, thus the potential exists to impact current and future testing and training activities involving MFA sonar. Navy filed a motion to dismiss or, in the alternative, for summary judgment on February 17, 2006. A hearing on the Navy's motion is scheduled for May 22, 2006.

21. Senator ENSIGN. Secretary Penn, the Navy has begun the process of complying with the NEPA regarding its plan to build a shallow water training range for use of sonar on the east coast of the United States. The Washington Post recently reported that the National Oceanic and Atmospheric Administration (NOAA) had

raised serious concerns about the Navy's Environmental Impact Statement (EIS) for this range. What is the status of the East Coast Shallow Water Training Range?

Mr. PENN. The public comment period for the draft EIS for the Undersea Warfare Training Range (USWTR) ended January 30, 2006. The Navy is in the process of addressing the comments received, and preparing the final EIS.

22. Senator ENSIGN. Secretary Penn, what is the Navy doing to respond to NOAA's concerns?

Mr. PENN. The Navy is currently in discussions with NOAA, which is a cooperating agency on the USWTR EIS, to address their concerns.

23. Senator ENSIGN. Secretary Penn, why is this range so important to the Navy?

Mr. PENN. Effective use of active sonar is a perishable skill that must be continually honed, both by the technicians who operate the system and the fleet assets that deploy the technology. USWTR will provide for training at sea on active sonar techniques versus underwater targets (actual and simulated subs) and provide real time feedback to operators to maximize the effect of training. The training will occur in the depths of water that most closely mimic littorals where we operate our Carrier Strike Groups (CSGs) and Expeditionary Strike Groups around the world.

PERCHLORATE

24. Senator ENSIGN. Mr. Grone, the problem of perchlorate contamination of drinking water resources is a major concern in many western States. What has the DOD done over the last year to address the perchlorate issue?

Mr. GRONE. DOD continues to actively address the perchlorate issue. DOD has established a perchlorate policy that directs the military Services to sample for perchlorate and take actions to protect public health. The policy establishes a level of concern of 24 ppb of perchlorate in water consistent with EPA's health-based reference dose. The DOD level of concern is a level at which, absent a governing Federal or State standard or requirement, DOD will take unilateral actions to ensure protection of human health. The policy provides specific sampling guidelines for DOD-owned drinking water systems, wastewater effluent sampling requirements, and directs assessment for off-range migration from operational ranges consistent with DOD Directives 4715.11 and 4715.12.

The DOD completed perchlorate remediation activities at three installations, and continues with remediation activities at five other installations. Site risk assessments are underway at the remaining installations where perchlorate is suspected to have been released. Specific examples of DOD's perchlorate remediation activities in the West include Vandenberg Air Force Base, where groundwater has been treated to non-detect levels of perchlorate, and Edwards Air Force Base, where groundwater perchlorate levels have been reduced by ten-fold during the current treatability study.

Working collaboratively with the State of California, the DOD prioritized sites where response activities will be initiated: Of the 84 DOD installations evaluated, 24 were prioritized for action. Of the 227 Formerly Used Defense Sites evaluated, 14 were prioritized for action. In the 9 months since the prioritization was completed, DOD and State regulators have agreed that 46 sites at 12 installations did not have perchlorate associated with them. In addition, DOD is awaiting response from the State of California to our request to have all 14 FUDS removed from the prioritized list as a result of our investigations. In addition, 32 sites at 6 facilities are currently being discussed with State regulators to determine if sampling is needed; 2 sites at 1 installation are currently being sampled; the remaining 3 installations, with 1 site at each, have initiated response/remedial actions.

Since September 2005, DOD has been working with water surveyors and California Department of Health Services to perform a treatment demonstration project in southern California. Implementation of the perchlorate treatment technology demonstrations creates approximately 5,000 gallons per minute new treatment capacity in the Inland Empire region.

25. Senator ENSIGN. Mr. Grone, how is the DOD dealing with States like California which have a perchlorate standard that is tougher than the EPA and DOD standard?

Mr. GRONE. As stated in the January 26, 2006 perchlorate policy memorandum: "Until such time as EPA or a State promulgates standards for perchlorate, DOD is establishing 24 ppb as the current level of concern for managing perchlorate. Once established, DOD will comply with applicable State of Federal promulgated stand-

ards whichever is more stringent." Thus, if a State establishes a perchlorate standard through the normal process for rulemaking, DOD will comply with that standard. Absent a promulgated standard in a State, DOD will continue to use 24 ppb as a departure point for making risk management decisions.

DRINKING WATER CONTAMINATION

26. Senator ENSIGN. Secretary Penn, as a result of the action by this committee in the NDAA for Fiscal Year 2005, the Government Accountability Office (GAO) is conducting a study on drinking water contamination and related health impacts at Marine Corps Base Camp Lejeune, North Carolina, and an assessment of the ongoing study of the possible health impacts being conducted by the Agency for Toxic Substances and Disease Registry (ATSDR). Are the Department of the Navy and the Marine Corps cooperating in the work being done by the GAO and the ATSDR?

Mr. PENN. Yes. The Marine Corps cares deeply about the health and well-being of our current and former Marine Corps families. We believe the best way to support them is through continued cooperation with the ATSDR and GAO. We are funding the ATSDR's activities to include the ongoing health study, the water model that supports the study by estimating when and where on the base the water was impacted, and the Community Assistance Panel that is examining the feasibility of additional studies. We also provide requested data and respond to inquiries from both the ATSDR and the GAO.

27. Senator ENSIGN. Secretary Penn, has any new information come to light about the extent of the possible exposed population or the potential health impacts?

Mr. PENN. The ATSDR estimates their epidemiological study will be complete in late 2007. ATSDR's epidemiological study includes drinking water system modeling that should provide us with specific information to identify which former Camp Lejeune residents consumed the impacted water and their level of exposure. It is unclear which former Camp Lejeune residents consumed impacted drinking water and how much of the chemicals these residents may have consumed. This is because not all of the Base's wells were impacted, different wells were used at different times, and we do not yet know when the affected wells were first impacted. We hope that the water model and the completed health study will provide answers to the many questions that surround this difficult issue.

28. Senator ENSIGN. Secretary Penn, please describe what the Department of the Navy and the Marine Corps have done to address this issue and the concerns of marines and their families who believe they have health-related impacts due to contaminated drinking water at Camp Lejeune?

Mr. PENN. We understand the concerns of these marines and their families. We are supporting the ATSDR epidemiological study of unborn children of mothers who were pregnant while living at Camp Lejeune during 1968–1985. As part of that study, the Marine Corps assisted ATSDR in identifying former Camp Lejeune residents through searches of hospital and housing records, personnel databases, and a public notification campaign. The Marine Corps published articles in various base and Marine Corps publications, sent two administrative messages to all marines, conducted a Camp Lejeune Open House, conducted a press briefing at the Pentagon, and notified potential participants through an extensive media campaign covering over 3,500 media outlets. Due to these efforts, ATSDR was able to contact 12,598 participants for their survey approximately 80 percent of the total estimated survey population. We continue to maintain a webpage (www.usmc.mil/clsurvey) that has information on the history of this issue and answers to frequently asked questions. We also operate a toll-free information line (877–261–9782) to respond to inquiries from members of the public. Further, Marine Corps representatives are participating in the community assistance panel that was convened by the ATSDR to examine the feasibility of conducting additional studies. Be assured that the Marine Corps takes this issue seriously and is willing to support potential future initiatives that may include other studies and additional notification to former Camp Lejeune residents and employees.

NAVY PROJECT FOR OUTLYING LANDING FIELD

29. Senator ENSIGN. Secretary Penn, the Navy's efforts to build a new Outlying Landing Field (OLF) in Washington County, North Carolina, to support Navy aircraft stationed on the east coast has been delayed due to environmental litigation.

What is the status of the OLF and what are the Navy's plans for this proposed facility?

Mr. PENN. In September 2005, the U.S. Fourth Circuit Court of Appeals upheld a District Court finding that Navy's EIS was deficient, and Navy must complete a supplemental EIS to address its shortcomings. The Navy is preparing a Supplemental Environmental Impact Statement (SEIS) to remedy the deficiencies of the original EIS. Navy is collecting additional data on all five of the northeastern North Carolina alternative OLF sites, and will hold public hearings upon release of the draft SEIS this fall. Ultimately, a new Record of Decision (ROD) is anticipated in the spring 2007. Although land purchases in Washington County from willing sellers have been permitted by the court, no construction or other irreversible actions can be taken at any alternative site until a ROD is issued selecting a site based on both the original EIS and the additional data and analysis of the SEIS. Upon issuance of a ROD, Navy will proceed with construction of the OLF and to purchase the remaining core and buffer area land on the OLF project at the site selected in the ROD.

The facility is planned to support field carrier landing practice training requirements for the introduction of the F/A–18 E/F (Super Hornet) aircraft to the east coast of the United States. The OLF remains critical to our ability to efficiently surge east coast CSGs and the associated airwing assets.

30. Senator ENSIGN. Secretary Penn, will the Navy be able to obligate the funding of $7.9 million requested for this project in fiscal year 2007, regardless of the status of the SEIS?

Mr. PENN. Navy can obligate all of the money requested for fiscal year 2007 once the EIS is completed and the ROD is signed, unless litigation continues and an injunction is issued prohibiting construction and property condemnation.

The Fourth Circuit Court of Appeals decision of September 7, 2005, allows Navy to resume efforts preliminary to land acquisition such as property surveys and appraisals, title searches, relocation surveys and hazardous materials surveys; to undertake architectural and engineering work necessary for planning and design of an OLF; and to prepare for land purchases from willing sellers. MILCON funds are now being used to pursue these court-approved actions.

The Department's fiscal year 2007 request of $7.9 million is predicated on completing the SEIS, signing the ROD in April 2007, and awarding a construction contract in the fourth quarter of fiscal year 2007. The Navy is confident that it has structured the SEIS to explicitly address all concerns expressed by the court.

Plaintiffs may challenge the SEIS and revised ROD. If the District Court chooses to enjoin construction and involuntary land acquisition activities pending resolution of that challenge, there are to date insufficient landowners in the core and buffer areas who have indicated they could be willing sellers of their property to obligate in fiscal year 2007 the prior year and budgeted fiscal year 2007 funds for OLF.

BUFFER ZONES

31. Senator ENSIGN. Secretary Anderson, the Army has taken an aggressive position in taking advantage of recent congressional authority to enter into agreements with third parties—such as environmental groups and State and local governments—to create buffer zones on real estate that provides an environmental benefit to military bases and ranges. Although the Air Force has pursued a similar initiative by partnering with Florida to create the Northwest Florida Greenway, the Air Force has generally been less aggressive in using this buffer zone authority. What is the Air Force position on partnering with third parties to obtain the advantage of leveraging their interests and funding to achieve environmental benefits for the Department?

Mr. ANDERSON. The Air Force considers the authority in 10 U.S.C. 2684a, as amended, as one tool of many available to us for use in addressing encroachment concerns. The Air Force prioritizes these tools when it comes to encroachment strategies. Our first priority is to fully pursue no-cost strategies such as the Air Installation Compatible Use Zones (AICUZ) Program. The Air Force has 30 years' experience working with neighboring communities and counties in collaborative planning efforts under AICUZ, supplemented as needed with Joint Land Use Studies, interagency/intergovernmental coordination and outreach with local and State governments, and State and Federal agencies. In those situations where land use planning solutions are inadequate, or inappropriate, we have, thanks to Congress, a number of authorities available for our use to include 2684a. The Air Force is currently eval-

uating how to best use the partnering opportunities provided by 10 U.S.C. 2684a in a comprehensive encroachment strategy.

32. Senator ENSIGN. Secretary Anderson, are there Air Force installations or ranges facing encroachment problems where partnership with local governments and environmental groups to create a buffer zone might be beneficial?

Secretary ANDERSON. The Air Force supports and encourages all forms of partnerships that contribute to mission sustainability. These include partnering with local governments to achieve functional buffers through collaborative planning efforts, formal or informal partnering with other land management agencies to deconflict missions, and with environmental organizations to achieve mutual goals.

The Air Force is currently evaluating how to best use the partnering opportunities provided by 10 U.S.C. 2684a in a comprehensive encroachment strategy. In April, the Air Force will be soliciting candidate projects for Office of the Secretary of Defense's (OSD) fiscal year 2007 Readiness and Environmental Protection Initiative. We will evaluate each candidate project for cost effectiveness and beneficial support of current and known future operational mission requirements.

IMPACT OF CHANGES TO ENVIRONMENTAL LAWS

33. Senator ENSIGN. Mr. Grone, the NDAAs for Fiscal Years 2003 and 2004 made changes to environmental laws intended to provide greater clarity for the Department and to ensure that the Department could provide realistic combat training to our young men and women while also being good stewards of the environment. Specifically, Congress modified the Migratory Bird Treaty Act in the NDAA for Fiscal Year 2003, and the Endangered Species Act and Marine Mammal Protection Act in the NDAA for Fiscal Year 2004. What has been the impact of those changes on the Department's ability to conduct realistic combat training while also safeguarding the environment?

Mr. GRONE. The amendments to all three laws have been positive from both a readiness and an environmental perspective.

Amendments to the Migratory Bird Treaty Act exempting military readiness activities from incidental take prohibitions are allowing testing and training to proceed, preventing regulatory creep, and avoiding new and expensive regulatory burdens. At the same time, DOD continues to study impacts of actions on migratory birds and to take protective actions. DOD maintains a leadership role in partnerships and programs to protect migratory birds. One example is Partners in Flight, a consortium of Western Hemisphere partners dedicated to the conservation of neotropical migratory birds and their habitats.

Amendments to the Endangered Species Act associated with the use of Integrated Natural Resource Management Plans (INRMPs) to serve in place of critical habitat designations, upon the decision of the Secretary of Interior, are avoiding the fragmentation and reduction of test and training areas, allowing more realistic training, and avoiding loss of lands capable of supporting military missions. These provisions allow holistic approaches to natural resource management. To date, there are 35 installations where INRMPs successfully avoided a critical habitat designation. DOD continues to coordinate INRMP development with the U.S. Fish and Wildlife Service and State fish and wildlife agencies.

Amendments to the Marine Mammal Protection Act redefining the definition of "harassment" to exclude biologically insignificant behavioral changes, adding a national security exemption, and clarifying language on small takes and geographic operating limitations follow the recommendations of independent scientists and research panels. These changes have brought greater certainty to both the regulators and DOD, which in turn has provided for greater training flexibility and increased realism. DOD remains committed to its leadership role in marine mammal research and continues to develop protective measures for marine mammals.

ENVIRONMENTAL LEGISLATIVE PROPOSALS

34. Senator ENSIGN. Mr. Grone, the DOD has previously offered proposals to amend the Clean Air Act, the Resource Conservation and Recovery Act (RCRA), and the CERCLA, commonly known as the Superfund Law, as part of its Readiness and Range Preservation Initiative. Does the Department intend to offer these proposals again this year?

Mr. GRONE. The DOD has resubmitted the legislative proposal to provide the States with authority to accommodate military readiness activities subject to the Federal conformity requirements under the Clean Air Act. It has also resubmitted

the legislative proposal to clarify the application of RCRA and CERCLA to munitions used for their intended purposes on operational ranges. The two proposals have additional sectional analysis provided, but are otherwise the same as submitted last year.

35. Senator ENSIGN. Mr. Grone, what has the DOD done to overcome the opposition of State regulatory agencies, State attorneys general, and environmental groups to these proposals?

Mr. GRONE. Most of the changes to the current legislative proposal grew out of intensive discussions with State officials and environmental groups and are designed to address specific concerns raised by the States and environmental groups. The DOD has continued to discuss with various State representatives and environmental groups the need to address issues relating to military readiness and particularly those dealing with its operational ranges. This is a multi-faceted discussion that includes many subjects and is not limited to the two legislative proposals resubmitted this year.

Clean Air Act (CAA)

The CAA amendment has changed in two ways from the original proposal submitted in 2002. Both of these changes are in direct response to concerns addressed by environmental stakeholders.

First, in response to concerns expressed by State regulators and environmental associations that our proposal forced States to accept new readiness activities in areas that were not in compliance with CAA standards, we added an express requirement for written State concurrence before the 3-year extension to complete conformity planning is effective. The DOD never intended that our proposal would be interpreted to require the States to accept new readiness missions over their objections. By adding the requirement for written State concurrence, we have made it clear that the provision is intended to offer flexibility, rather than impose new missions on unwilling States.

In addition, the "hold harmless" concept embodied in early versions of the amendment has been expanded upon. In our discussions with States, we learned that the proposal had not provided adequate assurances that States would not be penalized if a failure to meet air quality standards was a result of the 3-year extension in conformity compliance offered by the proposal. Specifically, we were asked to add a reference to section 187(g) of the CAA which deals with carbon monoxide non-attainment. We have added that reference.

RCRA/CERCLA

The DOD has actively reached out to stakeholders, listened to their concerns regarding our proposals, and addressed those concerns by modifying and clarifying our RCRA/CERCLA proposal. The result has been an evolution in our proposal since it was first submitted in 2002 that we believe provides essential protections for munitions related readiness activities on our operational ranges and ensures protection of health and the environment. Over the past several years, we have worked with EPA to make it absolutely clear that nothing in our proposal alters EPA's existing protective authority in section 106 of CERCLA. In our proposal, EPA retains the authority to take any action necessary to prevent endangerment of public health or the environment in the event such a risk arose as a result of use of munitions on an operational range. Further, the proposed changes were modified to clarify that they do not affect our cleanup obligations on ranges that cease to be operational. This was in response to the misapprehension by some that the proposal could apply to closed ranges. To make this latter point even clearer, after submitting our proposal to Congress 3 years ago, EPA and DOD continued to refine the RCRA/CERCLA provision. This collaboration produced a further revision designed to underscore that our proposals have no effect whatsoever on our legal obligations with respect to the cleanup of closed bases or ranges or on bases or ranges that close in the future.

In the summer and fall of 2003, we presented the language we had developed in cooperation with EPA to a broad range of stakeholders for their consideration. As a result of discussions with individual State representatives and at meetings of associations of State officials, such as the Environmental Council of the States, the National Governors' Association, the National Association of Attorneys General, and the Conference of Western Attorneys General, we eliminated the "CERCLA preference" which had been included in previous versions of the proposal. Earlier drafts of the RCRA provision provided that munitions or constituents that migrate off range are considered a waste, but only if they are not addressed under CERCLA. In response to the criticism that this provision went beyond DOD's intent to protect

our readiness activities on ranges, the DOD deleted it from the current discussion draft.

Finally, the present language reflects modifications to address concerns raised by environmental stakeholders. In addition to renumbering and reorganizing the provisions in response to stakeholder concerns regarding clarity, we modified some of the language to address concerns that the language could be interpreted to shield munitions disposed of off an operational range from the operation of RCRA. As noted, since our proposal is intended only to provide protections for the use of munitions for their intended purpose in testing and training, and only so long as they remain on an operational range, we were happy to provide this clarification.

The DOD has instituted new policy and processes dealing with assessments of environmental contamination on operational ranges. This is a direct result of our conversations with the various parties that have expressed concern with our legislative proposals over the last several years. A major concern expressed was the possibility of contamination migrating off an operational range and only then being subject to remediation. To address this concern, the DOD has instituted this new policy to seek to discover potential contamination before it migrates away from impact areas and especially before it spreads off a range.

36. Senator ENSIGN. Mr. Grone, if the proposals are going to be offered, what is the compelling basis for making these changes to these environmental laws now?

Mr. GRONE.

CAA

The DOD regularly relocates forces among installations throughout the United States in order to best position them for potential use and to optimize training opportunities. The CAA's "general conformity" requirement, applicable only to Federal agencies, has threatened deployment of new weapons systems and the movement of forces among installations despite the relatively minor levels of emissions involved. Without a reasonable time period to meet CAA conformity requirements, the ability to operate in CAA non-attainment or maintenance regions is threatened.

The DOD has experienced several "near-misses" where the CAA conformity requirement threatened the realignment of forces:

- The planned movement of F–14s from Naval Air Station (NAS) Miramar to NAS Lemoore in California was only possible because of the fortuity that neighboring Castle Air Force Base in the same air-shed had closed, creating offsets. The same coincidence enabled the home basing of new F/A–18s at NAS Lemoore.
- The movement of F/A–18s from Cecil Field, Florida to NAS Oceana in Virginia was made possible only by chance, since Virginia was in the midst of revising its State Implementation Plan and was able to accommodate the new emissions. The Hampton Roads area in which Oceana is located will likely impose more stringent limits on ozone in the future, reducing the State's flexibility.

As these near-misses demonstrate, under the existing CAA conformity requirement there is limited flexibility to accommodate readiness needs, and DOD is barred from even beginning to take readiness actions until the requirement is satisfied.

RCRA and CERCLA

The main concern addressed by our RCRA and CERCLA proposals is to protect against litigation concerning the longstanding, uniform regulatory policy that use of munitions for testing and training on an operational range is not a waste management activity or the trigger for cleanup requirements.

This legislation is needed because of RCRA's broad definition of "solid waste," and because States possess broad authority to adopt more stringent RCRA regulations than EPA (enforceable both by the States and by environmental plaintiffs). EPA therefore has quite limited ability to afford DOD regulatory relief under RCRA. Similarly, the broad statutory definition of "release" under CERCLA may also limit EPA's ability to afford DOD regulatory relief.

Although its environmental impacts are negligible, the effect of this proposal on readiness could be profound. Environmental plaintiffs filed suit at Fort Richardson, Alaska, alleging violations of CERCLA and an Alaska anti-pollution law they argued was applicable under RCRA. Among plaintiffs' assertions were claims that the Army's use of munitions on the Eagle River Flats (ERF) range in training its soldiers required RCRA permits, as well as initiation of cleanup activities under CERCLA. Plaintiffs' lawsuit sought to enjoin further live-fire training at ERF. Because of ambiguities in current law regarding the applicability of environmental regulations, including those under RCRA and CERCLA, to critical testing and training

on operational ranges, the Army settled the case as the best way to ensure training could continue at ERF. Had the plaintiffs been successful, the case would not only have potentially forced remediation of the ERF impact area and precluded live-fire training at the only mortar and artillery impact area at Fort Richardson, but it could have set a precedent fundamentally affecting military training and testing at virtually every test and training range in the U.S. This was a risk that the Army and the DOD could not afford to take.

In addition to the Fort Richardson case, the United States was sued under RCRA on three occasions regarding Navy operations at the range on the island of Vieques, Puerto Rico. Most recently, in *Waterkeeper* v. *Department of Defense,* plaintiffs sued to stop Navy training on the range. The RCRA claims covered ordnance debris and unexploded ordnance on the Live Impact Area (LIA) of the Vieques range in addition to claims that the actual firing of ordnance onto the LIA constituted a disposal of solid or hazardous waste.

Some critics of these proposals have argued that such suits are not a sufficient justification to go forward with the RCRA/CERCLA provision. We believe, however, that the risks inherent in these lawsuits provide ample justification for the proposals. This is particularly true because the proposals merely clarify longstanding regulatory practice and understanding of the DOD, the Environmental Protection Agency, and the States. Together, the provisions simply confirm that military munitions are subject to EPA's 1997 Military Munitions Rule while on range, and that cleanup of operational ranges is not required so long as the material stays on range.

37. Senator ENSIGN. Mr. Grone, are any of these changes necessary to carry out the decisions resulting from the 2005 round of BRAC?

Mr. GRONE. Based on our current understanding of environmental requirements, no.

BUDGET REQUEST TO CARRY OUT 2005 BRAC ACTIONS

38. Senator ENSIGN. Mr. Grone, the DOD has included in the fiscal year 2007 budget a request for $5.7 billion to carry out planning, MILCON, and environmental actions related to the decisions of the 2005 BRAC round. Could you describe the challenges the DOD is experiencing in the review and approval of business plans and the subsequent release of funds?

Mr. GRONE. Business plans will serve as the foundation for the complex program management necessary to ensure BRAC 2005 recommendations are implemented efficiently and effectively. Business plans are an expression of costs to implement the BRAC recommendation, savings that should accrue, and the phasing of actions and funding to meet the legal obligations of the recommendation. Because many of these recommendations involve complex actions to fully implement, there are naturally some special challenges to overcome during the business plan review and approval process to ensure the DOD is proceeding in the correct direction. Such challenges include ensuring the requirements of the recommendation are satisfied, that appropriate costs and savings are identified (and appropriately shared across components for joint recommendations), and the phasing of the implementation action does not compromise operational efficiency.

39. Senator ENSIGN. Mr. Grone, based on the business plans received, what is the Department's revised estimate over the next 5 years of the total amount of funds needed to carry out MILCON actions to support all the BRACs in order to meet the statutory goal of 2011 for completion of all BRAC actions?

Mr. GRONE. At the present time, the DOD has only a few approved business plans, and this is an insufficient number to determine if the MILCON estimate to support BRAC implementation efforts needs to be revised. In the coming months, as more business plans are reviewed and approved, a revised MILCON estimate will become more apparent and the extent of any potential revision will be considered as the DOD conducts the 2008–2013 program and budget review. Results of that review will be incorporated into the fiscal year 2008 President's budget.

40. Senator ENSIGN. Mr. Grone, how was the BRAC budget request for $5.7 billion in 2007 in any way fiscally constrained by other budget priorities?

Mr. GRONE. The fiscal year 2007 BRAC 2005 budget request was not constrained, but rather represents a defense wide funding wedge which the Department established to support implementation of all BRAC actions. That funding was allocated to all components with a BRAC implementation funding requirement in 2007.

UTILITIES PRIVATIZATION

41. Senator ENSIGN. Mr. Grone, on the subject of the DOD's program to privatize utilities infrastructure, the GAO issued a report in May 2005 which questioned the ultimate savings to be achieved by the government. In response, Congress amended the law in order to ensure Congress received a comprehensive analysis of the economic benefits before completion of each transaction. In light of these changes by Congress, what is the current status of the utilities privatization program?

Mr. GRONE. The utilities privatization program is best characterized as transitioning back to active execution. Since the May 2005 GAO report, the DOD focused its efforts on developing supplemental guidance that would implement the recommendations of that report. Supplemental guidance was issued by DOD on November 2, 2005. Shortly thereafter, Congress, through the NDAA for Fiscal Year 2006, added the new legislative requirements that you have referenced. Since then, the DOD has focused on developing a second round of supplemental guidance that would implement the provisions of that legislation. Additional guidance was issued by DOD on March 20, 2006. In both cases, the military departments and the Defense Logistics Agency had to suspend their ongoing system evaluations and solicitations as well as delay acting upon proposals received from the commercial sector until new guidance could be issued. The military departments and the Defense Logistics Agency are now in the process of incorporating the new requirements into their evaluation process and will resume evaluating all remaining utility systems eligible for privatization under this authority.

42. Senator ENSIGN. Mr. Grone, this committee has heard from many interested parties that the utility privatization process has lagged over the past 5 years. Can you provide your assessment of the pace of the program and what can be done to expedite the utility privatization solicitation and transaction completion process?

Mr. GRONE. The DOD has dedicated resources, staff, and senior leadership attention to swiftly executing the utilities privatization program. Like any new initiative, through implementation and execution, experience and momentum is gained; however, issues and concerns may surface along the way as well. My office established a working group that meets twice a month to share information and lessons learned and continually improve the program. Initially, the interest in the industry sector was extremely limited. Our office convened several industry forums to generate interest and promote competition on the solicitations sent out. Industry reluctance to invest the significant amount of overhead required to evaluate our utility systems was eventually reduced through frequent communication and the subsequent adoption of several process improvements. The DOD is committed to seeing this program executed through to completion.

43. Senator ENSIGN. Mr. Grone, in your opinion, what benefits are gained by the government by continuing this program?

Mr. GRONE. The DOD has recognized that ownership of utility systems is not a core mission area. The DOD has recognized that its utility systems have been historically underprogrammed and underfunded and, as a result of not being maintained to industry standards, are not as safe and reliable as required to support primary mission areas. Utility systems on military installations are very small relative to the typically larger utility system right outside the fence line. This led us to conclude that the Department can gain efficiencies through privatization of its utility systems and transfer of those systems to experts in the commercial sector that are in the utility business. By continuing to pursue the utility privatization program, the Department's utility infrastructure will be improved to and maintained at industry standards.

44. Senator ENSIGN. Mr. Grone, two conditions which Congress added to the law last year, specifically a requirement to include in the economic analysis the margin of error in the anticipation of future costs, and a requirement to obtain a waiver in order to agree to terms of the transaction between 10 years and 50 years, have raised some concern from the private sector interested in partnering with the government to provide utility services. Can you provide this committee an assessment on the impact of these two conditions upon the program?

Mr. GRONE. Prior to the NDAA for Fiscal Year 2006, the DOD had existing guidance describing factors that must be accounted for in economic analyses conducted on utility systems. Additionally, each military department and the Defense Logistics Agency had existing processes in place to incorporate a margin of error in the preparation of economic analyses on utility systems. To address the legislative requirement, the DOD, in the supplemental guidance issued on March 20, 2006, directed

the military departments and the Defense Logistics Agency to include an explanation of how a margin of error is incorporated in each economic analysis submitted to Congress. The second provision was addressed by requiring each military department and the Defense Logistics Agency to determine the cost effectiveness of a contract term in excess of 10 years, not to exceed 50 years. The guidance recommended that this determination be made without requiring separate proposals from perspective offerors so as to not unnecessarily increase their administrative burden and expenditure of overhead. The DOD received similar expressions of concern from our industry partners and carefully considered the potential impact to all parties before publishing guidance. We respect the commitment that our private sector partners have made to this venture and recognize the importance of retaining that commitment on the success of our program objectives.

45. Senator ENSIGN. Mr. Grone, in your opinion, do these two conditions curtail the ability of the government to enter into privatization transactions?

Mr. GRONE. No.

MIGRATION OF OPERATIONS AND MAINTENANCE FUNDS

46. Senator ENSIGN. Secretary Eastin, Secretary Penn, and Secretary Anderson, I am concerned that, once again, the fiscal year 2007 budget request includes funding for both base operating support and Facility Sustainment, Restoration, and Modernization (FSRM) that falls far short of projected requirements for fiscal year 2007. These funds are crucial to maintain the safety, security, and adequate condition of military facilities, ranges, and infrastructure. Yet, each year, the Services take on a great deal of risk in the underfunding of these accounts in order to satisfy other priorities. Furthermore, we discover in our visits to military installations, that in the year of execution, only a fraction of funds in the FSRM accounts—already short-changed in the budget year—are being used for their budgeted and authorized purpose. In most cases, funds are diverted to cover budgeted shortfalls in base operations accounts. In your prepared statements for this hearing, you each mention the effort in fiscal year 2007 to meet the DOD budget goals to fund 95 percent of facility sustainment requirements. At the installation level, what percentage of the total installation sustainment requirement do you estimate has been funded annually over the last 3 years?

Mr. EASTIN. Over the last 3 years, the percentage of total installation FSRM requirements funded annually for fiscal years 2004, 2005, and 2006 is 66 percent, 58 percent, and 90 percent, respectively.

Mr. PENN. The Marine Corps has been very successful at making sure sustainment funds programmed are actually executed on sustainment in the field. Fiscal year 2003 and fiscal year 2004 met or exceeded 95 percent of the OSD model, fiscal year 2005 was executed at 94 percent, fiscal year 2006 is currently projected at 92 percent, and fiscal year 2007 is projected at 93 percent.

Actual sustainment rates for the Navy are 84 percent in fiscal year 2003; 69 percent in fiscal year 2004; 90 percent in fiscal year 2005; projected execution of 75 percent in fiscal year 2006; and 95 percent in fiscal year 2007.

Mr. ANDERSON. The following table reflects the percentage of sustainment actually funded for the past 3 years, as well as the budget for the current year.

Total Air Force Sustainment Requirement Funded

	FY03	FY04	FY05	FY06
% Funded	86%	77%	78%	95%
OSD Goal	N/A	N/A	95%	95%

* FY03-05 Reflects End of Year Obligations

** FY 06 Reflects President's Budget Request Amount

47. Senator ENSIGN. Secretary Eastin, Secretary Penn, and Secretary Anderson, if the percentage is not close to 95 percent, what happens to the funding between the comptrollers of your respective Services and those installation sustainment projects?

Mr. EASTIN. Historically, during the year of execution, total installation funding falls below acceptable levels. As a result of under funding Base Operations Support (BOS) accounts funds are reprogrammed from other accounts including the facilities sustainment accounts to cover shortfalls. Many of the shortfalls in BOS are "must

fund" programs such as payroll, utilities, real estate leases, food, fire and emergency, and fixed contracts. If, as a result of such reprogramming, sustainment funding falls below 95 percent, some of the installation sustainment projects and essential facilities maintenance will be delayed until funds can be made available.

Mr. PENN. The Marine Corps executed fiscal year 2003 through fiscal year 2005, in line with the OSD guidance. In fiscal year 2006 and fiscal year 2007, the Marine Corps expects to execute a few percent below the OSD guidance of 95 percent. This adjustment was made during the budget formulation process and is not a year of execution issue.

Over the last 2 years, the Navy has diverted sustainment funds to support emergent funding needs for installation operations including increased utility and labor costs.

Mr. ANDERSON. Commanders at all levels of the Air Force require the flexibility to fund the highest priority operations and maintenance (O&M) requirements, and often elect to use sustainment funding to cover utility costs, increases in fuel bills, and other base support costs they deem as must-pay requirements. As such, the Air Force often assumes risk in the facility sustainment program by diverting funds for higher priority, more pressing O&M requirements.

RECAPITALIZATION FUNDING

48. Senator ENSIGN. Secretary Eastin, Secretary Penn, and Secretary Anderson, the DOD's physical plant, which is the aggregate of all land, facilities, and infrastructure in the DOD inventory, continues to deteriorate as a result of years of chronic underfunding of critical MILCON and certain O&M accounts. For the past 3 years, the Department has been projecting a goal of 2008 to reach and sustain an annual level of funding for the modernization, restoration, and replacement of the Department's physical plant that equates to a complete recapitalization every 67 years. For the military departments in the fiscal year 2007 budget request, the recapitalization rate ranges from 49 years for the Army, due mostly to a considerable BRAC MILCON request, to 124 years for the Air Force. Aside from funding for the sustainment of facilities and infrastructure, can you provide the committee the actual amount spent from FSRM accounts on facility restoration and modernization which contributed to recapitalization in fiscal years 2004 and 2005?

Mr. EASTIN. The actual amount spent by the Army from the FSRM accounts on facility restoration and modernization which contributed to recapitalization in fiscal year 2004 was $1.6 billion, and in fiscal year 2005 was $2.7 billion.

Mr. PENN. In 2004 and 2005 the actual amounts spent on facility restoration and modernization that contributed to recapitalization are as follows:

Marine Corps	2004	2005
MCON/MCNR:	160.9	209.4
O&MMC/O&MMCR:	48.8	113.7
Other Sources:	5.6	9.8
Total R&M Investment:	215.3	332.8

Navy	2004	2005
MCON/MCNR:	692.4	778.1
O&MM/O&MNR:	204.7	405.5
DWCF:	102.5	125.8
Other Sources:	6.4	3.6
Total R&M investment:	1,006.0	1,313.0

Mr. ANDERSON. In fiscal year 2004, the Air Force obligated $789 million from O&M accounts for restoration and modernization and in fiscal year 2005 the Air Force obligated $1,000 million from O&M accounts for restoration and modernization toward recapitalization for each year.

49. Senator ENSIGN. Secretary Eastin, Secretary Penn, and Secretary Anderson, will each military department reach the DOD goal of funding at an annual rate of investment equal to a 67-year recapitalization in fiscal year 2008?

Mr. EASTIN. The Army will reach the DOD goal of funding at an annual rate investment equal to a 67-year recapitalization in fiscal year 2008.

Mr. PENN. In 2008, the Marine Corps recapitalization rate is 73 years and the Navy rate is 70 years.

Mr. ANDERSON. The Air Force is accepting risk in facility recapitalization to modernize and transform the force and as a result will fall just short of OSD's directed 67-year facility recap rate metric in fiscal year 2008. The Air Force's fiscal year 2008 recapitalization rate is currently 68 years.

50. Senator ENSIGN. Secretary Eastin, Secretary Penn, and Secretary Anderson, will this rate be sustained through the FYDP for each Service?

Mr. EASTIN. The Army will be able to sustain the annual rate investment equal to a 67-year recapitalization across the FYDP except in fiscal year 2010, where an additional $115 million will be needed. The large amount of funding available from the Integrated Global Presence and Basing Strategy, Army Modular Force, and BRAC 2005 will not continue beyond fiscal year 2011.

Mr. PENN. That is certainly the goal, but as an investment account, I would expect funding levels to fluctuate each year within a reasonable range. The recap metric is a relatively coarse metric, and the military components are working with OSD to develop a more refined recap model.

Mr. ANDERSON. We project the facility recap rate for the upcoming years as follows: fiscal year 2008 = 68 years; fiscal year 2009 = 49 years; fiscal year 2010 = 59 years; and fiscal year 2011 = 84 years. The average recap rate through the FYDP (fiscal years 2007–2011) is 77 years.

IMPACT OF ARMY TRANSFORMATION ON QUALITY OF LIFE

51. Senator ENSIGN. Secretary Eastin, I was reassured to read in your statement that "The importance of providing quality housing for single soldiers is paramount to success on the battlefield. The Army is in the 14th year of its campaign to modernize barracks to provide 136,000 single enlisted permanent party soldiers with quality living environments." The BRAC process, Integrated Global Presence and Basing Strategy, and the Army Modular Force initiatives have all resulted in the movement of thousands of Army personnel and their families and the requirement for new barracks at U.S. Army installations around the world. Given current levels of funding, in what year does the Army anticipate every soldier, who is required to be housed on post, will be permanently assigned a private sleeping room which meets Army standards for adequate unaccompanied housing?

Mr. EASTIN. With the President's fiscal year 2007 budget request, funding will be provided to adequately house 122,900 soldiers to the DOD 1+1 or equivalent barracks standard. With congressional support and the President's fiscal year 2008 budget request, the Army intends to fund the elimination of all remaining inadequate permanent party barracks that do not meet the 1+1 or equivalent standard and eliminate all barracks deficits by fiscal year 2011. This is a change from our previous goal of fiscal year 2008 because of additional BRAC, IGPBS, and Army Modular Force (AMF) requirements. We anticipate that every single soldier will be assigned a private sleeping room by fiscal year 2013 with the transition of funding, construction, and occupancy of the new barracks.

52. Senator ENSIGN. Secretary Eastin, given the current level of funding, in what year does the Army plan to ensure that soldiers are no longer housed in trailers?

Mr. EASTIN. The Army intends to fund permanent party barracks requirements by fiscal year 2011 to accommodate soldiers being restationed due to BRAC, IGPBS, and AMF. The Army will continue to utilize relocatable buildings until the new barracks are funded, constructed, and occupied in fiscal year 2013.

IMPACT OF ARMY TRANSFORMATION ON LOCAL COMMUNITIES

53. Senator ENSIGN. Secretary Eastin, many of my colleagues have been hearing from local community leaders surrounding Army installations that will experience considerable increases in the military base population over the next few years. These community leaders are extremely concerned that the quick shifts in personnel will lead to overcrowding in local schools, delayed impact aid, and challenges for local housing and rental markets. The impression we get is that the individual soldier and their families will have to sacrifice their quality-of-life in order to meet Army transformation goals. How is the Department of the Army working with local communities to address these issues?

Mr. EASTIN. The Army will not sacrifice quality-of-life to meet transformation goals. We are constantly evaluating situations that impact soldier and family qual-

ity-of-life and actively engage local communities, particularly those with significant military population increases. For example, a housing forum was held earlier this year in Watertown, New York, with approximately 300 persons in attendance including congressional representatives, State leadership, Senior Army leaders, developers, financiers, small businesses, and local community leaders. The purpose was to ensure that local housing and rental markets were stimulated and to assure community leaders that the Army is an active partner in resolving the tight housing market in the Fort Drum area. The Army is also engaged in addressing local housing situations at communities near Fort Bliss, Fort Riley, and Fort Wainwright. Community leaders in these areas are excited about the economic prospects of Army transfonnation and are partnering with us to ensure soldier and family quality-of-life will be enhanced in their communities.

The Army is also working with DOD and Department of Education to address school issues. We have identified the need for an Army School Transition Plan to strategize for the successful transition of more than 50,000 military-connected students from within the U.S. and overseas to U.S. school systems. Local education agencies are concerned about adequate school facilities to accommodate the influx of transitioning students. Some communities have moved ahead with bond issues, while others have made contact with the Department of Education to explore new avenues for funding facilities, transportation, teachers, and textbooks.

54. Senator ENSIGN. Secretary Eastin, if a local community cannot respond in enough time with new schools and local housing to meet the flow of military families into a community, what are the repercussions?

Mr. EASTIN. The Army will control the flow of forces to installations so we do not place unreasonable burdens on our soldiers and their families, or local communities. Housing markets are generally responding enthusiastically at locations where significant increases in military families are expected. In the few areas where the housing market has been sluggish in responding, the Army has partnered with local communities to stimulate development. The housing forum held earlier this year at Fort Drum is a prime example of this kind of effort. In two instances we expanded the housing market area beyond 20 miles to garner additional towns with adequate and available housing. At some locations, we have deferred demolition of homes scheduled for replacement to provide additional inventory in the interim.

The Army conducted an Education Summit in October 2005 to collaborate and develop plans with school district superintendents, board members, commanders, and Army officials to explore the effects of Army rebasing initiatives on local communities and schools. Outcomes of the Summit have provided the Army and local education agencies with the potential number of students arriving in communities between fiscal years 2006 and 2011.

55. Senator ENSIGN. Secretary Eastin, is the Department of the Army considering alternative plans to delay the relocation of families until adequate housing and sufficiently sized schools are available within a reasonable distance to the military installation?

Mr. EASTIN. Simultaneous execution of BRAC, IGPBS, and modular stationing create extraordinary challenges to maintaining soldier and family quality-of-life. However, we will not sacrifice quality-of-life to accomplish these moves. Our plan is carefully synchronized, and we will control the flow of forces to installations so we do not place unreasonable burdens on either our soldiers and their families, or the local communities. If we have a unit scheduled to move and quality-of-life facilities are not in place, we can delay the move, disband the unit, or distribute the soldiers across the Army and stand up the flag when appropriate.

Soldiers remain the centerpiece of our Army and providing full funding and support for The Army Plan will provide a quality-of-life for soldiers and families that is essential to maintaining the quality of the All-Volunteer Force.

OVERSEAS CONSTRUCTION FOR THE ARMY

56. Senator ENSIGN. Secretary Eastin, the proposed fiscal year 2007 budget for the Army includes a request for over $223 million to construct facilities at a former Italian airfield in Vicenza, Italy called Dal Molin and another $35 million to start the construction of a base camp in Romania. There is also $146 million requested for the continued construction of new facilities in Grafenwoehr, Germany and $77 million for the continued consolidation of U.S. forces at Camp Humphreys, Korea. The Integrated Global Presence and Basing Strategy plans to return over 100,000 military personnel and their families back from Europe and Korea and will cost the

Department of the Army billions just to construct facilities for the returning personnel, aside from the billions required for new facilities to support Army transformation. For each of these locations, does the Department of the Army have a comprehensive investment plan for all facilities required to support the military missions? If so, can you provide an brief overview of each plan with all cost estimates for the record?

Mr. EASTIN. The Department of the Army does have comprehensive investment plans for the locations in Europe and Korea.

Initiatives in Europe provide the European Command with a strategically positioned, rapid response capability and presence that supports theater security cooperation in the southern and eastern portion of the European Command area of responsibility. We will consolidate transformed theater-enabling commands into modern facilities that meet DOD standards and place combat units at our premier European training area; provide enhanced force protection; and divest the U.S. of costly, inefficient, substandard, dispersed installations.

The construction at Dal Molin, Italy, supports the establishment and consolidation of the 173rd Infantry Brigade Combat Team, Airborne, which is currently split based between Germany and Italy. This consolidation strategically positions the unit south of the Alps with ready access to international airspace for rapid deployment and forced entry/early entry operations. The fiscal year 2007 $223 million project constructs critical mission facilities including brigade and battalion headquarters, company operations, barracks, vehicle maintenance, dining, and organizational classroom facilities. It also includes a physical fitness center and child development center for $26 million. Also included in the fiscal year 2007 budget request are two Defense MILCON projects—a $52 million health clinic and a $31.5 million dependent elementary/middle school, both of which will improve soldier and family quality-of-life. An additional $186 million will be required in future budget requests to complete the construction.

The construction at Grafenwoehr, Germany, supports the consolidation of combat units at Grafenwoehr promoting improved readiness, command and control, training, and soldier quality-of-life by providing renovated or new mission facilities, and improved force protection. The construction at Grafenwoehr is a multi-year, phased program. Fiscal year 2007 is the fifth of a six-phase initiative. The fiscal year 2007 construction request for $158 million includes barracks, company operations, and vehicle maintenance facilities. The final phase is programmed for fiscal year 2008 and includes brigade complex, maintenance, operations, and community support facilities.

The construction in Eastern Europe supports establishing a forward operating site for rotating U.S. forces engaging in expeditionary training events across the European area of operations and provides a rapid-reaction contingency capability in the region. The $35 million project is the first phase consisting of battalion-sized operational facilities, task force headquarters, training and logistical support facilities, and utilities infrastructure. A second smaller phase in fiscal year 2008 will provide the remaining facilities needed for the second battalion-sized unit. A second Eastern European forward operating site in another country is also being planned.

The Land Partnership Plan and Yongsan Relocation Plan relocate U.S. forces in Korea by consolidating 32 locations to 7 enduring installations including Camp Humphreys. This will improve soldier quality-of-life, training capabilities, command and control, force protection, and provide world-class power projection and force reception capabilities. Under the Land Partnership Plan, the Republic of Korea is sharing the relocation costs. The Yongsan Relocation Plan relocates U.S. forces from Seoul to Camp Humphreys and the construction is being funded by Korea. Under the Land Partnership Plan, the Korean funding contribution will come primarily from the sale of lands from closing U.S. installations. The $84 million fiscal year 2007 request includes two barracks complexes at Camp Humphreys and three range projects at Yongpyong.

57. Senator ENSIGN. Secretary Eastin, for the facilities that may be used by our allies and coalition partners, has the Army pursued burden-sharing arrangements for these projects with host nations and the North Atlantic Treaty Organization?

Mr. EASTIN. No. All the projects proposed for Europe and Korea are intended for U.S. military use only and it is not expected that U.S. allies will use them.

58. Senator ENSIGN. Secretary Eastin, for the MILCON requested for Italy and Korea, have basing arrangements with the host country been signed and all land made available for construction?

Mr. EASTIN. Yes. The basing arrangements in Italy are authorized under the NATO Status of Forces Agreement implementing agreements, and the Italian Minister of Defense committed all necessary land for the projects.

Land transfer in Korea is ongoing. The Republic of Korea has purchased the required 2,328 acres of land at Camp Humphreys for the relocation of U.S. forces, and the acreage will be transferred in two large tracts to United States Forces, Korea. The land necessary to construct the fiscal year 2007 barracks projects is on hand.

LESSONS LEARNED FROM BRAC ROUND

59. Senator ENSIGN. Mr. Grone, reference the 2005 BRAC round, now that the BRAC Commission has acted, and the DOD has transitioned into the implementation phase of the decisions, this committee is committed to ensuring we will capture any critical analysis of how the process can be improved. According to your written statement, the BRAC Commission changed 35 percent of the Department's recommendations, a significant increase as compared to the average of 15 percent in previous BRAC rounds. The Commission also suggested changes to the authorities for BRAC provided by Congress to the DOD. In your opinion, what could have been done better in the 2005 round to justify the Department's recommendations?

Mr. GRONE. As required by law, the DOD's BRAC process entailed comprehensive and comparable analyses of all installations in the United States and its territories, using military value as the primary consideration. The DOD believes the analyses, which serve as the foundation for the BRAC recommendations, and the organizational structure, which enhanced the decisionmaking process, to be the best tools available to justify the final BRAC recommendations. While every major undertaking such as the BRAC 2005 process always invites opportunities for improvement, the DOD did everything possible to make the best case in justifying the Secretary's recommendations for base closures and realignments. The DOD does not at this time believe that any changes to the BRAC authorities are necessary.

60. Senator ENSIGN. Mr. Grone, have lessons learned for the internal DOD process been identified and analyzed? If so, could you summarize them?

Mr. GRONE. While the DOD has not developed lessons learned for the internal BRAC process, it agrees with the GAO's July 1, 2005, assessment ("Military Bases: Analysis of DOD's 2005 Selection Process and Recommendations for Base Closures and Realignments") that the DOD's process for conducting its analysis was generally logical, reasoned, and well documented and that the DOD's process placed strong emphasis on data, tempered by military judgment, as appropriate.

61. Senator ENSIGN. Mr. Grone, in your opinion, can the authorities provided to DOD by Congress for BRAC process be improved? If so, how?

Mr. GRONE. At the present time, the DOD believes the authorities provided by the Defense Base Closure and Realignment Act of 1990, as amended, are sufficient for making installation closure and realignment recommendations.

62. Senator ENSIGN. Mr. Grone, in the initial report to Congress certifying the need for the 2005 round of BRAC, the DOD estimated that up to 24 percent of the total physical plant maintained by the Department was excess to military requirements. The DOD eventually submitted recommendations to the BRAC Commission that would have resulted in a 5-percent reduction in the physical plant. What is the DOD's final estimate of the reduction in the physical plant?

Mr. GRONE. After considering the impact of the BRAC Commission's actions to remove several large installations with significant plant replacement value (PRV) from the DOD's list of installation closure recommendations, the DOD's final estimate of the reduction in PRV is approximately 3.5 percent.

63. Senator ENSIGN. Mr. Grone, what is the DOD's revised estimate of the savings to be achieved by 2011?

Mr. GRONE. The financial displays which accompany the DOD's BRAC justification material for the fiscal year 2007 President's budget reflect projected savings through 2011 of over $16 billion. However, in some cases, the military departments may underestimate the savings they expect to realize from implementing BRAC 2005 recommendations. This is due to the status of planning and/or uncertainties associated with the contingent recommendations made by the BRAC. The military departments have committed to identify a complete projection of BRAC 2005 savings over the implementation period in subsequent justification book submittals.

BRAC PROPERTY DISPOSAL PROCESSES

64. Senator ENSIGN. Mr. Grone and Secretary Penn, during floor deliberations of the NDAA for Fiscal Year 2006, we debated an amendment that would have required the military departments to convey to the local community, at no cost, all excess land resulting from the 2005 BRAC process. While we ultimately voted down the amendment, there is still considerable concern that the DOD plans to seek maximum value for excess land during the BRAC disposal process at the expense of recognizing the needs of affected local communities to replace jobs and recover from the economic loss of the installation. What policies and guidance has the DOD implemented for the 2005 BRAC round that will protect the interests of local communities and will assist them in their economic recovery and revitalization?

Mr. GRONE. The military departments have the option to use a variety of property conveyance methods that we refer to as the "mixed toolbox" of options. This approach provides significant flexibility, and the discretion to use a common-sense approach to do the right thing based on each disposal parameter. It is the DOD's desire to work with communities throughout the process to provide a seamless transition and assist communities whether they are losing military bases or at the other end, experiencing growth. This flexibility will allow for more creativity in planning for redevelopment and enhance the opportunities for job creation.

The Final Rule for 32 CFR Parts 174, 175, and 176 (published in the Federal Register on February 28, 2006) and The Base Redevelopment and Realignment Manual (BRRM), issued on March 1, 2006, provide policy and implementation guidance to the DOD and local communities regarding BRAC 2005. The BRRM discusses the importance of the redevelopment plan devised by the Local Redevelopment Authority (LRA) because the military department will use it to conduct the property disposal environmental analysis required by the NEPA. The military department treats the redevelopment plan as part of the proposed Federal action for the installation. The plan also will serve as a basis for consideration of public benefit conveyances or an Economic Development Conveyance (EDC) (authority exists for both conveyance at fair market value and at no-cost EDC) if the LRA or other entities seek to obtain property by those property disposal methods.

Mr. PENN. The Federal Regulations and the DOD BRRM discuss the procedures that will be followed in disposing of BRAC installations, including the roles local communities have in the disposal process. This process enables local communities to prepare a redevelopment plan that balances the needs of the homeless with economic development opportunities. The military Services do not decide what the future land use will be at the property. The local communities make those decisions in their local planning and zoning process. To help communities prepare local planning documents, DOD designated LRAs can apply for grants from the Office of Economic Adjustment. The policies and guidelines for designation of LRAs are stated in the Defense Base Closure and Realignment Act of 1990, as amended.

From our experience, no-cost economic development conveyances have not ensured expeditious economic recovery for the community. Effective use of the many different conveyance methods has been more successful in yielding economic recovery. We will, however, continue to work with the local communities to dispose of property in any such manner that will meet their needs for redevelopment and ours for disposal within the context of Federal and DOD guidelines.

65. Senator ENSIGN. Mr. Grone, what assurances can you provide to this committee about the policies of the DOD to encourage local redevelopment authorities to continue to seek no-cost economic development conveyances?

Mr. GRONE. The military departments may use a variety of property conveyance methods, a "toolbox" of options, and may convey the property in multiple parcels to multiple future owners. It may dispose of surplus real and personal property at the installation as one conveyance, or convey the property in multiple parcels using one or more property conveyance authorities. The toolbox includes the following types of conveyances:

- Public benefit conveyances.
- Homeless assistance conveyances.
- Negotiated sale.
- Advertised public sale.
- Environmental remediation conveyance.
- Economic development conveyance (EDC).
- Depository institution facility.
- Conservation conveyance.

The DOD will not prescribe a reuse approach. The DOD will work very closely with local redevelopment authorities recognizing that "one-size" does not fit all. The

military departments will be able to use flexibly all the disposal mechanisms in the toolbox, including economic development conveyances at cost and at no cost when it can be demonstrated that sufficient jobs will be generated to justify an EDC.

66. Senator ENSIGN. Secretary Penn, I appreciate your opening comments on this matter. Representatives of the Department of the Navy have been reported in the press as particularly vocal about plans to seek maximum monetary value for property declared excess as a result of BRAC 2005 actions, given the recent success of disposal activities at the former Marine Corps Air Station El Toro and Oak Knoll, California. What are the Navy's priorities for the disposal of excess land resulting from BRAC 2005?

Mr. PENN. The Department of Navy has portrayed a consistent message to the communities and media that we will use all disposal tools that are available under the existing Federal regulations. Public sales are only one of the property disposal techniques that the Navy has used in prior BRAC rounds and may use at BRAC 2005 installations. The Navy explores all conveyance methods with the local communities to develop the best disposal strategy to enable the communities to fulfill their redevelopment vision, while at the same time provide a return on investment for the Federal taxpayer either through a conveyance that benefits the public or a public sale. For example, at Naval Station Roosevelt Roads, the Navy and the local community worked together to develop a disposal strategy that has a combination of Federal agency transfers, public benefit conveyances, an economic development conveyance, and public sale. Only one third of the base is proposed to be disposed by public sale.

67. Senator ENSIGN. Secretary Penn, will the Navy assess proposals by local redevelopment authorities to receive economic development conveyances at no cost with due consideration given to the potential for jobs generation?

Mr. PENN. The Department of Navy will follow the Federal regulations and the DOD Base Realignment and Redevelopment Manual in determining if a no-cost economic development conveyance is applicable. We will work with the local redevelopment authorities on any request for a no-cost economic development conveyance in accordance with Federal guidelines.

STATUS OF REALIGNMENT ACTIONS

68. Senator ENSIGN. Mr. Grone, Secretary Eastin, and Secretary Anderson, there have been press reports recently that the Air Force plans to undo, or not adhere to, certain realignment decisions resulting from the 2005 BRAC process. While the BRAC statute provides the Department very clear direction on the time period to implement BRACs, the law does not address a specific time period for which realignment of units and function must remain in place at their new location. Regardless, the Air Force plans, if implemented, could have the effect of undercutting the integrity of the entire BRAC process. What is the DOD's policy and guidance on adherence by the military Services to the decisions of the BRAC process related to the realignment of units and functions?

Mr. GRONE. The DOD understands that it has a legal obligation to close and realign all installations recommended for closure and realignment by the Commission and approved by the President and Congress. The DOD will fully comply with all BRAC 2005 recommendations.

Mr. EASTIN. The Army plans to execute the 2005 BRAC recommendations in accordance with the BRAC law.

Mr. ANDERSON. The Air Force intends to fully comply with closure and realignment actions as directed in the Commission's report, and in accordance with all implementation policy and legal guidance provided by the Office of the Secretary of Defense.

69. Senator ENSIGN. Mr. Grone, in your opinion, should Congress implement a law to mandate a minimum period of time to maintain the realignment of units and functions carried out in adherence to a BRAC decision? Please justify your answer.

Mr. GRONE. The DOD does not believe that any changes to the BRAC authorities are necessary. There is no indication at this time that implementing the Commission recommendations requires more stringent oversight. Further, after all implementation actions are completed, the DOD should retain enough flexibility to restation missions to address emerging operational requirements. In those instances where an action may affect an implemented BRAC recommendation, that proposal will be reviewed on its operational merits.

70. Senator ENSIGN. Secretary Eastin and Secretary Anderson, do your respective Services have any plans at this time to change, or not carry out, any of the 2005 BRAC recommendations? If so, please elaborate.

Mr. EASTIN. No. At this time, the Army plans to execute all 2005 BRAC recommendations in accordance with the BRAC law.

Mr. ANDERSON. No. Other ongoing transformational activities, such as the QDR decisions and Air Force Total Force Integration initiatives, are scheduled to occur in parallel with our BRAC implementation, and may impact our BRAC implementation activities. As we begin to assess these impacts, we will continue to adjust and refine the requirements needed to implement the BRAC recommendations as approved by the President. At this time, we have no plans to change, or not carry out, the 2005 BRAC recommendations.

71. Senator ENSIGN. Mr. Grone, Secretary Eastin, Secretary Penn, and Secretary Anderson, if for any reason you consider a change to a realignment action contained in a 2005 BRAC decision, will you promptly inform this committee of the proposed change?

Mr. GRONE. The DOD has a legal obligation to close and realign all installations so recommended for closure and realignment by the Commission and approved by the President and Congress. Therefore, the DOD does not intend to promote actions which would contradict BRAC 2005 closure or realignment recommendations.

Mr. EASTIN. Yes, if the Army decides, for whatever reason, to consider a change to a realignment action contained in a 2005 BRAC decision, the Army will promptly consult with the committee on the proposed change.

Mr. PENN. The Navy does not intend to deviate from the 2005 BRAC decisions in implementing any of the realignment actions. If such a situation does arise, the Navy would inform the committee.

Mr. ANDERSON. Yes, be assured the Air Force intends to fully comply with closure and realignment actions as directed in the Commission's report. There are numerous ongoing transformational initiatives within the Air Force, some of which we have yet to determine the impact on BRAC actions and requirements. The Air Force will continue to adjust its overall infrastructure footprint to best align its existing and planned infrastructure as efficiently for the future, but in full compliance with BRAC statutory obligations and timing.

BARRACKS PRIVATIZATION

72. Senator ENSIGN. Secretary Eastin, the Department of the Army is faced with billions of dollars worth of barracks construction requirements resulting from Army transformation and the relocation of over 50,000 military personnel from Germany and Korea. In addition to the use of MILCON funds to construct new barracks, Congress has provided the military departments with authorities to enter into transactions for privatized barracks, similar to the very successful program for the privatization of military family housing. What plan does the Department of the Army have to use existing privatization authorities to address the Army's barracks requirements?

Mr. EASTIN. The Army plans to use privatization authorities wherever barracks privatization is in the best interest of the Army. The Army is currently considering initiatives at Forts Drum, Riley, Hood, and Bliss. In addition, the Army is waiting for the Navy's barracks privatization pilot project to mature so additional data and lessons learned may be gathered for potential implementation at Army installations.

AIR FORCE HOUSING REQUIREMENTS IN GERMANY

73. Senator ENSIGN. Secretary Anderson, the proposed fiscal year 2007 budget for the Air Force includes a request for $73 million in MILCON funds to construct family housing units at Ramstein Air Base in Germany. At other U.S. installations in Europe, both the Air Force and the Army have entered into agreements to use "build-to-lease" housing. The local government in Germany has indicated within the past year a strong desire to pursue a build-to-lease agreement with the Air Force for new housing in the Ramstein area. Based on the most recent housing market assessment, what is the total number of units required to be retained by the Air Force on Ramstein Air Base?

Mr. ANDERSON. Our latest housing requirements and market analysis (2003), reports a requirement for 2,686 housing units on base. This includes a 725-unit minimum housing "floor" and an additional 1,961 housing community shortfall. The local government officials in Germany are not interested in build-to-lease in the

Ramstein area; rather, their efforts are toward working with developers in a speculative venture mode whereby if they build houses to suit our requirements, our members can individually lease those, reducing on-base construction requirements. In any case, the fiscal year 2007 request is a critical requirement for our families at Ramstein Air Base.

74. Senator ENSIGN. Secretary Anderson, how many inadequate housing units remain at Ramstein Air Base, and what is the total estimate of the amount required to upgrade these units using MILCON funds?

Mr. ANDERSON. Currently, there are 314 inadequate units remaining at Ramstein Air Base. These units will be replaced or improved in order to meet the fiscal year 2009 goal of eliminating all inadequate family housing overseas.

The following three projects eliminate the inadequate housing at Ramstein Air Base:

Fiscal Year 2007 - Replace 101 units - $73,488K - Improve 19 units - $5,448K
Fiscal Year 2008 - Replace 101 units - $53,376K - Improve 20 units - $4,053K
Fiscal Year 2009 - Replace 73 units - $46,094K
Total - 314 units - $182,459K

75. Senator ENSIGN. Secretary Anderson, has the Air Force assessed a proposal offered by the local government to enter into an agreement for build-to-lease housing at Ramstein Air Base? If so, can you provide a summary of the assessment and the rationale why the Air Force prefers to use MILCON funds?

Mr. ANDERSON. At this time the Air Force has not solicited for, or assessed any proposal for build-to-lease housing at Ramstein AB, Germany. The following excerpts are from a March 3, 2006, letter from State Minister Herrn Karl-Peter Bruch to COMUSAFE:

"The State of Rheinland-Pfalz believes that despite our planned growth in the KMC housing market, the demands of our two communities are outpacing supply; therefore, making your planned MILCON projects at Ramstein necessary."

". . . there are already quite a few vacant apartments that go unwanted by both German and American families. . ." In brief, with our support, much can be accomplished, but not without some limitations."

The housing program at Ramstein Air Base has focused primarily on MILCON investment. Executing our planned housing projects at Ramstein is a vital signal of U.S. economic commitment, and is necessary to spur local investment from the private market. While the German Government is not supportive of a build-to-lease initiative in the Ramstein area, we are working with them to spur private developers to build houses to suit our requirements that our members/families could individually lease.

PURCHASES OF LAND IN ACCIDENT POTENTIAL ZONES

76. Senator ENSIGN. Secretary Penn, one project in the fiscal year 2007 budget request for the Marine Corps catches my attention due to the policy implications for the entire DOD. The project, as briefed to my staff, is to purchase titles to 310 acres of land surrounding Marine Corps Air Station Beaufort, South Carolina, known as the aircraft accident potential zone (APZ). This project is particularly important as a precedent for those of us who have residential encroachment problems around military bases. In Nevada, we've worked with the Air Force for years to protect APZs and ammunition loading areas around Nellis Air Force Base. We've used a combination of land and easement purchases, and the great cooperation of the local community to find compatible uses for certain parcels in the APZs. Up to this point I was under the impression that the DOD policy was to attempt to acquire land in areas known as clear zones, and to work with the local communities to use zoning as a way to protect APZs. The military departments did not want to get into the business of owning land outside their fence-lines, particularly in APZ 2, which is furthest away from the base. The project at Beaufort requests $7.2 million to buy 310 acres in APZ 2. I have no problem protecting the safe operation of aircraft at Beaufort, but I want to be clear on the current DOD policy for the management of APZs, and the potential repercussions on the budget if DOD starts buying land in APZ 2. Can you describe the Marine Corps's intent to satisfy this requirement?

Mr. PENN. Department of the Navy policy is to work toward achieving compatibility between air installations and neighboring civilian communities by means of a compatible land use planning and control process conducted by the local community. In accordance with that policy, we use a variety of approaches to address en-

croachment issues that arise in APZs and noise zones near installations and ranges, including:

- Joint Land Use Studies (JLUS) and other local land use planning coordination
- State support and legislation
- Recent new authority for encroachment partnering agreements
- Acquire property interests using MILCON authority

Using these methods, Marine Corps Air Station (MCAS) Beaufort administers a comprehensive land use program that includes outreach and coordination with local governing authorities as well as regional planning strategies to protect against loss of mission and operational flexibility. MCAS Beaufort actively coordinates with the local jurisdictions and community to work in a collaborative effort to establish compatible land use controls. When these efforts are not fully successful, consideration is given to the acquisition of real estate interests in the affected areas.

The current zoning does not satisfy Beaufort's AICUZ noise abatement requirements; and based on past experience, there is risk that local governments may not attain an adequate zoning ordinance in the near future. The once vacant farmlands surrounding MCAS Beaufort are being converted to high density development without local government land use and zoning control oversight needed to plan for and permit development that is compatible with high performance aircraft operations. The county "Airport Overlay Zoning District" zoning ordinance did not prevent the recent incompatible development of Vivian's Island within the AICUZ. Zoning is not permanent and is subject to change from pressures of a growing community and economic factors. Acquisition of property interests using MILCON authority is an appropriate course of action to control incompatible growth within APZs and noise impacted areas when other measures are not likely to succeed.

Pursuant to 10 U.S.C. 2684a (Encroachment Partnering), in 2004 and 2005 the Air Station and Beaufort County partnership purchased land development rights and conservation easements on approximately 231.24 acres surrounding the Air Station, and the partnership is currently collaborating on additional purchases under that authority in 2006. The MILCON project at Beaufort in the fiscal year 2007 budget acquires real estate interests, in the form of restrictive use easements, on parcels where we do not anticipate that encroachment partnering initiatives would be successful.

77. Senator ENSIGN. Secretary Penn, can you describe what actions the Marine Corps undertook with the local community to satisfy this requirement?

Mr. PENN. MCAS Beaufort's Community Plans and Liaison Office uses a variety of tools to administer a comprehensive land use program that includes outreach and coordination with local governing authorities, as well as regional planning strategies to protect against loss of mission and operational flexibility. Each municipality and the county have different Airport Overlay Zoning District ordinances, or no ordinance in the case of the Town of Port Royal. This has led developers to seek annexation into the jurisdiction with the least development restrictions. Incompatible development, and subsequent lawsuits due to noise impacts, has already taken place due to the lack of adequate local development controls.

In 2005 the Air Station, county, and city collaborated on the development of a JLUS. The primary goal of the JLUS is to develop land use recommendations and a single zoning ordinance that will be adopted by all of the local municipalities and the county.

The JLUS recommendations are under review by the JLUS Implementation Committee, but it may take 1–2 years before a proposed zoning ordinance is ready for consideration by all of the local government legislative bodies. Based on past experience, there remains significant risk that a single, effective zoning ordinance that is sufficiently protective of the Air Station mission may not be enacted in a timely fashion to preclude additional incompatible development.

In the meantime, the Marine Corps and Beaufort County partnered on four projects in 2004–2005 using the authority of 10 U.S.C. 2684a and acquired easements to control incompatible development around the Air Station. The partnership acquisitions are a win-win for the Marine Corps and the county, which has a $40 million bond fund to provide open space. The MILCON project is focused on acquisition of real estate interests, in the form of restrictive use easements, on parcels where we do not anticipate that encroachment partnering initiatives would be successful.

78. Senator ENSIGN. Secretary Penn, were all other options involving the local community exhausted before the decision was made to request MILCON funds for this requirement?

Mr. PENN. Yes, the Marine Corps has cooperated with the local jurisdictions near MCAS Beaufort on land use compatibility matters. The MILCON project addresses certain parcels where we do not anticipate that other measures will be successful.

79. Senator ENSIGN. Secretary Penn, can you provide the current Navy policy for the management of APZs?

Mr. PENN. Navy policy for management of APZs is contained in OPNA VINST 11010.36B, "AICUZ."

APZs describe the probable impact area if an accident were to occur. APZs are based on historical data that determines the size of the Clear Zone, APZ 1 and APZ 2, and are depicted in the final AICUZ. Additionally, there also tends to be high noise levels associated with flight operations in APZs.

An air installation's AICUZ provides the local commander with suggested compatible land uses in APZs, and these recommendations are presented to community planners for consideration and implementation in the local land use planning and control process. This process includes zoning and subdivision ordinances and building codes.

Installation commanders promote compatible land use through engagement with civilian neighbors. In addition, an installation commander and neighboring communities may collaborate in a joint planning process, resulting in a JLUS. The JLUS is a public process that provides land use planning recommendations, such as zoning for a military district/military influence area, sound attenuation mitigation, real estate disclosure, education, outreach, etc.

Acquisition of real property interests may be considered to eliminate land use incompatibilities in critical situations where State and local governments are unwilling or unable to enact adequate land use controls to achieve land use compatibility within the AICUZ. When acquisitions are determined as the most appropriate tool, the Department of Navy can achieve this goal by partnering with a public or private eligible entity using the authority provided in 10 U.S.C. 2684a. If such partnering efforts are not successful, then acquisition of real property interests using MILCON authority may be considered.

80. Senator ENSIGN. Secretary Anderson, can you provide the current Air Force policy for the management of APZs?

Mr. ANDERSON. The Air Force policy for controlling land use in the APZs is to work within local government land use planning processes to encourage compatible zoning and development. In those rare instances when an installation has exhausted all possibilities of achieving compatible use zoning, or similar protection, and the operational integrity of the installation is manifestly threatened, the Air Force, in accordance with DOD Instruction 4165.57, Air Installations Compatible Use Zones, may consider acquiring the minimum interest in land within an APZ necessary to protect the mission, but only after completing a complete analysis of costs, and impacts to current and future missions.

81. Senator ENSIGN. Secretary Penn, is the Navy planning to purchase land or easements within APZs at any other Navy or Marine Corps installations?

Mr. PENN. Future planned projects that acquire real property interests within Air Installation Compatible Use Zones, including APZs, are as follows:

Navy

- Fiscal Year 2011; P–252 - NAS Whiting Field, FL - Clear Zone Acquisition and Runway Extension at NOLF Evergreen; acquires 165 acres of land in clear zone of runway extension
- Fiscal Year 2008; P–691 - NOLF Washington County, NC - Outlying Landing Field Acquisition; acquires 16,000 acres of land in buffer area
- Fiscal Year 2009; P–691 - NOLF Washington County, NC - Outlying Landing Field Acquisition; acquires 11,000 acres of land in buffer area

USMC

- Fiscal Year 2006; P–124 MCAS Cherry Point; acquires restrictive easements
- Fiscal Year 2009; P–433 MCAS Beaufort; acquires restrictive easements

82. Senator ENSIGN. Mr. Grone, can you provide the Department's guidance on the management of APZs?

Mr. GRONE. DOD Instruction 4165.57, Air Installations Compatible Use Zones, provides policy on the extent of interest the Government should acquire in real property in APZs. DOD policy is to work toward achieving compatibility between air installations and neighboring civilian communities by means of compatible land use planning and control processes conducted by the local community. The method of control and regulation of land usage in APZs will vary according to local conditions. In all instances, we strive to work collaboratively with local communities to establish reasonable land use guidelines that will protect the operational integrity of the air installation. A primary aspect of this effort is the provision to the local planning agencies of measurements of installation produced noise. When efforts to achieve compatible use zoning, or similar protection, are unsuccessful there are a variety of tools available to acquire the necessary interests to achieve compatibility. The statutory authority granted DOD in 10 U.S.C. § 2684a, enacted in the NDAA for Fiscal Year 2003, is an example of one such additional tool. When considering acquisition of real property interests, the military departments are encouraged to acquire the minimum amount of property or property interest necessary to protect the military mission, and only from willing sellers. The property interest acquired will tend to vary depending on how close the property is to the military use and what the military use may be. For instance, the property interest sought to be acquired will generally differ between a clear zone, APZ 1, and APZ 2. This is reflective both of the potential for accidents and the compatible uses that each zone will allow.

83. Senator ENSIGN. Mr. Grone, does the DOD currently maintain a moratorium on the purchase of property? If so, was a waiver granted by the Secretary of Defense to the Department of the Navy for the acquisition of land at Marine Corps Air Station Beaufort and what were the reasons?

Mr. GRONE. Yes, DOD maintains a moratorium on the purchase of property. If the proposed land or lease acquisition exceeds either 1,000 acres, or $1 million in acquisition costs, then a waiver to the land acquisition moratorium must be obtained from either the Secretary or Deputy Secretary of Defense (within the Washington, DC area) or the Under Secretary of Defense (Aquisition, Technology, and Logistics) (USD(AT&L)) for acquisitions outside the Washington, DC area.

In May 2003, the USD(AT&L) approved an exception to Land Acquisition Moratorium for the Department of the Navy to pursue partnering arrangements with local authorities that could ultimately result in the Navy acquiring 900 acres within the AICUZ of MCAS Beaufort, South Carolina. Section 2811 of the NDAA for Fiscal Year 2003 provides the authority and stipulates that only O&M (or RDT&E for RDT&E funded activities) may be used for this purpose.

The proposed Navy MILCON for fiscal year 2007, P424, seeks to acquire restrictive easements for 351 acres that could not be obtained by using the Section 2811 "partnering legislation." This is Phase I of two phases, with a Phase II to be requested for fiscal year 2008. This MILCON funded request, to acquire 351 acres of restricted easements, has not as yet been submitted to Office of the Secretary of Defense for approval in accordance with the Land Acquisition Moratorium.

TRANSPARENCY IN CONTRACT EXECUTION

84. Senator ENSIGN. Mr. Grone, in your opinion, what more can be done to leverage the rapid advancement in technology towards the goal of efficient and effective construction contract management?

Mr. GRONE. The DOD's primary design and construction agents, the U.S. Army Corps of Engineers and the Naval Facilities Engineering Command, have been using commercially available project management and construction management tools to support effective and efficient contract administration. They continue to actively search out new tools, benchmark their performance against private industry, and leverage the Department's business transformation efforts to further enhance their construction agent capabilities. The Department always welcomes the introduction of new proven technology innovations.

ADEQUATE OVERSIGHT IN HOUSING PRIVATIZATION

85. Senator ENSIGN. Mr. Grone, the DOD's dedicated efforts to quickly improve the living conditions of our military personnel and their families has resulted in 56 privatization projects comprised of almost 118,000 housing units across all the Services. Adequate government oversight and quality assurance within privatized housing partnerships are essential to monitor and safeguard the Government's interests. What policies and processes are in place within the DOD to ensure the privatization

projects are meeting expectations for construction progress, occupancy rates, and financial performance?

Mr. GRONE. In 2001, the OSD initiated the semi-annual Military Housing Privatization Initiative (MHPI) Program Evaluation Plan (PEP) report to monitor overall MHPI program performance. It has evolved over time to meet the needs of the accelerating MHPI program, as it has matured. In addition, OSD is also now required to report semi-annually to Congress on the status of its housing privatization program. This report (DOD, MHPI PEP Executive Report) was sent to the various defense authorizing and appropriation committees on March 31, 2006.

While the PEP is intended to oversee broad program performance, the service portfolio management systems oversee the real time well-being of individual projects. The Services have quarterly and monthly monitoring mechanisms in place to track their construction progress, occupancy rates, and financial performance. The program's construction progress, including both new construction and renovations, is on schedule—as determined by each project's Initial Development Plan agreed to at project closing. To date, we have no project defaults and where we have occupancy issues the Services and their relevant developers are working aggressively to address this issue. The MHPI is designed to require the Services to perform their monitoring function through "eyes on the ground" asset management and through regular reviews of a project's status with the respective developers. In addition, the developers are under continual scrutiny by their lenders to ensure project performance and fiscal health.

86. Senator ENSIGN. Mr. Grone, has the DOD identified any negative trends or problems within the housing privatization program? If so, please elaborate.

Mr. GRONE. Congress requested in the Report of the Committee of Conference accompanying the Military Construction Appropriations Act, 2006 (Public Law 109–114) a semi-annual report on the status of our housing privatization program. The Military Housing Privatization Initiative PEP Executive Report (June 2005), which was sent to the various defense authorizing and appropriation committees on March 31, 2006, outlines how the housing privatization program is doing. In short, as of April 2006, DOD has awarded 58 projects, privatizing over 121,000 family housing units, and via these awards have put into place a budget and plan to eliminate over 91,000 inadequate units. To date, DOD is on schedule with new construction and renovation plans, and have had no financial project defaults. Where projects have experienced lower occupancy rates than expected, usually due to the poor condition of transferred units, the military Services and their development partners are working aggressively to address the problem.

87. Senator ENSIGN. Secretary Eastin, the Army is relying on a contractor to develop privatization projects on its behalf. This contractor is responsible for soliciting investors, preparing proposals, and working with offerors to finalize transactions. What policies or processes are in place within the Army to provide oversight to the contractor's activities to ensure the best possible transactions are entered into by the Government?

Mr. EASTIN. Contractors do not develop projects on behalf of the Army. The Army employs contractors to provide professional real estate and financial analyses support to Government program and project managers. The role of the contractor is to provide advice and assistance to the Government in negotiating with nationally recognized real estate development and management firms that the Army has selected as family housing privatization partners. The contractor support includes analyses and recommendations on various aspects of development plans, evaluation of proposed fees and other terms and conditions, competition of lender debt, and collection and evaluation of data to support post-privatization oversight. Government personnel are responsible for soliciting and selecting the development partners, and finalizing transactions and business agreements that ensure the best value to the Government. The Army uses a variety of appropriate contract administration controls to review and evaluate contractor performance and costs in support of the program.

BUSINESS PROCESSES FOR REAL PROPERTY MANAGEMENT

88. Senator ENSIGN. Secretary Eastin, Secretary Penn, and Secretary Anderson, I am very interested in the comments in Mr. Grone's written statement concerning the Business Process Reengineering (BPR) effort for managing the Department's real property inventory. He stated that "the inventory reform effort will provide the DOD warfighter and business mission with relevant access to needed information

on real property." Furthermore, he stated that "The Services and Defense Agencies have begun to re-architect their business processes and systems to ensure that they will be able to provide the standard business processes and data elements identified during the BPR." Can you give me some examples of what do you hope to get done?

Mr. EASTIN. By re-architecting our business processes and systems, we will enhance the ability for DOD information technology (IT) systems to link individual people, personal property, real property assets, and environmental liabilities to geographic locations from authoritative sources for continuous, accurate, and secure location information with decreased operational cost and cycle times. Ultimately, this will reduce or eliminate duplicative data to improve accuracy and accountability of financial statements and environmental liability estimates as well as environment, safety, and occupational health requirements.

Mr. PENN. The Chief Financial Officer Act requires Services to value their physical plant to meet generally acceptable accounting standards. Congress has deemed it important that the Services be able to provide an accurate and auditable value of all buildings, regardless of age, even though these buildings are not depreciated for tax purposes, nor can be used as collateral for loans. We have information in our real property data bases that reflect the cost to the Government. But in many cases, buildings do not have paper records that are required by the auditors to validate the cost. Changes to the data elements will allow us to capture the "auditable cost to the Government" once it has been validated in an acceptable manner.

Another example is adding a readiness indicator to the property record that will aid in using facilities as in input to the Defense Readiness Reporting System.

Mr. ANDERSON. During the course of fiscal year 2006 and fiscal year 2007, the Air Force is implementing both operational and systems reforms. Within our enterprise civil engineer system, we are restructuring our real property inventory data (in line with the Business Enterprise Architecture), implementing new business rules associated with the BPR, consolidating the inventory databases into a single authoritative source, migrating inventory data to the new structure and rules, and exposing the data to the warfighter and business missions through the Air Force's data warehouse and management services. Operationally, we've trained our data stewards at the major commands and installations to use the reengineered processes and to enter the appropriate data into the upgraded system. Data population, in particular for fiscal year 2006 Federal Real Property Council and DOD Instruction 4165.14 requirements, has begun and will be completed by September 30, 2006. Additional data elements identified under the Real Property Inventory Requirements (RPIR) document (not including those related to linear assets, such as utilities and pavements) will be populated during fiscal year 2007.

89. Senator ENSIGN. Secretary Eastin, Secretary Penn, and Secretary Anderson, what concrete initiatives are you looking at?

Mr. EASTIN. One concrete initiative is the development of the RPIR book, which will document the transformation of our processes to inventory real property. The RPIR will ensure real property information is compatible across all DOD components, accessible to all users, and accurate and complete.

One of the key elements of the RPIR is the Real Property Unique Identifiers (RPUID), which will be assigned to each item of real property in the DOD inventory. The first step in implementing this initiative is establishment of a DOD real property site registry. This registry will standardize installations, sites, and assets across mission functions for analysis and reporting purposes. RPUIDs will be assigned to contiguous areas of land as well as individual real property assets. The registry will improve accountability by allowing all real property financial obligations and physical changes to be tracked over the life of the asset.

Mr. PENN. We are implementing many new data elements to describe our property. They will fully cover the requirements of the Federal Real Property Council as well as provide more useful information. A specific example of a new data element is one to determine a quality rating of a building related to the amount of modernization required to make fully functional to perform its mission. This data element will aid in programming for restoration and modernization, and evaluating overall readiness of facilities.

Mr. ANDERSON. The Air Force has short-term and long-term initiatives. Our short-term initiative (fiscal year 2006–fiscal year 2007) increases our real property accountability by ensuring we better capture and link relevant data within the DOD Business Enterprise Architecture. Our long-term initiative (fiscal year 2008–fiscal year 2010) builds on this by migrating to an enterprise asset-based approach that builds improved business practices and standards into our systems, improving our flexibility, and adaptability in responding to warfighter needs.

90. Senator ENSIGN. Secretary Eastin, Secretary Penn, and Secretary Anderson, what types of investment do you need?

Mr. EASTIN. The Army has begun identifying and evaluating current IT investments that support real property initiatives to ensure consistency with strategic imperatives and operational requirements. The Army's current investment strategy to re-architect real property inventory business processes and systems involves O&M funding for enterprise architecture, software development, systems testing, and implementation.

Mr. PENN. We need investments in upgrading our IT system, and manpower to collect the additional standard data, which requires extensively more on-site facilities inspection than is currently performed. For example, current facilities inspections look at code violations, or things that are in need of repair. To populate the quality rating, an engineering evaluation is required to look at ways the building could be modernized to provide best support of its mission. This is a significant change in process, and will require more highly skilled evaluators.

Mr. ANDERSON. The Air Force requires both operational and systems investments to implement these reforms. First, we must invest in our legacy enterprise systems to enable them to capture and manage the right data in support of information requirements. This investment is a sustainment of existing technology. Second, we must invest in our next generation system, which we envision will allow us to increase productivity, effectiveness, flexibility, and accessibility; increase data accuracy, consistency, and availability; and reduce system development and sustainment costs. This investment is new development. Third, we must invest in the accurate and timely collection of data to support the BPR, real property accountability, and clean audit requirements. This is the most substantial of the investments: it is labor-intensive and covers more than 400,000 installation assets. This investment is an O&M requirement.

91. Senator ENSIGN. Secretary Eastin, Secretary Penn, and Secretary Anderson, how much will it cost?

Mr. EASTIN. The cost to implement RPIR across the Army is approximately $2.3 million, while the cost to implement a Common Data Repository to centrally house key program, installation, site, and environmental data is approximately $938,000.

Mr. PENN. The first phase of this modernization is to implement the new/updated data elements in the DOD Instruction 4165.64. Our cost to implement the majority of the data elements in this instruction is estimated at $2.6 million.

Future phases of real property inventory data improvements may be more costly, but we are required to balance the cost to implement in relation to the value of the data provided.

Mr. ANDERSON. The Air Force's investment in its legacy real property inventory system is approximately $20 million over 2 years. Our investment for the next generation system is not yet fully quantified; however, our team is currently in the planning phase of this effort and will have an initial estimate by June 2006. Finally, the data population is probably our most significant cost. To fully implement data population for the DOD Instruction 4165.14 and the RPIR, including linear assets, will require approximately $64 million.

AMPUTEE CENTER AT WALTER REED MEDICAL CENTER

92. Senator ENSIGN. Mr. Grone, this committee received a notification from the Assistant Secretary of Defense for Health Affairs, Dr. William Winkenwerder, on June 24, 2004 of the intent to use emergency construction authorities to construct an Advanced Amputee Training Center for $10 million at Walter Reed Medical Center, in Washington, DC. This committee recognized the extreme urgency of this MILCON project and approved the rare use of emergency authorities to enable the DOD to complete construction by September 2005. As of the date of this hearing, neither a design nor a construction contract has yet to be awarded. Walter Reed is now on the list of installations to be closed under the 2005 BRAC process. All medical care will be consolidated at Bethesda Naval Medical Center. Why has the DOD delayed over 18 months in the completion of this facility?

Mr. GRONE. While notification was made on June 24, 2004, approval of the request for reprogramming of funds to the Advanced Amputee Center was received September 30, 2004. This facility was envisioned from conception as a design-build structure. The Request for Proposal (RFP) was developed and, when the project was advertised in April 2005, the project bids exceeded the programmed amount. This required revisions to the RFP and a resolicitation for bids in August 2005. As architects and engineers pursued options to reduce cost, the BRAC of Walter Reed Army

Medical Center was announced. In light of the closure, the proposed construction was changed from a permanent facility to a medical transitional structure with a maximum life of 7 years. Before award of construction could proceed, however, as required by section 128 of the Military Quality of Life and Veterans Affairs Appropriations Act, 2006, the Secretary of Defense must certify "that the cost to the United States of carrying out such project would be less than the cost to the United States of canceling such project." Based upon justification material provided by the Army, the Deputy Secretary of Defense made the required certification on April 13, 2006. The Army awarded the project on May 4, 2006.

93. Senator ENSIGN. Mr. Grone, considering new construction at Walter Reed at the same time we are closing this installation may not be the best use of taxpayer funds, what is the Department's plan to carry out this urgent requirement?

Mr. GRONE. The DOD has shifted gears slightly with this facility in responding to the BRAC direction to close Walter Reed Army Medical Center (WRAMC). When WRAMC finally closes, amputee care will be consolidated on the campus of the existing National Naval Medical Center, Bethesda. Meanwhile, there is insufficient space or staff to "split" this function between the two installations. We strongly believe it is our obligation to provide the required care to our warriors who have suffered the loss of limbs in the ongoing war on terror. We cannot wait 5 or 6 years to provide the best possible care and support available to those who have given so much in the defense of our Nation. A transitional facility rapidly constructed on the WRAMC campus will permit provision of this vital support until the closure of WRAMC and the transfer of this function to Bethesda. The Deputy Secretary of Defense has certified that the cost to the United States of carrying out this project will be less than the cost to the United States of canceling this project.

94. Senator ENSIGN. Mr. Grone, when will this facility be completed?

Mr. GRONE. The project was awarded to Turner Construction Company on May 4, 2006 and the scheduled completion date is November 2007.

95. Senator ENSIGN. Mr. Grone, how much does the Department now estimate this facility will cost?

Mr. GRONE. The project is estimated to cost $10 million.

FACILITIES FOR THE F–22 RAPTOR

96. Senator ENSIGN. Secretary Anderson, the Air Force recently announced plans to station the F–22 Raptor at Holloman Air Force Base, New Mexico, and Hickam Air Force Base, Hawaii. Does the Air Force have an estimate of the cost of new facilities required to support F–22 operations and training at each new location? If so, can you provide a list of the facilities and projects as well as the expected costs for each facility and project?

Mr. ANDERSON. The Air Force is still conducting initial site surveys of our preferred alternative F–22A bed down locations, Holloman and Hickam AFBs, to determine their facility requirements. We expect to finalize facility requirements and estimates during the fiscal year 2008 POM cycle.

97. Senator ENSIGN. Secretary Anderson, in press reports covering the decision to station F–22s at Holloman Air Force Base, the Air Force was reported to be planning to complete an EIS by the summer 2006. Normally, the EIS process, as required by the NEPA, takes about 18 months to complete. What is the Air Force's plan to complete environmental actions related to the stationing of a new weapon system at these two installations?

Mr. ANDERSON. The Air Force is planning to complete an Environmental Assessment (EA) at Holloman Air Force Base to determine if an EIS is necessary. HQ Air Combat Command has streamlined the NEPA process taking advantage of existing environmental information, expedited EA review periods and a dedicated EA interdisciplinary team. If the EA results in a finding of no significant impact (FONSI), the environmental impact analyses process is scheduled to be complete by July 2006. If the EA leads to a decision to complete an EIS (i.e., potential for significant impacts), approximately 9 months would be added to the process. Even if an EIS becomes necessary, the NEPA process would be complete and would not interfere with the proposed beddown timeline.

98. Senator ENSIGN. Secretary Anderson, is the Air Force planning to accelerate the NEPA process? If so, why?

Mr. ANDERSON. The Air Force is working hard to reduce the cycle time required for environmental analysis, while still meeting the legal and substantive requirements of the NEPA. By leveraging the knowledge obtained in other recent F–22A analyses, and by dedicating a team to this endeavor, we will have better information available sooner to inform our next basing decisions. This effort will deliver more flexibility to the F–22A program, and is one of many Air Force initiatives to lean our processes. In the future, as we better integrate our information systems, we believe improved data availability will help us continue to deliver more responsive and relevant NEPA analyses.

OVERSIGHT OF MILITARY CONSTRUCTION PROJECTS

99. Senator ENSIGN. Mr. Grone, each year Congress specifically authorizes each MILCON and housing construction project after thoroughly reviewing the military requirement associated with each project and the construction project data provided by the Department as part of the President's budget request. By listing each project authorized for appropriation by location and project title, Congress intends for the DOD to carry out the projects as authorized, and provides specific exceptions in law when warranted and justified. What processes and oversight are employed by the DOD to ensure that each MILCON project is carried out in accordance with the authorization provided by Congress?

Mr. GRONE. With respect to the compliance with the authorization provided by Congress, there are three mechanisms that the DOD uses in its management and oversight of the MILCON program execution. First, each of the design/construction agents has a comprehensive set of program/project management procedures that are focused on executing the MILCON projects as authorized and appropriated, and steps to take when deviations occur. Second, the military departments' audit agencies annually review the execution of the MILCON program and specifically highlight any scope issues that may be found. Finally, in implementing the provisions of 10 U.S.C. 2853, "Authorized cost variations," the DOD has a comprehensive process to review and approve any significant project changes, and to provide such notification to Congress.

100. Senator ENSIGN. Mr. Grone, who has responsibility within the DOD to ensure compliance with congressional intent and authorization?

Mr. GRONE. The responsibility for compliance rests with the Secretary of Defense, the secretaries of the military departments, and the heads of the DOD agencies. They have created detailed and elaborate procedures to ensure that authorized programs and activities are performed in accordance with congressional intent. In addition, they have established organizations and assigned officials, including auditors, financial managers, and inspectors general, to provide oversight of the programs authorized by Congress.

QUESTIONS SUBMITTED BY SENATOR DANIEL K. AKAKA

COST OF RELOCATING FORCES

101. Senator AKAKA. Mr. Grone, what is the DOD's best estimate of the cost of relocating and stationing the forces that are being relocated from Germany, Korea, and Japan to bases in the United States?

Mr. GRONE. The estimated net cost for relocating forces from Germany to bases in the United States is about $2.36 billion over the period fiscal years 2006–2011. The estimated cost for relocating forces from Korea is still under review, but will be considerably less then the relocation costs from Germany. The U.S. and the Government of Japan are not discussing any moves of U.S. forces from Japan to facilities in the continental United States. The U.S. and the Government of Japan continue to discuss cost sharing related to the proposed move of III Marine Expeditionary Force personnel and their families from Okinawa to Guam.

102. Senator AKAKA. Mr. Grone, how many years of funding will be required to implement these moves?

Mr. GRONE. Funding to relocate the 2nd Brigade of the 2nd Infantry Division from Korea to Fort Carson—after deployment in Iraq—was completed in fiscal year 2005 when the relocation occurred. (Miscellaneous units will be returned from Korea to Schofield Barracks, HI; Fort Lewis, WA; and Fort Wainwright, AL in fiscal years 2006 and 2007.) The move of the 1st ID and 1st AD is expected to be completed

in fiscal year 2010, at which point funding for those moves will be completed and related operating cost savings will begin to accrue.

103. Senator AKAKA. Mr. Grone, is it the DOD's intention to build permanent facilities for our personnel before moving them, as Congress recommended in section 2836 of last year's National Defense Authorization Act?

Mr. GRONE. The DOD has already begun the process of building additional facilities at receiving bases such as Fort Bliss, Fort Riley, and Fort Hood. Funds appropriated in the fiscal year 2006 budget have allowed the Department to initiate planning and design, and begin execution of construction projects, at both Ft. Bliss and Ft. Riley. Additional construction projects are planned from fiscal year 2007 through fiscal year 2010 at receiving bases to ensure infrastructure at these bases can support the influx of forces from Germany and Korea.

104. Senator AKAKA. Mr. Grone, what are the DOD's current estimates of the total cost of implementing the global posture review, including the cost of restationing these forces back in the United States as well as new facilities in Eastern Europe or other locations?

Mr. GRONE. The current cost estimate for implementing global defense posture remains $9–$12 billion. This estimate not only includes global defense posture changes reflected in the fiscal year 2007 President's budget, but also covers consolidation in Korea, Japan/Okinawa realignments, and other changes. As negotiations with host nations progress and as global defense posture plans evolve further, this estimate remains subject to change.

RELOCATION OF MARINES FROM OKINAWA

105. Senator AKAKA. Secretary Penn, what is the Navy's plan for relocating several thousand marines from Okinawa to Guam?

Mr. PENN. The Office of Secretary of Defense, with the participation of the Marine Corps, and the U.S. Department of State, and the Government of Japan are negotiating terms for relocating approximately 8,000 marines and 9,000 dependents from Okinawa to Guam under the Defense Policy Review Initiative (DPRI). The Navy has been in a supporting role as OSD has the lead on these negotiations.

106. Senator AKAKA. Secretary Penn, when do you expect to have a schedule and a cost sharing agreement with the government of Japan in place?

Mr. PENN. The OSD, with the participation of the Marine Corps, the U.S. Department of State, and the Government of Japan are engaged in discussions under the DPRI. A series of Agreed Implementation Plans (AIPs) are being negotiated, to include the plans to move 8,000 marines to Guam, the MCAS Futenma replacement facility, consolidation of marines north on Okinawa, and relocation of a Carrier Wing Group from NAS Atsugi to MCAS Iwakuni. These AIPs are negotiated concurrently with the goal of signing agreements by mid-April 2006. Because many of the plans are interrelated, the terms must be coordinated during these negotiations and failure to complete key points of one plan could jeopardize agreement on other dependent AIPs.

While OSD has the lead on these negotiations, we hope to have a schedule and cost sharing agreement before summer 2006.

107. Senator AKAKA. Secretary Penn, does the Navy intend to build out the facilities on Guam properly before moving the marines?

Mr. PENN. One of the guiding principles in the negotiations between the OSD and the Government of Japan has been that until replacement facilities are in place we will not move marines. OSD has made the replacement of MCAS Futenma a key component so that not only must there be replacement facilities on Guam but also substantial progress on the Futenma Replacement Facility before marines will relocate from Okinawa to Guam.

108. Senator AKAKA. Secretary Penn, are we under any pressure from the Japanese government to remove our forces before we are ready to house them on Guam?

Mr. PENN. Under DPRI, negotiations between the Office of Secretary of Defense and the Government of Japan to relocate forces to Guam are linked to having adequate replacement facilities in place. OSD has made it clear that we will not move marines until suitable replacement facilities are in place. While the Japanese Government may feel pressure locally to move marines as soon as possible, the OSD

policy has not changed to only relocate marines when replacement facilities are in place.

CHEMICAL SEA DISPOSAL

109. Senator AKAKA. Mr. Grone and Secretary Eastin, as you both are aware, in November 2005 I was briefed by the Department of the Army regarding actions it will be taking to address concerns raised about the off-shore disposal of chemical munitions in the waters off the State of Hawaii by our military between the 1940s and 1970s. Since this briefing, it is my understanding that the Army, with the other Services, appropriate Federal agencies, and local authorities, is verifying the locations and types of material disposed of within these areas. First, what is the current status of the surveys?

Mr. GRONE and Mr. EASTIN. The Army and its sister Services are continuing the archive search of historical records on the disposal of military materials at sea. This review includes records at the National Archives and studies and survey reports on sea disposal sites. The Services are also working with the National Oceanic and Atmospheric Administration to review the historical information for the explosives disposal sites on that agency's nautical charts.

A 2001 U.S. Army Research, Development and Engineering Command report provides information previously collected on sea-disposals of chemical munitions and bulk chemical agent. This report was a historical compilation of notes that addressed reported disposal actions. The Department expects to issue an updated report in June 2006. The updated report will be supported by the documents uncovered in our current archive search. We anticipate that further archive research will be necessary after this report is issued in order to fully document all of the disposals.

110. Senator AKAKA. Mr. Grone and Secretary Eastin, is the DOD looking at technologies that will monitor these sites?

Mr. GRONE and Mr. EASTIN. The DOD is currently reviewing past scientific studies, both U.S. and international, on the effects of seawater on chemical munitions and the potential impacts of sea disposal on marine environments. This research will enable us to gain a better understanding of the current condition of materiel disposed of at sea, and support informed decisions on next steps to be taken to address these sites.

In the early 1970s, the Navy collected data from three deep water disposal sites in the Atlantic and one in the northern Pacific. The Department had used two of the Atlantic Ocean sites for disposal of chemical warfare material. Subsequent monitoring was performed annually from 1971 through 1975 at one site that was used for disposal of chemical weapons. The Navy found no evidence of any environmental impacts at any of these sites.

Our review of previous studies indicates that chemical agents degrade over time into less toxic materials. The rate of degradation varies from minutes to years based on the chemical agent, the amount of chemical agent, and the environmental conditions. Technology already exists to monitor these sites, although we hope and expect that additional research into the rate and means of degradation will better inform us as to more effective, efficient, and accurate monitoring technologies. The development of those better monitoring technologies will be better served with our first conducting additional research into the effects, if any, of these munitions on human health and the environment.

111. Senator AKAKA. Mr. Grone and Secretary Eastin, will the DOD be creating a remediation plan that addresses the feasibility, cost estimates, and environmental and health risks of implementing multiple remediation measures at these sites?

Mr. GRONE and Mr. EASTIN. The information from the DOD's review of previous studies, both U.S. and international, suggests that these sea disposal sites do not pose an imminent or substantial threat to public health, safety, or the environment. Most chemical agents normally degrade over time into less toxic materials. Studies reviewed to date indicate that the rate of degradation or decay can vary from minutes to years depending on the chemical agent, the amount of chemical agent, and the environmental conditions.

The DOD's ongoing research will allow DOD to determine the best approach to address these disposal sites. Specifically, DOD will evaluate the potential risks presented by leaving the material in place; the risks presented to public health, safety, and the environment by any attempt to recover the material; and the DOD's ability to safely and without adverse impact recover and dispose of this material. As the

committee is aware, it would be contrary to the intent and purposes of our environmental laws if we were to engage in a remediation action that had the effect of substantially endangering human health and safety and damaging the environment if the alternative of leaving the munitions in place would not have those effects. Conducting additional research is the key to allowing the formulation of an informed decision on this matter.

The DOD will keep the committee apprised of progress in this research.

AIRCRAFT CARRIER BASING IN THE PACIFIC

112. Senator AKAKA. Mr. Grone and Secretary Penn, the QDR released last month stated the Department's intention to increase the Navy's presence in the Pacific. According to the QDR, the Navy will "adjust its force posture to provide at least six operationally available and sustainable carriers and 60 percent of its submarines in the Pacific." I believe basing an aircraft carrier in Hawaii, colocated with our nuclear capable shipyard, will prove to be the best option from an economic and quality-of-life standpoint, in addition to its strategic benefits. When will the Navy plan to move forward on implementing the QDR's decisions, and when will the specifics on the forward basing of an additional aircraft carrier in the Pacific be determined?

Mr. GRONE. The Navy, like other military departments, is working through its plan for implementing the QDR's many recommendations. The recommendation concerning the carrier is one of the more complex set of changes. The DOD will consult with Congress when the plan has been completed.

Mr. PENN. The decision to homeport a 6th Pacific carrier is a complex issue involving ships, aircraft, maintenance, facilities, family support, MILCON, and environmental impact issues. The Navy is studying the options and will include the need for any additional resources in future budget submissions.

UNACCOMPANIED HOUSING PRIVATIZATION

113. Senator AKAKA. Secretary Eastin, Secretary Penn, and Secretary Anderson, I understand that each of the military departments has a slightly different view on unaccompanied housing privatization, so I will ask each of you for your views. The potential to acquire quality housing for our military at a more expedited pace is there. But, in order to receive the favorable scoring that allows you to avoid fully funding the project upfront, it is necessary to do a number of things that are acceptable for family housing that are much less desirable for barracks. It is my understanding that you cannot assign personnel to a barracks, so you cannot preserve unit integrity; you have to build them off base or near the perimeter of the base, which is not where you usually want them to be; and you have to allow the developer to rent them with non-DOD personnel if you cannot fill them with military personnel. As you weigh all the considerations, is this a tool that makes sense for your Service?

Mr. EASTIN. My view with barracks privatization is that it offers some opportunities. The Army is still assessing the business case for privatization and the associated impacts to our ethos and culture. The Army is also waiting for the Navy's barracks privatization pilot projects to mature so additional data and lessons learned may be gathered for potential use at Army installations.

Mr. PENN. Yes. Similar to family housing, we believe privatization authorities can be used to address some of our unaccompanied housing requirements. Accordingly, we are pursuing projects at San Diego and Norfolk and considering other candidates. The inability to assign personnel does create a challenge for potential Marine Corps housing privatization projects, but we are working on that as well. We consider the unique challenges associated with unaccompanied housing, such as operational requirements and extended deployments, when determining the feasibility of specific projects.

Mr. ANDERSON. Combat capability begins and ends with healthy, motivated, trained, and equipped airmen. We must remain committed to providing our entire Air Force team with world-class training through close supervision and oversight, plus facilities and morale enhancing activities. Housing our junior enlisted personnel on-base ensures they acclimate to the Air Force with members of their own unit; builds esprit de corps; facilitates access to base services such as medical, fitness, recreation, commissary, and exchange facilities; and typically reduces travel distance to their place of work. Several issues currently preclude us from pursuing unaccompanied enlisted dorm privatization. These include determining jurisdiction of the military and its right of entry; how to resolve disciplinary matters; how to keep the dorms filled for the developer to have sufficient income without imple-

menting rental guarantees; and how to sever dorms from the installation if force drawdowns occur. Along with these concerns is the necessity of providing access to dining facilities, recreational centers, and work locations for junior enlisted members who do not have their own transportation. Similar circumstances may exist for unaccompanied officers. With your help, we will complete our "buyout" of dormitory deficits in this fiscal year 2007 request—a huge success story, and we will complete the "buyout" of our student "pipeline" dormitory requirements by fiscal year 2009.

114. Senator AKAKA. Secretary Eastin, Secretary Penn, and Secretary Anderson, would it be desirable to create mixed developments of single and family military housing, and is that feasible, given how far along family housing privatization is?

Mr. EASTIN. Currently, the Army does not mix single soldier and family housing neighborhoods. However, if single soldier housing privatization is determined feasible, we would evaluate whether to combine single and family housing neighborhoods and at what locations.

Mr. PENN. Military members should enjoy the same standard of living as that enjoyed by their civilian counterparts. Sailors and marines, who reside off-base, do not live in communities where there is segregation by marital status.

With respect to family housing privatization, our private partners may rent housing to unaccompanied personnel in addition to others when they are unable to rent to military families. We expect the same will be true with privatized housing targeted for unaccompanied personnel.

While it may be generally feasible to pursue combined unaccompanied and family housing privatization projects, the separate appropriations that fund the construction of military unaccompanied and family housing, and the separate funds established by 10 U.S.C. 2883 for the privatization of unaccompanied and family housing, make such joint projects difficult.

Mr. ANDERSON. In accordance with OSD policy, the Air Force looks to the community first to provide housing for our military members and their families. Military members have the choice of living on or off base in a variety of community types, which might include both single and family residences.

The Air Force's privatization program provides quality housing primarily for military families. Single members, depending on their rank, can reside off base or in on-base dormitories. However, when the demand from families is low in privatized housing, the project owners can garner rent from other tenants which includes single military members. Currently, single military members are taking advantage of living in privatized housing and there are 756 residents, which equates to 5.8 percent of the overall Air Force privatized housing occupied homes, residing in privatized housing. While this "waterfall" is essential for developers' cashflow in privatized housing, our strong preference is for our most junior enlisted members to reside in dormitories where we can better provide oversight, mentoring, and full support.

QUESTIONS SUBMITTED BY SENATOR BILL NELSON

NAVAL AIR STATION KEY WEST

115. Senator BILL NELSON. Secretary Penn, I understand that the DOD approved but that OMB subsequently disapproved funds in the current fiscal year 2006 supplemental appropriations request related to storm damage at NAS Key West. Without this repair important training at Key West may suffer. What is the dollar value of the necessary repairs and/or recovery?

Mr. PENN. A total of $35.6 million for facilities in Key West, FL, was not included in the Emergency Supplemental Appropriation request. This includes $18.5 million for the Base Operations Facility, $10.3 million for the Aircraft Crash and Rescue Station and Fire Headquarters, $5.4 million for Trumbo Fire Station, and $1.4 million for planning and design. The President has proposed language in the supplemental request that would allow reprogramming of available funds to accomplish storm damage recovery. This approach would allow the Department of the Navy to ensure mission is supported.

116. Senator BILL NELSON. Secretary Penn, what is your plan to accomplish the required work if the funds are not provided in the current supplemental appropriation?

Mr. PENN. The President has proposed language in the supplemental request that would allow reprogramming of available hurricane recovery supplemental funds to

accomplish storm damage recovery. This approach would allow the Department of the Navy to ensure mission is supported.

With respect to recovery plans for specific buildings, the Base Operations Consolidated facility would be renovated. The existing facilities are circa 1940 barracks that have been converted to administration buildings. Due to age, the facilities were highly susceptible to, and significantly damaged by, storm surge and high winds. While new construction is a preferred option to minimize future susceptibility to storms, the existing facility could be renovated to continue mission support.

New construction is planned for the Boca Chica Aircraft Crash/Rescue and Fire Headquarters. Repair is not an option since the existing site violates the Federal Aviation Administration Airfield Safety Criteria as it is within the primary surface of the runway. The existing facility was a modified WWII aircraft hangar and lacked the capability to withstand high winds or storm surge. The building is a health hazard due to excessive post storm mold growth. The existing site issues when coupled with the significant storm damage renders the facility beyond economical repair.

117. Senator BILL NELSON. Secretary Penn, what are the operational consequences or mission risks if this work is not done?

Mr. PENN. NAS Key West's critical role of supporting warfighter readiness would be degraded for both air and port operations. Numerous DOD and other Federal agencies depend on NAS Key West's direct support: Joint Interagency Task Force-South, U.S. Coast Guard Sector Key West, U.S. Army Special Forces Dive School, VFA–106 Detachment Key West, and VFC–13 Detachment Key West.

NAS Key West has civilian vacancies directly attributed to the lower quality-of-life/quality-of-service provided through continued reliance on temporary and deteriorated facilities. This civilian shortage results in degraded ability to support mission.

Use of temporary structures such as trailers leaves NAS Key West extremely susceptible to major damage from tropical storm winds and total destruction from hurricanes. Loss of these facilities is directly proportional to loss of key mission capability.

NUCLEAR AIRCRAFT CARRIER HOMEPORT

118. Senator BILL NELSON. Secretary Penn, in the Senate Budget Committee's hearing on March 2, 2006, Deputy Secretary of Defense Gordon England reaffirmed his judgment as former Secretary of the Navy that it is in the security interests of the United States to establish a second nuclear aircraft carrier homeport on the Atlantic coast in Florida. Vice Chairman of the Joint Chiefs, Admiral Edmund Giambastiani, echoed the importance of reducing risk to our carrier fleet by dispersing out carriers and their necessary support facilities across two ports. An EIS relative to homeporting a nuclear aircraft carrier at Naval Station Mayport, Florida was completed in 1997. That analysis concluded that homeporting a nuclear carrier at Mayport is feasible. I recently received notification of the Navy's intent to start another EIS with the same analytical objective. When do you plan to begin this study and what is your time estimate for its completion?

Mr. PENN. The EIS process has already begun. Commander Fleet Forces Command (CFFC) is developing an outline of alternatives to be submitted to the Chief of Naval Operations (CNO) by 31 March. Once alternatives are approved, CFFC will complete the development of the scope of work and issue the contract for the preparation of a draft EIS that will analyze the potential environmental impacts of this homeporting action.

119. Senator BILL NELSON. Secretary Penn, do you agree that the current study should be completed more quickly based on the availability of the analysis already completed in 1997?

Mr. PENN. Yes to a limited degree. Preparation of environmental planning documentation for actions of this magnitude typically takes approximately 39 months. Our notional timeline indicates 29 months from notice of intent in the Federal Register to ROD. The Programmatic Environmental Impact Statement (PEIS) that was prepared in 1997 evaluated the environmental impacts of upgrading and operating NAVSTA Mayport as a homeport for a CVN. The programmatic nature of the document requires that follow-on NEPA documentation be prepared before initiating any action. Additionally, the ROD for the PElS committed Navy to preparing additional NEPA analysis. This new ElS will look at a much broader range of surface ship positioning alternatives than just making NAVSTA Mayport a CVN homeport. Portions of the 1997 PEIS may be useful in developing the analysis for the both the

CVN homeporting and CVN capable alternatives. However, the other alternatives will need to be evaluated in the same level of detail.

120. Senator BILL NELSON. Secretary Penn, what specific steps are you taking to ensure that this analysis is finished in the fastest possible time?

Mr. PENN. As noted above, I have already requested and have been provided an accelerated notional timeline with the significant steps in the EIS process identified. The time from publication of the Notice of Intent (NOI) in the Federal Register, which announces to the public that an EIS is being prepared, to the ROD has been accelerated to 29 months vice the typical 39 months for actions of this magnitude. I expect to publish the NOI in the Federal Register this summer. The NOI will describe the Navy's proposed action, outline anticipated alternatives, and identify the main environmental issues.

STORM DAMAGE

121. Senator BILL NELSON. Secretary Anderson, I understand that the DOD approved but that OMB subsequently disapproved funds in the current fiscal year 2006 supplemental appropriations request related to storm damage at Eglin Air Force Base that would repair and strengthen Santa Rosa Island. I am told that without this repair, Santa Rosa Island, essential to the mission of Eglin Air Force Base and the Joint Gulf Range as a test and evaluation sensor site, may not survive another storm. What is the dollar value of the necessary repairs and/or recovery?

Mr. ANDERSON The total amount to fully fund the repairs at Santa Rosa Island is $169.8 million (this number includes MILCON, RDT&E, and O&M Funded Requirements). These funds will repair roadways and facilities damaged during the recent hurricane season.

122. Senator BILL NELSON. Secretary Anderson, what is your plan to accomplish the required work if the funds are not provided in the current supplemental appropriation?

Mr. ANDERSON. The damage caused by hurricanes in fiscal year 2005 goes well beyond what the Air Force MILCON budget can absorb in the near term. The MILCON budget is tightly developed based on known requirements, and unique events such as Hurricane Dennis are difficult to fund in subsequent fiscal years without tremendous impact to other missions. If supplemental funding is not provided to rebuild the land mass and infrastructure that protect and support this national asset, we will only be able to make piecemeal repairs over the next several years using limited O&M funds while we work toward longer term solutions. Without funding for repairs, the degraded conditions will only get worse by the event of future storms; greatly increasing the risk of shutting down the Nation's ability to use the range for testing and limiting our support to the warfighter.

123. Senator BILL NELSON. Secretary Anderson, what are the operational consequences or mission risks if this work is not done?

Mr. ANDERSON. Santa Rosa Island is the only DOD range with unobstructed continuous land-to-sea access. It allows for testing and training from sea level to high altitude. It is also currently the only operating DOD range with unrestricted testing/training for large safety footprint weapons. Last year, test and evaluation facilities on this island were essential to completing 24 quick reaction tests for munitions in support of Operations Iraqi Freedom and Enduring Freedom.

Losing Santa Rosa Island would require reliance on other heavily tasked and less capable test facilities, or a significant investment in land purchase, airspace access, and infrastructure to duplicate the Santa Rosa Island test and evaluation capabilities. The exact mission impacts are not quantifiable, but history has shown that reduced testing results in fielding of weapons with poorer operational performance.

[Whereupon, at 3:13 p.m., the subcommittee adjourned.]

DEPARTMENT OF DEFENSE AUTHORIZATION FOR APPROPRIATIONS FOR FISCAL YEAR 2007

WEDNESDAY, MARCH 15, 2006

U.S. SENATE,
SUBCOMMITTEE ON READINESS
AND MANAGEMENT SUPPORT,
COMMITTEE ON ARMED SERVICES,
Washington DC.

GROUND FORCES READINESS

The subcommittee met pursuant to notice at 9:31 a.m., in room SR–222, Russell Senate Office Building, Senator John Ensign (chairman of the subcommittee) presiding.

Committee members present: Senators Inhofe, Ensign, Thune, Akaka, and Clinton.

Majority staff members present: Ambrose R. Hock, professional staff member; Derek J. Maurer, professional staff member; and Sean G. Stackley, professional staff member.

Minority staff members present: Daniel J. Cox, Jr., professional staff member; and Michael J. McCord, professional staff member.

Staff assistants present: Benjamin L. Rubin and Pendred K. Wilson.

Committee members' assistants present: Paul C. Hutton IV, assistant to Senator McCain; John A. Bonsell, assistant to Senator Inhofe; Arch Galloway II, assistant to Senator Sessions; Alexis Bayer, assistant to Senator Ensign; Stuart C. Mallory, assistant to Senator Thune; Darcie Tokioka, assistant to Senator Akaka; William K. Sutey, assistant to Senator Bill Nelson; and Andrew Shapiro, assistant to Senator Clinton.

OPENING STATEMENT OF SENATOR JOHN ENSIGN, CHAIRMAN

Senator ENSIGN. Good morning everyone. We'll get this subcommittee hearing underway. Senator Akaka should be here shortly. We are here to receive testimony on ground forces readiness for the Department of Defense (DOD). We are honored to have with us today Deputy Commandant of the Marine Corps for Plans, Policies, and Operations, Lieutenant General Jan Huly; Army Deputy Chief of Staff for Operations and Plans, Lieutenant General James Lovelace; Commander of Marine Forces, Central Command, Lieutenant General John Sattler; and Commanding General of the 18th Airborne Corps, Lieutenant General John Vines.

Welcome all of you, and I would like to take this opportunity to thank you all for continuing service that you do for this Nation. Both General Magnus, the Assistant Commandant of Marine Corps, and General Cody, the Vice Chief of Staff of the Army, were supposed to be here today. General Magus is not here because he is testifying right now before the full committee, but I understand General Cody has an even better excuse. He is not here today because his son is coming back from Iraq today for 2 weeks of leave before returning. As a father, I can understand why he's not here, and that's why we excused him for the day. General Lovelace, please pass on to General Cody that we wish him and his family all of our best.

Our focus this morning is to discuss key military readiness issues affecting our ground forces. We will be interested to learn from the witnesses today their assessment of how the President's budget request for fiscal year 2007 will support ground forces readiness. I'm looking forward to a candid assessment from each of our witnesses on the current status of ground forces readiness, and the challenges that we face.

Since shortly after the attacks of September 11, the United States military has been engaged in combat operations in Afghanistan and then Iraq. The high operations tempo from these conflicts has caused significant strains on our forces. Some of our equipment has been destroyed or damaged. The rest is being used so heavily that it is wearing out at a much faster rate than was ever planned. The Army and the Marine Corps both have estimates on how much it would cost to replace or repair their destroyed, damaged, or worn out equipment.

Unfortunately, because operations are ongoing, equipment will continue to be destroyed and worn out. So, we cannot know what the final bill will be. We must do what is necessary to ensure that our forces in combat have the equipment they need to continue the fight. Our National Guard and Reserves have been heavily used during these conflicts. At the current level of approximately 130,000 troops in Iraq, we must continue to rely on the Guard and Reserves to carry on part of the mission. We all hope that the circumstances in Iraq will improve enough to allow our forces there to drawdown. But, we do not know exactly when that will be.

This is the first extended war that we have fought using an All-Volunteer Force. We must ensure that we do not overuse the Guard and Reserve to the point that they are broken. The Army is currently in the process of restructuring itself. This will provide more combat forces available for deployment. Those extra units will eventually take some of the pressure off of the Reserves. This restructuring is an important part of the Army transforming itself to be more relevant to the wars of the future. As with the creation of any new unit, these units will need equipment and training. This is a process we will watch closely, to ensure that enough resources are available for a smooth transition.

We also must be sure that while we are fighting the global war on terror, we maintain enough capability in the National Guard to respond to any and all emergencies here at home. We cannot know when these emergencies will occur, or if they will occur one at a time. The National Guard has to have the equipment and trained

personnel necessary to respond to multiple emergencies here at home, whenever they arise.

We look forward to your assessment of current ground forces readiness, and any suggestions you may have to mitigate the many challenges that we face. Thank you again for taking time to prepare written testimony and to appear before the subcommittee today. Your prepared statements will be made part of the record. Therefore I urge you, if possible, to keep your oral statements as short as possible, so we can have as much time as possible for questions.

[The prepared statement of Senator Ensign follows:]

PREPARED STATEMENT BY SENATOR JOHN ENSIGN

Good morning. The Readiness and Management Support Subcommittee meets today to receive testimony on ground forces readiness for the Department of Defense (DOD).

We are honored to have with us today the Deputy Commandant of the Marine Corps for Plans, Policies, and Operations, Lieutenant General Jan Huly; the Army Deputy Chief of Staff for Operations and Plans, Lieutenant General James Lovelace; the Commander of Marine Forces, Central Command, Lieutenant General John Sattler; and the Commanding General of the 18th Airborne Corps, Lieutenant General John Vines.

I welcome you all, and I would like to take this opportunity to thank all of you for your continuing service to this Nation. Both General Magnus, the Assistant Commandant of the Marine Corps, and General Cody, the Vice Chief of Staff of the Army, were supposed to be here today.

General Magnus is not here because he is testifying right now before the full committee, but I understand that General Cody has an even better excuse. He cannot be here because his son is coming back from Iraq today for 2 weeks of leave before returning.

General Lovelace, please pass on to General Cody that we wish him and his family the best.

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Some of our equipment has been destroyed or damaged, and the rest is being used so heavily that it is wearing out at a much faster rate than was ever planned.

The Army and the Marine Corps both have estimates on how much it will cost to replace or repair their destroyed, damaged, and worn out equipment.

Unfortunately, because operations are ongoing, equipment will continue to be destroyed and worn out, so we cannot know what the final bill will be.

We must do what is necessary to ensure that our forces in combat have the equipment they need to continue the fight.

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At the current level of approximately 130,000 troops in Iraq, we must continue to rely on our Guard and Reserves to carry on part of the mission.

We all hope that the circumstances in Iraq will improve enough to allow our forces there to drawdown, but we do not know exactly when that will be.

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We must ensure that we do not overuse the Guard and Reserves to the point that they are broken. The Army is currently in the process of restructuring itself. This process will provide more combat forces available for deployment. Those extra units will eventually take some of the pressure off of the Reserves.

This restructuring is an important part of the Army transforming itself to be more relevant for wars of the future.

As with the creation of any new unit, these units will need equipment and training. This is a process that we will watch closely, to ensure that enough resources are available for a smooth transition.

We also must be sure that, while we are fighting the global war on terror, we maintain enough capability in the National Guard to respond to any and all emergencies here at home. We cannot know when these emergencies will occur, or if they will only occur one at a time. The National Guard has to have the equipment and trained personnel necessary to respond to multiple emergencies here at home, whenever they arise.

We look forward to your assessment of current ground forces readiness and any suggestions you may have to mitigate the many challenges we face.

Thank you again for taking the time to prepare written testimony and to appear before the subcommittee today. Your prepared statement will be made part of the record.

Therefore, I urge you to keep your oral statements short in order to allow sufficient time for questions.

Senator ENSIGN. First, I want to allow Senator Akaka to make any opening remarks that he has.

STATEMENT OF SENATOR DANIEL K. AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. I want to say good morning and good working with you. Also, to join you in welcoming our witnesses, General Huly, and General Sattler, you've been here before. General Lovelace and General Vines, I believe this is you first appearance. I look forward to your testimony, and look forward to talking with you. I look forward, Mr. Chairman, to today's hearing on the readiness of the United States Army and Marine Corps, both those deployed to Iraq and Afghanistan, and those back home who have just returned or are training for their next deployment. It is my understanding that our ground forces are bearing the brunt of an extremely high operating tempo caused by repeated large scale deployments of forces to Iraq and Afghanistan. I've felt for some time that it was important for this committee to hold a hearing on the impact of those operations and the readiness of our forces.

I want our witnesses to know how much we appreciate what you and the brave men and women of the Army and the Marine Corps are doing for our country. We're proud of what they're doing. I hope you will convey to your troops that they have the full support of Congress. They do all that is asked of them with great skill and dedication. Their morale remains high. However, these ongoing operations are having a considerable impact on our ground forces for both people and equipment. In the near-term and in the long-run, the readiness of the Army and the Marine Corps has declined during the course of our operations in Iraq over the past 3 years. The wear and tear on our equipment and the size of the bill to repair or replace that equipment continues to grow. These are near-term challenges that may have long-term implications.

For example, operations in Iraq have provided the impetus for the Army to convert its entire combat structure to a new modular format in order to better sustain this pace of operations. But, the impact of this conversion will definitely have a lasting impact on our military. Additionally, we have an experienced, battle hardened force. Some of our men and women in uniform have suffered physical and mental wounds that we as a Nation must do our part to heal in the years to come. It is also important for us to know that

we may not yet fully understand some of the impacts of these operations.

So today as we discuss the current status of our forces and the challenges posed by these ongoing operations, I wish for our witnesses here today to provide the subcommittee with suggestions on how and what we can do to help make sure we do not over extend our troops. Recently, former Secretary of Defense William Perry and others released their report highlighting some of these stresses on our force. Secretary Rumsfeld responded to this report in a press conference saying, "the force is not broken." I agree, our force in not broken, but this report did not say it was. The report said, "the strains on the Nation's grounds forces are serious and growing. One that we must act to make sure we do not break the force, that we cannot allow that to happen." This is an important distinction to make, because if we neglect this problem then we risk the opportunity to solve it or even prevent it from happening.

We are talking about people's lives. We cannot afford to be looking down the wrong path. Mr. Chairman, I know you have heard me talk about the corrosion issue on many occasions. The same principle applies here. Our people and equipment have already suffered extensive wear and tear. We need to repair the damage that has been done.

I also hope to work with you and our witnesses to discover where we can act now to prevent these and other potential problems from occurring. One of the ways we can deal with the implications of the operations is how we budget for them. To date the cost of these operations has been financed by supplementals. We may be able to do better. By following this approach we have waited until extensive wear and tear on our ground equipment has already occurred, before we start to repair or replace it. If we start budgeting for these operations we can take a longer-term approach to what is likely to be a long-term problem.

Last month, the Quadrennial Defense Review (QDR) used the term "long war," to describe the use of the military to fight terrorism. General Huly's statement today calls it a generational war. Surely we cannot continue to fund this effort for a generation with short-term supplementals. We need to adapt our fiscal policy to reality, just as much as we need to adapt our national security policies to reality.

Mr. Chairman, I look forward to today's hearing on the readiness to our forces and how we can best accomplish our shared goal of keeping these forces trained and ready. Thank you very much.

[The prepared statement of Senator Akaka follows:]

PREPARED STATEMENT BY SENATOR DANIEL K. AKAKA

Thank you, Mr. Chairman. It is good working with you. I join you in welcoming our witnesses. General Huly and General Sattler are old-timers who have appeared before this subcommittee before, and we are glad to have you back with us today. General Lovelace and General Vines, I believe this is your first appearance, and we look forward to hearing from you, and talking with you, this morning.

I look forward to today's hearing on the readiness of the United States Army and Marine Corps, both those deployed to Iraq or Afghanistan and those back home who have just returned or are training for their next deployment. Our ground combat forces are bearing the brunt of the extremely high operating tempo caused by repeated large-scale deployments of forces to Iraq and Afghanistan. I have felt for

some time that it was important for this committee to hold a hearing on the impact of these operations on the readiness of our forces.

I want our witnesses to know how much we appreciate what you and the brave men and women of the Army and the Marine Corps are doing for our country. We are proud of what they are doing, and I hope you will convey to your troops that they have the full support of Congress. They do all that is asked of them will great skill and dedication, and their morale remains high.

However, these ongoing operations are having a considerable impact on our ground forces, both people and equipment, in both the near-term and in the long run. The readiness of both the Army and the Marine Corps have declined during the course of our operations in Iraq over the past 3 years. The wear and tear on our equipment, and the size of the bill to repair or replace that equipment, continues to grow. These are near-term challenges that may have long-term implications.

For example, operations in Iraq provided the impetus for the Army to convert its entire combat structure to a new "modular" format in order to better sustain this pace of operations. This conversion will definitely have a lasting impact on our military. Additionally, we now have an experienced, battle-hardened force, but some of our men and women in uniform have suffered physical and mental wounds that we as a Nation must do our part to heal in the years to come. It is also important for us to know that we may not yet fully understand some of the impact of these operations.

Today, as we discuss the current status of our forces and the challenges posed by these ongoing operations, I wish for our witnesses here today to provide the subcommittee with suggestions on how and what we can do to help make sure we do not overextend our troops.

Recently, former Secretary of Defense William Perry and others released a report highlighting some of these stresses on our force. Secretary Rumsfeld responded to this report in a press conference saying "The force is not broken." I agree, our force is not broken. But this report did not say that it was. The report said "The strains on the Nation's ground forces are serious and growing" and warned that we must act to make sure we do not break the force, that we cannot allow that to happen. This is an important distinction to make because if we neglect this problem, then we risk missing the opportunity to solve it or even prevent it from happening. We are talking about people and their lives and we cannot afford to be looking down the wrong path.

Mr. Chairman, I know you have heard me talk about the corrosion issue on many occasions. The same principle applies here. Our people and equipment have already suffered extensive wear and tear, and we need to repair the damage that has been done. I also hope to work with you and our witnesses to discover where we can act now to prevent these and other potential problems from occurring.

One of the ways we can deal with the implications of these operations is how we budget for them. To date, the cost of these operations has been financed by supplementals. We may be able to do better. By following this approach, we have waited until extensive wear and tear on our ground equipment has already occurred before we start to repair or replace it.

If we start budgeting for these operations, we can take a longer-term approach to what is likely to be a long-term problem. The Quadrennial Defense Review released last month used the term "long war" to describe the use of the military to fight terrorism. General Huly's statement today calls it a "generational war." Surely we cannot continue to fund this effort for a generation with short-term supplementals. We need to adapt our fiscal policy to reality just as much as we need to adapt our national security policies to reality.

Mr. Chairman, I look forward to today's hearing on the readiness of our forces and how we can best accomplish our shared goal of keeping those forces trained and ready.

Senator ENSIGN. Thank you.

Senator Inhofe, you mentioned that you would like to make a statement.

Senator INHOFE. Yes, Mr. Chairman. Let me make a different type of statement than we'd normally say here. But, maybe our panel does not know. We at the same time are having a full committee hearing on the Joint Strike Fighter (JSF), the engine controversy. I've already been over there, and I'm going to go back

there. But, to me this is so significant, I'd just like to get a statement in the record and maybe a couple questions for our witnesses.

First of all, I thank you for having this hearing. I used to be the chairman of the Readiness and Management Support Subcommittee and Senator Akaka was the ranking member. In fact, during part of that time, you were the chairman and I was the ranking member. But at that time, we saw that we have the problem that we're facing, we saw it coming. At least I saw it coming. It was quite obvious that we're going to be faced with this thing that many of the people during the 1990s were saying, well the Cold War's over, we don't need a military anymore. So the drawdown started. We went down to about 60 percent of where we were in previous years, or at least in 1990. My feeling was that the problem is more serious.

I often look back at the Cold War, and think at least things then were predictable. We knew who the enemy was, it was a country. We knew what their mentality was, we knew what their culture was, we knew what their capabilities were. This is a different thing all together. So, there's no way of knowing in advance how serious things are going to be. So, during the 1990s, during the Clinton administration, if you take just the amount of money going in for defense spending, and put the inflation rate to it, we, at the end of that period of time, were $412 billion under that. So, that was a huge drawdown.

Now, Congress came home and added some money. But even after Congress added the money it was still $313 billion less over an 8-year period to where we were—where we would have been if it had just been a static amount of money spent on defense. According to the testimony of General Schoomaker the other day, he said the Army entered this new century with a deficit in its investment accounts to the tune of $56 billion. I'm going to quote him: "we started September 11 with $56 billion shortfall in equipment across the Army, Active, Guard, and Reserve." That was $56 billion, if you replace it in kind. If you modernize it and replace it, it's $68 billion, roughly. So, those are the best of his estimates, and I believe that's true. I can remember during the 1990s the desperation of what to do to come up with just ammunition. You guys know this because you were there.

At Fort Bragg they were taking money out of what was called the Real Property Maintenance (RPM) account. But they're taking money out of that, which is a required spending. So, you stand in a barracks at Fort Bragg and it would be raining on you, inside. That money was being spent on ammunition, otherwise they wouldn't have had the ammunition. That's how really serious it got. Now, I am going to repeat something that I've said several times, because our systems are wrong. We talk about the Future Years Defense Program (FYDP), we talk about what's going to happen in 6 years, in the next 10 years. I know you guys are really smart. But you're going to be wrong if you try to guess where we're going to be 10 years from now.

I remember my last year in the House. I was on the House Armed Services Committee, we had someone testify before us. They said in 10 more years we won't need ground troops. Now, that's how wrong we were. So, no matter what we try to put together, my

feeling is, and this was verified to me 6 years ago during the first confirmation hearing of Secretary Rumsfeld, when I asked him the question, and I said, "it seems like we're at the risk of one piece of equipment or one branch of Service, we're enhancing another, because we're trying to guess where we're going to be 10 years now." He said, "that's right." I said, "well, what is the overall problem. What would we have to do to get back so that we couldn't guess wrong. So, we'd spend the money, and put ourselves in the right position no matter what happens." He said, "well, historically you go back for the 100-year period of the 20th century. We spent 5.7 percent of Gross Domestic Product (GDP) on defending America. We are down now, this was of course 6 years ago, to 2.8 percent. Now with this budget and with these enhancements, we're only up to 3.8 percent."

Now—how does it work out, for each 1 percent it's $11 billion—one-tenth of 1 percent of GDP, it's $11 billion. So, it's a huge thing. I applaud the amendment that was successfully passed by Senator Talent yesterday to increase our military spending by $3 billion. But we're still not getting there. So, it would seem to me that we wanted to be in a position where we could really accurately take care of defending America 10 years down the road, we're going to have to get back to where we were, back during the 20th century, in terms of percentage of GDP. That's where I want to be, Mr. Chairman. I see the problems that are there, and I had a long visit with General Blum yesterday on the condition of our equipment of the Guard, and it's a very serious problem.

So, it would seem to me that we need to be looking down the road and planning in advance to bring America back to where it has historically been in terms of the priorities given to our defense system. Thank you, Mr. Chairman.

Senator ENSIGN. Thank you. We'll start with General Lovelace.

STATEMENT OF LTG JAMES J. LOVELACE, JR., USA, DEPUTY CHIEF OF STAFF FOR OPERATIONS AND PLANS, UNITED STATES ARMY

General LOVELACE. Mr. Chairman, Senator Akaka, Senator Inhofe, good to see you all again. Sir, I stand today representing the United States Army, both components, Army and Reserve. I do appreciate the opportunity to talk about your Army. We do appreciate the support. Because this Army is as good as it is, because of the support that we get here by you all.

Again, my written statement will be placed in the record, sir. You all have it in request. Bottom line, upfront, is the Army ready? The answer is, yes. Is the Army better than it was 2 years ago? The answer to that is, yes. But is the Army as good as it needs to be? The answer to that, sir, is, no. But, we're getting better, 243,000 men and women serving in 120 countries today, 126,000 are serving in Iraq and Afghanistan. That is a good percentage of the joint team, that is part of which is represented today. Over 255,000 have served a tour in Iraq or Afghanistan. The Active component, another 63,000 have served a second or third tour, multiple tours in theater. Of the 264,000 Reserve component soldiers that have been mobilized since September 11, 205,000 have served in theater.

Talk about health of the force, the retention rates, for example, in the 3rd Infantry Division, which has served two tours, Rock of the Marne Division has been there twice. In a road to Baghdad the first time, in 1003 Victor. Then again, the most recent rotation with General Vines, when he was Commanding General of Multi-National Corps-Iraq (MNC–I). Retention rate at 136 percent in 2005. Then this year so far it's 169 percent. That represents what is the health of this force. That's a representative sample of across the force.

General Vines will be able to give you first hand about the proud soldiers that are serving our country. I end with, one more time, sir, the bottom line upfront. Is the Army ready? You bet it is. Are we better than were 3 years ago? The answer to that's, yes. But there's still things that we need to do with your support. Thank you. I look forward to your questions.

[The prepared statement of General Lovelace follows:]

PREPARED STATEMENT BY LTG JAMES J. LOVELACE, USA

Mr. Chairman and distinguished members of the Subcommittee on Readiness and Management Support, on behalf of our Secretary, Dr. Francis Harvey, our Chief of Staff, General Peter Schoomaker, and the Active and Reserve component (RC) soldiers that comprise our Army, thank you for the opportunity to report to you on the readiness of your Army, America's All-Volunteer Force. The bipartisan support of Congress has enabled us to meet the needs of current global operations and to continue to develop the capabilities and capacities required to prevail in the complex 21st century security environment. Every day our soldiers answer the call to duty, serving the Nation in this time of war along with our joint and coalition partners.

Our Army is engaged at unprecedented levels at home and abroad. Today, nearly 243,000 soldiers are serving in over 120 overseas countries. Approximately 126,000 of these soldiers are serving in Iraq and Afghanistan, representing nearly 94 percent of the Joint Team. Over 255,000 (52 percent) of our currently serving Active component soldiers are combat veterans and over 63,000 (13 percent) have deployed more than once to Operation Iraqi Freedom (OIF) or Operation Enduring Freedom (OEF). Since September 11, our Nation has mobilized 264,000 RC soldiers, with the majority (205,000) serving in Iraq and Afghanistan. Despite this significant operational pace, soldier retention rates are at record levels. The 3rd Infantry Division, recently returned from Iraq after a second combat tour, achieved a 136 percent retention rate in fiscal year 2005 and has a 169 percent retention rate so far in fiscal year 2006. Our Reserve component is also doing well. During first quarter fiscal year 2006, the The Army National Guard and Army Reserve had a combined 110 percent retention rate and achieved 96 percent of recruiting projections; a net growth of over 1,100 soldiers. Overwhelmingly, soldiers take pride in their service to the Nation and the support of Congress. Many of you have seen these soldiers and their formations and have experienced firsthand how well they perform in tough and challenging conditions. Your Army is relevant, ready, and capable of meeting the Nation's needs.

As we began OEF almost 5 years ago, the Army had critical readiness challenges. Prior to September 11, to the Army experienced years of underfunding resulting in a $56 billion "hole" in readiness. This "hole" was caused by insufficient modernization during the 1990s, including $41.7 billion in existing shortfalls and an additional $14.5 billion for global war on terrorism operational needs. We also began the war with a force structure built on a Cold War paradigm. Our Active and Reserve component units were organized, manned, and equipped differently . . . no two Army divisions looked alike and our combat support and combat service support structure was equally as diverse. Support commands based in Europe were different than those in Korea or continental United States (CONUS) and were not easily interchangeable, making force packaging for deployments difficult. The Reserve component was a strategic Reserve and had force structure greater than their congressionally-authorized end strength. As a result of Army Transformation efforts, today we measure the Army—active, guard, and Reserve against our new more robust modular formations. As we grow our current manning and equipping levels and report against the increased requirements of these new organizations, the portion of the

force undergoing change will report at lower readiness levels . . . though they are more capable than they were under the old structure.

After years of insufficient modernization investments, many of our Reserve component units were under-equipped and not immediately ready for deployment, especially in our Reserve units. The National Military Strategy during the Cold War period envisioned a mobilization timeline that allowed time for training and equipping our Reserve component forces over an extended period of time. We no longer use the Reserve component as a "strategic Reserve"; they have become an integral part of the operational force. This approach demands that we man and equip our Reserve component units exactly like we do our Active component units, allowing us to seamlessly integrate them into the force mix . . . "plug and play." We have concurrently adjusted the training, equipping, and manning strategy for these units. The Army is committed to fund this effort in our FYDP, but it will take time to complete.

In order to provide ready and relevant forces to the combatant commander, the Army continues to equip and sustain our deployed and next to deploy troops at the highest levels. This approach meets the demands in theater but consequently impacts the resource levels of returning and resetting units. To achieve this high state of readiness, we maneuver resources (dollars, equipment, and personnel) to deployed and next to deploy forces which results in lower resource levels among those units resetting and starting their initial train-up for future operations. Our success in maneuvering resources to the fight is substantial. In 2003, we had approximately 350 Level I Uparmored HMMWVs worldwide. Today less than 3 years later, we have over 11,000 Level I HMMWVs. Interceptor Body Armor (IBA) is another example. When our forces crossed the berm from Kuwait into Iraq in 2003 all soldiers had some form of body armor but only 10 percent had Interceptor Body Armor (IBA). Today we have fielded over 750,000 sets of body armor and 173,000 Deltoid Axillary Protectors.

The Army has also made significant changes in how we train the force. The complexity of the 21st century security environment requires multi-skilled, innovative, agile, and versatile leaders. As we have seen in recent operations, the actions of individual soldiers and leaders can have strategic consequences. To be effective today and tomorrow, we are growing a new breed of leader—one who is able to rapidly transition between complex tasks with relative ease. The Army continues to develop, update, and expand its offering of cultural awareness training and foreign language education at all levels. To meet the increased demands of today's challenges, our Training and Doctrine Command (TRADOC) has become significantly more agile, adding capacity and capability to our training base by rapidly maneuvering assets to train theater specific training requirements. Additionally, the Army is conducting a comprehensive review of education, training and assignments for leaders (RETAL) at the direction of the Secretary of the Army (SA).

We continue to innovate at our Combat Training Centers (CTCs) by incorporating lessons learned from the Iraq and Afghanistan into the CTC Contemporary Operational Environment. The training conducted at these premier training facilities is specifically tailored to prepare units for the conditions in the current combat zone. Over the past 2 years, the CTCs have reconfigured the training areas to replicate the current operational threat environments to include building tunnel and cave complexes, walled compounds, additional buildings and shanty-towns. The CTCs have created the conditions that stress the force protection requirements and measures that units will have to execute in theater. The training centers are now full-spectrum training facilities, from high intensity operations to counterinsurgency operations, and they constantly incorporate lessons from combat in Iraq and Afghanistan. The CTCs are fundamental to Army unit readiness and leader development.

Key to the ability to sustain our long-term commitments is the maintenance of our equipment both abroad and at home. The operational tempo (OPTEMPO) and consequent wear on the Army's deployed equipment in an extremely harsh environment, greatly exceeds that experienced in a peacetime training environment. As an example, in 2003, the average age of the Abrams tank fleet was over 14 years. These tanks have a design life of 20 years, with the expectation of operating slightly over 800 miles a year. In OIF, crews are driving these tanks in excess of 4,000 miles per year or five times expected usage, often on hard surfaces, as opposed to cross country for which they were designed. Army helicopters are experiencing usage rates roughly two to three times the peacetime rates. The Army's aging truck fleet, in particular, is experiencing some of the most pronounced problems of excessive wear as a result of OPTEMPO five to six times the peacetime rate. This OPTEMPO has shortened the military useful life of our equipment and demands a much earlier and larger investment in depot maintenance than expected or programmed. The in-

creased OPTEMPO combined with our combat losses, challenges the Army's ability to sustain operational availability.

For the past 6 months, the Army has maintained an equipment operational readiness rate of over 90 percent, which meets or exceeds current Army standards. For standard Army equipment, logistical sustainment in theater continues to be supported through normal resupply with no mission degradation. Additionally, Defense Logistics Agency and the Army Materiel Command have pre-positioned stocks forward to allow rapid delivery of critical, low density parts in order to maximize available combat power and minimize transportation costs.

Fundamental to the Army's ability to meet future threats is our effort to rapidly return our operational units to an effective level of readiness upon their return from operational deployment. We are meeting this challenge through the procurement of new equipment and the reset of existing equipment. The Army has adapted a structured, formal program to reset our equipment when it returns from the operational area, complemented by a long-term Recapitalization (RECAP) program to ensure that we can sustain the readiness of our systems over their life span. Reset requires both time and funding. We have not completed the reset of some of our equipment from units in OIF I that returned in fiscal year 2004. Reset requirements are costs over and above those that we normally need to sustain the Army. In accordance with DOD policy and intent, we rely on supplemental funds to pay for our reset program. For fiscal year 2006, we expect the total reset bill to be nearly $13.5 billion. The following is the cost break-out:

- $5.2 billion for the repair of equipment at our depots and field units.
- $1.5 billion for purchasing new equipment to replace battle losses.
- $5.2 billion for equipment recapitalization.
- $1.6 billion to repair and replace equipment at our pre-postioned equipment sites.

As the requirements of reset have increased, so have the costs. As mentioned earlier, we have incorporated lessons learned into our reset program, which demand more repairs to equipment and in some cases, an upgrade of capabilities. The HMMWV RECAP is a prime example. Older version HMMWVs returning from combat operations are being upgraded to accept the additional weight of armor and to enhance soldier safety; we do not want to reset equipment returning from combat to a lower standard.

The number of items in reset has grown. In fiscal year 2006, over 19 Brigade Combat Teams will return to home station from combat operations. We anticipate having to reset 6,000 combat vehicles, 30,000 wheeled vehicles, 615 aircraft, and 85,000 ground support items. This represents 24 million direct labor hours needed in our depots alone per fiscal quarter. Reset is a wise investment of our resources. It has provided our soldiers with the equipment they need to get the job done and has allowed the Army to accelerate its transformation to modular units. We have reset 37 Brigade Combat Teams to the new configuration in the last 2 years. Many of these units have already returned to theaters of war in their new configurations representing increased capability and capacity.

In order to provide rapid replacement for combat losses, the Army established an equipment sustainment pool of high usage combat equipment in the theater of operation. The Theater Sustainment Stock, maintained by Army Materiel Command, ensures a unit receives replacements for losses of critical combat weaponry without degradation of mission. Additionally, the Army established a Stryker maintenance facility in Qatar to limit the repair time and resupply on these critical assets.

While the Army continues to invest heavily in its equipment, the Army has not overlooked the needs of our soldiers, our most valuable asset. The Army has a broad spectrum of services, programs, and initiatives that provide for the well-being of our people while supporting senior leaders in sustaining their joint warfighting human capabilities requirements. Our well-being efforts are focused on strengthening the mental, physical, spiritual, and material condition of our soldiers, civilians, and their families while balancing demanding institutional needs of today's expeditionary Army. Several of our more prominent programs are: pre and post deployment health screening, the U.S. Army Wounded Warrior Program (AW2); the United States Central Command (USCENTCOM) Rest and Recuperation Leave Program; and Deployment Cycle Support.

The Army has significantly increased its capability to screen for and treat mental health problems resulting from combat operations and stress associated with the pace of operations. There are over 200 mental healthcare providers in theater and all soldiers receive pre and post deployment screening. Additional mental health assistance is available through Military OneSource and augmentation to medical treatment facilities in CONUS. The Office of the Surgeon General is also imple-

menting a Post Deployment Health Risk Assessment 90 to 180 days after returning from deployment. Coupled with the quality of life investments made for our deployed soldiers, these programs have made a positive impact on soldier well-being.

Soldiers from OEF and OIF deserve the highest priority from the Army for support services, healing and recuperation, rehabilitation, evaluation for return to duty and successful transition from Active-Duty if required. To date the Army has assisted nearly 1,000 soldiers under the Army Wounded Warrior (AW2) program. AW2 takes to heart the Warrior Ethos, "Never leave a fallen comrade". The severely injured soldier can be assured the Army will be with him or her and do whatever it takes to assist a soldier during and after the recovery process.

As soldiers progress through their care and rehab, AW2 stands by them to ensure all their immediate non clinical needs are met (securing financial assistance in the form of grants from a network of providers, resolving travel claims, and finding a place for family members to live). AW2 has resolved numerous wounded soldier pay issues and benefits to ensure all soldiers' pay is properly protected and monitored while they recover. AW2 is now staffed with a Veteran's Affairs Benefits Specialist, a Military Benefits Specialist and an Employment Assistance Specialist to help expeditiously resolve problems as they arise and to proactively identify potential issues before they become problems.

A fit, mission-focused soldier is the irreducible foundation of our readiness. For soldiers fighting the global war on terror in the USCENTCOM area of responsibility, the Rest and Recuperation (R&R) Leave Program is a vital component of their well-being and readiness. Everyday, flights depart Kuwait City International Airport carrying hundreds of soldiers and DOD civilians to scores of leave destinations in the continental United States and throughout the world. Such R&R opportunities are essential to maintaining combat readiness and capability when units are deployed and engaged in such intense and sustained operations. Since 25 September 2003, nearly 320,000 soldiers and DOD civilians have participated in this highly successful program. They have benefited through a break from the tensions of the combat environment and from the opportunity to reconnect with family and loved ones. Additionally, this program also generates substantial, positive public reaction and increased political support for U.S. objectives in the global war on terror.

Another initiative to assist our Army in taking car of soldiers is Deployment Cycle Support (DCS). DCS is a comprehensive process focused on preparing soldiers, their families, and deployed Department of the Army civilians for their return and reintegration into their families, communities, and jobs. As of 6 March 2006, approximately 400,000 soldiers have completed the in-theater Redeployment Phase DCS tasks prior to returning home to their pre-deployment environment. The DCSP is expanding to include all phases of the deployment cycle (Train up/preparation, mobilization, deployment, employment phases).

While the efforts described above address our current programs, the Army Campaign Plan and Army Transformation effort is our long-term strategy to achieve our transformation endstate of a fully-manned, equipped, trained, and modernized force across the Active and Reserve component. Fiscal year 2007 will be a pivotal year for the Army. Your Army will continue to provide ready and relevant forces to all combatant commanders, for joint operations, and is ready to meet all challenges at home. By protecting our investment accounts (including over $21 billion for National Guard and $3.6 billion procurement over the Program) and adjusting our force structure, the Army will provide units that are better manned, trained, and equipped for full spectrum operations abroad and for support to the homeland.

In order to meet the needs of the National Military Strategy and synchronize the myriad of tasks associated with our transformation and global repositioning efforts, the Army has adopted and is transitioning to a cyclic approach to training and equipping our units called the Army Force Generation (ARFORGEN) model. ARFORGEN is the structured progression of increased unit readiness over time, resulting in recurring periods of availability of trained, ready and cohesive units prepared for operational deployment in support of civil authorities and combatant commander requirements. Army units will progress through the Reset/Train, Ready, and Available Force Pools in an operational readiness cycle. The Army will focus units against future missions as early as possible in the ARFORGEN process and task organize modular expeditionary forces tailored to joint mission requirements. Through the ARFORGEN model, the Army can supply 18–19 fully-manned, trained, and ready brigade combat teams with associated support to the warfight, with another 18–19 ready to follow if necessary to meet global requirements. This innovative approach will sustain our ability to meet our global commitments while balancing the requirements associated with transforming, modernizing, and implementing a new global stationing plan and other mission demands.

CLOSING

In closing, the Army remains committed to growing and balancing its capabilities within and across the Active and Reserve components in order to support the Nation's global operations; to prevail in the global war on terrorism; and to conduct expanded state and homeland security missions. Conversion of all components to a modular, interchangeable force, which will be employed according to a new force generation model, is proceeding apace.

Is your Army ready? The answer is yes. Is your Army better than it was 2 years aqo? The answer again is yes, but are we as good as we need to be? That answer is no. But with the help of this Congress, we can get there . . .

I look forward to this hearing and answering whatever questions you may have.

Senator ENSIGN. General Huly.

STATEMENT OF LT. GEN. JAN C. HULY, USMC, DEPUTY COMMANDANT, PLANS, POLICIES, AND OPERATIONS, UNITED STATES MARINE CORPS

General HULY. Mr. Chairman, Senator Akaka, Senator Inhofe. Thank you, I too am honored to be able to appear before you today. The Commandant of the Marine Corps has stated that readiness is the coin of the realm for the Marine Corps, and our readiness in the Marine Corps depends on two things: our ability to be able to recruit and retain the quality of young men and women to help preserve our freedom, and our ability to properly train and equip them.

Thanks to your support and the support of the American people, we've been able to recruit and retain in these numbers and the quality of the young men and women that we need to sustain our force. Our fiscal year 2006 supplemental request and our fiscal year 2007 budget are going to go a long way in helping us to reset our force, to recock if necessary, and to continue to modernize in the future, and to reset our readiness where we need to be in the future. We look forward to your continued support for our fiscal requests to help bring these things to reality.

Once again, I'm honored to be here to represent the Marine Corps. Lieutenant General Sattler and I look forward to your questions.

[The joint prepared statement of General Huly and General Sattler follows:]

JOINT PREPARED STATEMENT BY LT. GEN. JAN C. HULY, USMC, AND LT. GEN. JOHN F. SATTLER, USMC

INTRODUCTION

Chairman Ensign, Senator Akaka, distinguished members of the Readiness and Management Support Subcommittee; it is my privilege to report to you on the actions taken to date to maintain essential readiness, and address future requirements to reset the Marine Corps. Today, we are at war and your marines are performing well due to their extraordinary courage, dedication, and commitment and our Nation's ability to continue to properly train and equip the force. Marines realize the danger to the Nation, their vital role, and the magnitude of their responsibilities.

Marines continue to demonstrate that we are an expeditionary force in readiness—Most Ready When the Nation is Least Ready. Your continued support makes this possible. The global war on terror is a generational war; therefore, maintaining our readiness, while modernizing and transforming to meet future challenges, is critical to ensuring that the Marine Corps continues to provide the Nation with the critical capabilities needed to prosecute this war and any future conflict that follows. On behalf of all marines and their families, I thank this committee for your sustained and indispensable support during these challenging times.

MANNING THE FORCE AND QUALITY OF LIFE

Though we embrace the advances of technology, we believe that the most important asset on any battlefield is a well-equipped, well-trained, and well-led United States marine—our people make the difference. We hold that today's marines are unique and special individuals, and the character of their service throughout the global war on terror has rivaled that of any preceding generation. Recruiting and retaining a force of this quality requires the dedicated efforts of our recruiters, career retention specialists, manpower experts, and leaders throughout the Corps. Ours is a force of Active-Duty, Reserve, and civilian marines, as well as thousands of Marine families who share in the sacrifices to our Nation. Though the mission must always come first, we continue to search for opportunities to improve the experience of serving as a marine both during and after their Active service—once a marine, always a marine.

Retention

Retaining the best and the brightest marines is a top manpower priority. Our future officer and staff noncommissioned officer ranks are dependant on our successful accomplishment of this mission.

We have two enlisted retention measures to ensure healthy service continuation rates. The First Term Alignment Plan (FTAP) involves the first reenlistment of marines and we have consistently achieved our goals over the past 13 years. The Subsequent Term Alignment Plan (STAP) involves the subsequent reenlistments of marines, those who likely remain in the Corps for a career, and we have consistently attained our goals since creating the STAP in 2002. In fiscal year 2005, we exceeded the FTAP requirement by achieving 103 percent of this retention mission, with notable success in the infantry community; we also exceeded the STAP retention mission. The substantial increase in the infantry reenlistment rate during fiscal year 2005 was influenced by higher Selective Reenlistment Bonuses (SRBs).

Certain Military Occupational Specialties (MOSs) perennially suffer high attrition, such as those involving highly technical skills or extensive security clearances. Contributing factors include lucrative civilian employment opportunities for those marines who attain these specialized skills and qualifications. We address this challenge by targeting these military specialties with higher SRBs. Retaining high quality and the proper skills in our ranks necessitates military compensation that is competitive with the private sector. Sustainment of SRB funding remains a crucial element to our ongoing efforts to retain these valuable skills.

The retention forecast for the officer corps in the near-term is positive and consistent with our historic average of 90.8 percent. The close of fiscal year 2005 saw officer retention at 91.3 percent. The Marine Corps has active programs in place, both monetary and non-monetary, to ensure that officer retention remains high. All of these programs provide incentives to officers for continued service even in the face of significant operational tempo, while allowing flexibility for manpower planners to meet requirements across the Marine Corps Total Force.

Selected Reserve enlisted retention for fiscal year 2005 continued to be strong at 79.5 percent, well above our historical norm. Reserve officer retention of 80.1 percent was also above the historical norm of 75.3 percent.

Recruiting

An equally important factor in sustaining a viable force is continuing to recruit tremendous young men and women with the right character, commitment and drive to become marines. In fiscal year 2005, the Marine Corps overcame unprecedented recruiting challenges and achieved over 100 percent of our Active component accession goal with no degradation in quality.

The Marine Corps Reserve achieved 101 percent of its enlisted recruiting goals. We achieved our officer accessions goals as well, but Reserve officer numbers remain challenging, as our primary accession source is from officers that are leaving Active-Duty. We appreciate the continued authorization for a Selected Reserve Officer Affiliation Bonus in the National Defense Authorization Act for Fiscal Year 2006. It continues to make a significant contribution in this critical area.

We anticipate that both Active and Reserve recruiting will remain challenging in fiscal year 2006, and we welcome the continued support of Congress for a strong enlistment bonus and other recruiting programs, such as recruiting advertising, which will be essential to us in meeting these challenges.

Reserve Marines

To date, more than 39,393 Reserve marines have served, or are currently serving, on Active-Duty in the global war on terror. As part of an integrated Total Force, our Reserve marines and units receive the same pre-deployment training and serve

alongside their Active component counterparts. Currently, over 6,000 Reserve marines are on Active-Duty, and the Marine Corps Reserve expects to provide approximately 4,250 marines in support of operations in Iraq in 2006. Overall, our Reserves provide personnel for a wide-variety of operations and activities, including Iraq military transition, Afghan National Army embedded training, civil affairs, and personnel recovery and processing. They also perform anti-terrorist and humanitarian duties in the Horn of Africa, Afghanistan, Central America, and the Caribbean. The strength of integrating our Active and Reserve components into a Total Marine Corps Force epitomizes the warrior concept of "one team, one fight."

Civilian Marines

Civilian marines (18,386) continue to provide an invaluable service to the Corps as an integral component of our Total Force. Working in true partnership with marines, civilian marines will continue to play in important role in supporting the mission of the Marine Corps and the global war on terror. Our commitment is to define for them what the Marine Corps will offer its civilian marines, and what the Corps expects from this select group who support our marines.

Military-to-Civilian Conversions

The Marine Corps continues to pursue sensible military-to-civilian conversions in support of Marine Corps Warfighting initiatives. These conversions are important because they increase the number of marines in the operating force and help reduce stress on the force. Funding remains a critical issue to the success of this initiative. Congressional cuts in both the Fiscal Year 2005 Appropriations Bill ($35 million) and Fiscal Year 2006 Appropriations Bill ($20 million) have impacted our ability to execute our planned fiscal year 2005 program and will reduce our planned fiscal year 2006 conversions.

National Security Personnel System

The Marine Corps is committed to successful implementation of the National Security Personnel System and creating and maintaining an innovative and distinctive civilian marine workforce capable of meeting the ever-changing requirements of today and the challenges of tomorrow. The Marine Corps is actively participating with the Department of Defense (DOD) in the development and implementation of this new personnel system. Following an intensive training program for supervisors, managers, human resources specialists, employees, commanders and senior management, we will begin implementation.

QUALITY OF LIFE FOR OUR MARINES AND THEIR FAMILIES

For marines, success has always been measured first on the battlefield, but part and parcel to this is the health and welfare of marines and the families who support them. As an expeditionary force, marines are accustomed to frequent deployments, yet the current environment contains increased elements of personal danger and family risk that must be addressed with appropriate and timely support. We have been careful to monitor our programs to ensure our marines and their families receive the necessary care to sustain them throughout the deployment cycle. In this regard, our Marine Corps Community Services (MCCS) organizations' combined structure of Family Services, Morale, Welfare and Recreation Programs, Voluntary Off Duty Education, and Exchange operations has positioned us to efficiently and effectively leverage and direct community services assets to help marines and their families meet the challenges associated with the Marine Corps lifestyle and current operational tempo.

For marines in theater, few things are more important than staying in touch with their loved ones at home. To keep communication open between deployed marines and their families, we provide phone service, mail service, and our Internet-based mail service, "MotoMail," which has created more than half a million letters since its inception in December 2004.

Combat and Operational Stress Control

While our marines and their families have proven to be resilient "warriors," combat and operational stress is not an uncommon reaction. We closely interact with marines and their families to reassure them; we provide many services and programs for help and urge servicemembers and their families to seek the help they require.

To integrate our combat and operational stress control (COSC) programs and capabilities properly, we have established a COSC Section within our Manpower and Reserve Affairs department. To gain clarity of mission, we instituted a tracking system that allows commanders to monitor COSC training and decompression require-

ments. As a component of COSC, we created a Web-based information and referral tool that leaders at all levels can readily access. The "Leader's Guide for Managing Marines in Distress" provides specific guidance on 40 distress areas.

The Marine Reserves, through their Chaplain Corps, have developed Marine and Family Workshops (MFW), which are a post-deployment program designed to assist marines and their family members with return and reunion stressors and adjustment difficulties. The goals and objectives of the workshop are to: 1) provide an opportunity for marines and their family members to strengthen their coping skills; 2) mitigate the impact of traumatic events and war zone stressors; 3) accelerate the normal recovery process; and 4) identify those who might need additional help and provide resources.

Casualty Support

Our support and dedication to the families of our fallen marines and their survivors is especially strong. Casualty support is a duty and honor. It is also a human process requiring a measured and thoughtful engagement by our Casualty Assistance Calls Officers (CACOs). As with our other deployment-related programs, our casualty process has evolved and improved significantly. Our CACOs monitor the survivor's transition through the grief process—from casualty notification, to burial, to ensuring survivors receive the appropriate benefits. CACOs connect families needing extended support to a Long-Term Survivor Case Manager who personally monitors and communicates with them to ensure they receive the support they need for as long as it is required.

Critical Incident Stress Management Teams

In cases of mass casualties experienced by a command or unit, whether combat, natural disasters, training, or missions, we use a DOD-sponsored Managed Health Network capability where trained Critical Incident Stress Management teams provide crisis management briefings to family members and friends of the unit. During the briefings, Marine Corps personnel, Chaplains, and Managed Health Network counselors provide information and answer questions concerning the casualties. These crisis response teams provide support at remote sites throughout the country, making them highly useful in situations where Reserves are involved. In particular, after Lima Company, 3rd Battalion, 25th Marines experienced mass casualties in Iraq last summer, crisis management briefings were conducted at various cities in Ohio where questions about the unit were answered, briefs were provided on helping children cope, individual counseling was offered to family members, and materials on support services were distributed.

Marine for Life—Injured Support

Built on the philosophy "Once a Marine, Always a Marine" and fulfilling our obligation to "take care of our own," the Marine For Life program offers support to approximately 27,000 honorably discharged marines transitioning from Active service back to civilian life each year.

Leveraging the organizational network and strengths of the Marine for Life program, we implemented an Injured Support program during January 2005 to assist combat injured marines, sailors serving with marines, and their families. The program essentially seeks to bridge the gap that can exist between military medical care and the Department of Veterans Affairs, providing continuity of support through transition and assistance for several years afterwards.

The program recently assigned two full-time Marine Corps liaison officers to the Seamless Transition Office at the Veterans Affairs. These liaison officers interface between the Veterans Health Administration, the Veterans Benefits Administration, and the Marine Corps on individual cases to facilitate cooperative solutions to transition issues.

Additionally, the Injured Support program conducts direct outreach to injured marines and sailors via phone and site visits to the National Naval Medical Center, Walter Reed, and Brooke Army Medical Centers. On average, 30 percent of our seriously injured marines requested and received some type of assistance.

Lastly, the program continues to work closely with Office of the Secretary of Defense (OSD) on Marine Corps-related injury cases. Information sharing between the program and OSD contributes to developing capabilities for the Military Severely Injured Center (formerly known as The Military Severely Injured Joint Support Operations Call Center).

Healthcare

Marines receive high quality, state of the art care from a worldwide Military Health System. We enjoy the lowest disease, non-battle injury rates in history and our marines know that if they are injured or wounded in action they have an un-

precedented better than 97 percent survival rate once they arrive at one of our Forward Resuscitative Surgical units. The Military Health System provides a superb care and health benefit program for our marines, their families, and our retired population—services we must sustain. Unfortunately, at its current rate of cost growth, the program is unsustainable. We fully support changes in legislation that would allow the DOD to "renorm" the cost of health care.

CURRENT OPERATIONAL REQUIREMENTS

Today, your marines are fully engaged across the spectrum of military capabilities in prosecuting the global war on terror. Since the watershed events of September 11, 2001, the core competencies, capabilities, and emphasis on readiness that the Marine Corps has structured itself around have repeatedly proven their value in the numerous and varied operations this conflict demands. Currently, we have over 40,000 Active and Reserve marines forward deployed in support of Regional Combatant Commanders.

I recently had the opportunity to visit our marines in Afghanistan and Iraq. I can assure you that they are well trained, well equipped, and well led. The 26,000 marines and sailors under the command of I Marine Expeditionary Force (MEF) in the Al Anbar province Iraq and the more than 500 marines assigned to transition teams assigned with Iraqi forces have made significant progress in their efforts to develop credible Iraqi capabilities and defeat those who cannot envision a free and democratic Iraq. In setting the conditions for the historic constitutional referendum and national elections, they have distinguished themselves in places like Fallujah, Ramadi, and the Euphrates River Valley. Another 5,000 marines support Commander, U.S. CENTCOM in the form of the Marine Expeditionary Unit Special Operations Capable (MEU) (SOC) that serves as the Theater Strategic Reserve, the VMAQ–4 squadron providing Electronic attack capability, security forces at the U.S. Embassy in Baghdad and in Camps outside of the Al Anbar province, coordination elements in Kuwait, and Individual Augmentation to the MNF–I, MNC–I, and CFLCC staffs. In all, the Marine Corps represents over 21 percent of the current force with nearly 28,000 marines deployed in support of Operation Iraqi Freedom/Operation Enduring Freedom (OIF/OEF).

In Afghanistan we have 1,200 marines and sailors providing support to an increasingly capable Afghan National Army. As part of Combined Joint Task Force (CJTF)-76 , the 1st Battalion, 3rd Marines, is conducting operations in northeastern Afghanistan against remnants of the Taliban, al Qaeda, and Anti-Coalition Militia. More than 50 Marine officers and senior enlisted leaders continue to train, mentor and operate embedded with their Afghan National Army counterparts as part of Task Force Phoenix and nearly 100 marines augment the staffs of Combined Forces Command-Afghanistan (CFC–A), the Office of Security Cooperation-Afghanistan (OSC–A), and CJTF–76.

With your assistance we have been able to provide our marines with the capabilities to adapt to change on a dynamic battlefield. Unable to match our conventional force capabilities in like fashion, our enemies have resorted to asymmetric tactics such as the Improvised Explosive Device (IED). Marines in the Al Anbar province of Iraq leave their bases in vehicles fully equipped with the most advanced armoring available. The High Mobility Multi-Purpose Wheeled Vehicle (HMMWV) Marine Armor Kit installations (2,545 required/2,698 completed) were complete in November 2005, and our Medium Tactical Vehicle Replacement (MTVR) Armor System will be completed in May 2006. In Afghanistan all of our HMMWVs are equipped with Marine Armor Kits. Fielding of the Up-Armored HMMWV, the M1114 (2,814) to the Marine Forces Central Command Theater (OIF, OEF, and the Combined Joint Task Force-Horn of Africa (CJTF–HOA)) will be completed in November 2006. We have augmented the protection of our marines with remote control improvised explosive device (RCIED) jammers. We have also procured two new engineer vehicles—the Cougar (27) and the Buffalo (4)—to protect marines in theater from IEDs and mines. These vehicles provide Explosive Ordnance Disposal Combat Engineers the ability to safely carry out their missions in the current IED environment.

The highest priority individual capability gaps of our deploying forces have also been addressed. Examples of new or soon to be fielded equipment includes the Lightweight Helmet (179,888), Enhanced Small Arms Protective Insert (E–SAPI) (146,075), QuadGuard (arm and leg fragmentation protection) (4,500), and Individual Load Bearing Equipment. The Lightweight Helmet provides increased ballistic protection capability over the existing helmet while reducing weight by one-half pound and introduces an improved suspension system for enhanced comfort. The E–SAPI provides increased ballistic protection over the existing SAPI plate. The QuadGuard system is designed to provide ballistic protection for arms and legs in

response to blast weapon threats and other combat casualty trends in OIF. This system is an additive capability that integrates with existing armor systems.

Your marines have proven to be flexible across the full range of military operations demonstrating their capabilities to respond in support of humanitarian operations. In the aftermath of Hurricane Katrina and Rita, and following the earthquake in Pakistan and mudslide in the Philippines, marines were quickly on the scene. In response to Katrina and Rita, 2,650 marines and sailors from our Active and Reserve components deployed to conduct Search and Rescue, Humanitarian Relief, and Disaster Recovery Operations in Louisiana and Mississippi. Survivors were rescued, streets were cleared, food and water was distributed, transportation provided, and medical care administered in six separate locations. Our contribution totaled 815 helicopter sorties, which transported 1.1 million tons of cargo and 5,248 survivors. A total of 446 rescue missions were conducted resulting in the rescue of 1,467 people. After the devastating earthquake in Pakistan, your marines deployed to the cities of Shinkiari and Muzaffarabad providing a hospital, Helicopter Support Teams, and Air Traffic Control in support of the Combined Joint Task Force. The marines and sailors treated more than 11,600 Pakistani patients. Most recently, over 500 marines and sailors from 31st Marine Expeditionary Unit (MEU) responded to the Mudslide on Leyte Island, Republic of the Philippines, in order to provide support to their government's rescue and recovery operations. From 18—27 Feb 2006, 415 civilians were rescued and provided medical treatment. More than 1,000 meals and 3,500 gallons of potable water per day were provided to those in need. With the thanks of the Government of the Philippines, 31st MEU re-embarked aboard Amphibious Shipping and immediately returned to their Training/Exercise schedule.

IMPACT OF CURRENT OPERATIONS ON READINESS

Extended operations in Iraq and Afghanistan have placed extraordinary demands on our marines and their equipment. Your support ensured our near-term readiness remains strong, even while current demand on the force is high. The entire Marine Corps is supporting the global war on terror, and no forces have been fenced. In the past 3 years, we have gone from a pre-global war on terror deployment rotation of just over a one-to-three (~6 months deployed /~18 months home) to our current ratio of just above a one-to-one (~7 months deployed/~7 months home), primarily in our infantry battalions, rotary-wing aviation squadrons, and other, high demand capabilities. This means that many marine units in the operating forces are either deployed, recently returned from a deployment or are training to relieve deployed units. Today the Marine Corps has units that have completed or are preparing for their third combat deployment. Thirty-four percent of the available Marine operating forces and 23 percent of the total Active Force is currently deployed.

In an effort to sustain and regenerate Marine Forces for service in Iraq, and in response to lessons learned, the Marine Corps has trained and deployed a sizable number of provisional units. These provisional units have generally fallen into 2 categories: those units that have cross-trained to enhance capabilities inherent, but secondary, within their mission sets and those units that have trained to a completely new mission set. Cross-training, where clearly the majority of Marine Corps actions have focused, include training artillery, tank and engineer units in security, military police and transportation missions. Complete new missions for units/marines, while limited but required, have included training engineer units in civil affairs, creating small detachments of foreign military trainers and training a small number of marines in personnel retrieval from the Personnel Retrieval Company in the 4th Marine Logistics Group. Our Reserve component has not been insulated from these efforts; they too have created provisional civil affairs units, trained to the military police and transportation missions while also creating provisional security units for use in Iraq and Horn of Africa. While these innovative solutions have helped reduce operational tempo for high demand/low density units in the near-term, they have also caused the Marine Corps to evaluate our entire Active and Reserve Force structure in the context of not only the global war on terror, but other enduring requirements in as yet unforeseen conflicts.

To mitigate our unit and personnel challenges, we also have relied heavily on Selected Marine Corps Reserve (SMCR) units and marines from the Individual Ready Reserve (IRR). For example, we have involuntarily activated all nine of our Reserve infantry battalions over the last 4 years. Those infantry battalions deployed to the CENTCOM Theater in support of OIF/OEF mission requirements and filled other Marine Corps global commitments. Currently over 1,900 Marine reservists are serving in Iraq. We simply could not meet our global war on terror responsibilities and maintain acceptable levels of operating and personnel tempo without the significant

contribution of our citizen-marines. The total number of number reservists deployed in support of global war on terrorism since the inception of OIF/OEF is 32,148 or 80 percent. Of that number, 5,920 or 15 percent of our reservists have deployed twice, and 220 have a third deployment.

The global war on terror ground equipment usage rate averages range from four to nine time normal peacetime usage depending on the end item, hours/miles, and operational conditions over normal peacetime usage due to continuous combat operations (see page 17 for additional details). Our readiness priority is the support and sustainment of our forward deployed forces. High usage rates in a harsh operating environment, coupled with the added weight of armor and unavoidable delays of scheduled maintenance due to operational tempo, are degrading our equipment at an accelerated rate. More than 3,434 principal end items valued at $196.2 million, have been destroyed. Those figures do not reflect our aircraft losses but are for ground systems alone. Repairs on 3,590 damaged end items will require additional depot maintenance at a cost to repair of $157.1 million.

Ground Equipment

The ground equipment readiness (mission capable) rates of our deployed forces average above 95 percent. Our pre-positioned stocks, within both the Marine Corps Preposition Program-Norway and Maritime Prepositioned Shipping—ensured the sustained readiness of our deployed ground units. We continue to sustain our readiness in theater through organic maintenance capabilities, contractor support, coordination with the Army leveraging their ground depot maintenance capability, an established principle end item rotation plan, and the established pool of ground equipment (Forward In-Stores) which expedites the replacement of damaged major end items. The corresponding ground equipment readiness (mission capable) rates for non-deployed units average 85 percent. The continued improvement of the ground equipment readiness (mission capable) rates relies on the procurement of replacement equipment identified in our reset the force estimate.

Aviation Equipment

The aviation equipment readiness (mission capable) rates of our deployed forces averaged 82 percent over the past 12 months. In order to improve our readiness rate in theater, we are creating a limited aircraft depot maintenance capability. The corresponding aviation equipment readiness (mission capable) rates for units remaining in garrison average 74 percent over the past 12 months. Our legacy aircraft are performing their assigned missions and our maintenance folks are providing constant perpetual care required to sustain them despite the higher utilization rates. The CH–46 assault support helicopter has been flown and utilized in support of OIF at 200 percent of its peacetime usage rate. At such rates, maintaining the readiness of our aviation assets presents a considerable challenge and constant demand for maintenance.

We have also experienced a number of aircraft losses that we have not been able to immediately replace because we are in the midst of a transition from the legacy systems to their more capable successor platforms. Due to the lack of an active production line for our CH–46, H–1, CH–53 platforms, we are managing these assets on the backs of our marines, until the next generation of replacement aircraft becomes available. There are risks associated with this strategy, and we are managing those risks through a variety of approaches, including sustainment and individual component upgrade programs. We are also requesting funding in the FY06 Supplemental to take an additional two CH–53E aircraft out of desert storage and refurbish them to replace aircraft destroyed during operations in support of the global war on terror. As the next generation of replacement aircraft complete their operational evaluations and move from low rate to full rate production, there may be additional opportunities to reduce operational risk.

PREPOSITIONING PROGRAMS

While we have placed the highest priority on sustaining the readiness of our forward deployed forces, the equipment readiness of our strategic prepositioning programs has been degraded. Equipment from the Marine Corps' two prepositioning programs (the Maritime Prepositioning Force and Marine Cope Prepositioning Program-Norway) has been employed in support of the global war on terror.

Maritime Prepositioning Ships Squadrons 1 and 3 remain fenced as a strategic response capability and are fully mission capable with over 98 percent of all capabilities and supplies attained. However, the majority of Maritime Prepositioning Ships Squadron 2's equipment was downloaded in support of OIF II. This squadron will complete its initial reconstitution in April 2006, but will only be partially mission capable due to reduced attainment of USMC ground equipment. Within Mari-

time Prepositioning Ships Squadron 2 the average attainment for Principal End Items is 60 percent, and all other capabilities and classes of supply are being reconstituted to 98 percent or higher. We intend to complete reconstitution of Maritime Prepositioning Ships Squadron 2 during its scheduled maintenance period of February 2008 through February 2009.

We utilized our Marine Prepositioning Program-Norway to reconstitute Maritime Prepositioning Ships Squadron 1 and round out the capability of Maritime Prepositioning Ships Squadron 2 prior to its download in support of OIF II. As a result, our Norway program has been reduced to approximately 32 percent of its readiness reportable ground equipment. Funding to fully restore those stocks is reflected in our fiscal year 2006 Supplemental funding request before Congress. We believe we can reconstitute this program by fiscal year 2010, depending upon equipment delivery schedules and operational commitments.

OTHER STRATEGIC MATERIAL

Our in-stores equipment stocks managed by Marine Corps Logistics Command have also been depleted due to continuing use in support of OIF/OEF rotations. In-stores material is critical to the readiness of our operating forces and particularly important to ensure the readiness of our Reserve component.

RESETTING THE TOTAL FORCE

OIF and OEF have placed severe demands on the ground and aviation equipment supporting Marine Air Ground Task Force (MAGTF) operations. Specific factors leading to the high demands placed on our equipment include the following:

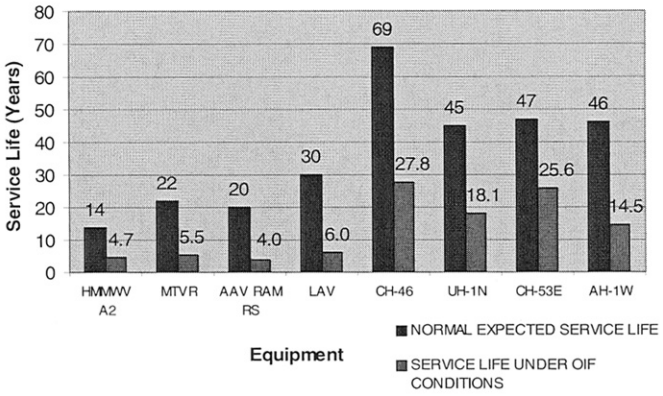
— Approximately 40 percent of all Marine Corps ground equipment, 50–55 percent of communications equipment, and 20 percent of aircraft assets are being used in OIF/OEF/Horn of Africa (compared to approximately 21 percent of Active Marine forces deployed in support of those combat operations). Much of this equipment is not rotating out of theater with each force rotation; hence it is being used on a near continuous basis at operating tempos that far exceed normal peacetime use. To source this warfighting requirement, the Marine Corps forces deployed with equipment that was retained in theater upon force rotation, the Maritime Prepositioning Ships Squadron-2 (MPSRON–2), the Marine Corps Prepositioning Program-Norway (NCPP–N), and Marine Corps Logistics Command In-Stores Ready-for-Issue equipment was employed. This was first reported last year when I MEF returned from Iraq to a degraded readiness level due primarily to leaving so much of its equipment (particularly communications gear) behind for II MEF to fall in on.

— The Marine Corps is executing a number of operational missions, including Stability and Support Operations (SASO), Counter-Insurgency (COIN), Area and Point Defense, Civil Military Operations, and Foreign Military Training, which require additional equipment over the levels programmed for expeditionary warfare requirements.

— The Marine Corps is operating in western Iraq's (Al Anbar province), which constitutes over 28,000 square miles (roughly equivalent to the area of the State of Utah). Operations across such a wide area necessitates additional convoys/vehicles, communications connectivity and crew served weapons over the standard unit equipment density list.

— The Inspector General of the Marine Corps conducted an in-theater review of the material condition of equipment in Iraq in early 2005, which identified the much higher than forecast use of equipment and the attendant consequences for which replacement procurement/repair needs to be addressed. The levels of useful life expenditure for both ground and aviation equipment exceeded those forecast in our original fiscal year 2004 Demand on Equipment evaluation, and the primary impacts are displayed on chart A–1 on the next page.

Current Optempo Reduces Equipment Service Life



A-1

— Recent operations in support of global war on terror have highlighted the limitations of Marine Aviation legacy platforms operating in the harsh environments of OIF and OEF. CH–46E performance has reduced the number of available aircraft to the point where available aircraft deployed to global war on terror aircraft are flying at 200 percent of their planned utilization rate to successfully accomplish the mission. Resetting the Marine Aviation force means not merely replacing damaged/destroyed aircraft but getting better aircraft in the field sooner. The operational capability enhancements afforded by the MV–22, AH–1Y/Z, KC–130J, and Heavy Lift Replacement (HLR) (CH–53K replacement for the CH–53E) would enhance our effectiveness in the current fight and serve as the cornerstone of our future operational assault support capabilities.

— Higher aircraft utilization rates in extreme temperatures, high altitudes, and the corrosive desert environment have created maintenance challenges for Marine Aviation. We have mitigated our aircraft reset requirements as much as possible through specific aircraft modifications, proactive inspections and corrective maintenance. While these efforts have successfully increased aircraft reliability, sustainability, and survivability, significant reset efforts exist. Additional requirements for depot level maintenance on airframes, engines, weapons, and support equipment will continue well after hostilities end and our aircraft have returned to their home stations. With no active production lines for our existing rotary-wing aircraft, addressing near-term inventory shortfalls requires revisiting the production ramp-up rates for the procurement of the replacement MV–22 and H1Y/Z aircraft. To accomplish this and in view of inventory shortfalls we are examining the H–1Y/Z program for expansion from a remanufacture-only program to include new procurement as well.

In spring 2004 the Marine Corps initiated an effort to assess the magnitude of the requirement to repair or replace equipment being used at high operating tempos under the harsh environmental conditions of Iraq and Afghanistan. At the direction of the Secretary of Defense, the Marine Corps prepared a Demand on Equipment (DOE) analysis. That analysis was performed for a select number of large dollar value ground and aviation systems, and it revealed that the additional wear on this equipment in theater was rapidly accelerating platform/equipment aging.

After completing the DOE analysis of all aircraft and 96 major ground systems, the Marine Corps identified $2.2 billion in executable repair and replacement costs to begin resetting the force, which was reflected in the Marine Corps Fiscal Year 2005 Supplemental request.

The Marine Corps also expanded its evaluation of reset requirements and reviewed the top 300 high cost/high interest items for proper quantities, costs, executability and resourcing strategy (these 300 items equate to approximately 96 percent of the total reset cost estimate). For the remaining 2,100 items (approximately 6 percent in terms of cost), a common sense review was undertaken. Appro-

priate, approved modernization items (i.e., later type, model, series or enhanced capability) were included in the reset estimate.

Marine Corps reset costs do not reflect all global war on terror equipment-related costs, some of which are categorized as costs of war. Such items as future attrition losses, spares replenishment and other ongoing sustainment, which are dependent upon force levels in theater and operating tempo, are inherently difficult to forecast with any accuracy beyond one year and those costs have been categorized as costs of war that will continue to be incurred as long as marines are deployed in support of OIF/OEF.

THE RESET REQUIREMENT

Supplemental funding is absolutely essential to continue to address resetting the force. The reset requirement is in addition to the ongoing cost of war requirement, which addresses annual equipment attrition, intermediate and organizational maintenance, second destination transportation, replenishment spares and other sustainment costs. As an example, our annual Procurement, Marine Corps (PMC) baseline budget averages approximately $1.3–$1.5 billion. If PMC were required to absorb this cost to reset within the current annual resource profile, it would effectively create a pause to all modernization and replacement programs for approximately 5 years (see figure A–3).

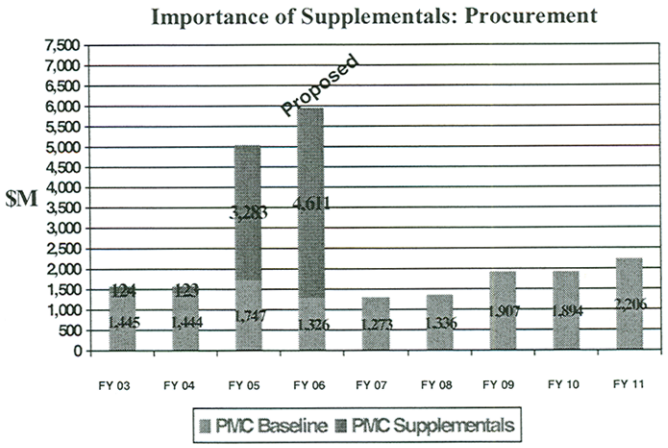


Figure A-3

Industrial capacity constraints added to the anticipated decline in readiness rates make it prudent to begin the reduction of the bow wave of resetting the force requirements as soon as possible. Changes to the defense industrial base have sharply limited the ability to surge requirements without additional facilitization costs. For these reasons the Marine Corps has phased its reset requirements over a period of several years and believes that Supplemental funding will be necessary after the completion of OIF/OEF in order to address all reset costs resulting from those operations. Accurately forecasting the total cost to reset the force is dependent upon calculations as to what percentage of the current inventory in theater will be repairable or will need to be replaced, how much equipment may be left behind for Iraqi forces, and other such determinations which are highly dependent upon circumstances and conditions that cannot be easily predicted years in advance.

TRAINING

While we adjust to the current operational environment, we also keep our eye on the future. We are undertaking initiatives to strengthen the training and education of our marines. In the joint arena, we are supporting DOD efforts to create a flexible and dynamic Joint National Training Capability, and we are making large infrastructure investments at our Combat Training Center at Twentynine Palms, California. With recent large-scale joint urban operations added to our extensive history of urban combat experience, the U.S. Marine Corps has a vested interest in the

preparation of our forces to fight in this challenging environment. Experience shows the need for large-scale, purpose-built, urban training facilities capable of training Marine Expeditionary Brigade (MEB) sized units. This is required in order to conduct joint live-fire combined-arms combat training, concurrent with live stability, security, transition and reconstruction operations in a complex, dynamic, multicultural urban environment.

In CMC's Revised Guidance issued in mid April 2005, the endstate is stated in part as "a Marine Corps that is a learning organization: Embracing innovation and improvement in order to increase its effectiveness as part of the joint force." Over the past 3 plus years the Marine Corps Center for Lessons Learned (MCCLL) has provided briefings, information papers and reports on observations and lessons from ongoing operations to decision makers and resource managers, Joint and Joint Forces Command "lessons learned" organizations, coalition partners and others. MCCLL routinely has a total of three to five MCCLL team members embedded in the MEF units in Iraq, and a team just returned from Afghanistan. MCCLL members continue active collection of lessons and observations from current operations, and are training units on the MCCLL Lessons Management System. Concurrent collection, dissemination, archiving, and integrating into our Expeditionary Force Development System (EFDS) continues in CONUS.

To focus our training efforts, all deploying Marine units continue to rotate through a standardized training package. Building on home station training in mission essential skills, ground units deploy to the Marine Air Ground Task Force Training Center at Twentynine Palms, California, for in-depth training in current operating environment skills to include urban and convoy operations, fire support, rules of engagement and escalation of force, detainee handling and counter-IED operations, culminating in a 3-day full profile mission rehearsal exercise utilizing interaction with Iraqi-Americans serving as key role players. Our Marine Corps aviation units participate in a standardized training package, Desert Talon, in Yuma, Arizona. All of these training events are founded on lessons learned from our operating forces. With your continued support, all of these efforts will ensure your Marine Corps retains the ability to respond and contribute whenever and wherever the Nation calls.

MODERNIZATION AND TRANSFORMATION

As we look into the future, the requirements for naval forces to maintain presence, engage allies and potential coalition partners, build understanding and operational relationships, relentlessly pursue terrorist organizations, and project sustainable forces ashore for a wide variety of operations will increase. While we continue to focus our efforts on sustaining the current requirements for global war on terror, we must not sacrifice our modernization and transformation initiatives in the process. Our modernization and transformation accounts cannot bear the unfunded costs associated with sustaining the global war on terror, which is why the administration is requesting funds in the fiscal year 2006 supplemental to continue addressing the resetting of our forces. Our modernization and transformation initiatives must plan for the procurement of replacement equipment that will enable our Corps to be ready for future conflicts and contingencies.

RESOURCE STRATEGY

While more work and analysis needs to be done, the Marine Corps has established a consistent pattern of identifying and acquiring the material solutions necessary to sustain the global war on terror while continuing to modernize and transform. First, we have embraced the fact that the global war on terror has, and continues to have, an impact on our ability to restore our warfighting capability. Second, we have implemented procedures to allow for the identification of all global war on terror-related funding requirements, including both the ongoing costs of war and our requirements to reset the force. Finally, we have adjusted acquisition strategies to maximize procurement efficiencies. As a part of this process we have worked within the constraints of several planning factors. Most notable amongst these factors is the consistent, sustained deployment of approximately 40 percent of our ground assets and 18 percent of our aviation assets in support of the global war on terror. Exacerbating the reality of that fact is the quantifiable assumption that all the equipment in theater eventually will be attrited or beyond economical repair—specifically, it will need to be replaced. In some cases, both ground and aviation assets will be replaced through normal, yet accelerated, procurement methods making maximum use of both the Bridge and full supplementals to maintain the cash flow necessary to maintain uninterrupted equipment deliveries from our vendors. The continuing use of supplemental funding requests to address our global war on terror

and reset requirements is obvious in the context of the magnitude of those requirements in comparison with our annual allocated baseline budget, and based on the very real difficulties in projecting out future costs of war when conditions such as operating tempo, the speed with which Iraqi security forces can transition to full mission capability, insurgent activity and sectarian violence cannot be accurately predicted. Our supplemental requests are based on our best assessment of what is required to address essential wartime readiness tasks, with consideration for what is already in our peacetime operating budget to maintain readiness.

In all instances we have rigorously assessed our ability to contract for and obligate our supplemental funding requested to expedite the delivery of this equipment; however, due to industrial base and other execution issues, a portion of our requirements must be deferred until fiscal year 2007 and subsequent fiscal years. To date we have obligated over 94 percent of the fiscal year 2005 bridge and 85 percent of the fiscal year 2005 supplemental funds received, and have obligated or committed over 40 percent of the fiscal year 2006 bridge supplemental funds we received on 27 December 2005, with 85–90 percent obligations anticipated by May 2006. This prudent yet expedited execution approach will allow us to mitigate some of the readiness issues associated with the heavy utilization of Marine Corps equipment in OIF/OEF; however, continuing congressional support for our future supplemental funding requests will be necessary to address the totality of the requirement. The Marine Corps, while continuing to meet global war on terror mission requirements, is operating with increasing risk in equipment readiness to support deployed forces. Resetting the force requires timely resourcing if the Marine Corps is to remain the Nation's premier force in readiness.

CONCLUSION

The readiness of our Corps remains dependent on our ability to continue to attract and enlist young men and women dedicated to the preservation of freedom and to service to our great Nation. We must not take them or their families for granted. With the support of the American people, we continue to access and retain the highest quality and proper numbers of marines for our Corps during war. We must continue to inspire, train, and equip them for success. Our fiscal year 2007 budget and our fiscal year 2006 supplemental request work together to address our essential operational and maintenance requirements to sustain our readiness, while providing opportunity for investment in the resetting and continued modernization of our Corps. On behalf of all marines and their families we greatly appreciate the unwavering support of Congress in the readiness and resetting of the Marine Corps.

Senator ENSIGN. General Vines.

STATEMENT OF LTG JOHN R. VINES, USA, COMMANDING GENERAL, XVIII AIRBORNE CORPS

General VINES. Good morning, Mr. Chairman, Senator Akaka, Senator Inhofe. I'm grateful for this opportunity to appear before you today. I've submitted a written statement for the record. But, I'd like to make two points.

I most recently served as the MNC–I Commander in 2005. I also served a tour of 14 months in Afghanistan. 2005 was a historic year in Iraq, because during that period of time three national elections were held, a constitution was drafted and ratified, an assembly was seated, and the capability of Iraqi security forces increased dramatically.

That was able to be accomplished because of the magnificent efforts of the men and women in uniform, and because of your tremendous support to that force. There's a vastly increased capacity of Iraqi security forces in country today, because of that. Iraq today stands ready, and has the opportunity to move forward as a democratic country, because of those efforts. The decision they make, of course is theirs to make. But, they have that capability because of the efforts of the men and women in uniform.

I'm thankful for the opportunity to appear here before you and I stand ready to take any questions.

[The prepared statement of General Vines follows:]

PREPARED STATEMENT BY LTG JOHN R. VINES, USA

Mr. Chairman, distinguished members of the subcommittee, I am grateful for this opportunity to appear before you today. Over the past year, from January 2005 until January 2006, it was my honor and privilege to serve as the Joint Forces Commander of Multi-National Corps-Iraq (MNC–I) in Operation Iraqi Freedom (OIF). You should be pleased to know that the support the members of this committee give to all of our soldiers, marines, airmen, and sailors involved in this conflict is invaluable, and on behalf of all who've served in MNC–I this past year, I want to extend my sincerest appreciation for all that you have done and continue to do in support of this great undertaking.

Over the past year the Iraqi theater of operations has seen historic and positive change. Three successful elections transpired resulting in the drafting of an Iraqi constitution and the selection of a democratically elected and representative government. Our strategy for winning the counterinsurgency fight in Iraq is working. In the preceding year, the Iraqi security forces have increased dramatically in numbers and capability. By January of this year more than 227,000 Iraqi security forces were trained and equipped representing 10 Iraqi army divisions and Ministry of Interior forces. This is nearly double the January 2005 total of 130,000. One division, 8 brigades, and 37 battalions assumed battlespace during XVIII Airborne Corps' watch as MNC–I. Fifty percent of Baghdad, Iraq's geographic center of gravity is under Iraqi control and on December 30, 2005, the first Iraqi battalion assumed battlespace in the formerly embattled city of Mosul.

As Iraqi security forces increase in strength and capability, the area of operations has also seen an adjustment in the coalition. Thirty-one forward operating bases were turned over to the government of Iraq and the United States footprint has reduced by a division equivalent headquarters and two brigades.

TRANSFORMATION

The headway made in the security line of operation is a direct result of the magnificent performance of the uniformed members of the coalition of which the service men and women of the United States armed forces are such an integral part. In regard to the United States Army's contribution in particular, I can tell you that the benefits of Army transformation are readily apparent. During our assignment, MNC–I employed the Army's first transformed units, the 3rd Infantry Division (Mechanized) and the 101st Airborne Division (Air Assault), to participate in OIF. Modularity transformation, as it continues throughout the Army, will reduce the friction associated with the rotation of units into the area of operations by standardizing equipment and organization. This will have a positive impact on unit readiness for combat that will be felt in training efficiency and effectiveness and will ultimately result in formations better prepared to prosecute the fight in the combat zone.

FUNDING

One of the critical enablers for readiness of the Corps has been adequate funding to train and maintain our units and their systems. In addition to an adequate base level of funding, we could not have prepared the corps to deploy nor reset our units upon return without the supplemental funds provided by Congress. For example, at Fort Bragg, the Corps expended $99.1 million in fiscal year 2004 and $41.9 million in fiscal year 2005 to train and equip units to deploy. To reset our systems returning from the fight, we expended $100.6 million in fiscal year 2004 and $149.8 million in fiscal year 2005. Without supplemental funds, we will not be able to maintain the rotational pace necessary to continue operations overseas.

Regarding programs in the area of operation, MNC–I, in this time period, executed the expenditure of $11.2 billion. Of that, $872 million was for the Commander's Emergency Response Program (CERP). This program was the most visible program that we managed and there was never enough funding in this program to satisfy the needs of the commanders in the field. As reconstruction funding diminishes, demand for this program will likely rise. We also executed $2.1 million in rewards payouts. This program must continue as a way to acquire information 'off the street' and as a way to conduct operations. The Coalition Munitions Clearance Program, a government supervised, contractor operated, Iraqi-manned program that is integrated with local military commanders and units resulted in inspection, disposition, storage, and destruction of over 150,000 tons of ordnance and establishment

of two depots supporting ISF operations. Funding for this program is critical for without it, we could not be making the progress we are in the area.

INTERAGENCY SUPPORT

Progress in the security line of operation out-strips the headway we are making in the governance and economic lines. Security, as you all are well aware, is only one part of the answer. Standing up a coherent and viable government takes much more. In my view, the lack of ministerial capacity is the single greatest hindrance to long-term success in Iraq. The term "ministerial capacity" is used to cover those essential services and responsibilities that must be provided by a functioning government. For example, the capability to man, train, equip, and pay an army in the field is an essential responsibility for the Ministry of Defense. Likewise, the capability to find, drill, refine, distribute oil, and generate revenue is an essential responsibility for the Ministry of Oil.

An increased effort to develop the capacity of the fledgling nation of Iraq along governmental and economic lines will have a lasting positive effect on the ability of the Iraqi people to achieve self-governance. The Department of Defense (DOD) is currently taking the lead in managing and implementing the contracts for reconstructing Iraq's economic infrastructure, including electricity, water/sanitation, telecommunications, roads, health care, and public safety, such as prisons. These activities are not DOD's primary mission and it may be better for other agencies and/or corporations, rather than DOD, to build up their capabilities to address these requirements. To be truly effective, our mission requires continued funding and a significant increase in expertise. Exploring ways to create and integrate a national capability for these types of tasks would be welcome and beneficial.

JOINT NATURE OF THE IRAQI THEATER OF OPERATIONS

The Multi-National Corps-Iraq is a truly joint headquarters operating in a joint environment. Service interoperability, is a requisite in this fight and occurs as a matter of course. The cooperation and integration that exists between conventional and Special Operations Forces is a major success story that illustrates how far the military has come in creating a joint force. The requirements of the Goldwater-Nichols Act of 1986 have helped us move to our present point. In light of our recent advancement and the progress made since 1986, a review of the requirements, specifically those stipulated for joint qualification, may be worth reviewing and updating.

In terms of truly joint support for the warfighter forward, I would ask for your continued support for Joint Forces Command and that Command's efforts to resource, train, and equip a truly joint military. The advantage that the Nation gains by this capability is immeasurable.

BATTLE COMMAND

The art and science of applying leadership and decision making to achieve the mission is the essence of battle command. In this age of advanced technology, the Joint Force Commander must be able to leverage and integrate all tools at his disposal to prosecute the fight. With all the resources available to the United States military, our technological advancement creates an asymmetric advantage for us over our adversaries. We have made great advances, but we can and must do more to leverage this technology. The major challenges in this area revolve around data and bandwidth management, compartmented and proprietary systems, and doctrine and proponent responsibility. The effort to integrate existing but disparate systems and continue to develop future systems is of paramount importance as we grow and balance capabilities and modernize our force.

CONCLUSION

The Iraqi theater of operations is a fast-paced and dynamic environment. Some critics have commented that our strategy for Iraq lacks focus and that it is too slow to react to be effective in this environment. I can tell you that the opposite is true. After preparing the corps for deployment, serving as a joint force commander, and returning to prepare and provide forces for employment in theater, I am a first-hand witness to the flexible and adaptive nature of our Nation's fighting force. A notable point from the preceding year is the degree of integration of the Reserve component into the fight. Reserve and National Guard formations made up 60 percent of the force during XVIII Airborne Corps' tenure as MNC–I. Their participation and competency were essential in allowing the Active army to continue transformation and reset redeploying units for the fight.

The current warfight has outpaced doctrine. The fight that General Casey and those with him continue to prosecute will inform our future policies and service manuals. However, at the present we are doing all in our power to prepare units and individuals for this counter-insurgency. In the past year the strategy has evolved to meet the demands of the environment. That strategy is understood, supported, and is being implemented at all levels by leaders of the highest quality. Prime examples of the adaptive nature of the force are the development and implementation of transition teams as a way to build capable Iraqi security forces; the shift from high-intensity combat operations to partnership with Iraqi formations at every level; and the creation of a Counter-Insurgency Academy to disseminate knowledge and provide incoming leadership the most up-to-date tactics techniques and procedures.

These examples are but a few, there are many more that highlight the United States military's contribution to the coalition that is protecting our way of life and bringing freedom to a people that have been without it for so long. You should be very proud of your military and the men and women of all the services for the exemplary manner in which they are serving in OIF. I know I am.

Senator ENSIGN. General Sattler.

STATEMENT OF LT. GEN. JOHN F. SATTLER, USMC, COMMANDER, UNITED STATES MARINE CORPS FORCES CENTRAL COMMAND, AND COMMANDING GENERAL, I MARINE EXPEDITIONARY FORCE

General SATTLER. Mr. Chairman, Senator Akaka, Senator Inhofe, just one point, sir, that the forces forward as General Vines has just articulated, the men and women forward are well-trained, they're well-equipped thanks to the efforts of the U.S. Congress, and they're prepared to continue and stay the course until the missions accomplished. I look forward to your questions.

Senator ENSIGN. I said be brief, but this is maybe the shortest opening statements that we've ever heard from a panel.

General Vines and General Sattler, what are your personal assessments, based on your time in Iraq, as to how much of our equipment we should leave for the Iraqis, either because they need the assistance or because that equipment will be so run down that it will not worth bringing back?

General VINES. The bulk of the equipment the Iraqi security forces currently use has been procured and it is primarily Warsaw Pact in origin, although there are some other origins. When I left country about 45 days ago was to leave selected elements—for example, uparmored Humvees for the paramilitary forces. Where that stands I can't tell you today, but in general I don't advocate leaving large amounts of that equipment, because it's not compatible with their current force structure.

Sir, their force structure is primarily being developed to deal with an internal threat. Now they have a capability of dealing with a threat, external. Such as with Iran, but that is not how it is currently organized. They do not have artillery, they do not have large armor formations. They do have some. Those are very expensive.

One of the risks that we run is if we develop a capability that they cannot maintain—that it bankrupts them, or in some cases we create forces that can't be paid. So, consequently armed men will develop a way of sustaining themselves. That could be to prey on their citizens. So, we should only develop the force that they need. Over resourcing that with equipment drains their treasury too large an extent.

Senator ENSIGN. To follow up, and maybe these first couple of questions I had all relate to the same things. You mention the maintenance. From what I understand part of the problem with a lot of the Warsaw Pact equipment was that they didn't have the training to maintain a lot of that equipment as well. If any of you have a difference of opinion about leaving certain amounts of equipment—there's $500 million the administration has the authority to transfer to the Iraqis as far as amount of equipment. One is, are we transferring any of that equipment now? If any of you have a difference of opinion from what General Vines just said, about leaving more of the equipment, or certain types of equipment, I'd like your comments. Are we going to train them? In other words, to address what General Vines just said, if we were going to leave some equipment, are we going to train them?

General SATTLER. I'll echo what General Vines said, Mr. Chairman, that, at least in the west in the Al Anbar Province, there is a disparity of the equipment that some of the Iraqi forces are using, concerning armor, et cetera, versus our forces. As we approach—whenever we are prepared to come out, depending of the wear and tear on—we'll just say Humvees—because some principle items we don't want to leave. They will be rotated back, rehabbed, and put back in the hands of U.S. forces.

But, I believe—and again, you have to look at that interoperability piece that General Vines alluded to, to make sure they don't have 10 different types of vehicles trying to teach maintenance and spare parts, so you could actually exacerbate the problem that you're trying to solve. I believe that some of those Humvees will have wear and tear on them that will render them fairly useless to go ahead and pay to transport all the way back, spend all the transportation costs et cetera, to get them back and rehab them. There was minimal life left in them. They would be better off, if it fits in with the overall scheme, Mr. Chairman, to leave those. Maybe the uparmored Humvees, some of the uparmored trucks that have hit pretty close to their life expectancy, but, still would be very, very much value added in the theater, sir.

Senator ENSIGN. Any of the rest of the panel have comments?

General LOVELACE. The only comment I'd make here is, is that what will govern for us is if something is declared excess. A lot of the things the Iraqi security forces need, are those things that we, ourselves across a modular Army are also short. So, while I appreciate everything that is said, and we are aware, that's just the kind of tension that we're going to go through as we want to also be very helpful in equipping the Iraqi security forces. We also have to be mindful then of what equipment we have that is excess. That's all I'd like to say, sir.

Senator ENSIGN. Senator Akaka, I wonder if Senator Inhofe wants to go back upstairs to the other meeting. So, if we could allow him some questions right now.

Senator INHOFE. It would be very brief. But I do have to go to the full committee hearing. I mentioned in my opening statement this statement that General Blum had made concerning the equipment on hand. It's down to 34 percent right now, as the result of the losses, and the damage, and this type of thing. Which is just incredibility low. I think he went on to say that our readiness level

of the Guard here is C–4, while we're C–1 over there. But, C–4 in terms of the condition of it there, because—and this tells me that we can't continue along this road. Have you talked to General Blum about this, and do you agree with his charts as to where we are today? In terms of our equipment, in terms of our C–4s versus C–1s?

General LOVELACE. Sir, I'm familiar with the statistics that General Blum has provided you. I guess that with how he has taken a look at the equipment on hand. What I would walk you through is, is that some of the percentage also reflects what is his accepting of in lieu of items. These are older vehicles which we in the Army recognize are older fleet. I'm talking about M35A2 deuce and a halves, older 5-ton trucks, which we acknowledge that we have to replace. He does not account for that percentage that he is showing.

We also start in the hole—and this is part of what the Chief, sir, has expressed to you all when he shows his chart with the holes. He talks about what we have to fill in. Some of those holes that we have to fill in are in the National Guard themselves, and in the U.S. Army Reserve (USAR), as well as Active component (AC). So, some of those holes, you start out in the hole, and you work your way down to—they have less sizable amount of equipment in theater, and we agree. That's why then when you hear the Chief and the Secretary talk, they express a figure at—from 2005 to 2011 in an investment in the U.S. and the Guard of about $21 billion, as well as about $3.8 to $3.6 billion in the USAR. That doesn't include the program that they're getting ready to walk into, sir.

General HULY. If I could just follow on from the Marine Corps perspective. I have not talked to General Blum. He's more U.S. Army, Guard, and Reserve. That's a good news and a bad news story. The good news out of all of this is the forces that are forward deployed in theater aren't short of any major end items of equipment. I think that goes to say a great deal about how you have supported us in this effort so far.

The bad news is—I will be very candid with you—about 49 percent of our Continental United States (CONUS)-based forces, which are rotating back very quickly, and turning around and going again, at about our infantry battalion, for instance it's about a one-to-one deployment tempo. For instance, if they're gone for 7 months, they're home for 7 months. During that 7 months that they're home, preparing to go again, they're undergoing a great deal of pretty intense training. To go through that training they need the equipment.

About 49 percent of those units that are CONUS-based are probably in the C–2 to C–4 category, and a lot of that is because of equipment shortages.

What we're doing to mitigate that is we're swapping equipment back and forth what we call cost leveling it and giving it to the units on a priority, and the units that are actually in training, preparing to go, pretty much have what they need. I'll let Lieutenant General Sattler elaborate on that, on a little bit more. What we need to do is we need to continue to get the supplementals to continue to purchase the equipment to replace our losses.

I have probably a resetting of the force just to get us back to pre-September 11 levels, it's going to cost about $11.7 billion of what I currently know today.

Senator INHOFE. See, and that's the point. What he's saying and what, I think we all would agree, that the equipment over there—in fact the Army testified—it might have been General Schoomaker, that they've seen some 20 tanks, 50 Bradleys, 20 Strykers, 85 helicopters, 20 Armor Personnel Carriers (APC), 250 Humvees, and over 500 trucks destroyed, right now. Is that consistent with figures that you're aware of?

General VINES. I better agree with the Chief, yes, sir.

Senator INHOFE. Yes, that's a good idea. One last thing, General Vines you just now mentioned in your brief opening remarks about the quality of the training of the Iraqi security forces. We don't talk about that enough. I'll make my leave tomorrow for my 11th trip over to the Area of Responsibility (AOR). What I come back with every time is the enthusiasm of the Iraqi security forces. Then the commitment of our trainers as to the quality of people that they're training over there. This is not what you get in the media here.

But, apparently from what I've personally seen over there, the quality of training for the Iraqi security forces has been excellent. Would any of you comment on that?

General VINES. Sir, I would say it is excellent. The real challenge is not the quality of the Iraqi forces in the field. It is the ability of their ministries to sustain them. The things that we take for granted within our armed services is the support we receive from our Congress, the support we receive from the DOD, from our Headquarters, Marine Corps, and Department of Army. The ability to sustain forces in the field 8,000 miles away. We take that for granted because it's been so outstanding.

That capacity does not exist. So the ability to pay troops in the field when there's not a national banking system, to have a system where replacements are generated for soldiers who are wounded or don't report back from leave. To requisition spare parts, is not present in the Ministry of Defense or the Ministry of Interiors. So, the forces are not universally excellent, but are quite good. On average they're very good. The ability of their ministries to sustain then has not yet developed to the same level.

Senator INHOFE. That's a good point. Mr. Chairman, thank you very much. Senator Akaka, thank you.

General LOVELACE. Sir, before you leave, sir, let me just follow up with one piece of information that I think is important. As we have gone from pre-September 11 to where we are now, especially with the Guard, in the last rotation we put seven National Guard enhanced brigades in theater, and they did leave equipment behind. Some of what is the issue is their ability to have visibility on what was the temporary sets—or the temporary leave behind of equipment, that we're trying now to migrate out of theater. Push into our depots, that we are resourced at about 250 percent of where we were pre-September 11, pre-war periods. So, that kind of capacity to begin to fuel and reset the Guard is no different than what we're trying to do with the Active component forces. We are very cognizant because we are very attentive to what is a baseline equipment set, that we have to have for the Guard, in order to be

able to allow them to do their title 32 responsibilities. We are very cognizant of that. We're working with them to make sure they have what's in a certain number—lines of equipment. We're trying to make sure we shape that into the capabilities so that the Governors have the capability that they need, in order to affect the kinds of things that the Governors have within their responsibilities.

We're very mindful of that. We're working with the Guard to ensure we understand what those needs are. But, some of it is that temporary leave behind of equipment, were trying to migrate out of theater, fuel our depots, and all, and then push forward into. Our ability right now is to try and show them how you tag a piece of equipment, which was, which is now going to be because they might not get the same serial number. But they will get a like piece item of equipment, sir, please.

Senator ENSIGN. Senator Akaka.

Senator AKAKA. Thank you. General Lovelace and General Huly, I want to ask questions that have to do with the readiness trends. Our data shows that readiness of your forces, and this is relative to what Senator Inhofe asked, that is the percentage of forces that are in the highest categories known as C–1 and C–2, has declined over the past few years. That the percentage of units with lower readiness has increased since the beginning of operations in Iraq. My question to both of you, is that correct?

General LOVELACE. The answer to that's, yes. I'm just trying to think in an open forum how I can elaborate on the answer. I'm having a little bit of a difficulty.

Senator AKAKA. General Huly.

General LOVELACE. You have assessed it correctly, sir.

Senator AKAKA. I would also like each of you to describe, to what extent these trends are of concern to you?

General HULY. Sir, your observation is correct. Our readiness has generally declined for our units that are back in CONUS, as I've stated, and it's probably a magnitude of perhaps twice as many units are reporting degraded readiness now, than were reporting it prior to September 11. The reasons for that are about 40 percent of my ground combat equipment is forward deployed in either Iraq or Afghanistan, and only about 25 to 30 percent of my forces are over there. So, we've given them extra equipment that they have that's over there, and forward deployed. It had to come from someplace and it's come from back here, and at the expense of the units that are back here. We have used what supplemental funding we have to help start resetting that force, to replace that equipment, to cross level as much as possible, but, we haven't always been successful instantly, as fast as I would need to be to making up for those shortages. For instance, about 50 percent of my communications equipment in the operational Marine Corps is forward deployed.

I've spent what I can on those hot industry lines to replace what's out there recognizing that it takes awhile to get the money, and then to be able to obligate the money and then for industry to be able to build the piece of equipment, for us to receive it and field it so that is some of the shortage that I have. Some of the

equipment that we've used is no longer modern so we're buying new equipment to replace it with.

We continue to need that supplemental because I'm going to have to live off of that for at least 2 years after our current level of operations declines just to be able to reset the force to the level that I need to be in the future.

So this declining readiness of units is a concern to me. I don't have a crystal ball, to be able to predict what the units, when they ultimately come out of Iraq are going to look like as far as readiness and the equipment they're going to leave behind. So, I'm doing what I can now with the supplementals that I receive to continue to reset the force.

Senator AKAKA. General Lovelace.

General LOVELACE. For the Army it's in two areas. One is personnel—and it's also in equipment. We're no different than the Marine Corps. The bulk—we have a good deal of the percentage of our equipment forward. I don't have the exact percentage, sir. But we also have a large percentage of our equipment forward. As a result then what will happen is, is that you have less equipment back in the States, within which to train on available in the motor pools, because of what is forward and what is being reset. That's why then, when you look at the supplemental dollars, we talk about the reset of the force. I give an example, as we go from about 12 million man-hours in Army Materiel Command (AMC), directed man-hours in AMC, to almost 27. That gives you a magnitude of what the effort is, and to be able to sustain and reset the force. What Senator Inhofe was talking about was the purchasing up for battle losses. We purchase battle losses based upon what we know, not based upon then what we can forecast, because we don't know exactly what those battle losses are.

So those kinds of things then begin to decrement. As you also look at—there's several things going on inside the Army. While we are fighting a war, we're transforming, we're going to modularity, we're filling in the holes, we're global repositioning. Senator, we took out of the theater where you're very familiar with, we took a brigade out of the 2nd Infantry Division, deployed it to Iraq, and have since moved it back. Those kind of global repositioning of the force also, then begins to effect. So, there's not any one necessarily single factor, but you can see the aggregation and the impact it has. Because you see the readiness data, just like we do. You see the downward trend in the readiness.

But, again the forces that are deployed already are better than they have been. That's because of the support that we get from you all, based upon what is our budget and the supplemental support that we get.

Senator AKAKA. Before I call on General Vines, may I ask both of you to please provide for the record, in classified or unclassified form, whatever is appropriate, the percentage of units that are presently C–3, C–4, and C–5.

General LOVELACE. Sir, I'd be happy to. I think we can comfortably give that information, and also provide explanations which will be helpful. I would think that would be helpful to me. Thank you.

Senator AKAKA. Thank you.

[The information referred to follows:]

On March 15, 2006, the percentage of Marine Corps units reporting C–3, C–4, and C–5 were 22 percent, 18 percent, and 1 percent accordingly.

Senator AKAKA. General Vines.

General VINES. Sir, if I may comment, in my current capacity there are about 90,000 troops assigned to my organization. We looked at the readiness of those forces. What we determined was, of the decrement, for example in terms of equipment. About 40 percent of that equipment is either in transit back from the theater—40 percent of the equipment that we're short, is either in transit back from the theater or in reset.

In other words, it is a natural function of either maintenance or transit times. There's another 60 percent that in some cases is supporting transformation and so forth. But almost half of our equipment that we're short is accounted for by just the time it takes to move it to and from theater, or to provide the maintenance necessary.

Our readiness system increases the readiness of units as they're about to deploy, and so what we find is units that are in the last stages of their readiness cycle are very well prepared. Their readiness levels go up. The units that we decrement the most heavily are the units that are just returning. We accept some risk in those units because they are just returning, and they're not likely to have to deploy immediately.

So, we tend to concentrate those shortages in the units that have just returned. So that's the way we manage that 40 percent that's either in transit or in the reset.

General SATTLER. Sir, if I could just add two quick points. Number one, although it looks like readiness is degraded, it's mainly in the supply account, meaning there's not all of the equipment there for a soldier or marine to go to war. But there is equipment there to train, in our case, I'll just speak marine, but I'm sure the soldiers are the same way. So when it looks like it's bad readiness, we have some of the best, most capable, motivated, well-led warriors in the world that will move forward. Once they arrive on the gear, they're C–1 ready to go to the fight across-the-board, sir.

But what we're doing is we pass equipment back and forth to train. That means the equipment back in the United States is being ridden harder and longer than normal also. We talked about aging equipment in the combat zone at a rate of somewhere around 7 years to 1, while we're accelerating the wear on our gear back home, because it doesn't get a rest. It's passed from unit to unit to unit in this high tempo work-up to get the unit ready to back. So I wanted to make that point clear. First of all, that the men and women are ready to go to war. They'll need the equipment when they get there, either by prepositioned gear if they go to another theater, or they'll fall in on the gear inside of Iraq.

The other point, sir, the training teams that General Vines eluded to that are working with the Iraqi security forces to give them that fire, that coach and mentor them on a daily basis. As all of our Services build those teams, they are high-end. They are leaders of our staff, noncommissioned officers (NCOs), and our officers, these teams—and they run about 11 men—that go in and embed with an Iraqi security force unit, they have to have the same types

of equipment that we're short in our operating forces, meaning those 10 to 11 that go forward need all of the communications, the armored Humvees, all the other tracking devices. So, that is a must fill bill, and it's critical to our victory strategy that we continue to do this. But it's a bill that has to be paid, and we're going to have to buy that equipment and reintroduce it into in the force, sir.

General LOVELACE. Sir, if I could also add just a piece of information. AMC did not overnight build to capacity of 27 million directed man-hours, that is, it started at 12 million. So, just an example of what I'm trying to say here is, is we have just finished resetting what was the first rotation in the theater. In other words those that came back in fiscal year 2004, their equipment is just finishing the reset. But as the capacity of AMC grows, their ability and speed within which they can reset the force, will only be greater. You can kind of see now, when you start talking about the availability of equipment, some of it predicated upon the ability to reset. That was the capacity inside of AMC.

Then the last point I want to make is that when you look at the data. This is for everybody to understand, a little bit within the Reserves you have an overstructure issue. Both in the USAR and in the National Guard. That's why there's cross leveling. Its cross leveling not only of people, but it is cross leveling of equipment. So, as you take equipment out of a unit that's deploying, the unit that's left behind has less people and less equipment. That sum, what's reflected in the charts that I know the committee has, what we'll do is we'll make sure we get them to you personally with explanations behind, sir.

Senator AKAKA. I'd like to ask you something that—and I'm going to let you decide whether you can answer it here, or you want to provide it for the record in classified or unclassified form. This does not have to do with equipment, as we've been talking about that.

I would like each of you to tell me what your highest concerns are about the long-term health of your forces, the impact these operations have had on your forces, and what we need to pay particular attention to relative to your forces.

General VINES. Sir, my biggest concern are staff NCOs and midgrade officers. Because of the way our forces are organized, and as our Chief of Staff has said, we have to reorganize our forces to take into account the fight. Some of those forces have deployed two and three times. So the tempo on the individuals, we run the risk of losing some of those great leaders. We have the most competent leaders that I have seen in 35 years. At the NCO and officer level, particularly at the captain, major, lieutenant colonel, staff sergeant, and sergeant first class level, we've never had their equal in my tour of service. However, the tempo is high enough in selected military operational specialties, occupational specialties, that we run the risk of some of them leaving because of that tempo. So, we have to take extraordinary measures to make sure these battle hardened warriors stay with us, because they're a national treasure. They are our secret weapons. Their equipment is just that, without soldiers and marines with the will to use it, we won't prevail, and that is our critical asset.

General SATTLER. Sir, I'll pile right on top with what General Vines said. We're in the exact same situation. But, I will add the other point that exacerbates that challenge is that the leaders that we're looking for to embed with the Iraqi security forces, those teams that I alluded to, they're called military transition, border transition, and police transition teams. These are individuals who raised their hand to go forward, to live with. They go join an Iraqi unit 7 months to a year. They live with them. They get up with them. They eat with them They become role models, teachers, and coaches. We can only send our best and brightest to go do this very dangerous duty because they're on the front line and they are not on some U.S. base surrounded by fellow soldiers, marines, sailors, and airmen. They're out there on the edge of the empire, in some cases.

These individuals are the exact same ones who lead in combat as combat leaders either as first sergeants, as sergeants majors, as brigade commanders, as battalion commanders. So, they come off that tour, and they realize that we need that exact same expertise to put the fire and the backbone and the warrior spirit into these great Iraqi forces to help them come along. Saddam took all the role models, a lot of them, out of the equation. They're not there. The charismatic, emergent leader is an anomaly. We're starting to see it's there, but it needs to look at a tough soldier or a tough marine or a tough sailor on the ground and want to be like them.

So, what happens is how many times can we go to that well and check? In our case, it's 500 of our best and brightest, the same ones that just finished leading our forces are asking to go back and now play this other role. They're doing it, and in the Army's case the number, I'm sure, is a lot larger. So, I would say the same things that keeps General Vines awake and tossing and turning are the same with me, sir.

Senator AKAKA. Thank you very much for your responses. I assume that those are responses for the Army and the Marine Corps. Thank you.

Senator ENSIGN. I want to get into something a little different than we've been talking about. It has to do with, for General Lovelace, the National Guard. During the base realignment and closure (BRAC) process I just had our Adjutant General (AG) from Nevada in, talking about—and we saw some of it—what happened with the BRAC process. They didn't consult—this has to do with title 10 and title 32, not being able to talk to each other, or whether it's written or unwritten. There's that perception out there that they aren't allowed to consult with each other on these kinds of cases. We saw some of the problems in the BRAC process.

From at least what my AG is telling me, that there are those problems going forward now with what we're doing with the National Guard, going forward with the plans that just came out, that the AGs do not feel that they're being consulted.

That doesn't seem to make a lot of sense to me. The States have certain requirements, obviously the military has certain requirements, and it would seem to me that since they're the people over the National Guard that they should be at the table as part of this planning process. Can you tell me, maybe why there is this separa-

tion, perceived or not, and it just doesn't seem to make sense that this is going on. Can you comment on this?

General LOVELACE. Sir, I will. I'm only smiling because it seems almost embarrassing as I'm going to answer this. We had the QDR, that moves forward. It's moving forward, everyone essentially signs a nondisclosure statement. Because, basically what you're not going to do is reveal anything that's going on inside the QDR. At the same time, in a parallel path you have the program review. Eventually, at some point in time, you have what is a convergence of those two efforts, because they have to be, because the QDR was going to inform the budget process. So at the same time the QDR is coming to a culminating point, and the decisions that then now can be made public. What we do is we introduced to the Guard and the Reserve, at that moment, at the same time that the program review was about to be unveiled.

So, it was a very awkward moment in time, as you can now talk to the Guard and the Reserve. As a matter of fact, sir, what's going on—like the Chief and the Secretary have both said in a very public forum, not only over here on the Hill, but to The Adjutants General (TAGs) that they have met with themselves, is that they have stepped back. They have been enlightened by, they have stepped back, we have put ourselves back to a different starting point with the National Guard. As a matter of fact, what I'm doing this afternoon when I leave here, I'm going over and meet with 10 of the TAGs from the various States. I don't know if Nevada is one of them, sir, I apologize.

But, I'm meeting with 10 TAGs from various States to begin to walk forward, in a collaborative way, so that we can begin to inform the process of what we want the Army structure to look like. Both for warfighting, to observe those kinds of requirements and capacities, and capabilities. At the same time to recognize what the Governors have responsibilities to do inside their States. This is a process that we acknowledge, that is going to take not a month or so, it's going to take several months to a year to culminate at a different point and time. That's where we are, sir.

Senator ENSIGN. In regard to that, do we need maybe in this year's National Defense Authorization Bill, as this is going forward into the future, that's the way its set up, obviously we're going to end up with the same problem unless we fix it. Is this something that is fixed administratively within DOD, or is this something that Congress needs to fix as far as the way that the whole QDR is set up?

General LOVELACE. Good question, sir. I don't have an immediate answer.

Senator ENSIGN. It's okay, I don't want to put you on the spot.

General LOVELACE. Sir, you're not putting me on the spot. My response is if the timing of this always occurs in this fashion, we need to step back and think and understand because clearly what we want to do is to be able to work with a fellow soldier, regardless of component, to be able to make sure that we're one team.

Senator ENSIGN. Right, and let me just clarify. It's okay if you don't have a complete answer today. What I would like you to do is to try to work with us, as this process is going forward. So, that if we have to introduce something to the Defense Authorization Bill

this year, we want to do it. If it's something you can do administratively, great. We want you to get if fixed. However—and if you need us to help you fix it, we want to be there to help you fix it. But, the bottom line is we saw the problem with the Governors, and that's why you're stepping back now. That's good that you all are stepping back now. But, we want to fix this going into the future. Thank you.

General LOVELACE. Sir, can I just make one point?

Senator ENSIGN. Absolutely.

General LOVELACE. The importance of the teamed effort with the Reserve components, both the USAR and the National Guard is, in the strategy now when we talk about the Guard and the Reserve, it's not a strategic reserve, it's not an operational reserve. They are a significant part of the operating force. When we talk about a supply base strategy, and we talk about 18 plus brigades that will then be able to provide at a moment for our Nation. Those are not all Active components. There are parts of that formation, a good size of that formation that is Reserve component (RC). Both USAR and National Guard. So, you better believe we want them to be with us, we want them to make sure that they understand what their capabilities and responsibilities are. The Chief and the Secretary clearly understand their responsibilities of a force that has to answer to title 32 responsibilities, sir.

Senator ENSIGN. Thank you. I hope we can get this thing straightened out now and obviously for the future. If I could ask one more question here, and it has to do with the supplemental budget requests, basically on body armor. What I understand is everyone in Iraq and Afghanistan does have body armor. But there's $538 million in this supplemental request for body armor. What would this supplemental request buy, and where are there shortfalls? General Huly and General Lovelace.

General LOVELACE. Sir, let me do this. I have somebody with me. He is going to feed me an answer real quick here. But, basically what we're doing is we're continuing to outfit the rest of the force as we move from Small Arms Protective Inserts (SAPI) to Enhanced Small Arms Protective Inserts (ESAPI). Yet, everybody in theater basically is filled with ESAPI, say maybe some sizes that are outside the tariff. In other words some very extreme sizes, mainly on what we've noticed is a couple hundred in the extra extra small size. So, we basically have everyone in the appropriate level of body armor inside of theater.

General HULY. Similarly, sir, we're rounding out additional items of equipment that we recognize will be helpful to providing additional protection. In this forum I don't want to get into the exact nature of it. But, I'll take the question for the record, and I will get you exactly what our line items are, the purchase of it, and how it will be used once it arrives.

[The information referred to follows:]

[In millions of dollars]

	AO	Fielded (Feb. 2006)	Supplemental Funding
E–SAPI	282.398	27,596	$115.3
Goggles	190,624	138,857	1.3

[In millions of dollars]

	AO	Fielded (Feb. 2006)	Supplemental Funding
Spectacles	190,624	113,844	.7
Outer Tactical Vest	198,088	194,485	4.7
Ballistic Hearing Protection	336,068	336,068	40.0
Light Weight Helmet	198,088	108,990	.2
QUADGARD	4,500	4,500	15.6
Side SAPI	169,904	11,614	6.8
Cooling Vest	30,000	30,000	
Other Personal Protective Equipment			63.5

Senator ENSIGN. Senator Clinton.

Senator CLINTON. Thank you very much, Mr. Chairman. Gentlemen, thank all of you for being here and for your service, and for leading our young men and woman so ably and well.

Obviously, because we have our young men and woman in uniform in harms way, separated from their families, we owe it to them to have open and candid discussions on the current and projected readiness of our forces. Numerous outside studies have been conducted, which have raised questions about the overall level of readiness of our ground forces, particularly in the Army.

In January 2006, a study conducted on behalf of the DOD, by Andrew Krepinevich, concluded that the Army cannot sustain the pace of troop deployments to Iraq long enough to break the back of the insurgency. He also suggested that the Pentagons decision announced in December to begin reducing the force in Iraq, was driven in part by a realization that the Army was over extended. Then in January 2006, a group lead by former Defense Secretary William J. Perry concluded that the strains of the Nation's ground forces are serious and growing and he even went so far as to suggest that the viability of the All-Volunteer Force is at risk.

Now we've had numerous discussions in this committee on restructuring efforts that the Army is undertaking to shape its forces to be better prepared to meet the current and future challenges. We understand the plan is to recreate 70 modular brigade combat teams that are more capable of handling the wide range of threats that are faced. Also, that there's a plan to shift 40,000 soldiers from the institutional Army into the operational Army, to add to it's combat strength, without raising the end strength, efforts to realign up to 100,000 soldiers into higher demand skills. General Lovelace in you testimony you state, "that to achieve this high state of readiness we maneuver resources, dollars, equipment, and personnel to deployed and next to deploy forces which results in lower resource levels among those units resetting and starting their initial train up for future operations. Our success in maneuvering resources to the fight is substantial." That's very ably said, General. But, you could also read that as saying, that perhaps we are sacrificing the preparedness of some units for others. With both the Army and the Marine Corps indicating equipment readiness rates of 90 percent or higher, what about the equipment on hand? How is that impacting overall readiness?

So, General, based on your assessment and your testimony, are we in danger of undermining preparedness for some, because we

have to focus our resources on preparing those who are deployed and next to deploy?

General LOVELACE. Ma'am, what we're doing now is basically we're taking the Army from a Cold War construct—not only by force structure, but how we viewed readiness. Right now, we are trying to work our way through a metric that because the data that we provide everyone uses a Cold War construct. That's why then, when we say that deployed is ready, the next deployed is the next most ready. Then at some point you have out here a pool that is resetting and that's part of the discussion that we have. That's why when we begin to provide a construct of why then the supplemental dollars, and what they mean to us, it allows us to push the readiness of the force from where it is now, to be able to push it to make it more ready in that pool of the next deployers.

Basically the strategy is, ma'am, that we're now looking at a strategy where they Army provides a package of capabilities. It's basically about 18-plus brigades, with the combat support—combat service support. This includes other kinds of enablers, whether it's PATRIOT et cetera.

So that part of the force is ready to go. That part of the force is what is deployed, and then another package sets behind it, which allows us to be able to surge. Just like Senator Akaka asked the question about what are the readiness trends? The readiness trends do indicate that the readiness of the force is down. But that has to with a lot because of the stay behind equipment in theater, the equipment that's being reset. I talked about the fact that AMC has grown its capacity by almost 250 percent since pre-war levels. We just finished resetting the force from the first rotation.

But, as we begin to sustain with the supplemental effort inside what is the AMC, we'll be able to accelerate the reset of the force from here on out. So the supplemental is helping us then fuel and move the readiness of the force—to increase the readiness of the force of the next deployers.

Then also will help improve the quickness within which we reset those that are just returning. That's the basic construct. That's in the open session. I'll be happy to take on the question and get a little bit into the classified data because I think that would be helpful to you, and also allow me to seem less awkward in trying to answer it and dodge the classification of the question.

Senator CLINTON. I don't argue with the theory. The theory, as you describe it, eloquently makes sense as a theory. But where the rubber meets the road, and how you actually operationalize and implement a theory is what I'm concerned about. How would you respond to the concerns expressed by a number of outside expert analysts, including Krepinevich, and including former Secretary Perry, that we are really stressing the military, but in particular the Army, that the all-volunteer military could very well be at risk?

General LOVELACE. I've read both articles, and I guess that's why when you see how we talk about the Chief talks and the Secretary talks about increasing the capacity. That's why the growing of the capability from the numbers of Brigade Combat Teams (BCTs), where we were in 2003 to where we are now. We're at about 39. When you start examining the ability to meet the rotational needs inside a theater, you can see that by having grown that capacity,

it allows us to be better able to meet what is the level of effort inside a theater right now.

Our ability to sustain it is just that. We can't. Now you talk about the health of the All-Volunteer Force. That's a great question. That is a serious commander's critical information requirement. Something that the Chief and the Secretary, as well as yourselves are all looking at. That's why then we have well-being initiatives. We're looking at everything from building strong and ready families. We have rest and recuperative leave. The well-being initiatives that we have that lay out there that begin to address the challenges that we all accept the force is under.

The numbers are, as I quoted a little bit earlier, is that you take the 3rd Infantry Division (ID) that just redeployed. Better than 50 percent of that force wore Rock of the Marne patch in the theater. Another 12 percent wore a patch of another unit. In other words, 62 percent of that division was combat veterans. The 4th ID and the 101st, the percentage is greater than 40 percent.

But then I come back and say, let's look at the reenlistment statistics. They are just huge. The 3rd ID, 139 percent last year, while they were in Iraq. As they've come back this year, they're punching up at about 169. So that's reflective of then how the force—how the soldiers are viewing themselves, how they are viewing how well they're being taking care of. That's reflective of across the force.

Senator CLINTON. Thank you, General. General Huly, can the Marine Corps absorb the requirement to supply 2,600 marines for the new Special Operations mission, while going back down to the long-term end strength of 175,000 called for in the QDR? Today as the Department starts creating this new capability, you're at a higher level of 179,000, 180,000 personnel. How does that add up?

General HULY. Yes, ma'am, you're correct. Currently, we're at about 180,000 on Active-Duty. But what we're doing today, the Commandant is on record—and certainly I agree with him—that we feel pretty good about that number, and that's about what we need to be to do what we're doing today. To be able to absorb not only the 2,600 embedded into the population of the 175,000 Marine Corps, but to get down to those numbers we have instituted a Capabilities Assessment Group that just convened down in Quantico, Virginia, this month. We've brought together some of our finest operators and support establishment personnel to take a look at just how the Marine Corps is going to do this and probably by June, we should have a readout and a roadmap and a way ahead of how we are going to accomplishment it. It will certainly be reported out to Congress.

Senator CLINTON. Good, because I am concerned, Mr. Chairman, that there are some reports of internal assessments of readiness that are now being classified rather than being shared with Congress or the public. I think we should send a very clear message that the issue of readiness is of great concern to Congress, and to the wider public as well. So, I would hope that there would not be any further efforts to classify information along those lines. So, I appreciate that.

I'd like, if I could turn to General Vines and General Sattler, and I want to thank both of you for your service in Iraq. General Sattler, thanks for hosting me in Fallujah. You were the most en-

thusiastic describer of events that I've encountered. I still am remembering with great appreciation your success and commitment there.

I'd like to ask each of you whether you believe that the Army and the Marine Corps could improve their jointness in operating together as they obviously have been operating together in Iraq. The allocation of responsibility for the western sector of Iraq to the marines during each deployment seems to create a condition where the Services don't need to operate as jointly as I would hope they could on tactical matters at least. On a recent visit our staff was advised that the Army and Marine Corps supply systems were not fully integrated.

So, that even though both may use the same rifle or the same vehicle, if one Service needed a part they could not easily determine if the other Service already had one. This is a small example, but I think that there's great operational potential, as well as cost savings potential, in continuing to work on jointness. I would just appreciate a comment from each of you based on your experience.

General VINES. Senator, I would be happy address that. You have put your finger on what I consider to be our single greatest weakness. Not at the operational level, but at the strategic level. General Sattler, when he and I served together in Iraq, had U.S. Army companies commanded by Marine Battalions, which are commanded by Army Brigades, which are commanded by Marine Divisions. It was the most joint operation, to include supported by Air Force and Navy air. It was the most joint operation in theater—conventional forces and Special Operations Forces routinely task organized with each other. So, at the level in which we're operating in theater, in both Iraq and Afghanistan, and I have served both places, it is far more joint than it's been in the 35 years that I have served. The great 10th Mountain Division is back for its third deployment in Afghanistan. It is part of my organization, the most deployed force in the Army. It is again fully joint at the tactical operational level. But, our systems are legacy systems. Logistical systems, intelligence systems, communications systems, battle command systems, they all bear the stamp of services and not jointness, and you put your finger on it. If I want to sent an e-mail to General Sattler, I can't currently as we're configured look at a global directory and say, Sattler because he's on a different domain. That seems like a small thing, but that is just symptomatic.

So, we have to move toward joint battle command, joint asset visibility, joint mobility systems. The men and women on the ground wearing the uniform are doing a brilliant job of using legacy Cold War systems to fight the 21st century fight.

Senator CLINTON. Thank you, General Vines.

General Sattler.

General SATTLER. Yes, Senator Clinton. Also, ma'am, I never had the opportunity to thank you on your last trip when you talked about the $100-plus million to get the reconstruction effort moving in Fallujah, that that money did come in not that long after your visit. So I know you never got back in touch, but I'm sure you had something to do with that, it was much appreciated.

To follow on what General Vines said, during all of those operations, you could not have become more joint across the theater

even though the Multi-National Force West has Al Anbar Province, at the time that General Vines and I were there together, the 155 Mississippi Rifles were fighting under the MEF. That's a complete Army Guard brigade out of Mississippi. The 2nd and the 28th is in Ramadi. That brigade commands a Marine battalion underneath it, commanded, as General Vines said, by a Marine division commander.

So, it's a complete shuffling of the deck of capabilities, with the individual who should be in command or in charge—in charge regardless of the uniform worn underneath, ma'am.

So, I think at the operational and the tactical level we do have it. It's never been better. The sharing of forces, if we needed anything all we had to do is convince General Vines, as you should have to convince to cross-level forces. Forces came from the Calvary unit in Baghdad. They came from the Big Red One up north. We were constantly passing forces back and forth.

So I think we could do better in some of the mainly command, control, and communications area, but I think we're pushing in that direction. It just takes time because it changes so fast. I think we get out ahead of each other with our enthusiasm on occasion, but that's the one area I believe could be roped in better.

Senator CLINTON. Thank you. I will continue, I have a few more questions, if that's all right. With respect to our pre-deployment training, as you both describe the way that marines and soldiers and even Reserve and Guard units have been really integrated, how would you assess the pre-deployment training, the cross training, the issues about whether everybody who may end up in one of those units has the combat skills, or the cultural and language sensitivities? Even how you deal with the threat of IEDs? How has that training changed, and what more needs to be done, General Vines?

General VINES. Senator, that is a very good story. But, it's a fairly late breaking one. As a for instance, the threat in Baghdad for IEDs is different than General Sattler faced in Al Anbar, different types of technologies, and the threat was different. We have done a very good job, I believe, of pushing the training requirements to the home station and to the Combat Training Centers in places like Twentynine Palms, California, to give them the opportunity to train.

But, what occasionally happens, is a unit will be organized and equipped to go in North Babil Province, which is just south of Baghdad. The threat will cause us to have to move them to, in this case, western Ninawa, which we did. For example, our Calvary Regiment we did.

So, in some cases operational necessity changes the requirement to where they will operate. In some cases to take how things changed in 2005, we trained—as we went for our train up in 2004 we were not organized, trained, and equipped to man transition teams which are a key part of our strategy now. About the time I arrived in theater, in January 2005, General Casey said I need you to change the mission. So, the change took place in some cases with forces actually in theater. I had some concerns that I expressed to General Casey and the Secretary of Defense that we build a certain element of risk in.

War, and indeed life, is about risk and creating the right controls to minimize that risk. We worked very hard to do that. But, the reality is, I believe we're doing quite a good job in terms of using technology so that forces that are preparing to come into theater, even 6 months out are listening to our battle updates that take place daily. They are listening to our video teleconferences that take place daily and weekly. They might be back at Twentynine Palms, California, or they might be back at Fort Stewart, Georgia. So they begin a virtual link with us. They understand what's going on, on a daily basis. They understand how the threat is adapting and what sort of threat is changing. Is it operating in larger, smaller groups? Are they using IEDs, or are the using booby traps, or are they using ambushes?

So, that is a very good news story. I believe we've adapted in the space of just over 2 years to an entirely different type of fight than our predecessors fought in the early phases of Iraq. So, that's very positive.

There will be the occasion, and I will guarantee you some of your constituents will say, I arrived in theater expecting to operate down south and I was moved to the north. That happens, it absolutely happens and in some cases because we have to realign to meet existing threats, or to create conditions that allow for transition of battle space to Iraqis, so that does happen.

Senator ENSIGN. Thank you.

Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman. General Lovelace and General Huly, based on the information you have now, what is the total cost to repair or replace the wear and tear on your equipment? How much of that cost remains unfunded in addition to the supplemental that was submitted to Congress only last month? Please describe whether your number only accounts for the costs incurred to date. I ask that because these costs will grow as these operations continue.

General HULY. I'm sorry, sir, what was the last part of your question?

Senator AKAKA. My question was, and this has to do with wear and tear on your equipment, really I'm talking about reset costs.

General HULY. Yes, sir.

Senator AKAKA. I'm asking, how much of that cost remains unfunded in addition to the supplemental that was submitted to Congress only last month?

General HULY. All right, sir. What I know today, my costs to reset the force is $11.7 billion. $5.1 billion of that has been funded. If my math is correct, that leaves me with a $6.6 billion unfunded for what's pending today.

General LOVELACE. Sir, on the Army side, the reset of the force each year is going to be somewhere between $10 and $13 billion. In fiscal year 2006, the number is $13 billion. Then in 2007, sir, like you were saying earlier, it's hard to—I think maybe Senator Ensign had said this—be able to forecast exactly what is. But again, that figure each year will run between about $10 and $13 billion, depending on the level of effort in theater.

Then again, my caution, sir, is that when I say this, that if all of a sudden at some point in time when the numbers of BCTs drop

off, there's going to be an immediate return and less money is needed. As I was indicating earlier, the force in being that is being reset takes about 1 year to 18 months to be able to get that done. Those are the dollars that the supplemental is fueling. So, that's why when the Chief and the Secretary comment that it takes 2-plus years worth of reset dollars to be able to get yourself to the point to reset the force. That's what they're talking about, sir.

Senator AKAKA. Yes, thank you for your responses here. This is a very difficult kind of question and answer to it because of time and whether needs are great or not, so I thank you for that.

General Sattler and General Vines, I'd like to ask about equipment shortages. Can you describe the extent in which you're able to what is mentioned as train as you fight at the home station given this shortage of equipment back in the United States when so much of our equipment is needed for the units currently deployed to Central Command (CENTCOM).

My question to you is, how do you strike a balance when allocating equipment among units? Let me give an example. Protecting our forces in a high threat environment in Iraq and Afghanistan, our forces there must be at our top priority. Yet, several hundred personnel have been injured in accidents when driving armored vehicles, that they do not have the opportunity to drive in training back home, because all our armored vehicles are needed in CENTCOM.

How is this discrepancy between the requirement to use armored vehicles in the theater and the shortage of such vehicles for training being handled?

General SATTLER. Senator Akaka, as I mentioned, sir, you are correct. We do not have full suites of equipment back here in CONUNS to go ahead and train on, and what the individual commanders from the division commanders, squadron commanders, Marine logistics group commanders, they orchestrate the training so that we can actually pass equipment back and forth to ensure that the individual warriors have no down time or dead time where they're waiting for equipment. But we set their training schedules so that they can basically share some of the high demand and currently low-density items here in the U.S.

In the case of the armor, as you well know, Senator, the first thrust was to get the protection forward where it was needed, where we needed to save life and limb. So all of the armored vehicles as they came off the assembly lines, or in those cases, where we modified vehicles, 100 percent went to fill the need in the theater. We are now in the process and have been putting items, as you mentioned, the center of gravity is different from an armored vehicle than it is from a normal Humvee, and we understand that, sir. We train that, and we teach that to the individual men and women who will be driving. But as we have now cross-leveled the armor in the theater we are putting more and more of the armored 7-ton trucks and the armored Humvees in the hands of the trainers back here in the United States. So there was a gap for a period of time. We covered it by training, and instructing, and then we covered it by transitioning the men and women when they got to the theater—when they got into the Humvees with the higher center of gravity, that they would understand that they had to go at a

slow pace to get the feel for the vehicle. But we are now doing it in the United States, Senator.

Senator AKAKA. General Vines?

General VINES. Senator, two points. At the individual level, the things such as driving vehicles with a different center of gravity, we had to shift equipment around in the United States. Then we had to make sets of it available in places like Kuwait, as forces moved though. That was our mitigating strategy. They did not get as much time as we might have liked, but they got—drivers for example—access to those.

What we have not yet been able to fully mitigate is, are more specialized pieces of equipment such as engineer equipment that is unique to the theater, very high-demand, low-density, complex equipment that is used to find and defeat IEDs. Sometimes that equipment is only available in the theater and so the vast bulk of our soldiers have operated the kinds of equipment they're expected to operate before they ever go into Iraq or Afghanistan.

The piece that we have not yet totally resolved is allowing the staffs to do all the requisite training. How you would employ some of the engineer equipment to support an infantry movement, so you have mobility assurance, for example.

All the planning necessary to do the electronic countermeasures, and using the complex engineer equipment, sometimes can only be trained with that equipment. Pieces of that equipment are only available in Iraq and Kuwait, in some cases. That is still only happening in the theater, sir.

General SATTLER. Senator, if I might add to what General Vines said. There is also a right-seat/left-seat ride period which all soldiers and marines adhere to. In other words, when I come in, the unit that I'm replacing is there, we spend 2 weeks—it's called right-seat/left-seat, where I watch—General Vines is driving, I'm the student—then we switch places for the second week where it's how we bring the incoming unit up on ramp to pick up all the nuances of equipment and tactics, techniques, and procedures. That's the final phase after the training in the United States, the training in country, and then the right-seat/left-seat ride, Senator.

Senator AKAKA. Yes. Thank you very much.

Mr. Chairman, I have other questions I'll submit for the record. Thank you for the responses.

Senator THUNE [presiding]. Thank you, Senator. I have a couple of questions, and I think then we'll try to wrap up. I want to thank you all for your testimony and appearing today and sharing with us your views on this very important subject. I also am very interested—and I know you've already covered it extensively about the operating—the equipment and the demands that we placed, and the need to replace some of those equipment and the investment we need to make in that. That's something I know that I think has been covered, it sounds like from your testimony, as well as to responses to questions already, so, I won't get into that.

General Huly, could you expand a little bit on the Combat and Operational Stress Control (COSC) Program? Particularly, what are the decompression requirements that commanders monitor as part of the COSC training?

General HULY. Sir, I could, but I think I should refer to General Sattler.

Senator THUNE. Okay. General.

General SATTLER. Senator Thune, when you're preparing to come out of the theater, we have a warrior transition program, where each unit pulls everyone together in a group-type session. Then everyone is addressed over a number of sessions, and we explain some of the things, the anxieties that may not seem normal to them at the time or upon arrival back. It's done in a group so that the leaders will understand the signs, so they can look for it in their junior marines, inside themselves or in their peers.

When you come back, there's additional warrior transition training and phasing that happens once you get back to CONUS as a unit. Then there's a 30-, 60-, 90-, 120-day re-contact with each individual. Now each individual who is there is contacted by someone in their chain of command, to include those reservists that may go on back out into the hinterland. There's a call list, that individual is contacted, asked a series of questions to give them the opportunity to open up in case they're experiencing these types of problems.

Sir, the same thing that makes a marine and a soldier have that warrior ethos and lean forward and stay in the attack, it's the same block that precludes that individual from going forward and asking for help if they don't think something is wrong because they feel it's less than warrior-like to have these kinds of thoughts or to have this kind of stress.

So, we really lean forward from the senior enlisted leadership and officer leadership to make sure everyone understands this is normal. It needs to be treated just like a combat wound. There's nothing unwarrior-like in your ethos if you come forward with these problems.

So, we're working it hard. It's a tough nut to crack but we're staying after it, sir.

Senator THUNE. Thank you.

General SATTLER. Institutionally, sir, I can just tell you that same theme is running throughout the entire United States Marine Corps. I think, if anything, there's a recognition that this is a concern. It's an issue. There's an awareness by everyone, not just our religious leaders and as well as our medical professionals, but leadership at every level, and the institution is recognizing this. That's a big change just in my time in the Marine Corps, my short 36 years that I've been in. I can see that this is accepted in a much different way.

Senator THUNE. Thank you. I appreciate both of your answers to that. We're riding our folks hard. I think we have to expect that there are certain transitional issues when they come back that need to be dealt with. So it sounds like you're very much on top of that and I welcome and appreciate your answer.

Based on your written testimony, General Huly, what was your experience with the gap that existed between a marine's transition from DOD to the Veterans Administration (VA)? Prior to the Marine for Life Program, what lessons have you learned so far in easing that transition from DOD to VA with the Marine for Life Program?

General HULY. We weren't doing a bad job before, sir. But we're doing a much better job now and we're personalizing it. We have much better coverage with our liaisons that are out there now, that are giving us a much better feel.

First off, we now have a better line of communications to track the individual when he leaves the purview of the Active Marine Corps and he enters the VA system. We are actually educating the individual himself. It starts at that level, so he now understands that he has a point of contact back to the Marine Corps if he feels he's getting shorted or he has a concern or a problem. So just having that individual himself know that there's someone out there that he can touch and get his concerns aired and seek a resolution to his problem, other than someone just in the VA.

Having someone work with the VA through our Marine for Life coordinators and our program managers out there has also paid us great dividends so that the VA understands what our concerns are, what the individuals concerns are, the Marine Corps as an institution concerns are, and it gives us a much better insight to what the VA programs are and how we can actually seek help.

We now have a conduit, a lynchpin, if you will, to bridge the gap between the two, and it's someone in the local community, and it's proven very helpful.

Senator THUNE. Excellent. Any of you have any closing comments or observations you'd like to make before we wrap up?

General SATTLER. Sir, I would just like to reiterate one more time. We're proud to be representing the country in what we do. We're not shying from the fight at all. We're there, but this is in fact, incurring a cost. It's a cost that, on average per year it's taken us about $3.5 to $4 billion a year to maintain our operations and maintenance at this higher tempo. We've incurred a cost of over almost $12 billion to reset the force.

We can't do it all in 1 year, and just giving us money all in one lump sum is not going to solve our concerns long-range. It's going to take some supplemental funding and I have to do it by supplementals because my annual budget is not big enough to pay off the bills that we're incurring to reset the cost. It's going to take a number of years after we cease operations at this pace to get the Marine Corps back to the level that we need to be able to continue to operate in the future.

Senator THUNE. Okay. Thank you.

General HULY. Thanks for the support you've given us so far. I'm not here with my hat in my hand. But I'm just telling you as it is, we're going to continue to need help in the future. Thanks for what you're going to do too.

Senator THUNE. General Vines.

General VINES. Senator, I would have to say that if those of you had the opportunity to see the young men and woman in uniform, as General Sattler and I did in Iraq, you would probably, as we are, be in awe of them for what they do on a daily basis. They take enormous risks on our behalf. They see that there are people in that part of the world, if given the opportunity would strike this Nation and this Homeland again. They understand that there's risk in what they do. But, they believe in what they're doing. They understand it's necessary for our national security. They need our

continued support. Not just fiscally, but they need our support, not only from our Government, but from our people. So as our elected representatives, if we continue to make the case, if you can make the case of what is at stake, and why we need to continue to support the efforts of our men and women in uniform.

General LOVELACE. Sir, I've been back at the Pentagon almost 4 years now. I'm just about out of Purgatory here. But, it's been interesting for me in the 4 years to see because I came back on the run up of 1003 Victor. There's never been a busier time in our Armed Forces. It's a confluence of BRAC, global repositioning, we're transforming the force, we're modularizing, we're preparing to go to war. When you get to the confluence of that it puts the Army under a challenge. But, the Army's coming out of this better than it was. That's why then when you get into, and we talk about resetting and being able to man the top line within the total Army authorization—authorities and what we get. But, when you look at the investment that you all are making and what we're doing with it and the increase in the capability, filling in the holes, not only in the AC, but as importantly in the RC as it has become part of the operational force, that's a big deal. The resetting of this force has taken some time. It doesn't happen overnight.

I think we've all testified to that this morning. That's why then—when the effort, and we ask for the supplemental dollars, what they do is they allow us to have the AMC at 250 percent of what was—it's capacity at the beginning of the conflict. Or U.S. Army Training and Doctrine Command (TRADOC) being able to push out 200 percent of what it was from 2001.

Those kinds of investment are what has now made the Army more agile and able to take on all of these challenges that lay out there. So I think it's been a pretty good investment. On the other hand, sir, like I said, as we started out: Is the Army ready? You bet it is. Is it as good as it needs to be? No, but it's going to get better. It's the support that we get from you all day-in and day-out, both the financial and also the moral support, which means a great deal. I just want to thank you.

Senator THUNE. Thank you. As a closing comment and observation, I want to start by again thanking you for your extraordinary service to our country. Please extend to those who serve under your command our appreciation for the good work that they're doing. It's often under-appreciated by the American media and by some in this country. But, I'll just say, on behalf of this Senator, and I think the majority of folks who serve on this committee, and hopefully in Congress, you can count on our continued support. We understand and believe in what we are doing, the mission that's been undertaken and the need to see that the resources are there to do all of the things that you have to do even after operations cease.

General Huly, we know full well that we have to put the dollars into the budget to make that happen. I'm one who, along with a number of others and members on this committee, believes we don't have enough in the top line, that we need to be investing more because there's nothing that's more important. The rest is all conversation if we don't take care of our national security and the people who are out there defending our freedom. So, thank you for everything you do. You can count on our continued support. Please,

again, extend our greatest appreciation to those soldiers who are serving under your command. Let them know how much this committee and Congress and the American people, I think the broad majority of the American people, appreciate their efforts and the good work they're doing.

So, thank you very much. With that, the hearing is adjourned.

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR JOHN ENSIGN

EQUIPMENT TRANSFER

1. Senator ENSIGN. General Lovelace, General Vines, and General Sattler, the National Defense Authorization Act (NDAA) for Fiscal Year 2006 included a provision that gives the President the authority to transfer up to $500 million of defense articles to the military and security forces of Iraq and Afghanistan. Have any defense items been transferred, or are there current plans to do so under this provision?

General LOVELACE. This authority has not been used to date to transfer Army equipment to the security forces of Iraq and Afghanistan. However, the Army is reviewing requests from the Combatant Commands for equipment and fully intends to assist, consistent with Army readiness requirements.

Recently the Multi-National Security Transition Command-Iraq (MNSTC–I) requested HMMWVs, materiel handling equipment, and generator sets from the Army. Since none of the requested equipment is excess to Army needs, any transfer would likely be accomplished as part of a Foreign Military Sales case (section 21, Arms Export Control Act) where MNSTC–I provides the Army with a reasonable level of reimbursement for the equipment transferred. Once the Army has the funds, it will use them to procure new HMMWVs although the quantity procured will no doubt be fewer than the quantity transferred. The advantage to the Army however, is the ability to procure new equipment. The advantage to MNSTC–I is the rapid availability of fully mission-capable equipment already in theater.

Should the Army decide to approve MNSTC–I's request, there will be an accompanying sustainment package of spare parts that will likely be transferred under the NDAA for Fiscal Year 2006 provision authorizing transfer of defense articles. Also, any refurbishment work on the equipment will also fall under the NDAA for Fiscal Year 2006 provision.

No longer under the Army's control is equipment previously designated as excess and transferred to the Defense Reutilization Marketing Offices (DRMOs) including individual soldier equipment such as older versions of the Army's Kevlar helmet and older sets of body armor. The Army has encouraged MNSTC–I to coordinate directly with appropriate DRMO authorities to acquire these items.

General VINES. Defense items, including Iraqi Ministry of Defense purchased uparmored High-Mobility Multipurpose Wheeled Vehicles ((HMMWVs), have been transferred to the Iraqi security forces). MNSTC–I, not Multi-National Corps-Iraq (MNC–I), oversees these equipment transactions.

The goal of these equipment transfers is to provide the Iraqi security forces with equipment comparable to that employed by other coalition forces, specifically armored vehicles to provide protection against Improvised Explosive Devices. To prevent fratricide between coalition and Iraqi security forces, a marking system was devised for the latter's up-armored HMMWVs.

There is an ongoing effort both at MNC–I and MNSTC–I to ensure that the coalition and Iraqi security forces are properly equipped for the mission.

General SATTLER. No, the Marine Corps has not made such a transfer under Public Law 109–163, the NDAA for Fiscal Year 2006, nor are there any current plans to do so under this law.

However, we have conducted transactions ". . . under the authority of Emergency Supplemental Appropriations Act for Defense, the global war on terror, and tsunami relief, 2005; Division A, Public Law 109–13." These Pseudo-Foreign Military Sales case actions have included selling 1,863 5-ton cargo trucks, with the funds received paying for the replacement end item procurement of Medium Tactical Vehicle Replacements in accordance with "Sale from Stock" laws and policy. Additionally, the Marine Corps Systems Command (MARCORSYSCOM) has processed a second Pseudo-MFS case under the same authority (Public Law 109–13) to sell 129 900-series wreckers and provide repair work on them prior to shipment. This 900-series wrecker case was approved by DSCA on 6 April 2006. MARCORSYSCOM will be paid for these trucks and for the associated repairs. Transportation to theater will be paid by MNSTC–I.

There have been other requests for end items, and the Marine Corps has provided a list of additional equipment that it could sell from stocks if desired.

READINESS ASSESSMENT

2. Senator ENSIGN. General Huly, in your prepared testimony, you state that the Marine Corps, while continuing to meet its global war on terror requirements, "is operating with increasing risk in equipment readiness to support deployed forces." Can you elaborate on that statement?

General HULY. The Marine Corps places its highest priority on sustaining the equipment readiness of its forward deployed forces. However, this readiness prioritization has come at the expense of our strategic prepositioning programs, in-stores equipment stocks, and the equipment readiness of units back home. We have significant deficiencies in these areas. As we reset the force, we are addressing the deficiencies in the equipment available to our units at home station and in our strategic programs. Resetting our force to prepare for future crises and contingencies will require sustained support from Congress in the form of supplementals. The cost to reset within annual budget procurement allocations would defer all our modernization programs and take more than 5 years even if we assume a period of routine peacetime training with minimal operational requirements.

3. Senator ENSIGN. General Huly, at the current operations tempo, how long can the Marine Corps go before this risk affects the readiness of deployed forces and forces getting ready to deploy?

General HULY. As previously stated, our deployed units and deploying units have what they need. Our deficiencies continue to be addressed via our supplemental requests. Thank you for your continued support. The majority of our previously identified deficiencies have been funded, but projected delivery schedules extend well into the future. The interim impact is negatively degrading the readiness of units that are not deploying or directly supporting the global war on terror. We are equipping these units with enough equipment to sustain their unit training, while preserving two of our Maritime Prepositioning Ship squadrons to provide supplemental equipment as part of a contingency response to any emergent requirement.

NATIONAL GUARD EQUIPMENT

4. Senator ENSIGN. General Lovelace, Lieutenant General Blum recently reported that the National Guard has less than 34 percent of its authorized equipment here at home. The equipment shortfall is partially because many units have been forced to leave their equipment in theater for follow-on forces. This could affect the Guard's ability to respond to emergencies. Replacing this equipment will take quite some time. What is your plan to ensure National Guard units have enough equipment on hand "now" to provide adequate training for their soldiers, and ensure that they can respond to whatever emergencies might arise?

General LOVELACE. The Army National Guard (ARNG) component had about 65 percent of its authorized equipment in September 2001 and has contributed 8 percent of its authorization to theater for use by successive rotations of Active and ARNG units. It has another 21 percent of its authorization in deployed units or in reset, 26 percent at home and available for deployment to Iraq and Afghanistan. It also has about 10 percent of its authorization at home and available for most missions that are not constrained by unique operational requirements like what we have in Iraq.

The Army experienced years of underfunding prior to September 11 that resulted in a $56 billion "hole" in readiness caused by insufficient modernization to fill existing shortfalls and emerging needs. Shifting equipment to fill holes and emerging requirements in deployed and deploying units deepens the holes in training and rescuing units. Equipment redeployed to prepositioned stocks and home station is not available for mission support or training until it is reset through repair or recapitalization. Equipment lost through battle damage or worn out through operational tempo must be reset through replacement to support our soldiers in more capable units and to sustain our long-term commitments at home and abroad.

The cyclical nature of deployment rotations enables us to prioritize the distribution of equipment to fill holes in units closest to their next deployment date. This ensures units have the right types and amounts of equipment to support their training needs as they reset and progress through the levels of readiness for deployment. Nondeployed units in all Army components, especially those in our ARNG compo-

nent, must remain ready for homeland security and defense missions, such as natural disasters that may also occur in cycles.

We have identified essential capabilities in a baseline equipment set for homeland defense and security and we are prioritizing the delivery of this equipment to the ARNG as soon as practicable. As examples, we plan to equip the ARNG by August 2007, with 100 percent of their Land Mobile Radio Systems—intra-squad radios that are compatible with local, State, and Federal radios. We have also accelerated fielding plans to replace the Army's oldest truck models by the end of September 2009, the majority of which are in the ARNG. We have also increased and fenced Reserve component investment accounts fourfold to $21 billion for the ARNG and $3.6 billion for the Army Reserve in fiscal years 2005–2011.

Fiscal year 2007 will be pivotal for the Army. The anticipated supplemental funding to reset and protect forces in all Army components will enable us to protect our investment accounts and accelerate transforming the ARNG into a more capable and ready force.

RESERVES

5. Senator ENSIGN. General Lovelace and General Huly, current law states that reservists are eligible for involuntary mobilization of periods of up to 24 consecutive months. Subsequent Department of Defense (DOD) policy has sought to minimize the strain on reservists by limiting mobilization to 24 cumulative months. Moreover, DOD has attempted to limit reactivation to volunteers, reservists have either been deployed once or have been queued for deployment in upcoming rotations. In the Marine Corps' case, almost all, if not all, of their Reserve units have been mobilized at least once. Assuming operations continue at the current level, what are your plans regarding the use of the Reserves?

General LOVELACE. We will continue to utilize Reserve component soldiers in accordance with law, established policies, and DOD directives.

General HULY. The Marine Corps' initial plan was based on published DOD policy that all reservists can be activated for a total of 24 cumulative months. However, OSD has further restricted the policy by requiring those marines who have previously been activated to volunteer for subsequent activations, rendering U.S. Marine Corps planning assumptions invalid. The Marine Corps desires to reactivate units after 24 months home station dwell time in order to fully utilize individual activation time. Assuming operations continue at the current level, the Marine Corps will continue to work within established policy to find creative sourcing solutions.

6. Senator ENSIGN. General Lovelace and General Huly, will the policy regarding one mobilization need to be changed?

General LOVELACE. Title 10 U.S.C. 12302 states that reservists will serve "not more than 24 consecutive months." Current DOD policies (20 Sep 2001 Mobilization Policy Memo from USD (P&R) to the Assistant Secretaries) are 24 cumulative months of involuntary mobilization. The Secretary of Defense is the sole approval authority for all involuntary remobilizations and at this time, he does not approve any involuntary soldier remobilizations.

General HULY. Yes. The Marine Corps considers all members of the Selected Reserve as volunteers for activation by virtue of their agreement to serve in either a Marine Corps Reserve (USMCR) unit or in an Individual Mobilization Augmentee (IMA) billet. Since the declaration of a Partial Mobilization (EO 12223 of 14 Sep 01), the Marine Corps planning guidance called for a 12-month activation period with a 7-month deployment followed by deactivation, a period of dwell time, and if required, a second subsequent 12-month activation. The only exception in the Marine Corps was the need to activate aviation units for 2-year increments. This plan was designed to enhance the Marine Corps' warfighting capabilities through maximum integration with the Active component (AC) 7-month rotation schedule while additionally focusing on minimizing Reserve attrition and increasing retention.

Without involuntary reactivation authority, the USMC is required to source units/detachments from declining pools of never-activated marines (in general very junior in grade and experience) and previously activated volunteers from a myriad of sources. Current DOD policy limits the member to one involuntary activation. The Marine Corps recommends that DOD policy allow the Marine Corps to access each member for the full statutory activation authority of 24 months. Doing so will relieve pressure on individual members to volunteer for subsequent activations and deployments. Currently, the burden for meeting operational requirements is on the individual member who, when considering whether to volunteer, must decide be-

tween service to the country and loyalty to fellow marines on the one hand, and hardship on the family and their civilian employer on the other.

7. Senator ENSIGN. General Lovelace and General Huly, has there been any discussions with the Secretary of Defense's office regarding changing this policy?

General LOVELACE. The Army has never asked in writing that the Secretary of Defense change the 24-month cumulative policy. We frequently communicate to OSD the stress that the 24-month cumulative policy places on our ability to provide cohesive units to the combatant commander.

General HULY. Yes. The issue has been raised in the Reserve Component Utilization Policy Forum as the Services, Joint Staff, and OSD have looked for ways to manage use of the Reserve component.

The Marine Corps has identified several issues with the current policy regarding one mobilization. The policy has adversely impacted the Marine Corps because it puts the onus for deploying Service capabilities on the back of the individual marine and sailor. Family and employers know the marine's second activation is voluntary. Additionally, the policy creates a morale problem in deploying units. An emotional wedge is driven between the marines that volunteer for reactivation and those that do not. Finally, the policy disrupts unit cohesion and limits unit training prior to activation, while earlier activation for training uses cumulative activation time.

The Marine Corps recommends changing the policy to authorize involuntary activations for up to the full 24 months, even with prior activation, including recall of the Individual Ready Reserve (IRR).

8. Senator ENSIGN. General Huly, if the policy for just one mobilization continues, did the Marine Corps make things harder for itself by establishing 7-month deployments?

General HULY. The Marine Corps policy of 7-month deployments for battalion and smaller units was based upon the fact that normal Marine Corps deployments are approximately 7 months and the assumption that we would have authority to reactivate units in order to access members for the full 24 months of activation time. Current DOD policy, however, limits members to one involuntary activation. This has invalidated the original planning assumptions. Operationally, the 7-month policy without the ability to reactivate units has resulted in the loss of nine battalions worth of rotation availability.

9. Senator ENSIGN. General Lovelace and General Huly, what is being done to balance the increased demand on the Active component as the availability of reservists diminishes?

General LOVELACE. The Army is transforming and rebalancing the force, while supporting the Joint Staff's continued effort to explore in lieu of sourcing options. Transformation and rebalancing are ongoing initiatives and will take time to complete. In the interim, the Army will rely more on Active component units to deploy in support of Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF). Once transformation is complete, the Army will be able to continuously provide combatant commanders with a force of approximately 174,000 soldiers for steady state operations, which includes no less than 14 Active and 4 Reserve component combat brigades. These numbers are predicated upon assured access to the Reserve component. The Army is also rebalancing the Active and Reserve component with the goal of converting 120,000 of force structure between fiscal year 2004–fiscal year 2011. The rebalancing will invest in areas of high demand in the long war on terrorism such as military police, civil affairs, PYSOPs, and Special Forces.

General HULY. As the Marine Corps continues to expend available access to Reserve component units and individual marines, we are increasingly filling OIF/OEF shortfalls through in-lieu-of (ILO) sourcing from the Active component. In order to mitigate some of this stress and free more marines for combat duty, we have asked the Navy and the Air Force to provide support in other areas (JTF Horn of Africa, JTF staff billets, etc). We have also sought efficiencies from those conventional combat forces in lesser demand; for instance, within the Active component, our artillery units continue to fill important gaps in functional areas outside their core competencies like: motor transport, civil affairs, and military police. With the combination of these ILO solutions and simply increasing the deployment tempo for our Active Force, we are managing to meet our force presence requirement in Iraq, Afghanistan, and still maintain our forward deployed naval presence missions.

From the Reserve component, we continue to seek volunteers to fill HQ billets or individual shortfalls in Active units. To date, this practice has yielded a sufficient number of marines; though our analysis shows that this will soon dry-up without involuntary access to our Select Marine Corps Reserve (SMCR) and IRR Marines.

For Reserve units we are increasingly forced to "cross-level" marines from several different Reserve component units to make a Reserve unit that is "healthy" enough to train and deploy. There are significant short- and long-term institutional costs to this; it strips units in Continental United States (CONUS) of key leadership and ultimately increases risk to the operational commander who gains a unit without the same level of cohesive team work and experience one would normally expect or desire in combat situation.

Our mitigation in both the Active component and Reserve component is being closely monitored. We remain aware and concerned of the long-term implications of these actions. Specifically the potential long-term loss of balanced combat power as our Active component combat support units cross train outside of their core competency and the gradual loss of leadership in those Reserve component units remaining in CONUS after their officers and senior enlisted cross-level to deploying units.

IRAQI TRAINING TEAMS

10. Senator ENSIGN. General Lovelace and General Huly, the Services have been deploying key unit leaders separately from their units so that those leaders can support training teams that are helping the Iraqis build their military and other institutions. In some cases, this has left deploying units with more junior, inexperienced leadership, or has led the Services to take leaders from one unit to deploy with another. As a result, units are experiencing shortfalls in critical capabilities at the same time that they are going through extended deployments. What effect is the policy of deploying key unit leaders having on unit readiness?

General LOVELACE. Yes, the Army is deploying leaders to support transition teams in Iraq. When the Army is required to deploy leaders from operational forces, unit readiness is challenged. This is true in peace and during war. These challenges are mitigated by cross-leveling leadership; ensuring junior leaders continue their military education; maintaining realistic pre-deployment training; and through the unit training certification which commanders are responsible for prior to deployment to an area of responsibility (AOR). These mitigations, although exacerbated by wartime demands, are cyclical in nature; the Army continues to show appropriate readiness posture in support of the global war on terrorism and maintains its capability to provide combat ready forces when required.

General HULY. Marines are instructed at every level to continually prepare to assume the responsibilities of the next higher rank and/or billet. This truth is well entrenched in our doctrinal creed and its importance is never more relevant than those instances when our Nation is actively engaged in military conflict. Our readiness reporting system does not track the subtle difference when any leader has been replaced by someone junior or less experienced. Its scope is constrained to those units that are lacking leadership. As our general officers have testified, our deployed units and deploying units have what they need. The impact is negatively degrading the readiness of units that are not deploying or directly supporting the global war on terror. Supervising and training these units is where the Marine Corps has accepted risk and to date that risk is manageable.

11. Senator ENSIGN. General Vines and General Sattler, have you seen any adverse effects in the combat capability of units that have had their leadership "lent" out to Iraqi forces?

General VINES. No. The key leadership of U.S. battalions and brigades that provide "out of hide" transition teams remain largely intact commanding and leading their formations. For example, in the case of a battalion, which is assigned two majors, one major is used to form the transition team while the other remains with the battalion. Although this causes the remaining major to pick up some of the duties of the major assigned to the transition team, this is mitigated by the transition team's geographic proximity to its parent unit which allows regular contact between the unit and the team members. Once the parent unit completes its mission and prepares to redeploy, the transition team returns to the unit and redeploys with it.

Additional expansion: In most cases, the unit that provides the manpower for an "out of hide" transition team also partners with the same Iraqi unit. The inherent teamwork already established between the transition team and its parent unit allows a greater degree of mentorship and development of the Iraqi unit.

General SATTLER. Whenever more experienced senior leadership is taken away from a unit there is a potential for some degradation of capability. In the Marine Corps, selected key unit leaders from deploying units have been assigned to Iraqi units partnered with their parent Marine unit; groups of these leaders are called

transition teams. We have taken some of our "best and brightest" leadership from the deploying units to enhance the ability and opportunity for success of the various transition teams. During our comprehensive predeployment training program, however, we continued our tradition of leader development ensuring our officers and noncommissioned officers (NCOs) were thoroughly prepared to lead their units. In all cases, the next senior leader stepped up to the plate and capably filled the potential void. No unit deployed without competent leadership.

What we have discovered thus far is that the larger U.S./Iraqi formation is far more capable than the U.S. and Iraqi units working independently. We have also realized that a "high powered transition team" produces high powered results! One of the most successful battalions in the Multi-National Force (MNF)-West zone of action has taken the notion of transition teams and partnership a step further by aligning Iraqi and U.S. small units in widely dispersed locations. This has led to rapid skill growth in the Iraqi formations and improvements in the local security situation.

The decision to commit some of our more experienced leaders to the transition teams is an operationally acceptable risk to ensure the success of the Iraqi formations and aid in the overall victory in Iraq.

12. Senator ENSIGN. General Vines and General Sattler, how important are these teams to ensuring the Iraqi army is capable of conducting effective combat operations?

General VINES. They are vital to ensuring success. Iraqi units supported by robust transition teams and a strong partnership with their U.S. counterpart unit, develop much faster with stronger leaders and greater combat capabilities.

General SATTLER. As previously stated, these transition teams are invaluable to the training and mentoring of the Iraqi formations and the overall victory which we mutually seek for Iraq. Without viable, stable, competent, and professional Iraqi security forces, there can be no eventual support and success for a democratic Iraqi Government. The transition teams are critical to training/mentoring the Iraqi security forces into a professional force. These teams provide an example for the Iraqi officers and enlisted to emulate. Depending on the experience level of the Iraqi unit, the teams provide training, guidance, and expertise on all aspects of a functioning military force. Therefore, the risk incurred in providing the "out of hide" leadership to the transitions teams, at the present time, is supportable.

TRAINING

13. Senator ENSIGN. General Lovelace, the Army is in the process of transforming itself into a more modular, easier to deploy force. This process will increase the number of Brigade Combat Teams (BCTs) available for deployment to 70. The National Training Center at Fort Irwin and the Joint Readiness Training Center at Fort Polk are already operating at or near capacity. How does the Army plan to ensure that all of its new BCTs are fully trained and certified to be ready for combat?

General LOVELACE. The Army has completed a holistic review of our Combat Training Center (CTC) program and is fine tuning the recommendations and resource strategies which will transform this critical training and readiness enabler to meet modular force readiness requirements.

The Army actually has three maneuver combat training centers which focus on BCT readiness. In addition to the training facilities at Forts Irwin and Polk, we also use the Joint and Multinational Training Center (JMTC) at Hohenfels, Germany. Our existing training capacity at these three maneuver combat training centers is between 28–30 BCT events annually.

The Army has developed a force generation model to manage the readiness levels of the BCTs throughout their various cycles, and ensure we meet combatant commander requirements for land forces. We develop ready Active component BCTs over a 3-year lifecycle and National Guard BCTs over a 6-year lifecycle. These lifecycles include a steady progression of soldier, leader, and unit readiness over time, with the assumption of a 1-year operational deployment window at the peak of their readiness cycle.

Forty-two of the 70 BCTs will be in the Active component. One-third of them will have a combat training center event near the end of their first year of training, focusing on Army core mission essential tasks. Another third will have a maneuver combat training center event near the end of their second year of training, focusing on operational mission specific tasks and unique characteristics of the deployed area of operation.

Twenty-eight of the 70 BCTs will be ARNG units. These BCTs have a different readiness strategy to account for their respective State missions in a State-Duty status, and their part-time training status. Our readiness strategy provides a maneuver combat training center event to one-sixth of these BCTs near the end of their fifth year of training. These CTC events for ARNG BCTs can focus on Army core mission essential tasks, or operational mission specific tasks and environmental variables, depending on their projected deployment status.

Given the increased number of BCTs and their respective training strategies, the Army needs 33 to 34 maneuver combat training center exercises per year to meet the readiness requirement in a steady state environment. The current capacity at our three maneuver CTCs creates a shortfall of four to five events every year. The Army intends to fill that shortfall by creating an exportable training capability (ETC) within the CTC program.

The ETC is not a new facility similar to Forts Irwin, Polk, or Hohenfels, Germany. ETCs take the combat training center methodology to other, existing facilities. These existing facilities include home station training areas for Active component units, power generation platforms for BCTs, and any other training facility worldwide, that can support the commander's training objectives and generate ready forces.

14. Senator ENSIGN. General Lovelace, will you need to purchase or create new training facilities similar to Fort Irwin and Fort Polk?

General LOVELACE. At this time the Army does not intend to purchase or create a new training facility similar to Forts Irwin or Polk, or our JMTC in Hohenfels, Germany. General Schoomaker's vision is to explore other worldwide training sites that expose soldiers and leaders to different environmental factors, provide a better opportunity to train with multi-national military partners, and make our soldiers more aware of other cultural considerations. This vision also supports the DOD's Training Transformation objectives with the Joint National Training Capability (JNTC). The JNTC is a global network of live, virtual, and constructive training capabilities specifically tailored to meet Regional Combatant Commander requirements.

The Army does intend to create an ETC to fill the shortfall in our combat training center capacity. This capability does not require land acquisition or significant major construction projects. Based on our analysis of modular force transformation schedules, Army force requirements for current operational missions, and our global rebasing plan, we project the need for this new ETC in 2010.

ARMOR

15. Senator ENSIGN. General Lovelace and General Huly, the supplemental budget request includes $538.5 million for body armor. I understand that all troops in Iraq and Afghanistan do have body armor. What would this supplemental request buy?

General LOVELACE. Of the $538.5 million that the DOD is requesting for body armor in the fiscal year 2006 supplemental request, the Army's portion of this request if $193 million. These funds will be used to purchase side plates in support of deployed and deploying soldiers and Enhanced-Small Arms Protective Inserts (ESAPIs) for next deploying soldiers.

General HULY. The Marine Corps fiscal year 2006 supplemental request for Body Armor/Personal Protection Equipment is $332.6 million ($263.7 million Active and $68.8 million Reserve). All troops in Iraq and Afghanistan do have body armor. The supplemental request includes the procurement to complete the entire acquisition objective for the entire Marine Corps.

16. Senator ENSIGN. General Lovelace and General Huly, where are there still shortfalls?

General LOVELACE. On February 1, 2006, the theater requirement for ESAPI was met and the Army began fielding ESAPI to units at home station prior to deployment. No ESAPI shortages exist in theater.

General HULY. Given the level of funding provided in the supplemental there are no shortfalls.

17. Senator ENSIGN. General Lovelace, committee staff has been told that the Army has informed the six suppliers of the Small Arms Protective Insert (SAPI) plates that the Army has decided to reduce the monthly production of SAPI plates from 40,000 sets per month to 20,000 sets per month. Additionally, the Army will

reduce the number of suppliers from six suppliers to three. It has been alleged that the Army is having a problem funding the current production rate of 40,000 sets per month. Has the Army slowed the production of SAPI plates because of funding shortfalls?

General LOVELACE. Production of ESAPI has been set at 20,000 sets per month. Production spiked to 33,000 to help fill the theater requirement. Now that theater requirement is met, the plan is, and always has been, to rescale back to 20,000 sets per month. This reduction in Army production allows the other Services and Defense Logisitics Agency (DLA) to procure in specification plates for their requirements. The Army requirement for IDA remains at 966,000 sets. The Army will use fiscal year 2006 and fiscal year 2007 funding to procure the remaining Army ESAPI sets to satisfy the requirement.

PERSONNEL

18. Senator ENSIGN. General Lovelace and General Huly, the Services have focused on manning next-to-deploy units, at times taking personnel from non-deploying units to prepare other units for deployment to Iraq and Afghanistan. What challenges has this cross-manning created for the DOD?

General LOVELACE. The Army remains ready and capable of meeting the Nation's needs and has continued to provide units at high levels of readiness to support combatant commanders' requirements. However, nondeployed unit readiness has been impacted by cross-leveling of forces and equipment to support deploying units and stay behind equipment requirements in theater. Personnel cross-leveling occurs most frequently in the Reserve component due to current DOD mobilization policies but also occurs to a lesser extent in the Active component. Personnel cross-leveling is disruptive to unit cohesion, challenges our force planners, and places risk on tactical commanders. The continuation of timely supplemental funding for reset is imperative to improve unit readiness, fill equipment shortfalls resulting from combat operations, and ensure units are prepared for potential future contingency missions.

General HULY. Active - The assigning of personnel from non-deploying units to those deploying remains a normal assignments policy of the Marine Corps and is not new. Furthermore, the Marine Corps assignment policy has been to minimize the assignment of individuals to consecutive supporting establishment tours. Combined, these policies achieve equity in individual deployment tempo and have proven successful in that regard.

It is also important to note that no measurable disparity exists between the staffing levels of the operating forces and the supporting establishments as a result of current operational demands. Both are staffed equally relative to their respective aggregate staffing goals.

A major challenge regarding the assignment of marines in supporting the long war's operational commitments are the fiscal resources allocated for personnel assignments. In order to avoid multiple deployments, marines need to execute more operational moves than normal. Supplemental funding will be required to allow the Marine Corps to keep cycling marines through deploying units and not increase stress due to prolonged periods of deployment time.

Reserve - From the perspective of the impact on the Marine Corps Reserve, published OSD policy is that all reservists can be activated for a total of 24 cumulative months. However, OSD has further restricted the policy by requiring those marines who have previously been activated to volunteer for a second subsequent activation, rendering current USMC planning assumptions invalid. (USMC Planning Assumption—The Marine Corps considers all members of the Selected Reserve as volunteers for activation by virtue of their agreement to serve in either an SMCR unit or IMA detachment. Since the declaration of a Partial Mobilization (EO 12223 of 14 Sep 01), the Marine Corps planning guidance called for a 12-month activation period with a 7-month deployment followed by deactivation, a period of dwell time, and, if required, a second subsequent 12-month activation with the exception being select aviation units would be activated for 2-year increments.) This plan was designed to enhance the Marine Corps' warfighting capabilities through maximum integration with the Active component 7-month rotation schedule while additionally focusing on minimizing Reserve attrition and increasing retention. Without involuntary reactivation authority, the USMC is required to source units/detachments from declining pools of never-activated marines (in general very junior in grade and experience) and previously activated volunteers from a myriad of sources. Naturally, this further restriction of published OSD policy has hampered our long-term ability to reinforce and augment the Active component with trained and capable SMCR units, and has degraded our SMCR unit integrity, cohesion, and readiness.

19. Senator ENSIGN. General Lovelace and General Huly, how have you assessed the risk that moving servicemembers from unit to unit has on the units and servicemembers affected?

General LOVELACE. The Army has developed a Lifecycle Management (LM) strategy that stabilizes the force, improves unit cohesion, minimizes disruption during preparation for combat operations, and promotes individual career development. Under LM and the Army Force Generation (ARFORGEN) model, units will cycle through readiness phases in a manageable progression, without the turbulent disruption of constant soldier and leader turnover.

LM will better stabilize the force by reducing permanent change-of-station moves for soldiers to a level much lower than today. This strategy, when fully implemented, will allow soldiers to serve their first 6 to 7 years on the same installation, or even within the same unit. Enlisted soldiers will be able to remain in the same unit up to staff sergeant and officers through much of their captain years. Professional development will normally occur in a temporary duty enroute status; however, professional development may also be obtained in a temporary duty and return status if attendance can be synchronized with operational requirements. This strategy benefits families by stabilizing them longer in one place and facilitates a better prediction of their spouses' future training events and deployments. The end state is a capable joint expeditionary force where homesteading is encouraged, units are focused on depth of experience, and soldiers/families have more predictability.

General HULY. Active - The Marine Corps assesses the personnel risk associated with our assignment policies primarily through an examination of measures associated with retention—particularly those regarding our first-term enlisted population. According to these indicators, the assignments made to support operational requirements have not had an adverse affect upon the individual marine. In fiscal year 2005 the Marine Corps achieved 103.5 percent of our first-term retention mission and we are ahead of that pace this year (fiscal year 2006). For example, in our highly-deployed infantry population, at this point last year (April 7, 2005) we had achieved 85 percent of our first-term retention mission as opposed to having attained 98.5 percent thus far in fiscal year 2006. This positive trend is consistent with career force marines as well.

Operational risk is mitigated in our assignment process through the concerted effort to stabilize units with personnel well in advance of scheduled pre-deployment training dates. Today, the objective of the Enlisted Assignment Branch is to have all deploying personnel report to a unit no later than 120 days before a unit's scheduled deployment date and, with few exceptions, this has been accomplished successfully. Historically, only approximately 6 percent of personnel have joined a unit within 90 days of deployment, and this number is being further reduced.

In addition to stabilizing the units with greater lead-time prior to deployment, we have been able to reduce personal turbulence by increasing the average amount of time between the date orders are issued and a marine's expected report date. In fiscal year 2005 the average time between operational orders issuance and expected report date was 114 days. In fiscal year 2006 to date, that number has improved to 152 days on average. This initiative, along with our ability to staff units well in advance of deployments, has served to decrease individual and unit stress while simultaneously increasing the combat cohesion of our deploying units.

Reserve - For the Marine Corps Reserve, "cross-manning" actions only provide a short-term solution to flesh out units prior to deployment. In assessing the risk, we are comfortable that we have provided our units with the leadership necessary to carry out their assigned tasks and mission. However, this is not an optimal solution. We place signifIcant stress on the overall population of Reserve marines available for activation by moving them from their regular unit to a new one and in some cases have provided Active component marines to fill key leadership positions at the small unit (platoon/company) level to fill emergent unit requirements. This practice does impact unit cohesion, integrity, and readiness.

20. Senator ENSIGN. General Lovelace and General Huly, to meet the demand of current operations, there has been significant cross-training of personnel. This has included training cooks as mechanics, artillerymen as truck drivers, and Active-Duty servicemembers to assume roles more traditionally held by Reserve civil affairs officers. What challenges has this cross-training created for the DOD?

General LOVELACE. Based on theater requirements, the Army is training combat arms, combat support, and combat service support soldiers on military skills outside or ILO their assigned military occupational specialty (MOS). The challenges of cross-training soldiers for missions not specific to their MOS are three fold. First, the Army must find soldiers with the appropriate skills within other specialties. Second, we must provide these soldiers with the appropriate equipment to train on

for the mission which may be different from their primary equipment set. And third, we must ensure these units or soldiers are returned to proficiency in their primary specialty as quickly as practical after their redeployment. Our Army commands and the Reserve component have created plans to address these challenges and ensure the highest level of preparedness for our units and soldiers.

General HULY. The greatest challenges for cross-training of provisional units fall in the areas of time and equipment. The effort to sustain and regenerate Marine Forces for service in Iraq has created an increased operational tempo, with discrete periods of time for units and individuals to prepare for secondary or provisional missions. The Marine Corps operates several processes to aggressively identify and solve these challenges as they arise.

In this tempo, the Marine Corps finds it challenging to generate the time required to cross-train marines and provisional units to a level of proficiency comparable to that of specialists. The individuals who form our Iraqi unit transition teams, for instance, generally have only a few weeks to learn their assignments, refresh their small-unit combat skills, cross-train on communications, defensive driving, maintenance and vehicle recovery skills, and absorb a functional understanding of Iraqi culture and language. The Marine Corps trained 150 marines and sailors for these teams during 2004, and this year expects to train nearly 800. We have learned to adapt training curricula, equipment, and facilities to maximize benefit gained during these compressed timelines.

The lengths of the time periods between deployments are also a challenge. Units that train and deploy specifically for a provisional mission, such as armor units deploying to conduct riverine security missions, are difficult to form, equip, and train in time to include them in the larger predeployment training exercises such as Mojave Viper at Twentynine Palms, California. The Marine Corps is constantly adjusting its scheduling and improving its instructor cadre to adapt to the unique needs of these provisional units.

This challenge of time is particularly acute with activated Reserve units. Reserve unit activation policies are generally based on the assumption that these units will be activated to perform the mission for which they've trained over the years. It is a significant challenge to activate such a unit into a mission for which they've never prepared. Regardless, the marines and sailors we retrain on these compressed timelines accept the challenge and perform admirably.

Following a deployment during which significant time was dedicated to a secondary or provisional mission, units require time to recover degraded proficiency in their primary mission. Creation of provisional units can also create unique and unforeseeable demands for equipment and training ammunition. Artillery units that train for duties as provisional rifle companies, for instance, require additional crew-served weapons and vehicles. As the Marine Corps does not maintain significant excess equipment, the provisional companies must draw these assets from other units in the artillery regiment or Marine division. That, in turn, both demands time to coordinate and execute the transfers of equipment and reduces the armories or motor pools of units training in the United States for other missions. Both these latter challenges were addressed in verbal testimony to the Subcommittee on Readiness and Management Support of the Senate Armed Services Committee, regarding Ground Forces Readiness, on 15 March 2006.

21. Senator ENSIGN. General Vines and General Sattler, has this cross-training been effective? Have there been any unexpected results?

General VINES. The cross-training and use of "ILO forces" has been successful and is a tribute to the quality of our service men and women today. It aptly demonstrates the agility of our force and leaders. The added benefit is that warfighting commanders have greater flexibility to employ forces on the battlefield. However, some specialized technical skill sets cannot be mitigated by "ILO forces." For example, medical and intelligence specialties are not easily or adequately replaced by other forces.

General SATTLER. All marines are considered riflemen, which remains the foundation of entry-level training. In combat, these marines prove competent in a full range of basic infantry skills.

At the small unit level, there are many examples of cross-training that has enabled these units to sustain operational capabilities. These Marine and Navy personnel have been in combat 24/7 for months on end. They have learned each other's skill sets in order to maintain, sustain, and enhance their operational capability.

One of the most significant examples of effectiveness has been our artillery battalions' ability to assume non-traditional combat roles and missions of high demand flow density skill sets such as those of the military police (MPs). Because of their alternate mission as provisional infantry and expertise in other artillery-related

skills, such as convoy operations, the leap to Provisional Military Police was relatively small.

The key unexpected return has been the high level of combat effectiveness achieved by small unit teams who have thoroughly cross-trained on their own initiative. Combat Logistics Battalions trained mechanics and drivers to be MPs. Several logistics units also developed in-theater OJT programs in support of cross-training. Similarly, 2d MAW utilized its Low Altitude Air Defense (LAAD) and Wing Band to facilitate its Force Protection at Al Asad.

In general, marines were excited to be given the opportunity to do something outside their primary MOS, learn a new skill, and ultimately participate in more missions "outside the wire" than they originally anticipated. While a few marines were initially hesitant about performing tasks/missions outside their MOS, especially in combat, they ultimately performed exceptionally well.

22. Senator ENSIGN. General Sattler, in your prepared statement, you mention that the deployment rate for your Infantry Battalions is almost one for one, meaning approximately 7 months on deployment with approximately 7 months back home. Some marines are on their third deployment within as many years. How has the individual marine been affected by this operations tempo?

General SATTLER. While the units are on 7-month rotations, only a small percentage of the unit members actually make three rotations due to normal tour lengths. The current deployment rate is difficult for marines and their families, but retention rates and morale remain high.

23. Senator ENSIGN. General Sattler, how is it affecting recruiting and retention?

General SATTLER. The third rotation of 7-month deployments to Iraq has no impact on the recruiting effort. The impact comes from the war itself, but the deployments and their length do not enter the recruiting issues.

IRAQ

24. Senator ENSIGN. General Vines, the DOD has been reporting the number of battalions of the Iraqi army that have been trained, and their capability level. What we haven't heard about is the combat support and combat service support units. Are we training Iraqis to conduct the combat support and combat service support functions necessary for their army to eventually function totally without our support?

General VINES. Yes. Fielding capable combat support and service support units is a high-priority mission for MNSTC–I. By necessity, Multi-National Force-Iraq (MNF–I) worked to field combat units first to provide an initial Iraqi security capability. After we achieved a measure of success in building combat arms maneuver battalions and brigades, we began building logistics, maintenance, and transportation units to provide external support to them in the field, as well as elements to provide communications, intelligence, and engineer support. Once MNSTC–I fields an Iraqi unit, MNC–I focuses on developing its capacity through unit-to-unit partnership and embedded transition teams. Less tends to be reported on Combat Support (CS) and Combat Service Support (CSS) units because they typically do not hold ground or control battlespace. However, they are essential for creating the conditions to allow Iraqi Army units to operate independently.

25. Senator ENSIGN. General Vines, how far along are we with that training?

General VINES. Accomplishing all these goals simultaneously in a resource-constrained environment (as well as developing Police and Infrastructure Protection Forces) required significant prioritization and for this reason combat maneuver units were fielded first to give the Iraqi Army the capability to control battle space, albeit with coalition logistical support, with a view toward gradually transitioning them to independent operations once their attendant CS and CSS formations are operational. Now that the preponderance of combat maneuver formations are formed, the priority shifts to manning, training, and equipping CS and CSS enablers in order to accelerate the pace of transitioning battlespace to the Iraqi Army and the corresponding off-ramp of U.S. and other coalition forces.

QUESTIONS SUBMITTED BY SENATOR JAMES M. INHOFE

RESERVE COMPONENTS

26. Senator INHOFE. General Vines and General Sattler, you have both commanded troops in Iraq. What was the status of the training of both the Active and Reserve component units that you got?

General VINES. The ability of the Active component to change mission profiles and retrain in other skill sets demonstrated the adaptability, leadership, and caliber of the Active component soldier. The Reserve component units were also adaptable and trained but for a specific mission set. Time is a critical factor for Reserve component adaptability. Some Reserve component units were more ready than others. Those Reserve component units that quickly integrated into the battlespace conducted a longer than average post-mobilization period, attended critical MOS producing schools to meet mission requirements, and/or were augmented with Active component officers and soldiers.

General SATTLER. The baseline level of training for all Marine units deploying to Iraq continues to improve daily as we take lessons learned and incorporate them into our training, all units go through a cycle of equipping, forming, training, and deploying for combat. The current Pre-deployment Training Program, which all units conduct, and the current structured Mojave Viper (Ground) and Desert Talon (Air) field training exercises have greatly improved the readiness and operational capability of each unit since OIF I. Training has become more rigorous and standardized since early deployments and now includes transition team training and improved combat vehicle operator training.

For Marine Corps Reserve units, pre-deployment training effectiveness seemed to be a function of pre-activation preparation and time allotted to training. Reserve units were required to undergo the same training as Active units, but faced challenges in meeting all timelines due to unique requirements attendant to activation of Reserve units and individuals. Reserve units possess capabilities equal to their Active-Duty counterparts.

Training does not stop once units deploy to Iraq. Commanders at all levels routinely conduct after-action reviews of events and take action to ensure skill levels are maintained and meet the requirements of changing enemy tactics and techniques.

EQUIPMENT

27. Senator INHOFE. General Vines and General Sattler, I am told the Army alone has seen some 20 tanks, 50 Bradleys, 20 Strykers, 85 helicopters, 20 Armored Personnel Carriers (APCs), 250 HMMWVs, and over 500 trucks destroyed. Is that true? What about the Marine Corps? What is the status of the equipment and could you tell us the approximate losses you are taking in this area?

General VINES. Battle loss statistics change on a daily basis due to the nature of the mission in OIF. Coalition Forces Land Component Command (CFLCC) in Kuwait maintains a current tracking mechanism for all battle losses in the theater. (XVIII Airborne Corps G4 is contacting CFLCC C4 for the most recent report on total battle losses.)

Tanks, Bradleys, Stryker Combat Vehicles, APCs, and uparmored armored HMMWVs are replaced from a combination of new production equipment, Left Behind Equipment, nondeployed unit equipment, Army Prepositioned Stocks in Kuwait, or theater stocks. All equipment is pushed north into Iraq dependent upon transportation asset availability and priority in relation to all Classes of Supply. Aircraft replacements are directed by Department of the Army G3 through a combination of Stay Behind Equipment, new production, depot repair program, or early deployment of follow on unit aircraft.

Units report their battle losses immediately through the G4/S4 channels to the MNC–I C4 and the Corps Support Command. They, in turn, notify the CFLCC C4 which oversees the replacement process. The Marine Corps reports their battle losses but replaces equipment from their own resources.

General SATTLER. Since October 1, 2001, losses for the various principle end items are as follows: 10 Light Armored Vehicles (LAVs), 4 Tanks, 451 1–HMMWVs, 24 Amphibious Assault Vehicles (AAVs), and 33 Medium Tactical Replacement Vehicles (MTVRs). OIF readiness rates have stayed consistently between 92 percent and 95 percent for the last 12 months.

28. Senator INHOFE. General Vines and General Sattler, how is the Marine Corps replacing the CH–47s it is losing?

General VINES. The Army has requested supplemental funding for new build CH–47Fs to replace its Chinook losses.

General SATTLER. The Marine Corps has currently lost eight CH–53E and four CH–46E aircraft in support of combat operations since September 11, 2001.

Our replacement plan to address attrition shortfalls for the CH–53E is to pull aircraft out of war reserve at Davis-Monthan. Three CH–53s funded by fiscal year 2005 supplemental were pulled out and inducted for rework in August 2005. Rework takes approximately 18–22 months to complete. Funding for rework of two aircraft has been requested in the fiscal year 2006 supplemental, and we plan to request two more in future supplementals. Should those four aircraft receive funding, only one CH–53E will remain in war reserve. Lack of an active CH–53E production line and a nearly-exhausted war reserve highlights the need for continued funding of the CH–53K.

Since the 40-year-old CH–46E lacks an active production line and war reserve aircraft, our only method of replacing combat losses is to field the MV–22. Budgetary restrictions have limited the rate of buy to below what is needed to smoothly transition the force and replace combat losses. Based on the current program of record, the MV–22 operational inventory will not meet the required number of aircraft to fulfill our transition plan inventory until 2012. Only additional aircraft procurement in fiscal years 2006–2008 can sufficiently address this shortfall.

29. Senator INHOFE. General Lovelace and General Huly, the utilization rates for vehicles have gone up tremendously. Equipment is being sent to the depots at an extraordinary rate. My sources tell me the number of vehicles damaged or worn out in the Army alone in 2005 was about 44 helicopters, 230 tanks, 318 Bradleys, 219 M113s, and over 5,000 HMMWVs. The predictions for 2006 are even higher. Is that true?

General LOVELACE. The Army has had the following losses since the beginning of OIF and OEF: 28 Apaches, 17 Blackhawks, 14 Chinooks, 23 OH–58D Kiowa helicopters, 18 Abrams tanks, 74 Bradleys, 22 Strykers, and 915 HMMWVs. These are a combination of washouts (equipment which is uneconomical to repair) and combat losses.

The Army has had as many as 17 BCTs deployed for the last 3 years on a rotational basis in combat conditions. This has placed tremendous stress on the Army's deployed equipment in the harsh environments of Iraq and Afghanistan. In OIF, crews are driving tanks in excess of 4,000 miles per year or five times the expected annual usage of 800 miles. Army helicopters are experiencing usage rates roughly two to three times the planned peacetime rates. The Army's truck fleet is experiencing some of the most pronounced problems of excessive wear as a result of an operational tempo that is five to six times the peacetime rate and that is further exacerbated by the addition of heavy armor kits required to enhance force protection. This increased operational tempo shortens the useful life of our equipment and demands a much earlier and larger investment in depot maintenance than programmed for peacetime operations.

We have steadily expanded the capacity at Army Materiel Command's (AMC) depots, and reached out to industry wherever possible to meet our maintenance needs in a timely manner. Direct labor hours in the organic (Government owned and operated) depots have more than doubled from fiscal year 2002 through fiscal year 2006. In fiscal year 2006, we plan to execute over 24 million direct labor hours. This is just one indicator of the steady increase in the reset effort throughout this conflict. This trend will continue for the duration of current operations and at least 2 years beyond the withdrawal of our BCTs from Iraq, provided that resources permit an efficient and timely recovery. It is vital to address reset requirements promptly in order to support the overall Army Campaign Plan and to avoid pushing costs into future years.

General HULY. In 2005 OIF depot repair requirements for various end items were as follows: 48 LAVs, 5 tanks, 35 HMMWVs, 7 AAVs, 30 MTVRs. Current prediction would be that these numbers would be approximately the same in fiscal year 2006.

Depot throughput is constrained by the amount of and requirement for equipment in theater. Marine Corps equipment, in general, does not rotate out of theater with each troop rotation due to the limited inventory of some items. Therefore, because the equipment is required for operations in Iraq, it is unavailable for depot level repair. The Marine Corps has recently instituted a rotation plan for some principle end items that will return certain types of equipment back to CONUS for depot level repair.

30. Senator INHOFE. General Lovelace and General Huly, I am told the condition of equipment coming back from Iraq for reset, repair, and refurbishment now is in

much worse shape than equipment coming back for similar depot maintenance just 2 years ago. For example, much of the equipment has been cannibalized to keep readiness levels up in theater, wiring harnesses, suspensions, engines, etc., are in much worse shape—is this true?

General LOVELACE. Overall, the condition of unit equipment returning which has been deployed for 1 year is returning in a similar condition as redeployed equipment in fiscal year 2005. Equipment which had remained in theater for longer than 1 year, some for up to 3 years, shows the expected increased wear caused by the environmental and high usage effects, and on many end items the increased strain of add on armor for an extended period of time. The Army has also established programs in theater to maintain equipment, which contributes to the health of equipment, although not all damage can be repaired in the AOR and that equipment will still require substantial repair upon return.

AMC has several forward repair activities (FRAs) in theater to repair small arms, communications equipment, tactical wheeled vehicles, and combat vehicles. These FRAs do up to field level maintenance tasks, and unit commanders make good use of these repair facilities to augment their own capabilities. The Stryker facilities in Balad and Qatar are an example of repair which takes place that allows the Army to fix forward and get vehicles back into operational units more quickly.

AMC has a HMMWV refurbishment center in theater that will soon be able to repair up to 120 vehicles a month. The vehicles repaired at the refurbishment center are returned to theater stock as replacements to battle losses. This facility, however, is not capable of the scope of work required to upgrade the older HMMWV to the newer variant, allowing it to carry the added weight of the newer armor protection. For this level of repair, the vehicles must be returned to CONUS and under RECAP at Letterkenny or Red River Army Depot.

There has been an increase in the dollars required to conduct reset between fiscal year 2005 and fiscal year 2006. These increases are due to lessons learned during fiscal year 2004 and fiscal year 2005 reset, where it was determined that the earlier scope of work for reset was, for some equipment, inadequate. Major factors causing this growth are AMC's implementation of an Automatic Return Item List (ARIL), Army leadership decisions on Abrams/Bradley reset strategy, and upgrades to recap. The ARIL is the result of an inability, at the field level of maintenance, to adequately repair the equipment, to return it to adequate standards. Likewise, lessons learned during the reset of 4th Infantry Division Abrams and Bradleys indicated that a more comprehensive repair strategy was necessary. Additionally, lessons learned from operation in theater demanded upgrades to certain pieces of equipment. The demand of commanders for the Commander's Independent Thermal Viewer, for example, necessitates increases in production of the M2A3 Bradley, vice the use of the M2A2 ODS variant. Compounding many of these issues was the inadequate earlier reset of some combat vehicles and the need to rebuild and/or upgrade these vehicles in recap programs to ensure continued readiness and usefulness on the battlefield.

When the Army begins to drawdown units in theater, the depots will see a large increase in reset costs for at least 2 years. The increase in reset costs will be a direct result of stay behind equipment (SBE) returning to CONUS. There are no depot level repair facilities in the theater-FRAs and AMC's HMMWV refurbishment center provide field level repairs only. Maintenance lessons learned from the Gulf War and previous OIF/OEF rotations show that not all delayed desert damage (DDD) can be repaired or even detected with only field level maintenance. It is imperative that this equipment be repaired or replaced quickly, as required, to ensure the capability of our Army to train for and deploy to future contingencies as required for our national defense.

General HULY. Yes, this is true—the Marine Corps made a conscious decision to leave equipment in theater resulting in increased maintenance requirements. Selective interchange is a prudent source of supply given the combat environment in order to sustain operational readiness and mitigate long resupply times.

31. Senator INHOFE. General Lovelace and General Huly, what is causing this?

General LOVELACE. See answer to QFR #30.

General HULY. The equipment returning to the depots has a wider range of damage and does not fit the previous year's depot repair methodology. Inspections of equipment have resulted in a greater amount of repairs, thus escalating depot cost (by approximately 20 percent). The 20 percent estimated escalation of depot costs on equipment returning from Iraq is an average derived from actual costs; i.e. cost to repair items at the initiation of the conflict compared to more recent costs. The repairs are done on an inspect and repair only as necessary basis. Each item is inspected upon induction to the program and only those repairs necessary to restore

the item to A condition are completed. This is not a complete rebuild, so therefore costs vary from vehicle to vehicle. Adjustments are made on the depot lines to execute the various types of repairs.

32. Senator INHOFE. General Lovelace and General Huly, what can we do about it?

General LOVELACE. See answer to QFR #30.

General HULY. Adjust the baseline of what is mandatory for replacement at the depot as a result of trends in equipment condition. Thus, we trade man-hours to inspect an item for an increased materiel cost due to replacement, but get a more reliable system in return.

THE GUARD

33. Senator INHOFE. General Lovelace, I had General Blum in my office last night to ask him about a chart. The chart said that the Guard emerged from the 1990s as a Cold War strategic reserve with only 75 percent of its equipment. Because of battle losses, worn out equipment, and equipment left behind in Iraq, the Guard only has 34 percent of its equipment here in the United States to train on and respond to national emergencies. Is that true?

General LOVELACE. The ARNG component had about 65 percent of its authorized equipment in September 2001 and has contributed 8 percent of its authorization to theater for use by successive rotations of Active and ARNG units. It has another 21 percent of its authorization in deployed units or in reset, 26 percent at home and available for deployment to Iraq and Afghanistan. It also has about 10 percent of its authorization at home and available for most missions that are not constrained by unique operational requirements, like what we have in Iraq.

The Army experienced years of underfunding prior to September 11 that resulted in a $56 billion "hole" in readiness caused by insufficient modernization to fill existing shortfalls and emerging needs. Shifting equipment to fill holes and emerging requirements in deployed and deploying units deepens the holes in training and resetting units. Equipment redeployed to pre-positioned stocks and home station is not available for mission support or training until it is reset through repair or recapitalization. Equipment lost through battle damage or worn out through operational tempo must be reset through replacement to support our soldiers in more capable units and to sustain our long-term commitments at home and abroad.

The cyclical nature of deployment rotations enables us to prioritize the distribution of equipment to fill holes in units closest to their next deployment date. This ensures units have the right types and amounts of equipment to support their training needs as they reset and progress through the levels of readiness for deployment. Nondeployed units in all Army components, especially those in our ARNG component, must remain ready for homeland security and defense missions, such as natural disasters that may also occur in cycles.

We have identified essential capabilities in a baseline equipment set for homeland defense and security and we are prioritizing the delivery of this equipment to the ARNG as soon as practicable. As examples, we plan to equip the ARNG by August 2007, with 100 percent of their Land Mobile Radio Systems—intra-squad radios that are compatible with local, State, and Federal radios. We have also accelerated fielding plans to replace the Army's oldest truck models by the end of September 2009, the majority of which are in the ARNG. We have also increased and fenced Reserve component investment accounts fourfold to $21 billion for the ARNG and $3.6 billion for the Army Reserve in fiscal years 2005–2011.

Fiscal year 2007 will be pivotal for the Army. The anticipated supplemental funding to reset and protect forces in all Army components will enable us to protect our investment accounts and accelerate transforming the ARNG into a more capable and ready force.

34. Senator INHOFE. General Lovelace, what readiness level is the Guard left with here, C4?

General LOVELACE. [Deleted.]

35. Senator INHOFE. General Lovelace, how many units are at C4?

General LOVELACE. [Deleted.]

Army transformation to the Army Modular Force has increased the capability units. However, these units are now reporting against higher authorizations for equipment items such as trucks, weapons, night vision goggles, etc. The higher "denominator" creates an artificial dip in equipment on-hand readiness rates even

though the units may have more equipment than they did prior to conversion. Deploying units are equipped to the highest standard to meet their assigned mission when deployed.

Support to global war on terrorism also impacts readiness. For example, to ensure deployed units have 100 percent available strength we are resourcing them at strengths above authorization (for example, 110 percent assigned in some cases). These soldiers and leaders come from nondeployed units and impact the readiness of units that have not deployed. Meeting the Central Command (CENTCOM) unique training teams requirement also impacts personnel availability.

Continued congressional support for modularity will close this capability (readiness) gap over time. The end state of Army Transformation is fully manned, equipped, trained, cohesive units across all components, ready for missions assigned based on the Army force generation model.

36. General Lovelace, how do we expect these units to train for another rotation to Iraq or Afghanistan, or someplace else that we haven't even thought about?

General LOVELACE. We take several steps to ensure units have the ability to train for identified missions. Units receive equipment sets at pre-deployment training sites to augment their on-hand equipment for training prior to deployment. Mobile Training Teams (MTTs) then assist units to train on specific items of equipment. Units also receive equipment to train with in theater during transition prior to movement into their AOR. During that transition, soldiers receive training from the unit they are replacing to ensure they are proficient in the skills required to operate their equipment. Finally, we have accelerated fielding of critical equipment to the ARNG, and we have increased our future defense spending in order to adequately equip the ARNG. These strategies will ensure units have the right types and amounts of equipment to support their training needs as they progress through levels of training readiness for deployment.

37. Senator INHOFE. General Lovelace, the Army has listed five UH–60 Blackhawk and 10 CH–47 Chinook helicopters on the unfunded priority list as battle losses. Why aren't these included in the supplemental?

General LOVELACE. We requested and received funding for 3 UH–60s in the fiscal year 2006 bridge supplemental, 20 UH–60s in the fiscal year 2007 bridge supplemental, 1 CH–47 in the fiscal year 2006 bridge supplemental, and 17 CH–47s in the fiscal year 2007 bridge supplemental.

QUESTIONS SUBMITTED BY SENATOR DANIEL K. AKAKA

RESERVE CALLUPS

38. Senator AKAKA. General Huly and General Lovelace, what percentage of your Reserve component personnel are available to be called up again under the statutory limit of 24 consecutive months, and under the more restrictive DOD policy limiting reservists to involuntary callups of 24 cumulative months?

General HULY.

Reserves on hand (AR, IMA, SMCR, IRR, AND IADT) = 97,545

Mobilized 24 consecutive months or more = 1,911
Percentage available for Mobilization = 98 percent

Mobilized 24 cumulative months or more = 2,595
Percentage available for Mobilization = 97 percent

Reserves by category:

Select Marine Corps Reserve (number) 32,258

Mobilized 24 consecutive months or more = 915
Percentage available for Mobilization = 97 percent

Mobilized 24 cumulative months or more = 1,309
Percentage available for Mobilization = 96 percent

Individual Mobilization Augmentees (number) 2,181

Mobilized 24 consecutive months or more = 303
Percentage available for Mobilization = 86 percent

Mobilized 24 cumulative months or more = 419
Percentage available for Mobilization = 81 percent

Individual Ready Reserve (number) 58,275

Mobilized 24 consecutive months or more = 647
Percentage available for Mobilization = 99 percent

Mobilized 24 cumulative months or more = 817
Percentage available for Mobilization = 99 percent

Active Reserve (not a mobilization asset) (number) 2,278

Mobilized 24 consecutive months or more = 46
Percentage available for Mobilization = 98 percent

Mobilized 24 cumulative months or more = 50
Percentage available for Mobilization = 98 percent

Initial Active-Duty for Training

None in either category.

Due to limitations on our ability to use involuntary reactivations beyond 1 year, MARFORRES is required to source units/detachments from pools of never-activated marines and volunteers. Although activation of additional units/detachments partially mitigates personnel shortages, the necessity of cross-leveling personnel to form fully-manned deployable units causes cascading negative effects onsourcing future OIF requirements, erodes cohesion in the sourcing and receiving units, dilutes the mobilization potential of the contributing units, and provides potential for degraded capability. Due to limitations on our ability to use involuntary reactivations, requests for forces which would normally be suited for potential Reserve sourcing may be levied on the Active component instead, increasing the demands on that part of the Total Force. During OIF–I, the Marine Corps judiciously involuntarily activated a small portion of its IRR. However, without being able to currently utilize the Marine Corps' IRR Force of approximately 60,000 marines, it is increasingly difficult to support long-term global war on terrorism manpower requirements—such as Iraqi transition teams and the Joint Task Force Headquarters.

General LOVELACE. There are 31,004 soldiers who have served from 18–24 months with an average of 705 days served (this pool does not have sufficient time remaining to meet mission requirements); 98,059 soldiers have served from 12–18 months; 43,288 soldiers have served from 6–12 months; and 13,144 soldiers have served less than 6 months. There are approximately 92,000 Reserve component soldiers available to mobilize from the Army's Reserve component assigned strength of 522,120. There are currently 80,963 Reserve component soldiers mobilized in support of ongoing operations. The Army uses the component supplied data because this data more accurately reflects our global commitment; including soldiers serving under partial mobilization authority (10 U.S.C. 12302) and those serving voluntarily in support of current operations (10 U.S.C. 12301(d)). The availability of soldiers to be mobilized is also more accurately portrayed using component supplied data because it factors out categories such as Trainees, Transients, Holdees, and Students, nonparticipants, IMA soldiers, Institutional Army (training base and base support; health, legal, administration) and other previously mobilized soldiers (i.e. 10 U.S.C. 12304).

39. Senator AKAKA. General Huly and General Lovelace, have either of your Services requested DOD to change the policy limiting mobilizations to 24 cumulative months? If not, how long can you sustain the current level of deployments without doing so?

General HULY. No. The Marine Corps recommends allowing the reactivation of units to utilize the full statutory 24 months of activation time. Marine Corps force management practices were designed to enhance the warfighting capability and long-term sustainability of the Marine Reserves in the following ways: 1) by providing trained, cohesive, combat-ready units; 2) efficiently using Reserve marines' 24 months of cumulative activation; and 3) preserving USMCR units for subsequent requirements, improving predictability of subsequent activations, and permitting reconstitution of previously activated units.

General LOVELACE. The Army has never asked in writing that the Secretary of Defense change the 24-month cumulative policy. We frequently communicate to OSD the stress that the 24-month cumulative policy places on our ability to provide cohesive units to the combatant commander.

40. Senator AKAKA. General Huly and General Lovelace, what is your current policy on mobilizing Guard or Reserve personnel more than once in a 6-year period?

General HULY. The "1 in 6 years" mobilization concept is a goal, not a policy. Combatant commander force requirements, requested within the parameters of stat-

utory activation authorities, dictate activation tempo and when we are required to access our Reserves.

General LOVELACE. Title 10 U.S.C. 12302 states that reservists will serve "not more than 24 consecutive months." Current DOD policies (20 Sep 2001 Mobilization Policy Memo from USD(P&R) to the assistant secretaries) are 24 cumulative months of involuntary mobilization. The Secretary of Defense is the sole approval authority for all involuntary remobilizations and at this time, he does not approve any involuntary remobilizations of individual soldiers.

PERSONNEL TEMPO

41. Senator AKAKA. General Lovelace and General Huly, please describe the extent to which personnel tempo—that is, the number of days a soldier or marine is deployed away from home, has increased in the past 4 years. Congress enacted a provision of law several years ago [37 U.S.C. section 436] requiring special compensation for people deployed more than 190 consecutive days, or more than 400 days over a 2-year period. The Department is exercising the waiver authority contained in that provision, but please provide the number of personnel in your Service who would qualify for such compensation if the waivers were not in force, and the average number of days deployed over the past 730 days, by month over the past 4 years.

General LOVELACE. The law defines the personnel tempo (PERSTEMPO) as: "a member of the Armed Forces shall be considered to be deployed or in deployment on any day, in which, pursuant to orders, the member is performing service in a training exercise or operation at a location or under circumstances that make it impossible or infeasible for the member to spend off-duty time in the housing in which the member resides." On 8 October, 2001, the national security waiver was implemented and remains in effect, suspending special pay for PERSTEMPO.

As of April 11, 2006, there were 127,000 soldiers (Active, Reserves, and ARNG) deployed to OIF and OEF of which roughly 53,628 have been deployed for over 191 consecutive days. On average, these soldiers have been deployed for 327 consecutive days and would be entitled to 136 days of PERSTEMPO pay. There are approximately 57,457 soldiers who have been deployed for 401 days or more within the last 2 years. On average, this group has been deployed for 497 days within the past 2 years and would be entitled to 97 days of pay if the national security waiver were rescinded today. Providing a month-to-month display of the above data would not accurately reflect this because the same soldiers could appear in consecutive months, resulting in a significant duplication of records.

General HULY. The original PERSTEMPO legislation required special compensation for a member only for the frequency of deployment, i.e., if a member is deployed for more than 400 days over a 2-year period. The legislation was subsequently modified to allow compensation for the duration of deployments, for example, if a member is deployed for more than 190 consecutive days. The modified legislation allows the Services to establish different compensation thresholds to meet their service-unique requirements while meeting the congressional intent on PERSTEMPO.

As of 7 Apr 2006, we have 6,165 Active component and 1,541 Reserve component marines on Active-Duty who have been deployed in excess of 400 days over the preceding 2 years, and about 49,010 Active component marines and 20,390 Reserve component marines who have been deployed for more than 190 consecutive days.

The below table provides the average number of days, by month, Active component and Reserve component marines in the operating forces have been deployed over the previous 2 years, from October 2002 to April 2006. Includes those Active component and Reserve component marines who have had at least one major (defined as at least 120 consecutive days) operational deployment during the period.

Active		Reserve	
Oct. 2002	201	Oct. 2002	204
Nov. 2002	206	Nov. 2002	182
Dec. 2002	210	Dec. 2002	195
Jan. 2003	145	Jan. 2003	85
Feb. 2003	140	Feb. 2003	75
Mar. 2003	161	Mar. 2003	101
Apr. 2003	185	Apr. 2003	121
May 2003	210	May 2003	150
Jun. 2003	227	Jun. 2003	173
Jul. 2003	236	Jul. 2003	193
Aug. 2003	240	Aug. 2003	209

Active		Reserve	
Sep. 2003	242	Sep. 2003	218
Oct. 2003	242	Oct. 2003	222
Nov. 2003	239	Nov. 2003	226
Dec. 2003	236	Dec. 2003	228
Jan. 2004	233	Jan. 2004	230
Feb. 2004	202	Feb. 2004	222
Mar. 2004	201	Mar. 2004	201
Apr. 2004	214	Apr. 2004	210
May 2004	224	May 2004	219
Jun. 2004	232	Jun. 2004	230
Jul. 2004	245	Jul. 2004	240
Aug. 2004	239	Aug. 2004	215
Sep. 2004	237	Sep. 2004	219
Oct. 2004	246	Oct. 2004	223
Nov. 2004	254	Nov. 2004	238
Dec. 2004	262	Dec. 2004	253
Jan. 2005	264	Jan. 2005	266
Feb. 2005	244	Feb. 2005	266
Mar. 2005	238	Mar. 2005	247
Apr. 2005	233	Apr. 2005	247
May 2005	233	May 2005	243
Jun. 2005	235	Jun. 2005	241
Jul. 2005	235	Jul. 2005	239
Aug. 2005	231	Aug. 2005	237
Sep. 2005	232	Sep. 2005	235
Oct. 2005	239	Oct. 2005	239
Nov. 2005	247	Nov. 2005	242
Dec. 2005	256	Dec. 2005	244
Jan. 2006	263	Jan. 2006	246
Feb. 2006	270	Feb. 2006	245
Mar. 2006	271	Mar. 2006	243
Apr. 2006	271	Apr. 2006	243

READINESS ASSESSMENT

42. Senator AKAKA. General Lovelace and General Huly, what is your current assessment of your Service's readiness?

General LOVELACE. The Army remains ready and able to conduct full-spectrum operations in support of the National Defense Strategy within the current context of continuous operations. Pre-existing shortfalls and increased requirements to support combat operations have resulted in decreased measured resource levels in all components. Temporary declines in measured resource levels after redeployment are normal, and are primarily due to personnel transitions, equipment losses, and the unavailability of equipment needing maintenance. The Army is transforming to meet the challenge of the ongoing fight and future contingencies resulting from diverse threats. The Army Modular Force and Army Force Generation initiatives are nested and integrated in the Army Campaign Plan. These are complimentary and will improve soldier capabilities and unit readiness over time.

General HULY. The readiness of our forward deployed forces is high. Our units have the personnel, training, and equipment they need to accomplish the mission. We do face significant challenges in the manning, training, and equipping of our nondeployed forces. In order to meet the requirements of units fighting global war on terror, we have drawn resources from units back at home station. This has resulted in decreased readiness levels for nondeployed forces. We also have significant shortfalls in our strategic programs. The deficiencies in our units at home station and in our strategic programs degrade our ability to respond to crises and contingencies outside of the CENTCOM AOR.

43. Senator AKAKA. General Lovelace and General Huly, what are some of the key challenges your Service faces in equipping, training, and otherwise preparing forces in light of the demands of ongoing operations as well as the need to maintain readiness to perform other missions?

General LOVELACE. The Army faces key equipping challenges in the repair, recapitalization, procurement, and research, development, testing, and evaluation of equipment to protect and reset the force in support of the long global war on ter-

rorism and to ensure Reserve component forces are effectively equipped for homeland security and defense. We need to meet urgent operational needs in theater, enhance soldier force protection, upgrade equipment capabilities based on lessons learned in theater replace critical assets lost in operations, and prevent production breaks in the supply of critical equipment. High priority equipping challenges across the Army include Bradley Fighting Vehicles, Abrams SEP tanks, CH–47 helicopters, Fire Support Vehicles, Patriot Missile systems, Ml13 Armored Personnel Carriers, Improved Recovery Vehicles, UH–60 Helicopters, and Armored Security Vehicles.

Required force protection equipment includes aviation survivability equipment, protection for forward operating bases, ballistic protection of ground vehicles, intelligence systems, night vision devices, combat survivor locators, individual and crew-served weapons, and various other items that work together, providing increased protection for our soldiers. Critical reset actions include repair and recapitalization of battle worn equipment, replacement of battle damaged equipment, and replacement of Reserve component equipment contributed to successive rotations overseas. High priority for Reserve component equipment includes families of medium tactical wheeled vehicles and palletized load system vehicles, construction and tactical bridging equipment, tactical radios, joint network node equipment, tactical operations center equipment, and the Javelin. Other programs requiring investment includes classified items, training devices, rapid equipping items, equipment for strategic communications, battle command, and intelligence purposes, and shortages of secondary items in war reserves.

General HULY. Ongoing operations to include Iraq and Afghanistan, have placed extraordinary demands on our marines and their equipment. That said, our marines that are going in harms way are well-trained and well-equipped. The high readiness of our forward deployed forces is the result of a significant investment of resources. In order to meet the challenges of ongoing operations, we provide our marines with comprehensive, realistic, and demanding predeployment training. This training is supported by enhanced training facilities, adequate equipment, and a robust instructor cadre. Global war on terror has also placed a significant draw on our personnel. We provide many of our best and brightest young officers and senior NCOs in support of Iraqi/Afghan security force training teams. We have augmented our forward deployed units with additional personnel in order to meet the unique challenges of the current fight. We have also provided a large number of marines in support of joint staffs. Equipment demands have also been unusually high. For example, the communications and tactical mobility requirements of OIF/OEF greatly exceed our authorized allowances. In some cases the requirements are actually double our allowances. The harsh conditions have also caused us to put years of usage on our equipment in a matter of months. We are replacing our equipment much faster than we had planned and programmed. We have met all of our global war on terrorism-related requirements by drawing on our strategic programs and home station units. They have been the bill payers. This has impacted our ability to maintain a high state of readiness to perform other missions. Congress sustained support in resetting our force will help to restore the Marine Corps equipment warfighting capability across the spectrum of conflict and help prepare us for future conflicts.

CROSS-TRAINING PERSONNEL FOR DEPLOYMENT

44. Senator AKAKA. General Lovelace and General Huly, how has your Service evaluated the effectiveness of pre-deployment training for personnel who will be serving in a different capacity than that for which they were previously trained?

General LOVELACE. The Army produces after-action reports at Corps-level and at Brigade-level "by-exception" to evaluate the effectiveness of personnel who have been deployed. We do this both at deployment mid-cycle and after soldiers have returned from deployment. Prior to deployment, the United States Army Forces Command (FORSCOM) is responsible for evaluating training for Reserve component personnel who will be serving in a different capacity, and the Commanding General 1st Army is responsible for validating them for war. The Army's Corp Commanders are responsible for evaluating Active-Duty soldier pre-deployment training. All Army components end their pre-deployment training at a CTC or with a CTC-like training event. At that time, the 1st Army Commander and Army Corps Commanders verify that their units are ready for war.

General HULY. The Marine Corps is a learning organization. The Marine Corps Center for Lessons Learned (MCCLL), as part of their primary mission focus, has an ongoing, aggressive information collection program to assist in the assessment of unit predeployment training effectiveness. MCCLL was made a part of the Training and Education Command (TECOM) for just this purpose. MCCLL accomplishes

these assessments by conducting surveys and one-on-one interviews with unit personnel before, during, or after deployment, to get first hand feedback on the effectiveness of our training programs and ways to make them better. The MCCLL then forwards identified issues to the appropriate agency for action.

This effort includes assessing those units fulfilling missions different than those for which they traditionally train. During the week of 17 April 2006, MCCLL conducted a post-deployment lessons learned collection on Second LAAD Battalion at MCAS Cherry Point, NC. Although second LAAD's primary mission is air defense, they were assigned the mission of a provisional security battalion for their deployment to Iraq. Upon notification of their security mission, the battalion shifted their predeployment training emphasis to crew served weapons, convoy operations, and base security operations. Training exercises focused on establishing and maintaining a defensive perimeter, live fire crew served weapons training, entry control point and vehicle control point procedures, and convoy operations tactics, techniques, and procedures. Elements of the battalion participated in a Revised Combined Arms Exercise at MCAGCC, Twentynine Palms, California, and Exercise Desert Talon at Yuma, Arizona. Again, the training emphasis was on crew served weapons, stability, and support operations and convoy operations. Post-deployment interviews with the battalion indicated a sense that they were well-prepared for the provisional security mission they fulfilled in Iraq, as well as identified some areas for improvement of training. Reports on this collection effort have been forwarded to the training community through the TECOM Lessons Integration Division for their use in improving training.

Some Marine units also fulfill a provisional military police mission. In an effort similar to one conducted by the corrections community last year in developing training in detainee operations, marines from the military police schoolhouse at Fort Leonard Wood, Missouri, will be deployed by MCCLL to Iraq during May 2006 to collection lessons and observations that they will use to quickly develop a training program for provisional military police units.

In addition to these collection efforts focused on pre-deployment training, MCCLL has developed a Web-based Lessons Management System (LMS) that receives observations, recommendations, and supporting documentation from operating forces deployed around the world. Within MCCLL these records, in conjunction with in-theater interviews, post deployment commanders' conferences, and unit After Action Reports, are reviewed by senior analysts to identify positive and negative trends or patterns. MCCLL then forwards identified issues to those Marine Corps agencies tasked with improving how we organize, train, and equip Marines, for their action. Important to note, the joint staff (J7) announced on April 28, 2006, that the Marine Corps LMS will become the standard Web-based program (due to capability and ease of use) for the joint staff as a central repository for lessons learned.

In summary, the intent in all these lessons learned collection efforts is to reduce the time it takes to identify issues and implement needed changes in our organization.

45. Senator AKAKA. General Lovelace and General Huly, to what extent are you expecting to use the cross-training practices that have been used for operations in Iraq for other theaters or other deployments?

General LOVELACE. Each military operation is different; therefore, the training requirement will be determined base on the guidance of the combatant commander in theater. For example, the requirements for Bosnia were different from Afghanistan and Afghanistan requirements were different from the requirements in Iraq. Future military operations in different theaters are being researched at the Army's Institutional Schools (i.e., Command and General Staff College, Senior Service College) exploring the Army's personnel, equipping, and training strategies to meet the requirements for the next major military operation(s).

The Secretary of the Army has directed the Army to ensure the leader development process produces multi-skilled leaders who are prepared for current and future situations across a range of operations—be it nation building, counterinsurgency, or asymmetric combat as part of the joint team.

We will continue to build upon our foundational warrior tasks and drills (39&9) when preparing for any operational mission, and focus on the mission requirements unique to a theater prior to any deployment. The various training practices that our soldiers and leaders have learned for their deployment to Iraq will continue to serve them well in future deployments. We expect our soldiers to be adaptable and multi-skilled, and they have shown this capability repeatedly in their deployments.

General HULY. Marines continue to demonstrate that we are an expeditionary force in readiness—Most Ready When the Nation is Least Ready. Now entering the fifth year of what is a long war, your Marine Corps is wholly fixed on this challenge

to the Nation. This conflict requires the uniformed Services to provide a broader range of capabilities supporting extended global operations, ultimately delivering greater agility, adaptability, and duration of sustainment. While our Armed Forces continue to dominate in traditional warfare, our current enemy necessitates the adoption of unconventional and indirect approaches throughout the Joint Force.

History reveals a pattern of marines aggressively adapting to circumstances, and we consider ourselves in the vanguard of instituting the changes required to address not only the present but our Nation's future challenges. The over 30,000 marines serving on the forward fronts in the CENTCOM AOR today are a manifestation of transformational advances in manning, training, educating, and equipping to confront this latest threat to our way of life. From force structure revision, to urban training facilities, to cultural and language instruction, to leveraging emerging technologies, our efforts recognize the new character of conflict, and we are delivering both marines and Marine units that thrive in the uncertainty which will likely define warfare throughout the coming decades.

Readiness is the enduring hallmark of your Marine Corps, prepared today and continuously preparing for tomorrow's fight. The National Defense Strategy (NDS) describes a security environment composed of numerous and diverse challenges including a complex mix of states of concern, failing states that undermine regional stability and threaten our interests, and non-state actors who seek to destabilize legitimate governments. The NDS calls for more widely dispersed forces providing increased forward presence, security cooperation with an expanding set of international partners, swift preemption of non-traditional threats, and global response to crises in spite of challenges to access. Likewise, the 2006 Quadrennial Defense Review (QDR) placed great emphasis on increasing global freedom of action, and preventive actions over reactive crisis response. It also highlighted the need to "assemble, command, project, reconstitute, and re-employ joint combat power from all domains to facilitate assured access." The Strategic Planning Guidance highlights the need to "Deter interstate coercion or aggression through forward deployed rotational forces and demonstrated capability to respond rapidly, enable partners through security cooperation, and conduct presence missions." It also directs an increase in the ability of general purpose forces to conduct highly distributed and parallel "irregular warfare operations" while retaining the ability to defeat traditional threats.

In preparation for tomorrow's fight, we initiated a Capabilities Assessment Group (CAG) in March 2006, to take a focused look at our operating forces in order to ensure we have properly incorporated national military strategies, QDR guidance, the recent decision (October 28, 2005) by the Secretary of Defense approving a Marine Special Operations Command (MARSOC) consisting of approximately 2,600 marines and sailors, and continuing lessons learned on the battlefield. The focus of this initiative is not limited to remaining end strength neutral as with the 2004 Force Structure Review Group initiatives, rather the CAG will assess all aspects of our current operations and more importantly, our future requirements in order to determine the right end strength balance for our Corps. This review was initiated to ensure we are postured best for irregular warfare, and that we adjust to the establishment of MARSOC, our decision to man infantry battalions at 100 percent. We expect to receive a first look report this summer.

46. Senator AKAKA. General Lovelace and General Huly, what kind of impact do you expect this to have on unit and servicemember capabilities?

General LOVELACE. The major impact is the temporary degradation in the primary MOS skills after redeployment. but there is a corresponding overall increase in basic combat readiness skills. The upside impact of this multi-functional training and experience is the creation of the most capable Army in our history. Our soldiers have demonstrated that they have the capability to switch roles and are multi-functional. They realize that being a soldier is more than just knowing their primary tactical and technical military skill. We offset any degradation by requiring commanders to develop reconstitution training plans that will return their unit to full readiness for their primary assigned mission within 180 days. Upon return to their home station, a unit will reset and begin to train for full spectrum readiness. The broader the experience a soldier has, the more capable he will be in the future.

General HULY. While there is limited immediate impact on our Active component unit and servicemember capabilities, ultimately, Active component personnel/units being cross-trained to fulfill ILO requirements (normally filled by the Reserve component) must be reassigned to their core competency in order to maintain proficiency and capability in the force. Careful management of those units and personnel that are executing missions other than their specialty is ongoing and will continue in the future so no expertise or capability is lost. In the meantime, our

overall readiness to meet other warfighting OPLAN requirements is reduced. For example, with much of our Active-Duty artillery training and executing non-artillery core missions, our collective readiness to meet the artillery requirements of a warfighting OPLAN is degraded. On the individual marine level, it is yet to be determined whether there will be a negative institutional effect to recruiting as marines who enlist for a particular MOS are deployed and employed in different occupations.

In the Reserve component we continue to pull NCO and officer leadership from multiple Reserve component units around the United States, who have not yet been activated, in order to round-out or create an ad hoc unit capable of training and deploying as a cohesive unit. The units that give up their leadership lose valuable experience, leadership, training, and supervision capability. This will continue to have an increasingly detrimental effect on the capabilities and readiness of Reserve component units that remain in CONUS. Additionally, the current environment makes family readiness and support to the many disparate families of these reflagged units much more difficult.

The Marine Corps has worked carefully to ensure that our Reserve marines can augment the efforts of our Active-Duty units and marines now and into the future to help relieve the demands placed on them. We continue to work with the DOD to balance the force requirements across the Services.

47. Senator AKAKA. General Lovelace and General Huly, how do you assess the impact that moving servicemembers from unit to unit has on the units and servicemembers affected, including their ability to return to proficiency in their original specialty?

General LOVELACE. We are only just now seeing units return where servicemembers were serving in alternate specialties or in other units. We are watching those units and assessing the effects and their ability to relearn their primary specialties. We do not have enough information to support any conclusion at this point. Upon redeployment, units are directed to develop a reconstitution training plan that will bring the unit to full readiness with 180 days of redeployment This includes individual military occupational skill and unit collective training.

General HULY.

Active Component

The Marine Corps assesses the personnel risk associated with our assignment policies primarily through an examination of measures associated with retention—particularly those regarding our first-term enlisted population. According to these indicators, the assignments made to support operational requirements have not had an adverse affect upon the individual marine. In fiscal year 2005 the Marine Corps achieved 103.5 percent of our first-term retention mission and we are ahead of that pace this year (fiscal year 2006). For example, in our highly deployed infantry population, at this point last year (April 7, 2006) we had achieved 85 percent of our first-term retention mission as opposed to having attained 98.5 percent thus far in fiscal year 2006. This positive trend is consistent with career force marines as well.

Operational risk is mitigated in our assignment process through the concerted effort to stabilize units with personnel well in advance of scheduled pre-deployment training dates. Today, the objective of the Enlisted Assignment Branch is to have all deploying personnel report to a unit no later than 120 days before a unit's scheduled deployment date and, with few exceptions, this has been accomplished successfully. By assigning personnel in this manner—allowing for the completion of formal pre-deployment training—each marine is afforded the opportunity to hone individual skills in the context of collective tasks well before departure from CONUS. Historically, only approximately 6 percent of personnel have joined a unit within 90 days of deployment, and we continue to reduce this number. It should be stated as well that the majority of marines are moving to deploying units from billets in which they have maintained proficiency in their assigned occupational field. In instances where this is not the case, the Enlisted Assignment Branch has instituted practices to allow refresher-type training. For example, infantry marines in grades E6 and E7 are now being assigned to the Infantry Small Unit Leader Course after completing a Special Duty Assignment and before arriving at their next command. This has had the benefit of removing the responsibility for this training from the command, as well as giving individuals highly regarded training in their MOS before being compelled once again to utilize those specific skills.

In addition to stabilizing the units with greater lead-time prior to deployment, we have been able to reduce personal turbulence by increasing the average amount of time between the date orders are issued and a marine's expected report date. In fiscal year 2005, the average time between operational orders issuance and expected

report date was 114 days. In fiscal year 2006 to date, that number has improved to 152 days on average. This initiative, along with our ability to staff units well in advance of deployments, has served to decrease individual and unit stress while simultaneously increasing the combat cohesion of our deploying units.

Reserve Component

The Marine Corps prides itself on its ability to task-organize and adapt to the mission. Our Service culture and indeed our ethos of "Every Marine a rifleman" have served us well during operations in Iraq, Afghanistan, and elsewhere in support of the global war on terrorism. The key is that we recruit, train, and equip marines to be prepared to conduct infantry-type missions regardless of MOS. This applies to enlisted marines as well as officers. Recently, cross-leveling of units has allowed the Marine Corps Reserve to continue supporting ongoing operations through the use of volunteers, and individuals not previously mobilized. One negative consequence of this policy, however, is the potential disruption to unit cohesion and limitation on unit training prior to activation. Moreover, earlier activation for training uses greater cumulative activation time.

Additionally, the Marine Corps must constantly assess the risk associated with utilizing individuals trained and equipped to provide a specific military specialty such as artillery for another mission because we lose the artillery military specialty while the individual is assigned another mission. The risk continues when the individual returns because it takes time to reconstitute and retrain to both individual and unit standards of proficiency.

IMPACT OF HEAVY DEPLOYMENT OF UNIT LEADERS

48. Senator AKAKA. General Lovelace and General Huly, the Army and Marine Corps have been or will be deploying key unit leaders separately from their units so that those leaders can support special teams that are helping the Iraqis build their military and other institutions. In some cases, this has left deploying units with a junior, inexperienced leadership corps, or has led the Services to take leaders from one unit to deploy with another unit whose leaders have been pulled away for the special teams. As a result, units are experiencing shortfalls in critical capabilities at the same time that they going through extended deployments. How are you ensuring that deploying units whose leaders have been pulled away for other duties will be able to perform at the necessary level?

General LOVELACE. When the Army is required to deploy leaders from operational forces, unit readiness is challenged. This is true in peace and during war. These challenges are mitigated by cross leveling leadership; ensuring junior leaders continue their military education; maintaining realistic pre-deployment training; and through the unit training certification which commanders are responsible for prior to deployment to an AOR. These mitigations, although exacerbated by wartime demands, are cyclical in nature; the Army continues to show appropriate readiness posture in support of the global war on terrorism and maintains its capability to provide combat ready forces when required.

General HULY. Manning, training, and equipping our deploying units is our first priority. The Marine Corps has sufficient depth in its ranks to ensure that the needs of the deploying units are met. The units that are not preparing for an immediate deployment are sacrificing their leadership. The Marine Corps continues to accept risk in these areas, but the risk is manageable.

49. Senator AKAKA. General Lovelace and General Huly, what efforts are you making to ensure that additional leaders are being developed and to evaluate the effectiveness of units that deploy without their leadership, or with new leaders?

General LOVELACE. First of all, our units do not deploy without their leadership; and rarely will deploy with new leaders. Our policy is to stabilize our units with their leaders throughout their training, so that when they deploy, they are a cohesive unit—they have trained together and will deploy together.

The Army continually develops our leaders to be able to step up to the next level of responsibility. Our institutional professional military education has adapted to the current operational environment by shortening their courses to allow more leaders to attend and get the training that they need when they need it. Additionally, we have MTTs that respond to specific requests from our commanders to train our leaders.

General HULY. All Marine deploying units are manned with fully qualified NCOs who have undergone pre-deployment training that prepares them for the missions they will execute. The Marine Corps assignment objective seeks to staff all deploying units, to include its small unit leaders, no later than 120 days before a sched-

uled deployment date. This practice ensures small unit leaders are given the necessary pre-deployment instruction to hone individual combat skills, in the context of professionally managed collective unit training, well before the unit departs. Moreover, in instances when marines return from a billet outside their assigned occupational field, we mandate refresher training. For example, infantry staff noncommissioned officers (SNCOs) are assigned to the Infantry Small Unit Leader Course in-between completion of their special duty assignment tour and arrival at their next command. This practice enhances a small unit leader's tactical confidence as well as measurably lessens the burden of deploying command responsibility for small unit skill progression training.

Leadership development is resident throughout the continuum of Marine Corps Enlisted Professional Military Education (EPME). We continually upgrade our EPME program to meet the leadership needs of evolving operational requirements. Incorporation of cultural and distributed operations instruction into the resident SNCO academies enhances our leader's effectiveness in the current operational environment. The EPME transformation will incorporate distance education as well as improved resident programs, providing enhanced leadership skills and warfighting capabilities for the enlisted force. Marine Corps University and Marine Corps Institute recently developed a new leadership course for Lance Corporals, focusing on leadership and ethical decisionmaking skills, to prepare these marines for future leadership roles as the youngest NCOs in deploying units.

Evaluation of leadership in deploying units occurs during the Mojave Viper training assessment at Twentynine Palms, California. Mojave Viper is the final assessment exercise of a robust pre-deployment training program. The assessment occurs at the culmination of many months of training, using a building block approach; where our infantry NCOs and junior SNCOs first gain proficiency on skills common to success in the current operating environment. These young leaders then take that knowledge and begin training marines in their unit using a comprehensive training plan based on previous experience and lessons learned by other deployed units. This building block approach to training allows senior leaders to evaluate newer leaders prior to, and during, the Mojave Viper assessment. At completion of this evaluation, units return to home station with a better understanding of leadership training deficiencies, and time to address any noted deficiencies; the unit then deploys with the best possible understanding of its mission, its capabilities, and its leaders.

Our assignments practice, cultural and language instruction, and pre-deployment training program efforts recognize the new character of conflict, and we are delivering marine leaders who thrive in the uncertainty which will likely define warfare throughout the coming decades.

50. Senator AKAKA. General Lovelace and General Huly, for non-deploying units that have lost leaders to special deployments, how will unit readiness and training be maintained, absent their experienced leadership corps?

General LOVELACE. Most of the requirements for mid to senior grade leaders have gone to the Institutional Army in order to minimize the impact on the Operational Army. In cases where requirements are levied on the Operational Army, great care is given to ensure leaders are not removed from units scheduled for immediate or near-term deployment. While unit readiness and training may be affected by the loss of personnel, our leaders are developed throughout their careers to be able to step up to the next level. Our commanders identify and develop soldiers and junior leaders within their units to build a bench of leaders that are prepared to step up to higher positions in the event their superiors are not available. Leader development courses at Army schools have adapted to provide additional training when it is needed. Our distance learning programs also offer opportunities to assist our soldiers and leaders.

General HULY. Marine officers, SNCOs, and NCOs are accustomed to working under adverse circumstances and thrive on increased responsibility. Our junior leaders on both the Active and Reserve side have and will continue to accept those challenges, just as they do in combat when their leaders are killed or wounded. Since a typical unit is identified for deployment close to 1 year in advance, our manpower staffs have the necessary time to ensure that each identified unit is staffed at 90 percent or better with ready, trained, and capable leadership.

51. Senator AKAKA. General Lovelace and General Huly, have you studied the impact of these deployments on your cadre of leaders?

General LOVELACE. We continually assess and survey the Army on a multitude of aspects. The Army Research Institute has a number of instruments that have studied this subject. One impact of these deployments is that our leaders have more

operational experience with foreign cultures and an appreciation for the multiple demands of our country than any time in recent history.

General HULY. Yes, the Marine Corps assesses the impact associated with continuous deployment by a close and continuous examination of our Active-Duty Force retention efforts specifically comprising our first-term and career force enlisted marines. According to reenlistment metrics and the number of assignments made to support operational requirements, we have not experienced an unfavorable effect on our ability to staff deploying units given the current deployment tempo along with meeting its Active-Duty retention goal. As a comparison, in fiscal year 2005 we achieved 103.5 percent of our first-term retention mission; we are ahead of last year's pace for fiscal year 2006; and we expect to reach 100 percent by July. In our highly deployed infantry population, at this time last year (May 10, 2005) we had achieved 91 percent of our first-term retention mission in comparison to already having accomplished 100 percent thus far in fiscal year 2006. This positive trend is consistent with our career force marines as we have attained 84 percent of our required reenlistments with a 93-percent military occupational skill match in fiscal year 2006. This is comparable to last year's 87-percent career force retention mission. Marines are proud of what they're doing. They know that they are well-equipped, well-trained, and making a difference in the global war on terror.

AVAILABILITY OF SKILLED RESERVISTS FOR DEPLOYMENT

52. Senator AKAKA. General Lovelace and General Huly, what specialties within the Reserve component have been critical to supporting ongoing operations, and what specialties will be critical in the future?

General LOVELACE. The Reserve component has provided critical support to ongoing operations in many key areas, with the most critical specialties being civil affairs, transportation, intelligence, military police, logistics, and combat engineers. We anticipate these specialties will remain critical to future operations.

General HULY. Primarily, the mission of the Marine Corps Reserve is to augment and reinforce the Active component. With few exceptions the USMCR units mirror the Active component and train with the same equipment and training standards as their Active-Duty counterparts. Currently, 97 percent of USMCR units, to include all nine infantry battalions, have been activated in support of OEF and OIF. Each of these units has been critical to supporting ongoing operations. However, some specialties such as civil and mortuary affairs are unique to the Reserve component and have been particularly critical to the efforts in Iraq and Afghanistan. Additionally, military police capabilities have been in high demand. As a result, many of our artillery units have received additional training and have subsequently been mobilized as provisional military police units. The Marine Corps continually evaluates the Active/Reserve component mix to determine what capabilities should be located in each component based on current and future mission requirements.

53. Senator AKAKA. General Lovelace and General Huly, for example, can you please describe your efforts to increase capability in Civil Affairs and Psychological Operations?

General LOVELACE. One of the recommendations identified in the QDR is for the Army to rebalance the Civil Affairs and Psychological Operations (PSYOP) forces. To accomplish this, the Army is growing the size of the civil affairs and PSYOP force by more than 3,700 positions in order to provide a greater depth of capability for both Special Operations Forces (SOF) and conventional forces. We are also realigning the USAR civil affairs and PSYOP forces from USASOC to USARC to better support the modular conventional force organizations at all levels. Based on the level of support required, the ARFORGEN model will be used to identify and align the appropriate USAR unit with a conventional force organization prior to operational deployment. This allows the civil affairs and PSYOP units to train with and fully integrate into the supported unit. By integrating civil affairs and PSYOP into the supported unit early, those soldiers will also become adept at including the civil-military aspect into all of their operations from mission planning through execution. The Active component civil affairs and PSYOP units will primarily support SOF units and missions. This realignment provides the correct force mix and enhances civil affairs and PSYOP support to the full spectrum of Army missions.

General HULY. In regards to increasing Marine Corps civil afffairs capabilities, the Marine Corps recently assigned Civil-Military Operations (CMO) as a secondary mission to all artillery regiments and battalions. To facilitate this capability, Civil Affairs Planning Teams are attached (from Civil Affairs Groups) to artillery regiments and battalions thus combining civil affairs knowledge with the resources or-

ganic to the artillery units (vehicles, personnel, crew-served weapons, and communications). Additionally, the Marine Corps is reviewing, improving, and expanding collection efforts to track civilian skills data among both Active component/RC to identify essential skill sets needed in civil affairs units.

In order to establish the PSYOP capability of the Marine Air-Ground Task Force and increase interoperability of the Marine Corps and SOF, the Marine Corps has undertaken the development of a Tactical PSYOP Detachment at each Marine Expeditionary Force to provide a Tactical PSYOP Team to each Marine Expeditionary Unit (MEU) during a deployment cycle. These Tactical PSYOP Teams will provide PSYOP dissemination in support of operations conducted by conventional and SOF units. With the establishment of MARSOC and ongoing deliberations in our CAG the Marine Corps is reviewing the appropriate location for this capability.

54. Senator AKAKA. General Lovelace and General Huly, I understand that, in some cases, reservists who remain available for deployments are junior, or do not possess the skills needed for current operations without additional training. Given this, what is being done to ensure that these reservists are adequately trained for their deployments?

General LOVELACE. The mission of ensuring that Guard and Reserve soldiers are adequately trained for deployment, with the skills and knowledge necessary for current operations, is a leadership responsibility at all levels of the U.S. Army. National Guard and Reserve soldiers are resourced and trained in the same manner and priority as all deploying forces, Active component, or otherwise. Equipping, manning, and training resources are prioritized to the next deploying units, with soldiers fully qualified in their MOS and basic soldier skills prior to overseas movement. When a Reserve unit is mobilized the Training Support Divisions are responsible for training readiness oversight. Individual training is conducted through phased-mobilization to allow individuals to attend schooling prior to mobilization. At the mobilization station, MTTs provide training for all deploying soldiers. Collective unit training at the mobilization station is conducted with realistic role players and OPFOR. Collective unit training is also validated with Mission Rehearsal Exercises (MREs) at CTCs such as Fort Polk, LA (JRTC) and the National Training Center (NTC). Training requirements for units with unique missions, and theater specific training requirements, are identified and addressed prior to deployment. Theater specific training is also conducted when units arrive overseas.

General HULY. The bottom line is no marine, Active or Reserve, deploys without receiving their requisite training. Additionally:

a. The majority of Marine Corps reservists who have never been mobilized, and thus are available, are in fact junior. Of the approximately 12,000 available, 10,600 are in the grades of E1–E5 (private to sergeant). The preponderance of these marines have completed recruit training, Marine Combat Training (MCT), and appropriate MOS school training. These marines are fully qualified to perform their assigned duties for the billet/unit they are assigned. No more than 25 percent of Reserve accessions per fiscal year participate in the incremental initial Active-Duty for training program that is designed for reservists accepted for college enrollment. These marines typically split initial training into three phases spread across 3 years: recruit training, MOS training, and MCT.

b. Per Marine Administrative Message 006/04, marines may be activated upon completion of all phases of initial training and upon joining their intended Reserve unit. Marines participating in incremental initial training whose intended unit is activated or pending activation prior to a marine's completion of training may have their training cycle accelerated in order to complete all required training prior to joining their Reserve unit for the first time. Additionally, marines between phases of incremental training are given the option to volunteer for accelerated training, activated prior to the unit's activation date in order to facilitate accelerated training, or to be put in an accelerated training track upon activation.

c. Activated Marine units participate in specific pre-deployment, such as Mojave Viper and Desert Talon, in preparation for deployment. Individual Reserve marines mobilized to fulfill individual augment requirements may participate in billet specific predeployment training.

55. Senator AKAKA. General Lovelace and General Huly, what is being done to balance the increased demand on the Active component as the availability of reservists diminishes?

General LOVELACE. The Army is transforming and rebalancing the force, while supporting the Joint Staff's continued effort to explore ILO sourcing options.

Transfonnation and rebalancing are ongoing initiatives and will take time to complete. In the interim, the Army will rely more on Active component units to deploy in support of OIF and OEF. Once transformation is complete, the Army will be able to continuously provide combatant commanders with a force of approximately 174,000 soldiers for steady state operations, which includes no less than 14 Active and 4 Reserve component combat brigades. These numbers are predicated upon assured access to the Reserve component. The Army is also rebalancing the Active and Reserve component with the goal of converting 120,000 of force structure between fiscal years 2004–2011. The rebalancing will invest in areas of high demand in the long war on terrorism such as military police, civil affairs, PYSOPs, and Special Forces.

General HULY. As the Marine Corps continues to expend available access to Reserve component units and individual marines, we are increasingly filling OIF/OEF shortfalls through ILO sourcing from the Active component. In order to mitigate some of this stress and free more marines for combat duty, we have asked the Navy and the Air Force to provide support in other areas (JTF Horn of Africa, JTF staff billets, etc). We have also sought efficiencies from those conventional combat forces in lesser demand; for instance, within the Active component, our artillery units continue to fill important gaps in functional areas outside their core competencies like: motor transport, civil affairs, and military police. With the combination of these ILO solutions and simply increasing the deployment tempo for our Active Force, we are managing to meet our force presence requirement in Iraq, Afghanistan, and still maintain our forward deployed naval presence missions.

From the Reserve component, we continue to seek volunteers to fill HQ billets or individual shortfalls in Active units. To date, this practice has yielded a sufficient number of marines; though our analysis shows that this will soon dry up without involuntary access to our SMCR and IRR marines. For Reserve units we are increasingly forced to "cross-level" marines from several different Reserve component units to make a Reserve unit that is "healthy" enough to train and deploy. There are significant short- and long-term institutional costs to this; it strips units in CONUS of key leadership and ultimately increases risk to the operational commander who gains a unit without the same level of cohesive teamwork and experience one would normally expect or desire in combat situation.

Our mitigation in both the Active component and Reserve component is being closely monitored. We remain aware and concerned of the long-term implications of these actions. Specifically the potential long-term loss of balanced combat power as our Active component combat support units cross train outside of their core competency and the gradual loss of leadership in those Reserve component units remaining in CONUS after their officers and senior enlisted cross-level to deploying units.

EQUIPMENT MANAGEMENT

56. Senator AKAKA. General Lovelace and General Huly, much of your equipment is remaining in theater, is in depot for repair, or is unavailable because of combat losses or wear. To support current operations in the face of these supply challenges, your Service has left much of your equipment in theater for use by deploying units. Thus, non-deployed units are reporting major equipment shortages while units in theater are reporting that they have what they need for their missions. Deployed units' assessments, however, are not based on the units' own equipment, but on the equipment that they receive once they are in theater. This strategy has consequences for training and the ability to remain ready to support missions outside of the current theater of operations. In light of your equipping strategy of having units fall in on equipment that stays in theater, how will you provide nondeploying units with the equipment that they need for training and to support Service-directed modernization programs?

General LOVELACE. The ARNG component had about 65 percent of its authorized equipment in September 2001 and has contributed 8 percent of its authorization to theater for use by successive rotations of Active and ARNG units. It has another 21 percent of its authorization in deployed units or in reset, 26 percent at home and available for deployment to Iraq and Afghanistan. It also has about 10 percent of its authorization at home and available for most missions that are not constrained by unique operational requirements, like what we have in Iraq.

The Army experienced years of under-funding prior to September 11 that resulted in a $56 billion "hole" in readiness caused by insufficient modernization to fill existing shortfalls and emerging needs. Shifting equipment to fill holes and emerging requirements in deployed and deploying units deepens the holes in training and reset-

ting units. Equipment redeployed to prepositioned stocks and home station is not available for mission support or training until it is reset through repair or recapitalization. Equipment lost through battle damage or worn out through operational tempo must be reset through replacement to support our soldiers in more capable units and to sustain our long-term commitments at home and abroad.

The cyclical nature of deployment rotations enables us to prioritize the distribution of equipment to fill holes in units closest to their next deployment date. This ensures units have the right types and amounts of equipment to support their training needs as they reset and progress through the levels of readiness for deployment. Non-deployed units in all Army components, especially those in our ARNG component, must remain ready for homeland security and defense missions, such as natural disasters that may also occur in cycles.

We have identified essential capabilities in a baseline equipment set for homeland defense and security and we are prioritizing the delivery of this equipment to the ARNG as soon as practicable. As examples, we plan to equip the ARNG by August 2007 with 100 percent of their Land Mobile Radio Systems—intra-squad radios that are compatible with local, State, and Federal radios. We have also accelerated fielding plans to replace the Army's oldest truck models by the end of September 2009, the majority of which are in the ARNG. We have also increased and fenced Reserve component investment accounts fourfold to $21 billion for the ARNG and $3.6 billion for the Army Reserve in fiscal years 2005–2011.

Fiscal year 2007 will be pivotal for the Army. The anticipated supplemental funding to reset and protect forces in all Army components will enable us to protect our investment accounts and accelerate transforming the ARNG into more a capable and ready force.

General HULY. The Marine Corps continues to manage allocation and distribution of equipment in accordance with the Commandant's equipping prioritization (updated and published quarterly). The equipment prioritization takes into account the readiness of our forces and the critical training required to continue operational preparedness, as well as the equipping of future units—Marine Forces Special Operations Command, for example. Equipment within the Marine Corps' Supporting Establishments, specifically the Training Command Tables of Equipment and predeployment training packages, has remained fenced since the deployment of our forces in support of the global war on terrorism.

57. Senator AKAKA. General Lovelace and General Huly, to what extent have you assessed the extent that forces are prepared to conduct missions other than those assigned in the ongoing operations?

General LOVELACE. The Army remains ready and capable of meeting the Nation's needs and has continued to provide units at high levels of readiness to support combatant commanders' requirements. For the past 6 months, the Army has exceeded readiness standards in the USCENTCOM area of operations by maintaining a 90-percent or better equipment operational readiness rate. However, nondeployed unit readiness has been impacted by cross-leveling forces and equipment to support deploying units and stay-behind equipment requirements in theater. The Army is mitigating risk through a force generation process that maneuvers resources to higher priority units to ensure that next deploying units are ready to execute the National Security Strategy. The continuation of timely supplemental funding for reset is imperative to improve equipment readiness, fill equipment shortfalls resulting from combat operations, and to ensure units are prepared for potential future contingency missions.

General HULY. The Marine Corps is a learning organization; we use several processes to assess the preparation and readiness of our forces. In 2004, we conducted an extensive force structure review recommending approximately 15,000 structure changes to improve the Marine Corps' ability to meet the long-term needs of the global war on terror and the emerging requirements of the 21st century. We are implementing these changes and recently established a Capabilities Assessment Group to take a focused look at our operating forces to ensure we have properly incorporated lessons learned on the battlefield, QDR guidance, and the recent establishment of a Marine component within Special Operations Command (SOCOM). Our Reserve component structure initiatives will support the changing environment through the establishment of an Intelligence Support Battalion, a Security/Antiterror Battalion, and two additional Light Armored Reconnaissance companies. We are also augmenting existing capabilities in the areas of contingency contracting, civil affairs, command, control, communications and computers, and additional reservists for high-demand/low-density Individual Mobilization Augmentation requirements.

The Marine Corps Training and Readiness (T&R) Program provides a system of manuals that assist commanders in tracking unit readiness. These manuals identify the training requirements and support resources necessary to maintain the individual and collective proficiency that ensures units can accomplish mission essential tasks. Units that are assigned missions other than their primary organizational missions use applicable T&R manuals to develop unit training programs tailored to their new mission. This program also establishes policy that ensures evaluation is an integral part of all training.

The MCCLL, as part of their primary mission focus, has an ongoing, aggressive information collection program to assist in the assessment of unit pre-deployment training effectiveness. MCCLL was made a part of the TECOM for just this purpose. MCCLL accomplishes these assessments by conducting surveys and one-on-one interviews with unit personnel before, during, or after deployment, to get first hand feedback on the effectiveness of our training programs and ways to make them better. The MCCLL then forwards identified issues to the appropriate agency for action. In addition to these collection efforts focused on pre-deployment training, MCCLL has developed a Web-based LMS that receives observations, recommendations, and supporting documentation from operating forces deployed around the world. Within MCCLL these records, in conjunction with in-theater interviews, post deployment commanders conferences and unit after action reports, are reviewed by senior analysts to identify both positive and negative trends or patterns. MCCLL then forwards identified issues to those Marine Corps agencies tasked with improving how we organize, train, and equip marines for their action. Important to note, the Joint Staff (J7) announced on 28 April 2006 that the Marine Corps LMS will become the standard Web-based program (due to capability and ease of use) for the Joint Staff as a central repository for lessons learned.

58. Senator AKAKA. General Lovelace and General Huly, what projections have you made for when your Service will fully reconstitute any equipment lost or damaged in theater?

General LOVELACE. The Army's best estimate is that it will take 2+ years to fully repair, replace, and recap equipment following the return from usage in the OIF/OEF.

The basis for the estimate is primarily factors involving:

(1) the amount of equipment in theater (~50 percent of the 600,000 major end items remain in theater and do not return each year).

(2) the rate at which this equipment will likely be extracted (it will not all come out over a 2–3 month period, it will take time to extract it, and because the equipment in the theater stocks is primarily 'owned' by Army Materiel command, not the unit, and because it will largely go to the AMC depots for repair, the manpower will primarily be civilian or contractor as it retrogrades, it cannot be brought out as quickly as an equipped and manned BCT can be redeployed.)

(3) the time required to inspect equipment after return to determine what equipment is economically unrepairable. AMC makes every effort to identify this equipment prior to redeployment, to avoid costly transportation for equipment which would later be disposed of, and concentrates this effort on the major end items. Lesser end items do not receive the same level of scrutiny due to the time and cost involved, and some portion will undoubtedly be redeployed with units and as part of the retrograde of theater stocks, and be washed out upon a final technical inspection at the depot. This inspection could occur months after an item returns as the depots work through the massive amount of equipment that does return. The Army, in accordance with Office of Management and Budget (OMB) and the Office of the Secretary of Defense, policy only requests replacement after the loss (combat or washout) is confirmed. A washout cannot be confirmed until the technical inspection is complete.

It could take longer than 2 years if the force level in theater requires equipment to stay for a significant period of time, or if the pace of operations remains significantly high for an extended period.

General HULY. The entire cost to reset the Marine Corps cannot be executed in 1 fiscal year due to industrial base limitations. However, resetting the force can be executed with 2 years of funding for ground equipment and is phased accordingly. Due to the long lead times and industrial limits, aviation assets require additional phasing from fiscal year 2008 through fiscal year 2012.

In addition, much of the Marine Corps equipment is in theater. Until this equipment is returned to CONUS and evaluated it will be difficult to assess the extent

of damage (and whether the item can be repaired or needs replaced). Furthermore, the Marine Corps will require depot maintenance funding beyond the 2-year window to repair damaged equipment from continuing combat operations.

CORROSION PREVENTION AND MITIGATION

59. Senator AKAKA. General Lovelace and General Huly, your Services are about to repair or replace an enormous amount of equipment over the next few years due to the wear and tear of operations in Iraq and Afghanistan. What plans and procedures do you have in place to ensure that the new or refurbished equipment incorporates the best available corrosion prevention design, techniques, processes, and coatings to maximize the life of this new or like-new equipment?

General LOVELACE. The Army will use Corrosion Prevention Technologies (CPTs), in fiscal year 2007 and beyond, to protect tactical vehicles, aircraft and missile and armaments systems, and support equipment. Promising technology categories include clear water rinse systems, cable connector covers to extend the life of wiring harnesses, nondestructive testing to identify hidden corrosion while it is inexpensive to repair, and preventive maintenance treatments to increase corrosion resistance of tactical vehicles and support equipment. Approximately 11,000 tactical vehicles were completed in fiscal year 2005 and approximately 800 aircraft (one-third of Army's fleet) have undergone corrosion prevention during reset.

The Army's largest investment is in standardized processes to control corrosion at the Corrosion Control Centers. These centers are installed at a cost of approximately $2 million. Baseline operations costs are projected at $1.5 million per site ($0.5 million for facilities and $1.0 million for equipment applications) per year. Fixed facilities currently exist at Schofield Barracks, Hawaii; Fort Hood, Texas; Fort Polk, Louisiana; and Fort Bragg, North Carolina. Mobile application facilities exist at eight additional sites. Corrosion prevention treatments are also applied during reset and depot maintenance at Army depots and contractor sites. Discussions have been held to establish more Corrosion Control Centers.

Government Accountability Office reports have shown that the return on investment/cost avoidance for corrosion prevention efforts is at least four to one. The Army's CPC efforts will ensure that the Army efficiently meets the equipment readiness goals needed to sustain current and future contingency operations.

General HULY. The Marine Corps identifies the levels of corrosion and repairs required on all ground combat and support equipment using the Marine Corps Corrosion Assessment Programs (MCCAP). These programs are executed during scheduled and unscheduled maintenance cycles at the field and depot activities as well during a planned Corrosion Control and Coating (C3) program execution. The Marine Corps currently tracks over 20,000 pieces of equipment through these processes.

MENTAL HEALTH TREATMENT

60. Senator AKAKA. General Lovelace and General Huly, on March 1, 2006, the Washington Post reported that "More than one in three soldiers and marines who have served in Iraq later sought help for mental health problems." I believe it is crucial that we provide the mental health care our servicemembers need and deserve based on their service in these stressful assignments. I know from the oral testimony at this hearing that the Army and the Marine Corps understand the importance of this issue and are taking steps to address it. Please describe the extent to which you rely on leaders in the chain of command, mental health professionals, chaplains, and volunteers or others to address this need, including screening and counseling or other treatment.

General LOVELACE. Frontline leaders, the chain of command, unit chaplains, and unit mental health providers work together to provide unit training and early identification of soldiers suffering from combat stress and post-traumatic stress disorders. These personnel are supported by the mental health staff of Army hospitals and clinics in garrison and by Army combat stress control units during deployment. Combat stress control teams are comprised of licensed mental health providers who work with our leaders before deployment conducting training and consultation on combat fatigue prevention. Currently more than 200 mental health providers are deployed in Iraq to provide training and far-forward treatment of soldiers suffering from combat stress and other deployment mental health issues.

Post deployment mental health screening and deployment cycle mental health support is an important component to the mental health care we provide to soldiers and their families. Elements include a face-to-face Post-Deployment Health Assess-

ment (PDHA) by trained healthcare providers prior to redeployment and a second Post-Deployment Health Reassessment (PDHRA) at 3 to 6 months post redeployment. Soldiers who report mental health concerns or who screen positive for mental health problems are referred to appropriate specialists for further evaluation and treatment. Additionally, the MilitaryOne Source service is available 24 hours a day, 365 days a year for soldiers and families who have questions or concerns about mental health problems. OneSource counselors refer patients to military, civilian, or VA mental health providers as appropriate.

General HULY. The Marine Corps' extensive deployment history and combat experience have shown that the best opportunity to prevent combat/operational stress and assure timely intervention is through the involvement of the leadership and chain of command. Conversely, the medical community is responsible for the diagnosis and treatment of mental health conditions. The Commandant of the Marine Corps has advised leadership at every level of their responsibility to take care of all marines both on and off the battlefield.

Prior to deployment, there is training for Marine officers and SNCOs on preventing, identifying, and managing stress injuries of all kinds.

During deployment, there is mentorship by the small unit leaders who are the "center of gravity" of combat/operational stress control. Also in theater, there are identification and treatment services by Chaplains and our integrated Operational Stress Control and Readiness Program (OSCAR) teams. Prior to redeployment we provide additional training to Marine leaders concerning the stresses of return and reunion while providing similar briefing to both returning marines and waiting families. Navy medical personnel complete a PDHA and screen returning marines for signs of trouble, providing treatment as indicated.

After deployment, there are follow-on briefs for Marine leaders, and junior marines on identifying and obtaining help for post-deployment issues. Marines are provided additional safety and adjustment briefings to avoid predictable pitfalls like driving, alcohol, and social challenges. At this time, counseling resources from the OSCAR team, installation Marine Corps Community Services (MCCS), and DOD provided Managed Health Network are available to address problems should they arise.

After return and appropriate leave, additional training is provided leaders on types of delayed issues that might arise. Medical authorities conduct a follow-on Post Deployment Health Reassessment to provide another opportunity for marines to indicate new issues and provide appropriate level assistance as indicated.

The OSCAR team is the integrating link between leadership and behavioral health specialists within Marine units to provide early intervention and reduce the effects of combat stress throughout the deployment cycle, before, during, and after. This is a program unique to the Marine Corps, and it works. OSCAR keeps marines with low-level problems in their assigned duties and allows those with more severe conditions to immediately receive appropriate treatment. Note: Of the 66,484 marines deployed to Iraq between February 2004 and March 2005, 1,046 (1.6 percent) were evaluated and treated by Navy mental health personnel for stress reactions in theater; 1,015 (97 percent of those evaluated) were returned to duty with follow-up care; and 30 (3 percent of those evaluated) required medical evacuation back to CONUS. The stress of the remaining 98.4 percent of deployed marines was effectively managed in their units.

61. Senator AKAKA. General Lovelace and General Huly, do you have an adequate number of people trained to provide mental health services to meet your needs?

General LOVELACE. The Army does have an adequate number of personnel trained to provide mental health services. Army mental health providers are very busy both in theater and back in garrison. We currently have over 200 mental health troops in the Iraq theater. Their primary mission is education, prevention, and treatment of combat stress reactions. Army Medical Command has hired more civilian providers to help backfill Active-Duty personnel who have deployed and to accommodate additional demand for mental health services by soldiers and families.

General HULY. Yes. Over the past 3 years, the numbers of mental health professionals directly serving operational Marine units through the OSCAR program have significantly increased. Moreover, Navy mental health providers from medical treatment facilities across the country are augmenting mental health support services for marines in theater and in garrison. Mental healthcare providers are also available through the TRICARE network. Surges in mental healthcare needs in the Marine Corps have been met through services provided by the Managed Health Network, an Office of the Secretary of Defense-contracted support mechanism for supplemental mental health services. The Marine Corps also makes use of its intrinsic non-medical support capability resources in the identification and management of

stress problems, including unit Chaplains, both in garrison and forward deployed, and Marine Corps Community Services counseling centers on Marine Corps bases. The Marine Corps component of Military OneSource offers additional confidential mental health services to marines and their families. With Navy medicine, the Marine Corps is closely monitoring mental healthcare needs to ensure requirements remain fully met.

SECURITY AND STABILITY OPERATIONS

62. Senator AKAKA. General Huly, the Marines were not really designed for these long-duration operations the same way the Army was. In the future, do you expect the national command authorities will be just as likely to task a Marine unit as an Army unit with the type of missions you are now both performing in Iraq? If so, how might that affect how the Marine Corps is organized and equipped?

General HULY. Yes, the NDS describes a security environment composed of numerous and diverse challenges including a complex mix of states of concern, failing states that undermine regional stability and threaten our interests, and non-state actors who seek to destabilize legitimate governments similar to what we see today in Iraq. The NDS calls for more widely dispersed forces providing increased forward presence, security cooperation with an expanding set of international partners, swift preemption of non-traditional threats, and global response to crises in spite of challenges to access. Likewise, the 2006 QDR placed great emphasis on increasing global freedom of action, and preventative actions over reactive crisis response. Recent DOD guidance directs an increase in the ability of general purpose forces to conduct highly distributed and parallel "irregular warfare operations" while retaining the ability to defeat traditional threats.

The strategic guidance and recent operational experience have already institutionalized a shift in how the Marine Corps is organized and equipped. Over the last year, we have restructured to meet the requirements of the Unified Command Plan, the NDS, and combatant commanders. This effort has resulted in four major changes to our componency construct:

1. Establishment of Marine Forces Command as the Marine Corps component to the Joint Force Provider, U.S. Joint Forces Command (JFCOM).
2. Establishment of U.S. Marine Corps Forces, CENTCOM as a standalone component staff of approximately 100 Active-Duty marines.
3. Assignment of the Commander, Marine Forces Reserve and his staff as the Service component for U.S. Northern Command.
4. Establishment of a Marine component within MARSOC providing approximately 2,600 USMC/Navy billets within U.S. SOCOM, led by a Marine brigadier general. MARSOC will provide additional capability to SOCOM by adding forces that will conduct direct action, special reconnaissance, counterterrorism, and foreign internal defense.

In 2004, we conducted an extensive Force Structure Review recommending approximately 15,000 structure changes to improve the Marine Corps' ability to meet the long-term needs of the global war on terror and the emerging requirements of the 21st century. This effort was end strength and structure neutral—offsets to balance these increases in capabilities come from military to civilian conversions and the disestablishment and reorganization of less critical capabilities. We are implementing these changes and recently established a Capabilities Assessment Group to take a focused look at our operating forces in order to ensure we have properly incorporated lessons learned on the battlefield, QDR guidance, and the MARSOC standup. Our Reserve component structure initiatives will support the changing environment through the establishment of an Intelligence Support Battalion, a Security/Anti-Terror Battalion, and two additional Light Armored Reconnaissance (LAR) Companies. We are also augmenting existing capabilities in the areas of contingency contracting, civil affairs, command, control, communications, and computers, and additional reservists for high-demand/low-density Individual Mobilization Augmentation requirements.

The Marine Corps continues to examine other opportunities to augment needed capabilities. For example, we are assigning each artillery regiment a secondary mission to conduct CMO. To do this, each regiment will be augmented by a Reserve civil affairs capability. By assigning a secondary CMO mission to artillery units, we have augmented our high-demand/low-density civil affairs capability while retaining much needed artillery units. We will continue to look for additional innovative ways to maximize our capabilities within our existing force structure.

History reveals a pattern of marines aggressively adapting to circumstances, and we consider ourselves in the vanguard of instituting the changes required to address

the present challenge. From force structure revision, to urban training facilities, to cultural and language instruction, to leveraging emerging technologies, our efforts recognize the new character of conflict, and we are delivering both marines and units that thrive in the uncertainty which will likely define warfare throughout the coming decades.

LENGTH OF ROTATIONS

63. Senator AKAKA. General Vines and General Sattler, in your view, what are the relative merits of the Army's 1-year rotations and the Marines' 7-month rotations?

General VINES. The main relative merit of the current Army and Marine tour rotation policies is that they provide adequate time for our soldiers and marines to gain not only situational awareness, but situational understanding of the threat and the operating environment. Specifically, the Army's 1-year rotation allows us to effectively use the Total Army by maximizing the use of National Guard and Army Reserve Forces based on current statutory requirements for Reserve component mobilization. Although full 365-day tour lengths for both Active component and Reserve component units reduce the overall strain on the Active component force, the Army needs to continue to review tour lengths and shorten them as soon as feasible.

General SATTLER. The primary advantage of 7-month rotations versus those of 1-year duration is that the unit remains fresh and focused throughout their deployment. Units which remain for a full 12-month cycle under combat conditions are at risk of becoming tired. In addition, a unit deployed for 7 months does not rate/need the 2-week leave program; therefore the unit is at full strength the entire time in theater vice having a percentage always on leave. In addition, 7-month deployments mirror MEU and Unit Deployment Program models that have proven their effectiveness.

From a manpower management perspective, 7-month deployments also allow HQMC to manage personnel transfers and EASs without having to implement stop loss or stop move policies which negatively impact morale and retention. The 7-month force rotation plan for OIF/OEF is necessary to continue to support the National Military Strategic Plan (NMSP) for global war on terrorism while sustaining operational readiness and USMC Global Force Posture (GFP) for the MEUs and TACAIR Integrated Squadrons. It maintains the CMC-directed Force Rotation Ratio of 1:1 for 7 months deployed and 7 months at home station.

JOINT TRAINING

64. Senator AKAKA. General Vines and General Sattler, what did joint training contribute to your preparation for operations in CENTCOM, and where are we now compared to where you feel we should be on joint training?

General VINES. Joint training was critical to our success in CENTCOM. The joint seminars and exercises contributed training that was otherwise unavailable. They built key skills that enabled the XVIII Airborne Corps to efficiently interact with joint staffs and successfully command joint subordinates. There is always room for improvements in terms of exercise fidelity, modeling and simulation, and command, control, communications, computers, intelligence, surveillance, and reconnaissance architecture, but there are no glaring deficiencies in the joint training program.

General SATTLER. Standardized joint tactics and techniques and procedures and the success of joint professional education ensured the Joint Force in MNF-West was fully prepared to perform its mission without additional interservice training. An example of this ability to plan, plug in, and execute in a rapid fashion is the second battle of Fallujah. Multiple Army, Air Force, Navy, British, and Iraqi formations joined together a week before the battle and executed one of the largest urban combat operations since Hue City, Vietnam with a resounding victory and minimal fratricide incidents.

65. Senator AKAKA. General Vines and General Sattler, in preparing for your deployments, how much of your training was joint versus service-specific, and how much value was added by JFCOM in terms of things like mission rehearsal exercises or lessons learned?

General VINES. JFCOM does an exceptional job of preparing units for deployment in a joint environment. JFCOM successfully replicates the command structures, battle rhythms, and threats found in the theater. They force the training audience to function in a fully joint environment, providing training that the Army alone cannot provide. Among the objectives for the Corps pre-deployment Mission Rehearsal Ex-

ercise (MRX) were to conduct effects based operations, integrate coalition partners, operate in a collaborative environment, and integrate MNC–I and other Government agencies and Joint Forces. The JFCOM After-Action Report (AAR) of the MRX yielded the following quotes:

1. "Coordination between the Joint Planning Group and Future Operations Section improved dramatically throughout the exercise after initial challenges."
2. "The XVIII Airborne Corps made significant progress incorporating effects based operations (EBO) and effects based planning (EBP) in staff processes."
3. "The XVIII Airborne Corps has made great strides towards integration within joint/multinational and interagency environment in order to foster coalition relations and security arrangements; however it was a large hurdle to overcome traditional mindsets."

General SATTLER. At the operational level (corps and division), there have been a series of Command Post Exercises, MRX, and academic seminars that facilitated the focus of our efforts on the familiarization, integration, and synchronization of joint battle rhythms, processes, core competencies/capabilities, and reporting procedures. These have successfully reduced the friction of bringing together different Services to form a Multi-National Task Force. The MRX facilitates the higher headquarters' integration in the C2 environments and is adequate. These events also facilitate the sharing of lessons learned. The next MAGTF headquarters scheduled for deployment is currently undergoing another joint training evolution with its designated higher headquarters in preparation for the OIF 06 2008 deployment.

Pre-deployment training at the tactical level (battalion and regiment) consists primarily of service-specific training. These organizations train to mission essential tasks using joint standards in multiple skill areas. This approach has proven itself invaluable since Operation Desert Shield/Operation Desert Storm. One example of this joint performance standard focus is exemplified in our ability to provide terminal guidance for a variety of supporting fires such as aviation ordnance delivery. Specific to OIF and the MNF-West zone, Marine Forward Air Controllers, Navy and Marine Air Naval Gun Fire Teams, and Air Force Tactical Air Control Parties integrated, coordinated, and provided terminal guidance for a wide range of weapons delivered from a variety of aerial platforms from Army, Navy, Marine, and Air Force assets during the first and second battle of Fallujah, in Ramadi, in Najaf, and during asymmetric warfare operations that continue today.

Amplification and reinforcement of Marine Air Wing interoperability is accomplished at our Desert Talon Exercise. MAWTS–1 refines the tactics, techniques, and procedures and designs this training exercise to specifically support OIF, with the Aviation Combat Element Commander directly involved in the process.

RESERVE CALLUPS

66. Senator AKAKA. General Sattler, what was your guidance when preparing for your current deployment?

General SATTLER. My training guidance for marines and sailors preparing to deploy for the current deployment (OIF 05 2007) was no different for reservists than it was for my Active-Duty personnel. I emphasized that training would maximize individual and unit force protection, facilitate our ability to train Iraqi security forces, and prepare our warriors for the conduct of individual and collective tasks inherent in security, stability, and counterinsurgency operations. Our predeployment training program is comprehensive, mission essential task driven, and tailored to the changing environment by taking into account the latest lessons learned. As stated earlier in my response to Senator Inhofe (#26) our Reserve units possess the same capability as their Active-Duty counterparts.

67. Senator AKAKA. General Sattler, does the Marine Corps try to limit Marine Corps reservists to one mobilization, even though those mobilizations are shorter than the Army's?

General SATTLER. No. The Marine Corps considers all members of the Selected Reserve as volunteers for activation by virtue of their agreement to serve in either a SMCR unit or as an IMA. Our planning guidance called for a 12-month activation with a 7-month deployment followed by dwell time and, if required, a second activation within the 24 cumulative partial mobilization period authorized by EO 12223 of September 14, 2001. Unfortunately, OSD policy further restricts second activations to volunteers only regardless of amount of time remaining on the initial 24-

month activation period. This policy is impacting SMCR unit integrity, cohesion, and readiness.

68. Senator AKAKA. General Sattler, were you able to mobilize reservists who had been previously mobilized if this second mobilization would not cause their cumulative time on Active-Duty to exceed 24 months?

General SATTLER. Since the declaration of a Partial Mobilization (EO 12223 of 14 Sep 01), the Marine Corps planning guidance called for a 12-month activation period with a 7-month deployment followed by deactivation, a period of dwell time, and, if required, a second subsequent 12-month activation with the exception being select aviation units would be activated for a 2-year period. Published OSD policy is that all reservists can be activated for a total of 24 cumulative months. However, OSD has further restricted the policy by requiring those marines who have been previously activated to volunteer for a second subsequent activation, negating USMC planning assumptions.

TRAINING

69. Senator AKAKA. General Lovelace, as the Army increases the number of combat brigades, how are you going to fit this increased number of brigades through your three combat training centers?

General LOVELACE. Our training strategy to generate ready BCTs will continue to fully use the investments we have made in our three maneuver CTCs. These investments are significant, and have paid great dividends in terms of fully preparing soldiers for conflict and ensuring mission success since their inception in the early 1980s. To accommodate the increased number of BCTs, we plan to create the capability to export our CTC methodology to existing facilities throughout CONUS, or worldwide. This ETC will conduct a rigorous BCT level exercise and meet the unit Commander's exercise objectives, while providing feedback on unit performance. While we do not expect level of support in an ETC to match the support provided at a fixed site maneuver combat training center, it will definitely provide better training than units have at home station without external resources.

In summary, our CTC program will meet the modular force and Army Force Generation requirement for trained and ready BCTs through a combination of fixed and exportable training capabilities. Four simultaneous capabilities will meet this requirement. The Joint Readiness Training Center at Fort Polk and the National Training Center at Fort Irwin will remain superb, fixed site maneuver combat training centers. The Joint and Multinational Readiness Center at Hohenfels, Germany will develop an ETC in addition to their outstanding fixed site maneuver CTC mission. Once we identify the resources, we will create another ETC here in CONUS which will complete our ability to generate ready land forces to meet combatant commander requirements.

ARMY FORCE GENERATION

70. Senator AKAKA. General Lovelace, the Army intends to be able to continuously deploy 14 Active and 4 Reserve component combat brigades once you have reached your target of 70 modular combat brigades, while limiting deployments to 1 year in 3 for Active Forces and 1 year in 6 for the Guard and Reserve. Today you are providing those force levels only by deploying your units much more frequently. How many brigades could the Army supply today at your desired deployment ratios of 1 year in 3 for the Active component and 1 year in 6 for the Reserve component?

General LOVELACE. Once transformation to the Army Modular Force is complete, the Army will be able to continuously provide combatant commanders with a force of approximately 174,000 soldiers for steady state operations, which includes no less than 14 Active and 4 Reserve component combat brigades. These numbers are predicated upon assured access to the Reserve component.

Currently, the U.S. Army has approximately 125,000 soldiers deployed in support of OIF/OEF alone, which includes 16 combat brigades (13 Active component/3 Reserve component). To support this level of commitment as part of a large scale, long-duration irregular global war on terrorism campaign, the Army continues to operate at a surge level of effort. Operating at this surge level of effort creates a more rapid velocity of unit deployments; the Army continues to add capacity in its operating force to allow for greater periods of reset and training. Maintaining this high level of commitment in OIF/OEF, in addition to supporting all other enduring global force demands, requires prudent risk mitigation measures to ensure readiness and manage stress of the force.

CATEGORY IV RECRUITS

71. Senator AKAKA. General Lovelace, there have been press reports that the percentage of Category IV recruits has grown in recent months. How many Category IV recruits has the Army enlisted since the beginning of this fiscal year?

General LOVELACE. The DOD quality guidelines is for less than or equal to 4 percent of nonprior service enlistments to be Category IVs on the Armed Services Vocational Aptitude Battery. This metric is measured on an annual basis and reported to Congress. Against the Army's fiscal year 2006 mission of 80,000 (71,000 nonprior service) mission, the Army could recruit up top 2,840 soldiers to still be within the DOD guidelines. Through February, the Army has enlisted 1,889 soldiers who scored as Category IVs. The current Category IV percentage is 5 percent of the year-to-date accessions plus Delayed Entry Program. The Army is on the glidepath to be below 4 percent Category IV recruits by the end of the fiscal year.

72. Senator AKAKA. General Lovelace, how would you assess their impact on the quality of the force?

General LOVELACE. The majority of these soldiers are currently in the training base for their specific military occupational skill training. While it is still too early to fully assess their impacts on the quality of the force, the Army has not yet seen any negative indicators such as training base attrition. Let us also note that while these soldiers scored as Category IVs on their Armed Services Vocational Aptitude Battery, these soldiers are qualified to serve in the military and their military occupational skill. The Army has always had some level of Category IV soldiers. Through Army training and mentorship, these soldiers have served honorably and bravely.

MULTIPLE TOURS

73, 74, 75. Senator AKAKA. General Lovelace, what percentage of your units are on their second tours to Iraq or Afghanistan? What percentage of your units are on their third tours to Iraq or Afghanistan? What percentage of your units are on their fourth tours to Iraq or Afghanistan?

General LOVELACE. Due to existing mobilization policies, no Reserve component combat brigade has deployed to Iraq or Afghanistan more than once. Although not all as complete BCTs, approximately 93 percent of the enhanced Reserve component separate brigades have deployed or are mobilized to deploy in support of OIF and OEF.

Approximately 46 percent of the total Active component BCTs have deployed to Iraq or Afghanistan for two tours. Approximately 6 percent of the total Active component BCTs have deployed to Iraq or Afghanistan for three tours. None of the Active component BCTs have deployed four times.

SHORTAGE OF JUNIOR ENLISTED PERSONNEL

76. General Lovelace, I understand there is a shortage of personnel in the E1–E4 ranks. How is this shortfall affecting your ability to man your force structure?

General LOVELACE. Because of previous recruiting challenges and structure growth for NCOs, the Army is at 92.8 percent fill of the E1–E4 force structure (month-end February 2006). To mitigate the impact of the shortages at these grades, Headquarters Department of the Army Active Component Manning Guidance defines priorities and provides guidance regarding the assignment of personnel. Deploying units are the priority for fill (beginning 6 months prior to projected deployment dates), while nondeploying units and units without scheduled deployments assume the risk. Furthermore, recruiting targets are periodically adjusted to maintain higher fill levels in more critical specialties. Thus, the Army has limited ability to determine where shortages appear within the structure.

TIME REQUIRED TO RESET ARMY

77, 78. Senator AKAKA. General Lovelace, the Army has stated that it will take 2 years after the conclusion of operations in Iraq to reset your equipment, based on experience from Operation Desert Storm. Yet those operations were far less extensive, especially in their duration. What is the analytic basis for the Army's belief that reset can be accomplished within 2 years? How do you know it will not take 3 or 4 years?

General LOVELACE. The Army's best estimate is that it will take 2+ years to fully repair, replace, and recap equipment following the return from usage in the OIF/OEF.

The basis for the estimate is primarily factors involving:

(1) the amount of equipment in theater (~50 percent of the 600,000 major end items remain in theater and do not return each year).

(2) the rate at which this equipment will likely be extracted (it will not all come out over a 2–3 month period, it will take time to extract it, and because the equipment in the theater stocks is primarily 'owned' by Army Materiel Command, not the unit, and because it will largely go to the AMC depots for repair, the manpower will primarily be civilian or contractor as it retrogrades, it cannot be brought out as quickly as an equipped and manned BCT can be redeployed.

(3) the time required to inspect equipment after return to determine what equipment is economically unrepairable. AMC makes every effort to identify this equipment prior to redeployment, to avoid costly transportation for equipment which would later be disposed of, and concentrates this effort on the major end items. Lesser end items do not receive the same level of scrutiny due to the time and cost involved, and some portion will undoubtedly be redeployed with units and as part of the retrograde of theater stocks, and be washed out upon a final technical inspection at the depot. This inspection could occur months after an item returns as the depots work through the massive amount of equipment that does return. The Army, in accordance with OMB and the Office of the Secretary of Defense, policy only requests replacement after the loss (combat or washout) is confirmed. A washout cannot be confirmed until the technical inspection is complete.

It could take longer than 2 years if the force level in theater requires equipment to stay for a significant period of time, or if the pace of operations remains significantly high for an extended period.

[Whereupon at 11:14 a.m., the subcommittee adjourned].

DEPARTMENT OF DEFENSE AUTHORIZATION FOR APPROPRIATIONS FOR FISCAL YEAR 2007

WEDNESDAY, APRIL 5, 2006

U.S. SENATE,
SUBCOMMITTEE ON READINESS
AND MANAGEMENT SUPPORT,
COMMITTEE ON ARMED SERVICES,
Washington DC.

IMPROVING CONTRACTOR INCENTIVES

The subcommittee met, pursuant to notice, at 3:02 p.m. in SR–222, Russell Senate Office Building, Senator John Ensign (chairman of the subcommittee) presiding.

Committee members present: Senators Ensign, Thune, and Akaka.

Majority staff members present: Ambrose R. Hock, professional staff member; Gregory T. Kiley, professional staff member; and Elaine A. McCusker, professional staff member.

Minority staff members present: Peter K. Levine, minority counsel; and Michael J. McCord, professional staff member.

Staff assistants present: Benjamin L. Rubin and Pendred K. Wilson.

Committee members' assistants present: Christopher J. Paul, assistant to Senator McCain; D'Arcy Grisier and Alexis Bayer, assistants to Senator Ensign; and Clyde A. Taylor IV, assistant to Senator Chambliss.

OPENING STATEMENT OF SENATOR JOHN ENSIGN, CHAIRMAN

Senator ENSIGN. This afternoon, the Subcommittee on Readiness and Management Support meets to receive testimony on acquisition policy issues in the review of the National Defense Authorization Request for Fiscal Year 2007.

I am pleased to welcome today's witnesses for this hearing. Secretary Kenneth Krieg, who is Under Secretary of Defense for Acquisition, Technology, and Logistics; and David Walker, the Comptroller General of the United States. The purpose of this hearing is to specifically discuss improving contractor incentives to better achieve Department of Defense (DOD) program objectives.

The subcommittee is particularly interested in reviewing the results of the December 19, 2005, Government Accountability Office (GAO) report titled, "Defense Acquisitions: DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes."

We're also interested in profit policies, contract structures, and funding approaches that can be used to enhance contractor performance.

Senator Akaka and I asked GAO to review this issue after reading press accounts that the Air Force's top acquisition officials stated the Air Force's formula for setting contractor performance bonuses was not working. GAO has concluded that this problem goes well beyond the Air Force, and identified over $8 billion in potential waste in the 5 years of review. Without changing, the DOD risks billions more taxpayer dollars each year. We cannot continue to do business as usual. If we pay incentives or bonuses to contractors, we should be paying for performance, not for nonperformance.

GAO has identified a problem, but what the committee needs to further explore is why this problem is occurring. Are there budgetary incentives, or a lack of attention that are driving DOD to pay for nonperformance? Do programs lose program dollars if they do not pay these bonuses? Do we need legislation to change the current system? How is DOD working to change the use of incentive and award fees to achieve DOD performance objectives?

Contractor incentives and award incentive fees need to be placed in the context of overall acquisition reform. With that in mind, I've asked Mr. Walker to update the subcommittee on the status of DOD's efforts to address high risk acquisition issues identified by GAO. In addition, I've asked Secretary Krieg to be prepared to discuss where we stand on planned DOD acquisition reform efforts as a result of the Defense Acquisition Performance Assessment (DAPA) and the Quadrennial Defense Review (QDR). Mr. Walker and Secretary Krieg testified on acquisition reform before the House Armed Services Committee this morning, so this topic should be fresh on their minds.

Thank you, gentlemen. I also look forward to hearing about the press reports today about James Finley, the Pentagon's Deputy Under Secretary for Acquisition, who told military contracting officials in advance of the hearing today, that they must limit giving defense contractors a second chance to win bonuses. Quote, "performance that is less than satisfactory is not entitled to any award fees." We look forward to hearing about the press reports, if they are true, and what exactly is going on.

So I turn to my colleague, Senator Akaka. I will be leaving the hearing in about 5 minutes and will be turning the gavel over to him. I have to be on the floor for probably 15 minutes or so. We work great together and have a great deal of mutual respect. But then, I will come back because I have a lot of questions as well.

[The prepared statement of Senator Ensign follows:]

PREPARED STATEMENT BY SENATOR JOHN ENSIGN

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Thank you gentlemen. I look forward to today's testimony on this very important topic of how DOD can improve its acquisition process that continues to be of interest to the committee.

Senator ENSIGN. Senator Akaka?

STATEMENT OF SENATOR DANIEL K. AKAKA

Senator AKAKA. Thank you very much, Mr. Chairman. I look forward to working with you and I want you to know, hearing your statement, I do share your concerns as well. Once again, the subcommittee is focusing on a problem of critical importance to DOD and, of course, our taxpayers.

Today, we will hear from GAO that DOD paid contractors more than $8 billion in award fees over a 4-year period without regard to the quality of the contractors' performance. According to GAO, DOD's practices with regard to award fees, and I'm quoting—"undermine the effectiveness of fees as a motivational tool and marginalizes their use in holding contractors accountable for acquisition outcomes. They also serve to waste taxpayer funds."

Mr. Chairman, you and I requested this review 2 years ago. We were concerned about DOD's use of award fees because of reports that both the Air Force and the Navy had paid out huge award fees on major acquisition programs that were running far behind schedule and over budget. At that time, the Air Force Acquisition Executive stated that the failure to properly link award fees to contractor performance was ridiculous and estimated that the Air Force could save more than $1 billion a year by reconstructing its award-fee program.

The testimony we will hear today shows that he may have been right. No fewer than 24 of DOD's major weapon systems have experienced a cost growth of 50 percent or more over original estimates. Some have seen cost growth of 100 percent, 200 percent, or even more. Yet, we continue to pay contractors huge award fees for their performance on these systems.

I hope that we will be able to work with DOD to restructure contractor incentives and ensure that contractors are paid award fees only if they've earned these fees through superior performance.

Again, I thank the chairman for holding this hearing and I look forward to hearing the testimony of our witnesses.

[The prepared statement of Senator Akaka follows:]

PREPARED STATEMENT BY SENATOR DANIEL K. AKAKA

Mr. Chairman, thank you for calling today's hearing. Once again, the subcommittee is focusing on a problem of critical importance to the Department of Defense (DOD) and the taxpayers.

Today, we will hear from the Government Accountability Office (GAO) that DOD paid contractors more than $8 billion in award fees over a 4-year period without regard to the quality of the contractors' performance. According to GAO, DOD's practices with regard to award fees "undermine the effectiveness of fees as a motivational tool and marginalize their use in holding contractors accountable for acquisition outcomes. They also serve to waste taxpayer funds."

Mr. Chairman, you and I requested this review 2 years ago. We were concerned about DOD's use of award fees because of reports that both the Air Force and the Navy had paid out huge award fees on major acquisition programs that were running far behind schedule and over budget. At that time, the Air Force acquisition executive stated that the failure to properly link award fees to contractor performance was "ridiculous" and estimated that the Air Force could save more than $1 billion a year by restructuring its award-fee program.

The testimony we will hear today shows that he may have been right. No fewer than 24 of DOD's major weapon systems have experienced a cost growth of 50 percent or more over original estimates. Some have seen cost growth of 100 percent, 200 percent, or more. Yet, we continue to pay contractors huge award fees for their performance on these systems.

I hope that we will be able to work with the DOD to restructure contractor incentives and ensure that contractors are paid award fees only if they earn these fees through superior performance.

I look forward to the testimony of our witnesses.

Senator AKAKA. On behalf of the chairman, I welcome our witnesses: Honorable Kenneth J. Krieg, Under Secretary of Defense for Acquisition, Technology, and Logistics; and the Honorable David M. Walker, Comptroller General, United States Government Accountability Office. We look forward to your testimony.

Mr. Walker.

STATEMENT OF HON. DAVID M. WALKER, COMPTROLLER GENERAL, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

Mr. WALKER. Thank you, Senator Akaka. It's a pleasure to be back before the subcommittee to talk about GAO's latest report on award and incentive fees. This is the second hearing that Secretary Krieg and I have done today, and as far as I know, it's the last one, but we'll see.

At the outset, I would like to thank you and the other members of this subcommittee for your long history of leadership on DOD acquisition issues. Also, for you willingness to support GAO's work in the area of best practices for weapon systems acquisition, and in your continued support for our work, and DOD's efforts to embrace a more strategic sourcing approach as well as service acquisition reform.

There have been a number of efforts that have taken place within DOD. Progress is being made in certain regards and I know that Secretary Krieg and others at the DOD are dedicated to improving the status quo. At the same point in time as has been said, we face

longstanding problems that candidly are not going to be fixed overnight. The area of incentive and award fees is a subset of a much broader acquisition challenge, which I'm happy to get into the broader challenge later, but I'm going to focus my remarks now on the incentive and award fees.

I would respectfully request, Mr. Chairman, that all of my statement be included in the record and I'll just hit a few of the highlights now, if that's okay with you, Senator Akaka.

Senator AKAKA. Your statements will be placed in the record.

Mr. WALKER. Thank you, Senator. DOD is now spending well over $200 billion a year to acquire products and services that includes anything from spare parts to the development of major weapons systems. This, at a time where we have significant and mounting fiscal challenges. This means that the DOD must focus on maximizing return on investment in order to provide the warfighter with needed capabilities at best value for the taxpayer. In an effort to encourage Defense contractors to perform in an innovative, efficient, and effective manner, DOD gives its contractors the opportunity to collectively earn billions of dollars through monetary incentives known as award and incentive fees. Using these incentives properly and in concert with sound acquisition practices is key to maximizing value, minimizing waste, and getting our military personnel what they need, when and where they need it. It is unfortunate that, historically, the DOD has not used these incentives effectively.

DOD's use of award and incentive fees is an issue at the nexus of two of GAO's high risk areas relating to DOD. Specifically, DOD contract management and DOD weapons systems acquisition. Contract management has been a longstanding business management challenge for the Department. DOD is the government's largest purchaser, yet it's often unable to assure it's using sound business practices to acquire the goods and services needed to meet the warfighter's needs. DOD's use of award and incentive fees could easily fall into the same category. For DOD weapon systems acquisitions, the persistent and longstanding nature of acquisition problems has perhaps made a range of key players both in the Pentagon and Congress complacent about cost growth, schedule delays, quantity reductions, and performance shortfalls in weapon system programs. DOD's strategies for incentivizing its contractors, especially on weapon systems development programs, reflect this complacency and are symptomatic of the lack of discipline, oversight, transparency, and accountability in DOD's acquisition system. This is a longstanding problem. It is not new.

As a result, DOD's programs routinely engage in practices that do not hold contractors accountable for achieving desired acquisition outcomes and that is the key word, "outcomes." Therefore, they serve to undermine efforts to motivate positive contractor performance based upon results.

Specifically, DOD's award-fee practices suffer from three main weaknesses. Number one, DOD generally does not evaluate contractors based upon award-fee criteria that are directly related to key acquisition outcomes such as meeting costs and schedule goals, and delivering desired capabilities to meet the warfighter's needs. In addition, the link between the elements of contractor perform-

ance that are included in the criteria and these outcomes, is not always clear. As a result, as our report noted, DOD has paid out an estimated $8 billion in award-fees over the life of the contracts that were in our sample population, regardless of whether acquisition outcomes fell short, met, or exceeded DOD's expectations.

Number two, DOD programs engage in practices that undermine efforts to motivate excellent contractor performance by regularly paying contractors a significant portion of the available fee for what award-fee plans describe as "acceptable, average, expected, good, or satisfactory," performance. About half of the contracts in the population we studied, allowed 70 percent or more of the available fee to be paid for this level of performance. Importantly, the definitions for these levels of performance are not always clear, consistent, or even credible.

Number three, DOD award-fee practices do not promote accountability. DOD programs gave contractors on about half of the award-fee contracts in the population we studied, at least a second opportunity to earn an estimated $669 million in initially unearned or deferred fees.

Taken together, DOD's acquisition, business, and contract management practices, in our view, are contrary to the full purpose of performance based contracting concepts. They have resulted and, if not corrected in both form and practice, will continue to result in wasting billions of dollars in taxpayer funds. These practices are both inappropriate and unsustainable, and the time to change is now.

I note that in response to our report, DOD concurred with three of the recommendations that we made and they partially concurred with the other four recommendations. I also know that last week, the DOD issued a policy memorandum on an award fee of contracts that take steps towards addressing several of the recommendations contained in our report, and that the DOD has indicated that further actions are planned to address the remaining recommendations.

This guidance is a positive first step. But like so many prior DOD concurrences, its effectiveness will ultimately be determined by how well it is actually implemented. Many times things look great on paper, but the key is whether it is effectively implemented. Identifying who will be responsible for ensuring it is carried out and how progress will be monitored and measured, are key ingredients missing in the new guidance. We encourage the DOD to fully implement our recommendations, including requiring an approving official to review the award fee of provisions and new contracts, developing a mechanism to capture award and incentive fee data, and developing performance measures to evaluate the effect use of these fees.

While implementing our recommendations on award and incentive fees will not fix the broader problems that DOD faces in the management of weapons systems or service acquisitions, it can serve to increase transparency and accountability for the fees that it pays, and increase contractor accountability for achieving desired results. In particular, moving toward more outcome-based award-fee criteria would give contractors an increased stake in helping DOD to develop more realistic targets upfront, or risk receiving

less fee when unrealistic cost, schedule, and performance targets are not met.

To make this new approach in incentive fees and award fees function as intended, DOD also needs to address the more fundamental issues related to its management approach such as the lack of a sound business case, lack of well-defined requirements that can stand the test of time, lack of product knowledge at key junctions in development, including that lack of adequate technology maturity, and program instability caused by changes in requirements, as well as a lack of stable funding.

Working in concert, these steps can help DOD set the right conditions for more successful acquisition outcomes and make more efficient use of its resources in what is sure to be a more fiscally constrained environment, as our Nation approaches the retirement of the baby boom generation.

Thank you, Senator Akaka.

[The prepared statement of Mr. Walker follows:]

PREPARED STATEMENT BY DAVID M. WALKER

Mr. Chairman and members of the subcommittee: I am pleased to be here today to discuss the Department of Defense's (DOD) use of monetary incentives known as award and incentive fees. With DOD spending over $200 billion annually to acquire products and services that include everything from spare parts to the development of major weapon systems, our numerous, large, and mounting fiscal challenges demand that DOD maximize its return on investment and provide the warfighter with needed capabilities at the best value for the taxpayer. In an effort to encourage defense contractors to perform in an innovative, efficient, and effective way, DOD gives its contractors the opportunity to collectively earn billions of dollars through monetary incentives known as award and incentive fees. Using these incentives properly, in concert with sound acquisition practices, is a key to minimizing waste, maximizing value, and getting our military personnel what they need, when and where they need it. Unfortunately, DOD has not used these incentives effectively. How they have been used and how we believe they should be used is the focus of my statement today.

To put the issues related to DOD's use of award and incentive fees in context, I want to step back and look at some of the broader management challenges that confront DOD. The Department is facing a significant number of recurring problems in managing its major weapon acquisitions. Although U.S. weapons are the best in the world, DOD's acquisition process for weapons programs consistently yields undesirable consequences—dramatic cost increases, late deliveries to the warfighter, and performance shortfalls. These problems occur, in part, because DOD tends to consistently overpromise and underdeliver in connection with major acquisition efforts. In addition, DOD's weapons programs do not capture, early on, the requisite knowledge that is needed to efficiently and effectively manage program risks. For example, programs lack clearly defined and stable requirements, move forward with unrealistic program cost and schedule estimates, use immature technologies in launching product development, and fail to solidify design and manufacturing processes at appropriate junctures in development. As a result, wants are not always distinguished from needs; expectation gaps are the norm; problems often surface late in the development process; and fixes tend to be much more costly than if they were caught earlier.

Cost increases incurred while developing new weapon systems typically mean that DOD cannot produce as many of those weapons as intended nor can it be relied on to deliver them to the warfighter when promised and with the initially advertised capabilities. In addition, military operations in Afghanistan and Iraq are consuming a large share of DOD resources and causing the Department to invest more money sooner than expected to replace or fix existing weapons. Meanwhile, DOD is intent on transforming military operations and currently has its eye on multiple mega-systems that are expected to be the most expensive and complex ever. These new desires and longstanding acquisition and contract management challenges are running head-on into the Nation's current imprudent and unsustainable fiscal path. At the same time, DOD's numerous business management weaknesses continue to result in reduced efficiencies and effectiveness that waste billions of dollars every

year. These business management weaknesses touch on all of DOD's major business operations, ranging from the department's inadequate management of its overall business transformation effort to decades-old financial management and information technology problems to various contracting and selected supply chain challenges. In fact, all these areas and more are on the Government Accountability Office's (GAO) 2005 "high-risk" list of programs and activities that need urgent attention and fundamental transformation to ensure that our national government functions in the most economical, efficient, and effective manner possible.

DOD's use of award and incentive fees is an issue at the nexus of two of these high-risk areas—DOD contract management and DOD weapon system acquisition. Contract management has been a longstanding business management challenge for the Department. DOD is the government's largest purchaser, yet it is often unable to assure that it is using sound business practices to acquire the goods and services needed to meet the warfighter's needs. For example, we have found that DOD has not used various contracting tools and techniques effectively—such as performance-based service contracting, multiple-award task order contracts, purchase cards, and, most recently, award and incentive fees. For DOD weapon system acquisitions, we have found the persistent and longstanding nature of acquisition problems has perhaps made a range of key players both in the Pentagon and Congress complacent about cost growth, schedule delays, quantity reductions, and performance shortfalls in weapon system programs. DOD's strategies for incentivizing its contractors, especially on weapon system development programs, reflect this complacency and are symptomatic of the lack of discipline, oversight, transparency, and accountability in DOD's acquisition process. As a result, DOD programs routinely engage in practices that undermine efforts to motivate positive contractor performance and that do not hold contractors accountable for achieving desired acquisition outcomes, such as meeting cost and schedule goals and delivering desired capabilities to the warfighter.

Specifics follow:

- DOD generally does not evaluate contractors based on award-fee criteria that are directly related to key acquisition outcomes. In addition, the link between the elements of contractor performance that are included in the criteria and these outcomes is not always clear. As a result, DOD paid out an estimated $8 billion in award fees over the life of the contracts in our study population (from their inception through our data collection phase),[1] regardless of whether acquisition outcomes fell short of, met, or exceeded DOD's expectations.
- DOD programs engage in practices that undermine efforts to motivate excellent contractor performance by regularly paying contractors a significant portion of the available fee for what award-fee plans describe as "acceptable, average, expected, good, or satisfactory" performance. Although the definition of this level of performance varies by contract, these definitions are generally not related to outcomes. About half of the contracts in our sample, allowed 70 percent or more of the available fee to be paid for this level of performance.
- DOD award-fee practices do not promote accountability. DOD programs gave contractors on about half of the award-fee contracts in our study population at least a second opportunity to earn an estimated $669 million in initially unearned or deferred fees.

Taken together, DOD's acquisition, business, and contract management practices are contrary to the purpose of performance-based contracting concepts and have resulted and, if not corrected in both form and practice, will continue to result in wasting billions of dollars in taxpayer funds. My statement today will focus on what steps DOD must take to strengthen the link between monetary incentives and acquisition outcomes and by extension increase the transparency and accountability of DOD programs for fees paid and of contractors for results achieved. This testimony draws upon our recently issued report on DOD's use of award and incentive fees as well as the GAO High-Risk series and our body of work on weapon system acquisitions.

GAO's many acquisition-related reports over the years raise serious questions about the reasonableness, appropriateness, and affordability of DOD's current investment plans; the soundness of the acquisition process which implements those

[1] Estimates of total award fees earned are based on all evaluation periods held from the inception of our sample contracts through our data collection phase, not just those from fiscal years 1999 through 2003. The oldest award-fee contracts in our sample were signed in fiscal year 1991. For some contracts, the data collection phase ended as early as November 2004. For at least one contract, data collection was not complete until April 2005.

plans; and the effectiveness of the practices DOD uses to manage its contractors, including the use of award and incentive fees. These reports collectively present a compelling case for change.

Appendix I contains information about the scope and methodology for GAO–06–66, Defense Acquisitions: DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes. The work was conducted in accordance with generally accepted government auditing standards.

BACKGROUND

Federal agencies, including DOD, can choose among numerous contract types to acquire products and services. One of the characteristics that vary across contract types is the amount and nature of the fee that agencies offer to the contractor for achieving or exceeding specified objectives or goals. Of all the contract types available, only award- and incentive-fee contracts allow an agency to adjust the amount of fee paid to contractors based on the contractor's performance.[2]

Federal Acquisition Regulations (FARs) state that award- and incentive-fee contracts should be used to achieve specific acquisition objectives, such as delivering products and services on time or within cost goals and with the promised capabilities. For award-fee contracts, the assumption underlying the regulation is that the likelihood of meeting these acquisition objectives will be enhanced by using a contract that effectively motivates the contractor toward exceptional performance. Typically, award-fee contracts emphasize multiple aspects of contractor performance in a wide variety of areas, such as quality, timeliness, technical ingenuity, and cost-effective management.[3] These areas are susceptible to judgmental and qualitative measurement and evaluation, and as a result, award-fee criteria and evaluations tend to be subjective.[4] Table 1 provides a description of the general process for evaluating the contractor and determining the amount of award fee earned.

TABLE 1: GENERAL PROCESS FOR DETERMINING AWARD-FEE AMOUNTS

1. DOD officials provide input on the contractor's performance for an evaluation period that just ended.
2. Program officials compile data and prepare briefing or summary for award-fee evaluation board.[a]
3. Award-fee evaluation board convenes meeting; contractor has option to submit a self-assessment and brief the board.
4. Award-fee evaluation board considers all the input and recommends a fee rating for the contractor.
5. Fee-determining official (usually outside the program) makes an initial fee determination and notifies contracting officer.[b]
6. Contracting officer notifies contractor of initial determination; contractor has the option to appeal the decision to the fee-determining official.
7. Fee-determining official makes final determination, including whether to roll over unearned fee, and notifies contracting officer.[c]
8. Contracting officer issues final determination to contractor and processes a contract modification authorizing payment.

Sources: Army Contracting Agency Award-Fee Handbook, Air Force Award-Fee Guide, Navy/Marine Corps Award-Fee Guide (data); GAO (analysis).

[a] Award-fee evaluation board members may include personnel from key organizations knowledgeable about the award-fee evaluation areas, such as: engineering, logistics, program management, contracting quality assurance, legal, and financial management; personnel from user organizations and cognizant contract administration offices; and the local small business office in cases where subcontracting goals are important. On major weapons programs, the boards are generally made up of personnel from the program office.

[b] The fee-determining official is generally at a higher level organizationally than those directly involved in the evaluation of the contractor (e.g. award-fee board members). For instance, this official can be the program executive officer for a weapons system acquisition contract or a garrison commander on a base support services contract.

[c] Rollover is the practice of moving unearned award fee from one evaluation period to a subsequent evaluation period or periods, thus providing the contractor an additional opportunity to earn previously unearned fee.

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[2] Other contract types do not provide this same level of control over fees and profits. The two most prevalent DOD contract types (based on the number of contract actions) are firm-fixed-price and cost-plus-fixed-fee. Under firm-fixed-price contracts, DOD and the contractor agree on a price and the contractor assumes full responsibility for all costs and the resulting profit or loss. Under cost-plus-fixed-fee contracts, DOD provides payment for the contractor's allowable incurred costs, to the extent prescribed in the contract, and the contractor receives a fee that was negotiated and fixed at the inception of the contract.

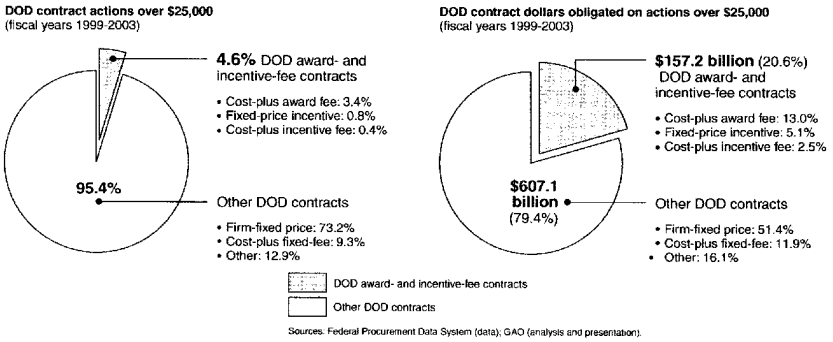
[3] Award-fee contracts are intended to be flexible, so award-fee plans allow contracting and program officials to change the fee criteria in these areas and the weight given to each criterion from evaluation period to evaluation period.

[4] The Navy Award-Fee Guide suggests that objective measures also be utilized, to the maximum extent possible, to support the subjective evaluation of the contractor's performance.

Prevalence and Use of Award and Incentive Fees

From fiscal year 1999 through fiscal year 2003, award- and incentive-fee contract actions[5] accounted for 4.6 percent of all DOD contract actions over $25,000. However, when taking into account the dollars obligated—award- and incentive-fee contract actions accounted for 20.6 percent of the dollars obligated on actions over $25,000, or over $157 billion, as shown in figure 1. Our sample of 93 contracts includes $51.6 billion, or almost one-third, of those obligated award- and incentive-fee contract dollars.[6] These obligations include award- and incentive-fee payments as well as other contract costs.

Figure 1: Prevalence of Award- and Incentive-Fee Contracts, Fiscal Years 1999-2003



Sources: Federal Procurement Data System (data); GAO (analysis and presentation).

DOD utilized the contracts in our sample for a number of purposes. For example, research and development contracts accounted for 51 percent (or $26.4 billion) of the dollars obligated against contracts in our sample from fiscal years 1999 through 2003; while non-research-and-development services accounted for the highest number of contracts in our sample. Further, we estimate that most of the contracts and most of the dollars in our study population are related to the acquisition of weapon systems.

DOD has the flexibility to mix and match characteristics from different contract types. The risks for both DOD and the contractor vary depending on the exact combination chosen, which, according to the FAR, should reflect the uncertainties involved in contract performance. Based on the results from our sample, about half of the contracts in our study population were cost-plus-award-fee contracts. The theory behind these contracts is that although the government assumes most of the cost risk, it retains control over most or all of the contractor's potential fee as leverage. On cost-plus-award-fee contracts, the award fee is often the only source of potential fee for the contractor. According to defense acquisition regulations, these contracts can include a base fee—a fixed fee for performance paid to the contractor—of anywhere from 0 to 3 percent of the value of the contract;[7] however, based on our sample results, we estimate that about 60 percent of the cost-plus-award-fee contracts in our study population included zero base fee.[8] There is no limit on the maximum percentage of the value of the contract that can be made available in award fee, although the 20 percent included in the Space-Based Infrared Radar System High (SBIRS-High) development contract we examined was outside the norm.

[5] Contract actions include any action related to the purchasing, renting, or leasing of supplies, services, or construction. Contract actions include definitive contracts; letter contracts; purchase orders; orders made under existing contracts or agreements; and contract modifications, which would include the payment of award and incentive fees.

[6] These contracts were selected as part of a probability sample of 93 contracts from a study population of 597 DOD award-fee and incentive-fee contracts that were active between fiscal years 1999 and 2003 and had at least one contract action coded as cost-plus-award-fee, cost-plus-incentive-fee, fixed-price-award-fee, or fixed-price incentive valued at $10 million or more during that time.

[7] The two F/A–22 development contracts in our sample included a 4-percent base fee. The program office received a deviation from the Defense FAR Supplement, which allows for a maximum of 3-percent base fee.

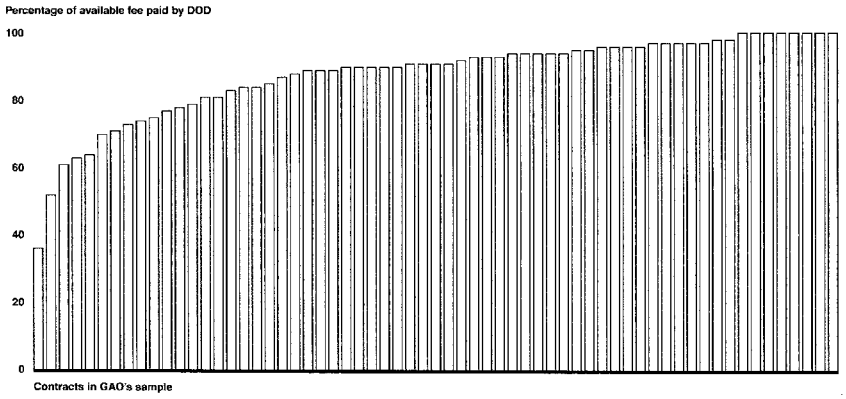
[8] The 95 percent confidence interval surrounding this estimate ranges from 46 percent to 73 percent.

The available award fees on all the award-fee contracts in our study population typically ranged from 7 to 15 percent of the estimated value of the contract.

A SYSTEM IN NEED OF REFORM

DOD's use of award and incentive fees is symptomatic of an acquisition system in need of fundamental reform. DOD's historical practice of routinely paying its contractors nearly all of the available award fee creates an environment in which programs pay and contractors expect to receive most of the available fee, regardless of acquisition outcomes. This is occurring at a time when DOD is giving contractors increased program management responsibilities to develop requirements, design products, and select major system and subsystem contractors. Based on our sample, we estimate that for DOD award-fee contracts, the median percentage of available award fee paid to date (adjusted for rollover)[9] was 90 percent, representing an estimated $8 billion in award fees for contracts active between fiscal years 1999 and 2003. Estimates of total award fees earned are based on all evaluation periods held from the inception of our sample contracts through our data collection phase, not just those from fiscal years 1999 through 2003.[10] Figure 2 shows the percentage of available fee earned for the 63 award-fee contracts in our sample.

Figure 2: Percentage of Available Fee Paid to Date for 63 Award-Fee Contracts in GAO's Sample



Sources: DOD submissions to GAO and contract documentation (data); GAO (analysis and presentation).

The pattern of consistently high award-fee payouts is also present in DOD's fee decisions from evaluation period to evaluation period. This pattern is evidence of reluctance among DOD programs to deny contractors significant amounts of fee, even in the short term. We estimate that the median percentage of award fee earned for each evaluation period was 93 percent and that the contractor received 70 percent or less of the available fee in only 9 percent of the evaluation periods and none of the available fee in only 1 percent of the evaluation periods.

A Case for Change: Moving Toward Outcome-Based Award-Fee Criteria

Recommendations	DOD Response
Move toward more outcome-based award-fee criteria that are both achievable and promote accountability for positive acquisition outcomes.	DOD issued a policy memo on March 29, 2006, emphasizing the need to link award fees to desired program outcomes.

Award fees have generally not been effective at helping DOD achieve its desired acquisition outcomes, in large part, because award-fee criteria are not linked to desired acquisition outcomes, such as meeting cost and schedule goals and delivering desired capabilities. Instead, DOD programs structure award fees to focus on the

[9] When calculating the percentage of award fee paid (i.e. percentage of award fee paid = total fee paid to date/(total fee pool—remaining fee pool)), we included rolled-over fees in the remaining fee pool when those fees were still available to be earned in future evaluation periods.

[10] The oldest award-fee contracts in our sample were signed in fiscal year 1991. For some contracts, the data collection phase ended as early as November 2004. For at least one contract, data collection was not complete until April 2005.

broad aspects of contractor performance, such as technical and management performance and cost control, that they view as keys to a successful program. In addition, elements of the award-fee process, such as the frequency of evaluations and the composition of award-fee boards, may also limit DOD's ability to effectively and impartially evaluate the contractor's progress toward acquisition outcomes. Most award-fee evaluations are time-based, generally every 6 months, rather than event-based; and award-fee boards are made up primarily of individuals directly connected to the program. As a result of all these factors, DOD programs frequently paid most of the available award fee for what they described as improved contractor performance, regardless of whether acquisition outcomes fell short of, met, or exceeded DOD's expectations.

High award-fee payouts on programs that have fallen or are falling well short of meeting their stated goals are also indicative of DOD's failure to implement award fees in a way that promotes positive performance and adequate accountability. Several major development programs—accounting for 52 percent of the available award-fee dollars in our sample and 46 percent of the award-fee dollars paid to date—are not achieving or have not achieved their desired acquisition outcomes, yet contractors received most of the available award fee. These programs—the Comanche helicopter, F/A–22 and Joint Strike Fighter aircraft, and the SBIRS-High satellite system—have experienced significant cost increases, technical problems, and development delays, but the prime systems contractors have received 85, 91, 100, and 74 percent of the award fee, respectively to date (adjusted for rollover), totaling $1.7 billion (see table 2).

TABLE 2: PROGRAM PERFORMANCE AND AWARD-FEE PAYMENTS ON SELECTED DOD DEVELOPMENT PROGRAMS

Acquisition outcomes	Comanche reconnaissance attack helicopter	F/A–22 Raptor tactical fighter aircraft	Joint Strike Fighter tactical fighter aircraft	Space-Based Infrared System High
Research and development cost increase over original baseline.	$3.7 billion 41.2 percent	$10.2 billion 47.3 percent	$10.1 billion 30.1 percent	$3.7 billion 99.5 percent
Acquisition cycle time increase over original baseline.	33 months 14.8 percent	27 months 13.3 percent	11 months 5.9 percent	More than 12 months [a]
Number of program rebaselines	1 [b]	14	1	3
Total award fee paid to prime systems contractor.	$202.5 million paid through 2004	$848.7 million	$494.0 million	$160.4 million [c]
Percentage of award fee paid to prime systems contractor (adjusted for rollover).[d]	85 percent of available fee	91 percent	100 percent	74 percent
Total award fee paid to prime engine contractor.	No engine contractor	$115 million paid through 2004	$35.8 million	No engine pcontractor
Percentage of award fee paid to prime engine contractor (adjusted for rollover).[d]	N/A	89 percent of the available fee	100 percent	N/A

Sources: DOD submissions to GAO, contract documentation, and GAO–05–301 (data); GAO (analysis and presentation).

[a] The Air Force Space Command has not specified the acquisition cycle time for the SBIRS-High program; however, the delivery of the first two satellites has been delayed by more than a year.

[b] Overall, there were five rebaselines for the Comanche program; however, only one occurred after development start. The Comanche program was canceled in 2004.

[c] The program also utilizes incentive fees tied to cost and mission successes. The award fee paid does not include fee earned through mission success incentives. To date, the contractor has earned $3 million in these fees and could earn over $70 million over the life of the contract.

[d] When calculating the percentage of award fee paid to date (i.e., percentage of award fee paid to date=total fee paid to date/(total fee pool—remaining fee pool)), we included rolled-over fees in the remaining fee pool when those fees were still available to be earned in future evaluation periods. For instance, even though the Joint Strike Fighter prime contractor has not been paid 100 percent of the award fee that was made available for each evaluation period, it retains the ability to potentially earn all of this unearned fee at a later date. By reflecting the continued availability of this unearned fee in the percentage calculation, it becomes clear that the contractor has, in essence, earned 100 percent of the total award fee to date.

DOD can ensure that fee payments are more representative of program results by developing fee criteria that focus on its desired acquisition outcomes. For instance, DOD's Missile Defense Agency attempted to hold contractors accountable for program outcomes on the Airborne Laser program. On this program, DOD revised the award-fee plan in June 2002 as part of a program and contract restructuring. The award-fee plan was changed to focus on achieving a successful system demonstration by December 2004. Prior to the restructuring, the contractor had received

95 percent of the available award fee, even though the program had experienced a series of cost increases and schedule delays. Importantly, the contractor did not receive any of the $73.6 million award fee available under the revised plan because it did not achieve the key program outcome—successful system demonstration.[11]

A Case for Change: Motivating Excellent Contractor Performance and Promoting Accountability

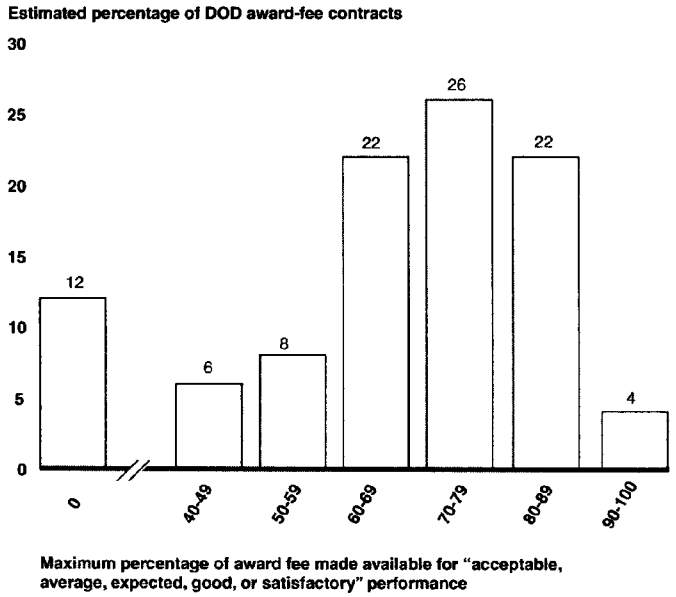
Recommendations	DOD response
Ensure that award-fee structures are motivating excellent contractor performance by only paying award fees for above satisfactory performance.	While DOD stated that award-fee arrangements should be structured to encourage the contractor to earn the preponderance of fee by providing excellent performance, it maintains that paying a portion of the fee for satisfactory performance is appropriate to ensure that contractors receive an adequate fee on contracts. In its March 29, 2006, policy memo, DOD reiterated this position and emphasized that less than satisfactory performance is not entitled to any award fee.
Issue DOD guidance on when rollover is appropriate	In its March 29, 2006, policy memo, DOD provided guidance and placed several limitations on the use of rollover.

DOD programs routinely engage in award-fee practices that are inconsistent with the intent of award fees, reduce the effectiveness of these fees as motivators of performance, compromise the integrity of the fee process, and waste billions in taxpayer money. Two practices, in particular, paying significant amounts of fee for "acceptable, average, expected, good, or satisfactory" performance and providing contractors multiple opportunities to earn fees that were not earned when first made available, undermine the effectiveness of fees as a motivational tool and marginalize their use in holding contractors accountable for acquisition outcomes.

Although DOD guidance and FARs state that award fees should be used to motivate excellent contractor performance, most DOD award-fee contracts pay a significant portion of the available fee for what award-fee plans describe as "acceptable, average, expected, good, or satisfactory" performance. Although the definition of this level of performance varies by contract, these definitions are generally not related to outcomes. Some plans for contracts in our sample did not even require the contractor to meet all of the minimum standards or requirements of the contract to receive one of these ratings. Some plans also allowed for fee to be paid for marginal performance. Even fixed-price-award-fee contracts, which already include a normal level of profit in the price, paid out award fees for satisfactory performance. Figure 3 shows the maximum percentage of award fee paid for "acceptable, average, expected, good, or satisfactory" performance and the estimated percentage of DOD award-fee contracts active between fiscal years 1999 through 2003 that paid these percentages.

[11] According to DOD, the contract was restructured again in May 2004 and the cost ceiling was increased from about $2 billion to $3.6 billion and the period of performance of the contract was extended more than 3 years, from June 2005 to December 2008.

Figure 3: Maximum Percentage of Award Fee Available for "Acceptable, Average, Expected, Good, or Satisfactory" Performance and the Estimated Percentage of DOD Contracts That Paid These Percentages



Sources: Award-fee plans and contract documentation (data); GAO (analysis and presentation).

Note: Sampling errors for percentages in this figure do not exceed plus or minus 13 percentage points.

The use of rollover is another indication that DOD's management of award-fees lacks the appropriate incentives, transparency, and accountability necessary for an effective pay-for-performance system. Rollover is the process of moving unearned available award fee from one evaluation period to a subsequent evaluation period, thereby providing the contractor an additional opportunity to earn that previously unearned award-fee. We estimate that 52 percent of DOD award-fee contracts rolled over unearned fees into subsequent evaluation periods,[12] and in 52 percent[13] of these periods, at least 99 percent of the unearned fee was rolled over. Overall, for DOD award-fee contracts active between fiscal years 1999 through 2003, we estimate that the total dollars rolled over across all evaluation periods that had been conducted by the time of our review was $669 million.

A Case for Change: Ensuring Practice Is Consistent with Policy

Recommendations	DOD Response
Requiring appropriate approving officials to review new contracts to make sure award-fee criteria reflect desired acquisition outcomes and award-fee structures motivate excellent contractor performance by only providing fees for above satisfactory performance.	DOD plans to conduct an analysis to determine what the appropriate approving official level should be for new contracts utilizing award fees and issue additional guidance if needed by June 1, 2006.

The inconsistent application of DOD's existing policies on award fees and weapon system development reinforce the need for increased transparency and accountability in DOD's management of award fees. Although DOD award-fee guidance and FARs state that award fees should be used to motivate excellent contractor perform-

[12] The 95 percent confidence interval for this estimate ranges from 40 percent to 64 percent.
[13] The 95 percent confidence interval for this estimate ranges from 34 percent to 69 percent.

ance, most DOD award-fee contracts still pay a significant portion of the available fee for what award-fee plans describe as "acceptable, average, expected, good, or satisfactory" performance.[14] Air Force, Army, and Navy guidance that states rollover should rarely be used in order to avoid compromising the integrity of the award-fee evaluation process; however, about half of the contracts in our study population used rollover.

A Case for Change: Developing and Sharing Proven Incentive Strategies

Recommendations	DOD Response
Develop a mechanism for capturing award- and incentive-fee data within existing data systems, such as the Defense Acquisition Management Information Retrieval system.	DOD will conduct an analysis of existing systems and determine which, if any, is best suited, to capture this type of data and at what cost. DOD expects to complete the study by June 1, 2006.
Develop performance measures to evaluate the effectiveness of award and incentive fees as a tool for improving contractor performance and achieving desired program outcomes.	DOD will review and identify possible performance measures and determine the appropriate actions by June 1, 2006.
Develop a mechanism to share proven incentive strategies for the acquisition of different types of products and services with contracting and program officials across DOD.	In its March 29, 2006, policy memo, DOD tasked Defense Acquisition University to develop an online repository for award- and incentive-fee policy information, related training courses, and examples of good award-fee arrangements.

Very little effort has gone into determining whether DOD's current use of monetary incentives is effective. Over the past few years, officials including the Undersecretary of Defense for Acquisition Technology and Logistics and the Assistant Secretary of the Air Force for Acquisition expressed concerns that contractors routinely earn high percentages of fee while programs have experienced performance problems, schedule slips, and cost growth. However, DOD has not compiled information, conducted evaluations, shared lessons learned, or used performance measures to judge how well award and incentive fees are improving or can improve contractor performance and acquisition outcomes. The lack of data is exemplified by the fact that DOD does not track such basic information as how much it pays in award and incentive fees. Such information collection across DOD is both necessary and appropriate.

CONCLUSIONS

DOD's use of award-fee contracts, especially for weapon system development, reflects the fundamental lack of knowledge and program instability that we have consistently cited as the main reasons for DOD's poor acquisition outcomes. DOD uses these fees in an attempt to mitigate the risks that it creates through a flawed approach to major weapon system development. The DOD requirements, acquisition, budgeting, and investment processes are broken and need to be fixed. DOD's requirements process generates much more demand for new programs than fiscal resources can reasonably support. The acquisition environment encourages launching product developments that promise the best capability, but embody too many technical unknowns and too little knowledge about the performance and production risks they entail. However, a new program will not be approved unless its costs fall within forecasts of available funds and, therefore, looks affordable. Further, because programs are funded annually and departmentwide, cross-portfolio priorities have not been established, competition for funding continues over time, forcing programs to view success as the ability to secure the next funding increment rather than delivering capabilities when expected and as promised.

The business cases to support weapon system programs that result from these processes are in many cases not executable because the incentives inherent in the current defense acquisition system are not conducive to establishing realistic cost, schedule, and technical goals. As a result, DOD has to date not been willing to hold its programs or its contractors accountable for achieving its specified acquisition outcomes. Instead, faced with a lack of knowledge and the lack of a sound business case, DOD programs use award-fee contracts, which by their very nature allow DOD

[14] According to FAR 16.404(a)(1), in a fixed-price-award-fee contract, the fixed price (including normal profit) will be paid for satisfactory contract performance. Award fee earned (if any) will be paid in addition to that fixed price. According to FAR 16.405–2(a)(2), a cost-plus-award-fee contract should include an award amount that is sufficient to provide motivation for excellence in such areas as quality, timeliness, technical ingenuity, and cost-effective management.

to evaluate its contractors on a subjective basis. This results in billions of dollars in wasteful payments because these evaluations are based on contractors' ability to guide programs through a broken acquisition system, not on achieving desired acquisition outcomes.

Implementing our recommendations on award and incentive fees will not fix the broader problems DOD faces with its management of major weapons or service acquisitions. However, by implementing our recommendations, DOD can improve incentives, increase transparency, and enhance accountability for the fees it pays. In particular, moving toward more outcome-based award-fee criteria would give contractors an increased stake in helping DOD to develop more realistic targets upfront or risk receiving less fee when unrealistic cost, schedule, and performance targets are not met. To make this new approach to incentives function as intended, DOD would also need to address the more fundamental issues related to its management approach, such as the lack of a sound business case, lack of well-defined requirements, lack of product knowledge at key junctions in development, and program instability caused by changing requirements and across-the-board budget cuts. Working in concert, these steps can help DOD set the right conditions for more successful acquisition outcomes and make more efficient use of its resources in what is sure to be a more fiscally constrained environment as the Nation approaches the retirement of the "baby boom" generation.

RECENT DOD ACTIONS

Last week, DOD issued a policy memorandum on award-fee contracts that takes steps towards addressing several of the recommendations made in our report, and the department has indicated that further actions are planned to address the remaining recommendations. This guidance is a positive first step, but, like so many prior DOD concurrences, its effectiveness will ultimately be determined by how well it is implemented. Identifying who will be responsible for ensuring it is carried out and how progress will be monitored and measured are key ingredients that are missing in the new guidance. We continue to believe that DOD must designate appropriate approving officials to review new contracts to ensure that award-fee criteria are tied to desired acquisition outcomes; fees are used to promote excellent performance; and the use of rollover provisions in contracts is the exception not the rule. Changing DOD award-fee practices will also require a change in culture and attitude. The policy memorandum's position that it is appropriate to pay a portion of the available award fee for satisfactory performance to ensure that contractors receive an "adequate fee on contracts" is indicative of DOD's resistance to cultural change. Finally, we encourage the department to fully implement our remaining recommendations including developing a mechanism to capture award- and incentive-fee data and developing performance measures to evaluate the effectiveness of these fees.

Mr. Chairman and members of the committee, this concludes my prepared statement. I would be happy to answer any questions you may have at this time.

Senator AKAKA. Thank you, Mr. Walker.

Secretary Krieg.

STATEMENT OF HON. KENNETH J. KRIEG, UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGISTICS

Secretary KRIEG. Thank you, Senator, and thank you for the opportunity to appear before you to discuss the broad range of acquisition and management issues facing the DOD including, in particular, the need to ensure the contract incentives paid to contractors are better linked to contractor performance.

Let me first briefly discuss our views on that and then spend just a couple of minutes hitting some of the broader topics that you put in your note to us for this hearing. As the Comptroller General noted, we agreed in large measure with the findings of GAO on this. So, I would support his position and I believe the contracting incentives, when properly used, can serve an important purpose in that they give companies an incentive to perform to a higher standard.

As I said, we did agree with the GAO report findings in large measure, that the application of awards and incentive fees arrangements needed improvement. In particular, that hard objective measures that linked to program outcome were key in driving better performance in this regard.

We must consider these incentives within the context of the overall acquisition strategy of the program. This includes variables that are sometimes beyond the control of contract managers and program managers, that can impact contract performance such as program stability, funding stability, and the like. But taking that into consideration, leads to that the acquisition strategy has two basic perspectives. First is the strategic perspective or what we decide to acquire. Second is the tactical perspective or how to develop, produce, and sustain requirements for products and services.

In our hearing this morning, we talked a lot about that "Big A." If we decide to build, if we decide to bring together cost performance and schedule, it would require acquisition strategies, and budgets, and create stable programs, then that provides the environment with sound incentives linked to activity, that can really drive performance in contracting.

I wanted to hit a couple of other notes that you put in, and I think Mr. Walker referred to it, and that is to update a little bit about where we are in some of the GAO high risk items that pertain to the DOD. As we discussed last time we were here on business systems, the DOD has been working with the Office of Management and Budget (OMB) and GAO to outline a plan of action for improving performance and we appreciate their pushing and supporting our efforts in trying to think through the problem. We finalized the initial plans in the areas of contract management business systems for which, by the way, we are incorporating these thoughts into it: business systems, modernization for which you received, I think, the second installment of the enterprise transition plan 2 weeks ago, support infrastructure management, financial management, supply chain management, and weapon systems acquisition.

Each of these plans will increasingly detail specific actions, responsibilities, deliverables, and time lines. We're working on rolling these responsibilities into individuals' performance objectives so that it would provide a strong linkage between their personal performance and the DOD's objectives.

I've recently completed my first semiannual review of the performance in each plan, so I tried to review the full set of plans once every 6 months, in addition to working on them along the way. We're making progress, but as the Comptroller General noted, we have much to do. In fact, making plans are interesting, getting action in progress is what we really want to see happen. But I do offer the example and I do believe that the enterprise transition plan has proved to be a very useful mechanism to drive performance in the DOD on business systems modernization.

The last area I wanted to spend a few minutes on was to touch on weapon systems acquisition and, in particular, give an overview of some of the things we're working on inside the DOD, given that we've received the DAPA. The study of the Defense Science Board (DSB) and the studies by the Center for Strategic and Inter-

national Studies (CSIS), among others, and our own QDR just a month and a half ago, all these reports are now in and we are beginning to finalize our efforts in acquisition.

We're moving forward in four broad areas that I've outlined as goals, among my goals in acquisition, technology, and logistics. One area is developing a high performing, agile, and ethical workforce. All of the studies agree that we need to align the skills of the workforce to the modern challenges. I believe with the average age of the workforce continuing year by year to move out, that we'll need to recruit and retain the next generation of necessary talent to do this work and continually train and reinforce ethical standards throughout our workforce.

Our next big deliverable in this area is an overall strategic plan for the workforce that will integrate and organize these efforts and I hope to have that done in the next 90 days or so, so we can begin to bring together diverse efforts, lay out responsibilities, and lay out time lines for performance.

The next area is strategic and tactical acquisition excellence. On the strategic or what we buy side, we intend to experiment with the idea of portfolio management, particularly portfolios from the joint capabilities. This idea looks at the larger groupings of investments tied to the capabilities that would be needed by the joint force and, therefore, will help us better understand how specific investments contribute at the margin. This will be combined with bringing requirements acquisition resource communities closer together to consider trades among cost, schedule, and performance earlier in the systems life at notion that we are beginning to think of as concept decision, considering time to develop and field technology maturity in risk and available resources, as well as desired capability. Notionally then, combining those trade-off decisions with some type of capital financial discipline over time, would provide the environment for greater strategic stability in which program managers could operate. These studies clearly show that stable programs perform better than those that are unstable—not a surprise.

On the tactical side, we continue the drive to use better systems engineering, integrated testing, independent cost estimating, technology readiness assessments, life cycle management, and the right type of contract vehicles, as well as trying to improve the oversight of performance.

The DOD can improve its acquisition results by tying balanced decisionmaking on what we buy in a time-defined manner, while committing to stable funding based upon that decision, and using proven program management tools.

For the sake of time, Mr. Chairman, I will enter the rest of my statement into the record. I appreciate your time and effort on this, and look forward to your questions.

[The prepared statement of Mr. Krieg follows:]

PREPARED STATEMENT BY HON. KENNETH J. KRIEG

Chairman Ensign, Senator Akaka, and members of the subcommittee: Thank you for the opportunity to appear before you and to discuss an important aspect of Department of Defense (DOD) acquisitions, namely, the need to ensure that contract incentives paid to contractors are linked to contract performance. This issue was recently highlighted in a Government Accountability Office (GAO) report (GAO–06–

66), which made several recommendations. The DOD largely agrees with the GAO recommendations, and has begun to take action to strengthen the link between monetary incentives and acquisition outcomes on DOD contracts, which I will address below. Before describing our planned actions, I would like to emphasize that contract incentives need to be considered within two broader contexts.

CONTRACT INCENTIVES ARE ONE FACET OF THE OVERALL ACQUISITION SYSTEM

First, it is necessary to keep in mind that despite contract performance problems, DOD contractors develop and deliver weapon systems that are the envy of the world and provide our warfighters with significant technological advantage. Thus, we need to ensure that contractors earn a reasonable return on DOD contracts, so that we maintain a viable, reliable defense industrial base capable of developing and producing superior weapon systems well into the future. One of my recently established goals addresses this—i.e., "Reliable and Cost-effective Industrial Capabilities, Sufficient to Meet Strategic Objectives." One of the primary outcomes under this goal is to ensure "contract finance and profit policies drive desired results," which is consistent with the GAO recommendations.

Second, it is important to view contract incentives within the context of the broader acquisition system, which includes variables that impact contract performance that are beyond the control of contractors, such as program stability. Another one of my goals addresses these broader strategic acquisition issues—Strategic and Tactical Acquisition Excellence. This goal distinguishes between what we euphemistically refer to as the "Big A" acquisition, i.e., what we decide to acquire at the strategic level, and "Little A" or tactical acquisition, i.e., how we develop, test, produce, and sustain individual weapon systems. Advancing in both areas is absolutely critical to success. This includes balancing risk, outcomes, schedule, and cost when planning and adjusting portfolios, programs, and procurements. Such balancing should facilitate a better linkage between contract incentives and contract performance.

Award and incentive fee contracts are typically used on our most challenging development contracts, which often involve considerable program instability. DOD must address improving the stability of programs, otherwise technical, schedule and cost risks will continue to hamper contract performance. For example, one initiative that has been identified in the recent Quadrennial Defense Review (QDR) and Defense Acquisition Performance Assessment is the need to have considerably greater integration among the requirements, budgeting and acquisition communities. The objective will be to pursue development of new weapon systems in a manner that reduces technical and schedule risk in order to deliver weapons to the warfighter sooner and at more predictable costs. This will include securing stable long-term funding, and setting requirements in recognition of technology readiness. By ensuring sufficient technical maturity and pursuing development efforts in more measured, evolutionary spirals, the DOD will increase the probability of contract success.

While the GAO mention that award and incentive fees are part of the broader context of the acquisition system, the report's conclusions don't fully appreciate the impact of the other variables on contract performance.

USE OF AWARD AND INCENTIVE CONTRACTS

A brief description of when and how award-fee and incentive contracts are used is beneficial. Award-fee and incentive fee contracts are usually used on complex research and development contracts in order to share the risk of performance with contractors. While these types of contracts are not used on that many contracts, they are usually very high value contracts (the GAO report found that these contracts constituted about 5 percent of the contracts but accounted for 20 percent of contract dollars).

Cost-plus-award-fee contract

A cost-reimbursement contract that provides for a fee consisting of a base amount fixed at inception of the contract (usually 3 percent or less) and an award-fee amount, based upon a judgmental evaluation by the government, sufficient to motivate excellent contractor performance. The amount of the award fee to be paid is determined by the Government's judgmental evaluation of the contractor's performance during the award-fee period based on specified criteria. This determination and the methodology of determining the award fee are unilateral decisions made solely at the discretion of the Government. The Government can adjust the criteria during contract performance to emphasize areas most needing of attention. While award fees are intended to motivate excellent contractor performance, paying some of the award fee for satisfactory or good performance is justified considering that the base

fee is typically less than 3 percent and not a reasonable total fee for satisfactory performance.

Contractors may earn award fees in whole or in part during performance and such fees are intended to provide motivation for excellence in the areas such as quality, schedule, technical performance, and cost management. Award fees are tied to performance outcomes, but it is important to note that one criterion for using cost-plus-award-fee is that it is neither feasible nor effective to devise predetermined objective incentive targets for the cost, technical performance, or schedule of the contract effort. An additional criterion is that the likelihood of meeting acquisition objectives will be enhanced by using a contract that effectively motivates the contractor toward exceptional performance and provides the Government with the flexibility to evaluate both actual performance and the conditions under which it was achieved. Hence, Cost-Plus-Award-Fee contracts are often used when the nature of the work to be performed is such that there is a wide range of potential outcomes, many of which may be beyond the contractor's control. In view of these performance uncertainties, we use award fees, at least in part to motivate contractors to perform in ways that will result in the best possible outcomes under the circumstances. Essentially we use award fees to motivate outstanding management in order to mitigate the impact of known and unknown risks. In these cases, then, tying a portion of award fee to contractor management and responsiveness makes good business sense and is in the Government's best interest.

Rollover

The process of moving unearned award fee from one evaluation period to a subsequent period or periods, thus allowing the contractor an additional opportunity to earn that unearned award fee. Hence, rollovers provide a motivation to contractors to achieve contract outcomes, albeit late.

Incentive contract

A contract used to motivate a contractor to provide supplies or services at lower costs and, in certain circumstances, with improved delivery or technical performance, by relating the amount of fee to contractor performance.

DOD RESPONSE TO GAO REPORT

The DOD largely concurred with the seven GAO recommendations in the report and has initiated action for each. We have commenced an intradepartmental review of our policy on award and incentive fees. We recently issued a policy memorandum to the DOD acquisition workforce in this area. Among the areas that are emphasized in the policy is that award fees should be linked to desired outcomes. We must make it clear to all parties, including our contractors, what role the award and incentive fees play in a program's acquisition strategy. Guidance on award fee "rollover" is another issue addressed in this policy. This policy memorandum imposes a number of limitations on the use of "rollover," including that the rollover of award fees should be an exception rather than the rule.

The GAO also recommended that the DOD ensure that award-fee structures are motivating excellent contractor performance by only paying award fee for above satisfactory performance. While the purpose of award-fee arrangement is to motivate excellent contractor performance, the existing guidance on award-fee arrangements envisions paying award fees on a graduated scale since the guaranteed base fee is typically less than 3 percent. Therefore, it is reasonable to award some portion of the award-fee pool on a graduated basis for satisfactory and good performance. For this reason, we only partially concurred with the GAO recommendation; however, we did agree that the policy should be to structure award-fee arrangements so that contractors earn the preponderance of the award fee by providing excellent performance. Accordingly, the recent policy memorandum addresses the distinction between satisfactory performance and excellent performance, and the need to ensure that award fees are commensurate with contractor performance.

The GAO also recommended that the DOD develop a mechanism to share proven incentive strategies across DOD. We concurred with this recommendation, and with the assistance of the Defense Acquisition University, we established a web-based Community of Practice for the DOD acquisition workforce to share good strategies for award and incentive fee arrangements.

In response to other recommendations in the report we recently established an intradepartmental group that will assess the feasibility of creating an award and incentive fee database, and developing performance measures to evaluate the effectiveness of award and incentive fees as a tool for improving contractor performance and achieving program outcomes. In addition, the group will review existing guidance and conduct an analysis to determine what the appropriate approving official

level should be for new contracts where an award and or incentive fee structure is utilized.

SUMMARY

The DOD largely concurred with the GAO recommendations and has commenced a review of our policies addressing award and incentive fee arrangements. We plan to complete these efforts by summer. Our review will consider award and incentive fee arrangements within the broader acquisition system context, including the many other factors besides the award and incentive arrangements that affect contract performance that are outside of the control of contractors. These include issues such as program instability, changes in requirements, and insufficient technical readiness. The DOD plans to address these broader issues as part of implementing my goals and the guidance in the QDR. Finally, our contractors develop and deliver the best weapons systems in the world for our warfighters, which have given them a significant technological edge in warfighting capability.

In closing Mr. Chairman, thank you for the opportunity to explain the DOD's activities with regard to the use of award fees and incentive fees in DOD contracts. I am available to answer any questions you and the members of the subcommittee may have.

Senator AKAKA. Thank you very much, Mr. Secretary, for your testimony. The GAO report indicates that the median award fee earned by DOD contractors is 93 percent, so that almost all contractors get very close to the full amount of the award fee available, even though most major defense programs fail to meet budget, schedule, and performance expectations.

DOD knows it has a problem and agrees with some of GAO's recommendations. However, DOD did not concur with GAO's recommendation that it pay award fees only to contractors whose performance is better than just satisfactory.

Now, Mr. Walker, can you explain why you made this recommendation?

Mr. WALKER. Yes, I can, Senator. First, I think you have to define "satisfactory." That is not a well-defined, nor consistently applied term. In our view, "satisfactory" should mean that you are achieving the promised outcomes. That means cost, schedule, and performance. It is possible that you could have a contractor who is meeting cost, schedule, and performance, who could and possibly should be awarded some fee for doing so. However, if they are not meeting cost, schedule, and performance, then the question is whether or not they should receive any fee, and if they beat cost, schedule, and/or performance, logic would say that they should receive a higher incentive or award fee.

Part of the difficulty right now is we don't have a clearly defined or consistently applied definition of satisfactory and it's not outcome based.

Secretary KRIEG. I would agree in large measure with everything that the Comptroller General just said and that I think our response back was, we agreed with the spirit of the condition, and felt that it was important to understand exactly what those words meant, and exactly how you measured it. Then once we did that, we just didn't want to preclude the notion that it was only superior performance that would get it, because if you didn't have a definition of what each of those were, then tying it only to award was not a good idea. So we wanted to study it, drive through it, and then have an approach that had defined approaches to it. I think that was more a disagreement on the margins than it was a disagreement in principle.

Mr. WALKER. It is my understanding their acquisition regulations say that these fees are designed to motivate excellent performance.

Secretary KRIEG. That's right.

Mr. WALKER. By definition, "excellent" is not "average." But again, I think we could probably agree on the substance. The key is to define the terms clearly, consistently, and based on outcomes. But I can tell you, that if you set realistic but aggressive cost, schedule, and performance targets, then it is possible that somebody should be awarded something for hitting those if they are realistic and not layups. At the same point in time, if they do better than that, then they ought to get more. Right now we have a situation where they are not hitting cost, schedule, and performance and yet, they are still getting most of the fees. That's obviously an unacceptable outcome for the government as well as taxpayers.

Senator AKAKA. Secretary Krieg, you mentioned that you agreed with the spirit of GAO's recommendations and my question to you, which you partially answered, is why did DOD not concur with GAO's recommendations? Besides agreeing in spirit, are there any evaluators that evaluate the situation on whether the cost, schedule, or performance was done so-called, satisfactorily?

Secretary KRIEG. Let me frame the whole answer. First of all, we agreed in total with three of them. We agreed largely with four of them. I was saying the spirit was around the question of excellence. What we would envision is a graduated amount of award fee based upon increasing toward a higher goal. But at the principal point of, do you get 93 percent for just showing up? The answer ought to be no.

So I guess in principle, we're in complete agreement on that specific of would you only get it for an excellent or superior and not for a satisfactory. We just wanted to say, since there is no pure definition of what those are, since they are not objective measures, we wanted to be able to have the flexibility to be a graduated award fee as we put in more definition. I think that was a principal disagreement, but that is, as I've said, at the detail and not at the general notion.

Mr. WALKER. My understanding, Senator Akaka, and Secretary Krieg may be able to clarify this, is where we might have been talking past each other at the senior staff level was, they may have interpreted our recommendation to say that if you had cost, schedule, and performance, which means you did what you said you would do, that you shouldn't get anything. That's not what we're saying, and so, I think we may be in agreement.

Secretary KRIEG. I think we are largely in agreement and it's a matter of working through the details and that is why I said, we put out a policy, we've now got some work underway. This summer we hope to bring forward a new approach to this whole area and I think that at that point, we'll probably clear up a lot of the differences we had at the time of the report.

Senator AKAKA. Mr. Secretary, on this, do you plan to put in more definition?

Secretary KRIEG. Yes, sir. It will take training with it. It will take some degree of visibility and transparency. You'll have to figure out who is responsible. The framework that the GAO laid out,

I think we're largely in agreement with, it's a matter of working out the details, exactly how to do it, and that is what we have committed to do in the next 90 days or so.

Senator AKAKA. The GAO report also recommends that the Secretary of Defense: one, develop a mechanism for collecting data on award and incentive fees; and two, develop performance measures to evaluate the effectiveness of these fees. This seems like a critical step. If we want to get the best bang for the buck, we need to know how we are spending our money and how effective our efforts have been.

However, DOD did not concur with either of these recommendations. Instead, the DOD said that it will conduct a study and would determine what the appropriate action is.

Mr. Walker, can you explain why you made these recommendations?

Mr. WALKER. Management 101 says you need to measure and you need to evaluate in order to determine whether or not these are being used effectively and appropriately. It is that simple.

Senator AKAKA. Secretary Krieg, can you explain why DOD did not concur with those recommendations?

Secretary KRIEG. I think again, it was more we were not ready to buy a process that had been laid out. We were viewing it not as a process being laid out by the GAO. I cannot disagree that we shouldn't have some level that actually views it as transparency, knows what it is, and knows how to measure it. Our idea to study it, was not to spend 2 years ignoring the problem, but to take 90 to 120 days, figure out what the management mechanisms were/are. I know at least one Service is already reviewing the award-fee terms and what is happening. I think it's more of a desire to go through our own process, figure out how we're going to change the way we do business at the principal level, I can't disagree with the Comptroller General at all.

Senator AKAKA. In response to a request from this subcommittee, the GAO issued a November 2005 report on the role of program managers at DOD and in the private sector. The GAO report says that leading private sector companies empower the program managers to execute the programs and hold them accountable for the results.

By contrast, GAO found that DOD fails to give its program managers the authority that they need to execute acquisition programs and, as a result, is unable to hold them accountable. GAO determined and I quote, "once programs begin, the program manager is not empowered to execute the program. In particular, the program managers cannot veto new requirements, control funding, or control staff. With so much outside their span of control, program managers say that DOD is unable to hold them accountable when the programs get off track. Another reason that it is difficult to hold program managers accountable, is that their tenure is relatively short. The problems being encountered today, may well be the result of a poor decision made years ago by another program manager."

Mr. Walker and Secretary Krieg, would you agree that in addition to changing the incentive structure for DOD contractors, we

need to change the incentive structure for DOD program managers?

Mr. Walker?

Mr. WALKER. Yes. I think you need to look at the incentives both for government workers as well as contractors. I will say this, Senator Akaka, and you may want me to get into this a little bit more later, I do believe that there are a number of things that need to change in the acquisitions area in order to be able to achieve desired outcomes. One of the reasons I believe that incentive and award fees are paid today, is because number one: the requirements aren't clearly defined upfront and they aren't nailed down; and number two: there may not be stable funding for some of these programs. So as a result of these two and other factors, many times what you find is people paying incentive and award fees for efforts and attitude, rather than for results. Sometimes, I believe that we're paying incentive and award fees because the government may change the rules of the ballgame on the contractor in the middle of the process by modifying the requirements and rebaselining the program. I can understand why some of these fees may have been paid.

I don't think they should have been, but I can understand why they might have been and it brings me back to, and I won't answer it now, other changes that are needed as a part of the acquisitions process. Frankly, Congress is going to have to play a role in some of these changes in order to achieve better outcomes, whether or not incentive and award fees are paid.

Senator AKAKA. Secretary Krieg?

Secretary KRIEG. To the point of a program manager's ability to control his or her own destiny, I think that's what you are arguing, can we hold them accountable? It's hard to hold a program manager accountable if they don't control their destiny. So one of the things, and we have spent some time talking about it, we have spent a lot of time inside. The system is driving clear decision points in the system where you begin to lock requirements, have an honest assessment of where you are in technology risk and therefore, schedule risk. Technology risk being one of the key components of schedule risk and a stable funding. If you can create that kind of environment, then you can hold a program manager accountable for performance. If their objective reality is moving around them as they are trying to execute a program, it gets very hard to hold them accountable for that.

So on the second notion—what we're trying to do is fix cost, schedule, and requirements earlier in the program and then, hold program managers accountable for performance and fend off others who want to do their own things in the program.

Mr. WALKER. We do believe there is a need for more stability in program managers as well, especially in connection with major weapon systems acquisition programs which is something you touched on.

Secretary KRIEG. I was going to note that we started working the DOD and I would not say that I have enough metrics. I don't have any metrics to tell you whether the work is working yet or not, shall we say? But try to drive particularly for large programs longer program management—tenure. It would be ideal if you had

program management tenure through large portions of the programs, so the program manager could deliver a set of deliverables. We're working at that. That is a to-do still on my list of things.

Senator AKAKA. I hope I can ask a question about what steps could be taken, so that program managers can manage. It seems as though there are some problems there. I have other questions but, let me pass it over to the chairman for his questions.

Senator ENSIGN [presiding]. Thank you, Senator Akaka, for holding down the ship while I was gone. It took a little while to get going over there, so I watched Mr. Walker's opening statement on closed circuit.

Award-fee contracts are structured and serve a different purpose from incentive fee contracts. Under award-fee contracts, a contractor must receive some award-fee payment just to break even on the work that he or she performs. The basis for award-fee payments in these contracts may be quite subjective. Incentive fees on the other hand, are placed on top of base fees or profit and are awarded based on meeting objective cost and performance criteria.

For both of you, has DOD or GAO analyzed the desirability of moving from use of cost plus award-fee contracts to greater use of cost-plus-fixed-fee with incentive fees as a better approach for motivating contractors on cost, schedule, or performance objectives? Either one.

Mr. WALKER. You properly pointed out, Mr. Chairman, that award fees are more subjective and that incentive fees are based upon more objective criteria. We believe that the type of contract that the government enters into, should depend upon what we're requiring and the relative risk associated with that type of acquisition. Is it something that is being developed for the first time and therefore, there's more uncertainty and there's more risk? If there's a high degree of uncertainty, then in that type of situation, it may make more sense to have a cost-plus-incentive-fee award contract.

But if you do that, you must nail down requirements up front. You need to stabilize requirements. You need to follow commercial best practices including technology maturity as you move through the design development production process, and you should only pay incentive fees for positive outcomes. Meaning you meet cost, you meet schedule, and/or performance. If you meet all of those, you might get something. But obviously if you exceed them, you should get more.

Secretary KRIEG. Let me take the details for the record and I'll get back to you on that.

[The information referred to follows:]

DOD is moving to greater use of incentives that motivate contractors on cost, schedule, and performance. The Deputy Under Secretary of Defense for Acquisition and Technology issued a memorandum on March 29, 2006, emphasizing that award-fee contracts must be structured in ways that focus the government's and contractor's efforts on meeting or exceeding cost, schedule, and performance requirements. This memorandum further states that it is imperative that award fees be tied to identifiable interim outcomes, discrete events, or milestones. DOD also is drafting a second policy memorandum that will further emphasize the need for contracting officers to utilize multiple incentive contracts (e.g., incentives that are primarily tied to objective criteria for cost, schedule, and performance in lieu of contracts for which the fee is primarily comprised of subjective award-fee criteria).

Secretary KRIEG. But in general, we try to tailor the contract type to the point of the contract and the nature of the contract. But I think obviously, the more definitization you have in the program, the more you can move toward fixed. So, let me take your direct question for the record, but I do agree completely with the notion that whether it's award or incentive, having it be subjective is a very difficult way to do business and it's not the way we should be doing business.

Senator ENSIGN. I want to stay on this acquisition reform. Secretary Krieg, you started to outline some of the DOD's experiments for acquisition reform and maybe, could you elaborate on the three different time frames for acquisition and what contract mechanisms are appropriate for each?

Secretary KRIEG. Three different time frames we're thinking about are something for which you have an urgent operational need and a defined answer with low technology risk that is a rapid acquisition candidate. Taking a rapid acquisition candidate through the standard 5000 series stage gate milestone process doesn't make a lot of sense. So there's a rapid acquisition model to think about.

There is a medium, or there's a low development model, something that I have generally available, but for which I need limited development, lower risk, shorter cycle times, and then the third is a more full development kind of process. I still think too often, in a full development process, we let requirements be unbounded and therefore we chase within the mature technology far too much time. Even in the full development, we need to be able to constrain cost, schedule, and performance.

As to contract type, obviously the more defined the answer is, the less technology risk, the more you can move to fixed types of contracts and not cost type of contracts. You can also change it over the life cycle of the development program.

The other part of what we're experimenting with is in this notion of joint capabilities portfolio. If you would like me to talk a little bit about that, or we could do it later?

Senator ENSIGN. Go ahead.

Secretary KRIEG. One of the things we've found over and over again, is we have looked at this and as people have studied and commentary has been laid forward, the sum of the best joint answer is not necessarily the sum of existing Service and agency programs. So as we looked at this problem of making choice in particular, too often in the world, we go from grand strategy to an individual program, without having the connective tissue, what we're calling portfolios. But like systems—not just systems. Systems, concepts, manpower, training, all of it that comes together to create capability. We've been working at the DOD on joint capability areas, the definition of portfolios of activity.

This year we'll take out several of those, joint command and control being one of them, joint supply chain being another one, and look at all of the investments both in material, and in people, and in concepts from the joint perspective and begin to think about rearranging investments in that portfolio.

So that will be one way to drive the kind of strategic choice that the Comptroller General and I were discussing this morning. So that's another experiment area we will be working on.

Senator ENSIGN. Mr. Walker, could you talk about what some of the things that Secretary Krieg has just talked about, but also some of the things maybe GAO has looked at, like the various time frames including rapid acquisition and maybe, any of the lessons we've learned from rapid acquisition for overall acquisition reform. Have you evaluated any of that?

Mr. WALKER. We haven't evaluated that specifically to my knowledge, Mr. Chairman, but I'd be happy to go back and find out and provide something for the record.

[The information referred to follows:]

Our goal in getting DOD to transform its acquisition process has been to focus on fielding capability; DOD's efforts now go instead toward developing capability, with the result that it takes much longer and costs much more than necessary to deliver weapons to the warfighter. We have written many reports as to why programs take so long to field and have made numerous recommendations about what DOD needs to fix. We have not seen much change. As the current conflicts in Iraq and Afghanistan have unfolded, DOD organizations have developed workarounds to the standard acquisition process. There are now more than a half dozen "rapid acquisition processes" within DOD, some service specific and some in joint commands. These processes generally have a timeframe of up to 2 years, buying off-the-shelf or near off-the-shelf equipment. While the acquisition community needs to find ways to be responsive to the combatant commanders, the growing number of rapid acquisition processes raises questions about the ability of the normal acquisition process to respond both quickly and to joint needs that do not fall within the purview of a single military service. A final observation I will make on overall acquisition reform is that it is not reform until it changes outcomes in the form of more programs being delivered as promised. We have been a supporter of acquisition reform and encourage Mr. Krieg's efforts to find ways of fielding capable weapons more quickly and less expensively than has been the case for the past few decades. But unless good ideas are translated into practices they will only remain good ideas.

Mr. WALKER. I would like to share with you and Senator Akaka, when I was asked this morning by the House Armed Services Committee what are some of the things that need to be done in this area, I gave them six off the top of my head. This is not just in the incentive and award-fees area but the broader is acquisitions area.

First, the DOD must reconcile what is called the "Big A," the difference between wants, needs, affordability, and sustainability. It has not been done and it may be bigger today than it was before the latest QDR. It has to be done across the DOD and it needs to be done based upon major capabilities, using portfolio concepts, and other types of effective strategies.

Second, once a program gets through that process and that means reconsidering existing programs as a part of that "Big A" process, nothing should be——

Senator ENSIGN. Hold on right there, just so Secretary Krieg can jump in. Just on that very point, is DOD reevaluating everything in the "Big A"?

Secretary KRIEG. In fact, I would say that is where we had Admiral Giambastiani and the Deputy Comptroller with us today, and Admiral Giambastiani is the Chairman of the Joint Requirements Oversight Council (JROC) and me as the head of the Defense Acquisition Board (DAB). Ed and I spent an awful lot of time together working about just this very issue, because so many of the problems that we later have in acquisition execution "Little a"—many of them can be tied back to decisions you didn't make or decisions you did make in early stages of the program.

Mr. WALKER. Mr. Chairman, I think the Secretary would agree with me that, in connection with the "Big A" means you don't just look at new things, you also look at existing things.

Secretary KRIEG. Very much so, that taking an existing material solution, that's why I said in the portfolios, it's not just material. It is not just a new weapon system. It is concepts of operations, how you use existing things in different ways. Maybe a much better solution than starting out for a specific capital solution to a problem you could otherwise solve. We're really trying to push at that notion.

Mr. WALKER. The answer, Mr. Chairman, is yes. Everything must be on the table. Just because a program is currently in the pipeline and just because it is at various stages of the pipeline, does not necessarily mean it should be continued.

Let me give you two examples where we wasted billions and billions of dollars, okay? They came up this morning, Comanche and Crusader. We ultimately pulled the plug on those programs. It's not that those were totally unmeritorious, but part of the challenge that you have is, we have wants versus needs versus affordability versus sustainability. Yes, the DOD ultimately made the decision to kill those programs, but way too late. As a result, we had already spent billions of dollars that otherwise could have been available for other programs. So step one, we have to reconcile the "Big A."

Secretary KRIEG. Can I jump in on that one? Because I think it might be useful. We are trying to look at that, the two decisions made this year: decision one, Aerial Common Sensor (AES), the Army-based joint program to do signals intelligence. It was 1 year after Milestone B. It was early in its system design. It was very clear that somewhere between its performance, its cost, and its schedule, it was going to fail miserably. We made the decision to terminate the contract, rather than to hope that we would come up with a solution to solve it.

That doesn't make that need go away. We're going to have to figure out how to solve that problem. But we took that program and said, it is not going to make it, and so we terminated the program.

The second one, the B–52 Standoff Jammer, earlier in the development it had a set of requirements that were validated by the JROC. Somewhere after that validation, others got in and said, gee, there are other things we would like to do with this while we're developing it. You took a billion dollar answer and made it a $7 billion answer. So we decided to terminate that program to try to put discipline into it. It didn't make the requirement for standoff jamming go away. But it was clear that program was not going to be a solution and so we're trying to make those decisions earlier in the process.

Mr. WALKER. That brings me to my second point. After you get through the "Big A," and reconcile the current inventory, you need to set realistic and sustainable basic requirements and avoid requirements creep. What's happening now, is they are not nailed down. You have a moving target with technology moving along, if you're trying to keep up with the latest technology, you will never be done, because technology moves so quickly now.

Senator ENSIGN. Are you saying that with some of these things we need to have realistic time lifespans? In other words, something we can't have is a 20-year lifespan for certain types of equipment. It may only be a 3-year lifespan.

Mr. WALKER. That's one aspect. Another aspect is we need to get through the design, development, and production phases much quicker. In order to be able to do that, we need to define our requirements based upon current and near-term technologies and after we produce that platform, then we may be able to plug and play to upgrade certain components or whatever. We did that with the B–52, we've done that for a number of different platforms over the years. We need to do that because otherwise, you have a moving target. If you have a moving target, it is tough to hold the contractors accountable and it's tough to hold the program managers accountable.

Senator ENSIGN. I'll give you an example of that. I was on the U.S.S. *Ronald Reagan,* our newest, most modern aircraft carrier and the systems and the computers on that ship are older technology already. That's our newest aircraft carrier, and it needs to have more plug and play type operations.

Secretary KRIEG. As you move to modular open systems, you can plug and play in those. Remember that the nature of technology is shifting on us so rapidly, that the design model and the nature of information technology (IT) are completely inconsistent with each other and we're dealing with some of those programs that were designed in an age where open systems architecture—you didn't know what it was—reverse engineering. That once you get to a certain capital life point, is very hard to do and we're stuck in that zone for a number of the programs we're trying bring to fruition.

Mr. WALKER. At the same point and time, the U.S.S. *Ronald Reagan* may not have the most modern available technology in certain regards, but it still could be by far ahead of anything that anybody else has, and that's one of the things we need to keep in mind.

Secretary KRIEG. I would add to that, the notion we have this general cultural desire to be at the edge of technology for everything. There are places for which technology sufficiency is just fine. So, getting that trade—but our culture is, you want to have the best you can for the warfighter and the best has historically been defined as the edge of technology.

Mr. WALKER. The old story, don't let the perfect be the enemy of the good. We need to go for an 80-percent solution and we need to get it done, we need to get it delivered on time, within cost, and with appropriate performance and then we can use plug and play.

Third, there has to be a more stable funding environment. Fourth——

Senator ENSIGN. Describe that in more detail.

Mr. WALKER. Sometimes the DOD and sometimes Congress will end up redirecting funds, such that you cannot provide the amount of funding to the contractor at the time that they were expecting to get it and therefore, how can you hold them accountable, or the program manager accountable for not hitting the schedule, cost, and performance?

Senator ENSIGN. The DOD has their own problems there. But also, you mentioned Congress. Is the feedback coming from the DOD to Congress during the appropriations phases?

In other words, are you following closely enough what we are doing up here to say, "hey, you're asking for problems, you're going to cause us problems on these fee contracts, these performance contracts, whatever we're doing, you're going to end up costing a lot more money." Are we getting the feedback that we need?

Secretary KRIEG. I'm quite sure we provide feedback. Probably pretty thoroughly, but I'm not sure that that—I think we provide the feedback, sir.

Mr. WALKER. Stated differently, Mr. Chairman, Congress, at times, is part of the problem and Congress must be part of the solution.

Senator ENSIGN. I don't doubt either one of those things.

Mr. WALKER. It's not just with regard to the funding, it's also with regard to the "Big A."

Number four, use commercial best practices, including achieving an appropriate degree of technology maturity in the design, development, and production phases.

Number five, move to more streamlined and simplified contracts that better balance costs and risks, and are based on achieving desired outcomes.

Then number six, only pay incentive and award fees for positive outcomes and that means cost, schedule, and performance. Positive outcomes could be you did what you said you were going to do. We need to have realistic but not lay-up requirements. But if you do better than that, you ought to get more and that is what incentives are for. But if you don't meet those, you shouldn't be paying as much, if anything.

Senator ENSIGN. On that point, Mr. Walker, because we do oversights, you do oversight, and you were talking about very clear and definable goals, and performance measures, metrics. Also does the DOD have enough flexibility to—some of this may be quite subjective on the fly, but when we do oversight it may not look that way. Therefore, there may be fear in the system that somebody is not going to want to give flexibility because they know that you're going to do a study on them. You're going to report back to us and we're going to call them before the committee. Maybe both of you might want to comment on that and then I'll turn it over for other people to question after this.

Do you understand what I'm trying to get at?

Mr. WALKER. Let me give it stab and you tell me if I did. Things aren't nailed down. It's tough to hold people accountable when things aren't nailed down. Let's just say that over the years, irrespective of cost, quality, and performance, there have not been enough consequences to the responsible parties. As a result, we have a status quo situation in practice, not necessarily in design. The policy manuals can be great. The policies can be fine, but what is important is what actually happens in actual decisionmaking and acquisition practices.

This hearing, in part, was about incentive and award fees and that is a big problem. But I honestly believe that that's the tip of the iceberg. It's the tail. One of the reasons we have a problem is

because of the problems in the other five steps that I talked about. They result in paying incentive and award fees, and in situations where none of us, including the DOD, believes it should continue.

Secretary KRIEG. Can I try by going up even higher than the question? So I won't answer your question, but I think, and I may not answer your question directly, but it might help. I find this often as I go through this, and I know Mr. Walker and I have actually had this talk about this a lot. I find inside government, as opposed to inside business, we spend an awful lot of our time talking about inputs and not outcomes. Conversely, we talk a lot about activities, rather than results.

I find as I read through this, a lot of this is we're not disciplined about thinking through what results are and therefore, what are the outcomes that drive results? But we do think a lot about what are the inputs necessary to drive. What are the inputs and what are the activities that would get us those inputs? I don't know if this is reflective of that culture.

Senator ENSIGN. The question that the staff came up with I think as far as accountability, "do you believe that including the combatant commanders and the service chiefs in the process would improve the accountability?"

Secretary KRIEG. On award fees, no.

Senator ENSIGN. Just on the acquisition, as well. Not just award fees.

Secretary KRIEG. If it is more broadly, we've worked hard and we're working very hard to bring the combatant commanders into the needs setting. Needs being both what you want to have and the time you have to have it, and the relative value of that versus something else. So as I said in these joint capability portfolio experiments, I'm going to be the co-chair of the supply chain with Norton Schwartz at Transportation Command (TRANSCOM). So we're going to look at it from the joint perspective to try to get them in as an arbiter of what they think is really important.

So getting their involvement in what we want, its relative importance to other things, and its importance in time, I think, is absolutely critical. Whether they need to be part of the acquisition process is situational. In some cases, I think yes. The functionals, the TRANSCOMs, the Strategic Commands, the Joint Forces Command far more so, in terms of the acquisition process, the "Little a" than say the regional combatant commanders who have other things to do.

But in terms of defining needs, times, and priorities, I think they are the customers we're trying to serve and, therefore, increasing their role is really important.

Mr. WALKER. Stated differently, on the sixth criteria that I gave you, I think it's important that they be involved in the first two where you're setting needs and you're trying to set realistic and stable requirements upfront. Then I think it needs to be turned over to a professional and frankly in some ways, a more independent process. Like for example, when you're paying incentive and award fees, you need to make sure that a majority of the people involved in that decisionmaking process are independent.

If the program manager or the people who are directly associated with whether things went well, or didn't go well, if they're the ones

making the decision, that doesn't make a lot of sense. They should have input into the decisionmakers, but they shouldn't be making the decision or the majority of the advisors.

Senator ENSIGN. Thank you.

Senator Akaka.

Senator AKAKA. Thank you very much, Mr. Chairman. Mr. Walker has talked about contractor expectations. I understand that some contractors are so confident of receiving award fees, that they record a large percentage of the fees as profits in their financial statements before the work is even performed.

This is also a question by Senator Levin: the GAO report states that, "many award-fee board members and fee determining officials approach the award-fee process with the assumption that contractors should earn the full amount, unless there were specific instances of poor performance that warranted deductions instead of starting at zero and considering actions a contractor had taken to earn the available fee."

Mr. Walker's testimony notes that the impartiality of these award-fee boards is undermined by the fact that they are made up primarily of individuals who are directly connected to the program.

Mr. Walker and Secretary Krieg, do you think that the DOD should establish specific guidelines or criteria as to the level of performance, that would justify paying 50 percent, or 75 percent, or even 90 percent of award fees? Should we start grading contractor performance on a curve? Mr. Walker?

Mr. WALKER. First, if companies are booking for financial statement purposes, award and incentive fees before they earn them, that is directly contrary to generally accepted accounting principles. I would want to look at their books pretty closely if I was the shareholder.

Second, it could be indicative of the fact that right now, the award and the incentive fees are structured at present. They're basically determined after a period of time, not after the occurrence of certain events which needs to change.

Third, if over 90 percent of the fees get paid out, irrespective of the outcomes, and ours is not necessarily representative of the entire universe, that's just based upon the ones we looked at for you, then I think even though technically, they're only supposed to be paid in certain circumstances, practically for a lot of reasons, most of them get paid. Therefore, the contractors assume they're going to end up getting the money unless something really bad happens. That is the opposite of what incentive and award fees ought to be.

Incentive and award fees ought to be, you promised that you were going to deliver X by Y at Z cost. X meaning, not just a number but the capabilities. Did you do it, or not? If you did it, fine and you ought to be recognized and rewarded for that. If you did it quicker or faster, or cheaper, or better, then you ought to get more.

What you're describing, Senator, is illustrative of the cultural problem and the divide that exists right now between what they are and what they should be.

Senator AKAKA. Mr. Secretary?

Secretary KRIEG. What we said in the policy memorandum we just sent out, it's imperative that the award fees be tied to identifi-

able interim outcomes, discreet events, or milestones as much as possible. Provide an example such as, timely completion of preliminary design review, critical design review. Those are points in a program that you know whether the program is on track or not. But clearly, you want to find from a schedule perspective what are the long poles in the schedule tent, what are the costs when you get cost criteria. So you want to tie it to discreet knowledge, whether it's an event, or an activity, or whatever. But knowledge that says, I'm going towards the results that I'm looking for and obviously, the more it's around cost, schedule, and performance, those are the things we care about in outcomes, the better off we are.

Mr. WALKER. I would also say, Senator, in thinking about more stability for program managers, you may not just want to think about how much time the person is there, but whether or not they are leaving before a certain milestone has been hit.

Secretary KRIEG. That's thinking about them in specific times of the program, is really what we're trying to think through.

Senator AKAKA. The possibility is, we could set up a different set of incentives by fencing off money for award fees, so that would not be allocated to individual programs until it is earned. Individual programs and contractors would then have to compete against each other for award fees, giving the DOD an opportunity to link pay to performance and reward top performers. What do you think about that view or that approach?

Mr. WALKER. Senator, if I understand your question, there are two aspects to it. If I understand you correctly, one is should award and incentive fees only be paid for positive outcomes? I think the answer to that is yes. Second, should there be a pool of money that is available potentially for this? Did I understand the second part, is that correct?

Senator AKAKA. That's correct.

Mr. WALKER. I think that has intellectual merit. I would want to study the details of it.

Secretary KRIEG. I think we are talking about the details of it and would like to study it. The only thing I worry about to our ability to discipline the system is that then, when left with a pool of available award fees in a budget line, that someone might take that budget line and say, boy that is not allocated to a program, therefore I can have that to pay bills which would then defeat the purpose if we all had the discipline to do that.

So anyway, we'll be looking at it. I worry desperately we'll end up with the worst of both worlds with that solution potentially, if we don't have the discipline.

Mr. WALKER. The other thing we have to keep in mind is the DOD doesn't have the type of financial management systems that it needs. Frankly, it has difficulty right now accounting for supplementals. So I think we have to keep in mind the environment we're operating in as well. That is why I said in theory, things might sound good. But then, think a little bit more about how does it apply given the situation we're dealing with here.

Senator AKAKA. Thank you, Mr. Chairman.

Senator ENSIGN. Senator Thune.

Senator THUNE. Thank you, Mr. Chairman. Thank you both for being here and showing your insights about this important subject

and we'll have an opportunity, I think, to get better acquainted with some of the findings in the report. But I would like to pursue a couple of questions if I could.

Secretary Krieg, one of the discussions on rollover, in other words moving unearned award fee from one evaluation period to a subsequent period or periods, seems to lack any incentive for the contractor to meet performance criteria within the specified time frame. Based on the GAO report, a majority of the contractors, it appears are afforded another opportunity for the award fee through the rollover.

Your testimony would lead me to believe that instability is the major driver for average contractor performance.

Secretary KRIEG. If that is what I led, that is one of—I didn't mean it to be the only.

Senator THUNE. It is a factor. The question is how do we solve that issue of program instability and what are your concerns about how and when rollover is used?

Secretary KRIEG. What we said in a recent policy was that rollover—I didn't want to eliminate rollover entirely, but it should be used as an exception and not as a rule. You ought to have to justify why you're using it and so if there are externalities that drive it, you ought to have the ability to use it.

Now how we do that and how we discipline the system to meet that policy, is clearly something we have to work on and think our way through to the stability. I think the key to driving stability is early in a program, forcing the tradeoffs between what you want to be able to do, requirements; what you have the technical maturity and capability to do acquisition; and what you have the resources to do, budget. If you could force coherent trades early in a program, and then you can drive both requirement stability and resource stability, in programs where we do that, we deliver programs on time and on budget. Where we let one of those three legs of the stool, or often two of them, move in different directions, or worse, three, because we do it in three, we have programs where the requirements are unobtainable in a reasonable time.

We're optimistic about schedule and take on way too much risk, and then we shave 10 percent off of the budget in a year or two or three in a row. It is only a matter of time before that program manager is in deep trouble.

So creating that trade space, getting people to understand what the investment really means, and then holding the stability around it, is I think the environment we're trying to create as we look at these programs going into the future. Clearly some of the programs we're dealing with now were not built with that kind of discipline.

Mr. WALKER. Senator, I would say there are probably three common denominators with regard to programs that have positive outcomes and there are some programs that have positive outcomes, unfortunately there's a lot more that don't.

First, set realistic and sustainable basic requirements. Second, provide stable funding. Third, use commercial best practices including IT maturity before you move from design to development to production. If you do those three things, the odds are you're going to get positive outcomes and history shows that.

So one of the things that I would respectfully suggest, this subcommittee and the full committee may want to think about, as well as I suggested on the House side, it's how you can take the six elements that I've talked about and apply them to the DOD. For some of them, there may be a role for Congress. Maybe you give the DOD more flexibility with regard to more stable funding if they meet certain requirements that are likely to generate positive outcomes. Kind of a carrot and a stick approach. I am happy to work with you on those issues because a multifaceted strategy needs to be employed in order to achieve the type of positive outcomes on a sustainable basis that I think all of us are looking for.

Secretary KRIEG. One other vector that might be interesting, because it's something I worry about a lot, so let me throw it out and let you share my worry. Norm Augustine wrote a book in the late 1970s called "Augustine's Laws," in which, among other things, he played around with the notion of diminishing marginal return and if you stay on a certain line of technology, at some point along that line of technology, each next generation gets harder to accomplish and the next delta is more expensive.

Now so far, computing power is the one of the few technologies that has not moved along that normal classical curve of diminishing marginal returns. But its cycle times are rapid, so that makes it hard for us to deal with many of the technologies we're chasing, are well out there, diminishing marginal return curves. So as we push at these, we've gone from fourth generation to fifth generation still. Each generation has been harder to obtain.

The next generation along single lines of technology get very hard to accomplish. So, I'm trying to push the enterprise to think about what are those technology vectors for this next era of competition? What is it strategy tells us about the next era of technology competition? Now are they the ones we have been working so hard for, for the last 25 years? I'm not sure they are, but I can't tell you what the next set of vectors are. So we're doing some work to try to understand that. But I do believe that in many of these areas, we are really wringing out the knowledge curve pretty far up the line and so each generation is harder to accomplish.

Senator THUNE. I appreciate both answers. Mr. Chairman, I would yield back, but I would simply say that I hope the subcommittee will continue to look at the improvements that Secretary Krieg has talked about and the disciplines they are trying to put in place, that hopefully will improve upon some of the findings in the report, to make sure that we are getting the biggest bang for the taxpayer buck and the highest level of efficiency in many of these programs.

It is important obviously, extremely important, to our national security. It's also extremely important as a matter of our ability to maintain fiscal discipline in the way that we address these issues, too. So I appreciate the hearing, the testimony, and look forward to following up on an ongoing basis with you and Senator Akaka to make sure that we are making some good headway. Thank you all.

Senator ENSIGN. Health care is a real passion of mine. It is something I look at a lot of different reforms around, and $39 billion of the DOD's health care program is purchased from civilian

providers, using three large performance based contracts. Some of the things we've been talking about and one of the words or statements you said, Mr. Walker, is "best practices."

In medicine, only about half the practitioners practice best practices, according to some experts. Does the DOD look at best practices when awarding some of the fees that they award when it comes to health care and if not, this may be a time where we need to look at that because it is technology. This is an area where technology and pay for performance can really come into play.

The government to a great degree can help drive the private sector in this regard, because we spend so much money now in health care and DOD is one of those purchasers of health care that could help drive the idea of best practices. It saves money and you end up with better outcomes, once again.

Mr. WALKER. First let me say, Mr. Chairman, that it is my understanding that none of the contracts within our sample dealt with health care contracts. Second let me say, that the United States does not have a set of national practice standards for health care. I personally believe it's critical that we move to develop such a set of national practice standards. They should be developed by the physicians and not by the government.

Senator ENSIGN. We had better be very careful of how we adopt them by the government because we are so slow to change with technology. As a health care practitioner, I'll tell you that government will react way too slowly and we can adopt what the colleges adopt.

Mr. WALKER. Exactly. That's what I'm talking about.

Senator ENSIGN. But we had better change as quickly as they do.

Mr. WALKER. That is right. I think we need to be relying upon an authoritative body, that is more in tune with the market. I will say this and you know this, but given your background, depending upon where you live in this country, the type of procedure that will be performed on you for the same malady can be very different, with very different cost, and very different outcomes.

We spend 50 percent more of our economy on health care than any other country on Earth and yet we have below average life expectancy for an industrialized nation, above average infant mortality, above average medical error rates, and the only thing we're number one on in health care is not a good thing and that's obesity.

I like your concept of how can we move to embrace the concept of national practice standards. What can the government do? I would respectfully suggest this isn't just DOD, it's the entire Federal Government, it's Medicare, it's what can we do to encourage the development of these. Because I think the potential for reducing cost, improving quality, and reducing litigation is significant. But it's much beyond this.

Senator ENSIGN. No question. I was just asking in the context of DOD.

Secretary KRIEG. Rather than me going on a long explanation of what the TRICARE managed care support contracts are, I would be happy to arrange Dr. Winkenwerder to come over here. We have gone through this process over the last 4 or 5 years, in defining a new approach, going to the market, putting out three regional contracts that have both an administrative fee side and a health per-

formance side. My sense is—although my sense is that that transition went fairly well and I think we're fairly pleased with the results to date.

Senator ENSIGN. Are there lessons to learn from that when it comes to being able to apply to other parts of the DOD? In other words, if it's not worked well there, the best practice is a separate issue, but if it has worked well, are there lessons we can apply to other parts of the DOD?

Secretary KRIEG. In contracts for weapon systems, that may be a reach in services, which is an area we are trying to work at, defining contract services and understanding them, there's probably more similarity. Although, if we were to bundle all services to three regional contracts, I think we would hear a lot about that, too. But I think in understanding how they made the transition vehicle types, how they measure performance, I think it is more like the services side of the business which we're working on, than the weapons side. But I don't think about whether there is a broader link.

Senator ENSIGN. Senator Akaka.

Senator AKAKA. Thank you, Mr. Chairman. Contractor pass throughs has been a huge problem, too. Senator Levin and I have concerns about this, too. Let me give you an example. On Monday, May 20, 2006, the Washington Post published a front page story titled, "Multiple Layers of the Contractors Drive Up Cost of Katrina Clean Up." The article described the process in which work was done and the work was passed down from a prime contractor to a subcontractor, to another subcontractor, with each company charging the government for profit and overhead before finally reaching the company that would actually do the work. In each case, the Army Corps of Engineers paid a prime contractor $1.75 per square foot to nail plastic tarps onto damaged roofs in Louisiana. The prime contractor paid another company 75 cents per square foot to do the work. That subcontractor paid a third company 35 cents per square foot to do the work and that subcontractor paid another company 10 cents per square foot to do the work. The result was that the taxpayer was stuck paying $1.75 a square foot to do work that only cost 10 cents a square foot.

Unfortunately, pass through charges of this kind are not limited to disaster relief contractors.

Mr. Walker and Secretary Krieg, would you agree that Federal agencies should not be paying excessive pass through charges of this kind to companies that are not doing any of the work on the project? I would just suggest that after you answer that, that I look forward to working with you to address this issue.

Mr. WALKER. Senator, I'll start first. We do work across the entire Federal Government, including work in conjunction with Hurricane Katrina. The example that you give has to do with the Department of Homeland Security (DHS) contracting activities. I think it is also an example of how when the government gets into a situation where it has time-critical contracting that has to be done due to a contingency event. That contingency event could be Iraq or it could be Hurricane Katrina. We need to do a much better job of anticipating based upon threat- and risk-based scenarios. Frankly, it's easier for natural disasters than it is in other things,

to anticipate what the government's needs might be to engage in competitive contracting in advance, that can be updated periodically, and where we can issue task orders if and when these needs arise.

We also need to be doing more prepositioning on a domestic front as we do in the military. One of the reasons that that happened and the reason you give, is because the government is behind the eight ball. You have a situation where there is a critical need, where people are entering into expedited contract arrangements. In some cases, they're entering into contracting arrangements that under current acquisition laws, they do not have to engage in competitive bidding and in some circumstances it may not make sense. All the more reason why we need to be engaging in precontracting activities.

Now the answer to your question in the normal course is obviously, we shouldn't be paying $1.75 for something that the direct cost is 10 cents. One of the things we need more visibility over is, how many layers, how many players, how many margins are in here?

I would also respectfully suggest, and I don't want this to be a reflection of the people in the DOD, because I think you have great people in the DOD, if you had 20 percent fewer layers and silos in the DOD, you'd be 50 percent more productive.

Just like in contracting, the more layers, the more players, the more you're going to pay for one thing and maybe the less you're going to get. Now that is not intended to comment on the quality of DOD, they're great people trapped in bad systems and organized structures. But we have way too many layers, too many players, and too many hardened silos in that organization and it's not the only one, by the way.

Secretary KRIEG. Great people trapped in bad systems. That's what my wife says about me every day. [Laughter]

We have a lot work. We have a piece of work underway, a collective piece of work underway to understand contingency contracting that has been an item of interest. An item of interest in this committee, we're pretty committed to it. I think we are planning to have some thoughts together this summer.

So we'll be glad to come talk to you as we learn in our own thinking about looking at lessons learned from Iraq and Afghanistan, and try to translate that into how do you manage contingencies in contracting and balance between having lots of people sitting around waiting for something to happen, and being able to surge on a moment's notice. So, we're thinking through how you do that.

Senator AKAKA. Let's work on that issue.

Mr. WALKER. If I can clarify one thing, Senator Akaka. Take GAO as an example of what I am talking about. We eliminated a layer of management at GAO, we didn't lay off anybody, we redeployed them. We went from 35 organizational units to 13. We went from 16 footprints to 11 and we laid off very few from those 5 offices, nobody at headquarters, and our outcomes today are double because we have great people, but we had too many layers, too many silos, and too much process.

I remember one of the things I found out and I'll leave it at this, I had the opportunity, which I really appreciate, to participate in

Capstone which was for new flag officers several years back. One of the things that I found out was, at that time, I don't know what it is today, that in order to activate and deploy 10 reservists, over 20 units in the DOD had to sign off on it, approve it, not for your information, over 20 units. If you just flowcharted a few of DOD's decision processes, it would be illuminating. Again, they're great people and I think we could get a lot more, if we had a lot fewer layers and a lot fewer silos to deal with. Because the more layers you have, the more silos you deal with, the more turf battles and the more people feel they need to take time to try and add value or justify their existence from some different perspective.

Secretary KRIEG. To that point, I have a project underway that once a program manager declares he's ready for a milestone decision, it takes him about 9 to 12 months to get to my table, to a DAB meeting. So, we have a piece of work to do a lean Sigma 6 kind of analysis of his data, adding 9 to 12 months worth of value to the program when it comes out the other side and what do we need to do to change it.

So in my little world, I'm working that as well. But I agree, much of that is a reaction to there was a problem somewhere before, so we write a rule that says we will create a mechanism to ensure that that problem never happens again. Then, every system has to go through that rule on its way up, even if it's not relevant and we have to change the way we think about that if we're going to be successful.

Senator ENSIGN. There is too much "cover your back" after rulemaking. There is "cover your back" rulemaking that is typical with bureaucracies, which would lead me to my final question and that is, you have the small contractors, defense contractors out there, and you have large ones and business is very akin to government in that it tends to develop bureaucracies. The larger they get, the more bureaucratic.

I've read some of Bill Gates' stuff and looking at how he has tried to fight that but yet, they've become big and kind of cumbersome now. Obviously, that was one of his keys to competing against IBM when they first came about. Knowing that when the DOD looks at contractors and the ability to meet the needs and developing new products, has anybody studied small contractors' versus large contractors' performance, the ability to meet some of these criteria, innovativeness, those types of things? I realize some things have to be done by big contractors, but I'm just wondering overall, has anybody at DOD or GAO done a comparison throughout, a fairly objective overall look at the matter, the size, and all of that?

Mr. WALKER. We haven't. Obviously to the extent you're talking about major systems, you wouldn't be talking about subcontractors and the degree of complexity obviously, would be a lot of different too, to the extent you're talking about certain components versus others. I don't know about the DOD.

Secretary KRIEG. Let me take that one for the record and see what I can find, even if it is not a direct answer, if I could find relevant pieces of work.

[The information referred to follows:]

The Department of Defense (DOD) has not conducted a formal comparison of small contractor performance versus large contractor performance. DOD does keep

timely, pertinent past performance data in its Past Performance Retrieval System, a web-enabled Government-wide application.

Senator ENSIGN. The reason I asked that, is that we have some really impressive defense contractors in my State. They blow me away, some of the things that they bring to us and some of the technology that they bring to us. They may have difficulties with the acquisition policies of DOD because they're small and they have trouble getting through the layers when they have better answers for less money, than some of the big guys and they bring those to us and we look at those. Sometimes, we're not earmarking, but what we're doing is just put you folks together with them to say hey, take a look at this, because that's the only way that we can get them through the system to some of the places.

I would like you all to look at that in general because a lot of innovation, they come through the big companies. Don't get me wrong. A lot of innovations from a lot of wonderful people working out there in the big companies as well. But some of the innovative small companies need to be looked at and that's part of a reason I ask this. When we're looking at acquisition reform, this is something that needs to be looked at, where small companies can get to the table, as well as the big companies.

Mr. WALKER. This morning, Chairman Hunter of the House Armed Services Committee talked about his challenge concept and there are pros and cons to it. But basically what you're saying is, especially in technology which ends up frankly changing so rapidly and in many cases, technology is not coming from the big companies and sometimes it's coming from the smaller companies. Then when and to what extent there can be a mechanism, whereby that can be considered an appropriate circumstances on a plug and play approach, but that also means you have to change how you enter into your contracts. I think that needs to be thought through. Because on the one hand, it may be good to provide a mechanism for that. But you need to determine whether or not you will end up having to pay termination fees, and what kind of impact that would have on whether or not people are willing to bid and what they are willing bid. I think you just have to think through it. But I understand where you are coming from and I think it is meritorious, especially if we can nail down some of these requirements and stick with them for a period of time and therefore, you have more players that theoretically might be able to meet the need because you are talking about something that is a more well-defined technology, rather than something you're trying to build and create from ground base zero.

Senator ENSIGN. Senator Akaka.

Senator AKAKA. Thank you, Mr. Chairman. I have a last question here for Secretary Krieg and it has to do with acquisition workforce. At our hearing on Iraq contracting earlier this year, I asked the witnesses about reports that our contracting workforce in Iraq was severely understaffed. Secretary Bolton at that time said that part of the problem is that—and I'm quoting him, "we're short in the Federal Government by 1,500 to 2,000 contracting officers. The folks I have, they're great people, but in a couple of years about half of them are gone because they are retiring. The simple fact here, is that there aren't a whole lot of folks that you can draw

from to do this particular function. They are just short. The bigger issue is how do you attract, recruit, train, and retain this kind of expertise when you're short across the entire Federal Government."

Secretary Krieg, do you agree with Secretary Bolton's view, that we are more than 1,000 contracting officers short of what we need?

Secretary KRIEG. I'm not going to comment on the specific one because I don't know the context in which he was answering, but I will tell you as I told you in the first hearing we had over in the other committee, that I view the workforce and the future of the workforce to be my number one goal. If I lose sleep over something at night, other than what Mr. Walker may publish the next day, it is that the acquisition workforce, which is the intellectual property by which we manage results, is aging; and two, it needs to change its skill sets over time. Therefore, as Mr. Walker said this morning, that it's aging. It's a risk and an opportunity because where you want it to be in the future, is not where it's been. So if we can comprehensively think through the problem, I told you I'd be working on a strategy.

We have actually started to get the demographics in. We have 135,000 in the workforce now. We know where they are by acquisition type, whether they are program management, contracting, et cetera, where they are in service. We're starting to understand their ages. The average age is 48 and change. Eighty percent of them are civilians, 60 percent of the civilians are in the old—what is it?

Mr. WALKER. Civil Service Retirement System.

Secretary KRIEG. The old retirement program and, therefore, you know that crowd at some point, there is a sum of their age and years of service, at which point it becomes very logical for them to leave. So, we're trying to put together a comprehensive look at the demographics by function and by department. I understand the skills and understand the skills competencies for each, and understand what is the recruiting, retention, and skills development approach that we together ought to put into this government to be able to transform and take advantage of this opportunity to create the kind of workforce we want for the future. So I am very committed to that and that is one I'm really concerned about.

Senator AKAKA. I'm glad to hear that.

Senator ENSIGN. Excuse me, Senator Akaka, I have to leave. I will turn the gavel over to you, if you'll just excuse the witnesses. I want to thank both of you. It's been a wonderful subcommittee hearing and I appreciate both of your expertise, openness, and candidness. Thank you, Senator Akaka.

Senator AKAKA [presiding]. My question is, will you work with us to do this because this is a problem, not only in this case, but throughout the Federal Government workforce and I have been working with Senator Voinovich on this, on our Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia of the Committee on Homeland Security and Governmental Affairs, and this is a huge problem. So in speaking with people like you, I've been asking that they work with us and work together in developing initiatives to attract, recruit, train, and retain the workforce expertise that we're going to need.

Secretary KRIEG. The answer is yes, and gladly, and we'll need all of your help in doing it.

Senator AKAKA. Thank you very much and this concludes our hearing. The hearing is adjourned.

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR JOHN ENSIGN

SPACE-BASED INFRARED RADAR-HIGH

1. Senator ENSIGN. Secretary Krieg, in the December 2005 report, the Government Accountability Office (GAO) disclosed that unlike most award-fee structures, the Space-Based Infrared Radar-High (SBIRS-High) development contract called for an award fee of up to 20 percent. Because of continued cost and schedule growth, the SBIRS-High program has been restructured. What steps have been taken with the current program to tighten award-fee payments to the contractors?

Secretary KRIEG. In 1996 at contract award, the award fee pool was 20 percent. However, the contractor also agreed to a 'corporate commitment' pool calculated at approximately 8 percent of the contract value. The corporate commitment pool was distributed across key program events and a dollar value assigned to completion of those events on a defined schedule. If the event did not occur by the agreed date, then the government could assess part or all of the corporate commitment value (assigned to that particular event) to be applied to the work necessary to complete the event. For example, due to the delay in Increment 1 Initial Operational Capability, the corporate commitment pool was assessed $32 million. As part of the 2002 restructure, the corporate commitment clause was removed and the overall fee percentage reduced. Since 2002, all new work added to the contract is negotiated with ~12 percent fee or less. All of the cost variances on the contract have been added with no additional fee. The amount of award fee that could be earned (excluding the fee on unexercised sustainment activities) is approximately $180.2 million and the cost of the remaining work is $2.14 billion. The effective value of the 'to go' award fee is around 9 percent.

The program office again restructured the award fee plan in conjunction with the 2004 Over Target Baseline re-plan. The award fee plan is broken into two major areas. The first area, Program Execution Performance (PEP), incentivizes the contractor to effectively manage program execution through disciplined management and system engineering processes, while performing to the program cost and schedule constraints. The goal is to motivate behaviors that lead to program success. The PEP fee periods are 6 months long. The award fee plan defines the criteria that guide the government's assessment of the contractor's performance during each period. Included in this is the identification of no more than 12 critical events with 'entrance' and 'exit' criteria scheduled to occur in the period. Completion of these events in compliance with the specified criteria forms the basis of the government's assessment for that 6-month period.

A key element of the 2004 revision is the separation of sustainment support from the development effort. The plan now defines distinct PEP evaluation criteria for both activities. These evaluation criteria refine the ability of the system program office to incentivize the contractor's behavior. This assessment of the contractor's overall performance is the foundation of award fee earned and is a monetary motivation for the contractor to contain costs as well as meet the requirements of the contract.

The second major area is Mission Success Incentive (MSI). The purpose of the MSI area is to reward delivery of quality systems that meet specified functional, performance, and interface requirements and that provide operational capabilities to the warfighter and intelligence communities. The award fee plan contains 11 events that represent the successful delivery of a capability to the warfighter. Since some of these capabilities can only be demonstrated after a number of satellites have operated successfully in orbit, this is an on-orbit incentive.

2. Senator ENSIGN. Secretary Krieg, what is the current award-fee pool for the program; please break down the pools of money available for each grading period and what safeguards will be put in place to ensure that we are only pay fee for product?

Secretary KRIEG. There are two major elements to managing the SBIRS-High award: PEP and MSI. The attached tables show the pools available by grading period (for the PEP-related award fee) and by event (for the MSI-related award fee).

For the PEP element (Table 1), the safeguards to ensure that we are only paying fee for product include the identification of no more than 12 critical events with 'en-

trance' and 'exit' criteria scheduled to occur in the period. Completion of these events in compliance with the specified criteria forms the basis of the government's assessment for that 6-month period. The PEP award-fee plan incentivizes the contractor to effectively manage program execution through disciplined management and system engineering processes, the achievement of entrance and exit criteria, all while performing to the program cost and schedule constraints.

For MSI (Table 2), the award fee plan contains 11 events that represent the successful delivery of a capability to the warfighter. Since the MSI fee is tied directly to delivery of capability, it directly provides safeguards to ensure we are paying fee for product. The MSI element of the award fee rewards delivery of quality systems that meet specified functional, performance, and interface requirements and that provide operational capabilities to the warfighter and intelligence communities. Since some of the capabilities can only be demonstrated after a number of satellites have operated successfully in orbit, this is an on-orbit incentive. Note that two of the events, E1 (Integrated Training Suite (ITS)) and E2 (Interim Mission Control Station Back-up (IMCSB)), are complete.

Table 2 includes a number of acronyms that are defined below:

HEO—Highly Elliptical Orbit
MP3 TES—Multi-mission Mobile Processor Theater Event System
GEO—Geosynchronous Earth Orbit
GM3P—Geosynchronous Multi-mission Processor
GM3P TES—Geosynchronous Multi-mission Processor Theater Event System
IMCSB—Interim Mission Control Back-up
MCS—Mission Control Station
MCSB—Mission Control Station Back-up

Table 1 Program Execution Performance (Exclusive of Unexercised Options)

Period	Length	Total PEP	RDT&E, AF Earned/ Funded	O&M Earned/ Funded	OPAF Earned/ Funded	RDT&E, DW Earned/ Funded
12FY04	12mo					
13FY05	6mo	$2,636,507		$1,652,495	$984,012	
14FY05	6mo	$4,431,274		$2,330,395	$984,011	$1,116,868
15FY06	6mo	$9,608,927	$6,327,567	$2,120,805	$706,555	$454,000
16FY06	6mo	$9,596,228	$6,587,178	$2,034,792	$520,259	$453,999
17FY07	6mo	$8,293,317	$7,603,081		$548,475	$141,761
18FY07	6mo	$8,494,496	$7,575,001	$250,000	$527,734	$141,761
19FY08	6mo	$8,188,298	$8,019,396		$81,657	$87,245
20FY08	6mo	$8,106,640	$8,019,395			$ 87,245
21FY09	6mo	$8,093,053	$8,042,212			$ 50,841
22FY09	6mo	$8,093,054	$8,042,212			$ 50,842
23FY10	6mo	$8,076,528	$8,053,146			$ 23,382
24FY10	6mo	$8,076,527	$8,053,145			$ 23,382
25FY11	6mo	$7,000,000	$7,000,000			
26FY11	3mo	$4,173,054	$4,173,054			
Total		$95,800,122	$87,495,387	$4,405,597	$2,384,680	$1,514,458

NOTES:

The "Total PEP" column shows the PEP-related award fee available in any given award fee period, which is then broken down by appropriation in the subsequent columns. Periods 12-14 reflect the "earned" award fee.

Table taken from the award fee plan. Since the rephrasing of the FY06 fee has not yet been definitized, the table still reflects PEP fee in FY06. However, the fee will be applied to PEP, MSI events and 'mini-events'.

Table 2 Mission Success Incentive

MSI Event #	MSI Event	FY	Available	Appropriation Type
E-3	HEO Msg Certification	2008	$6,751,164	***RDT&E***
E-4*	M3P TES Certification		$6,751,164	***RDT&E***
E-5	GEO Msg Certification	2010	$12,658,432	***RDT&E***
E-6*	GM3P System Certification		$5,907,268	***RDT&E***
E-7*	GM3P TES Certification		$5,907,268	***RDT&E***
E-8	IMCSB-2 Multi-Sat Certification	2011	$16,877,909	***RDT&E***
E-9	MCS-2 System Certification	2013	$21,097,386	***RDT&E***
E-10	Increment 2 Complete		$4,177,609	***RDT&E***
E-11	MCSB	2008	$4,261,345	***OPAF***
Total			$84,389,545	

* The AF and Army are reassessing the M3P program element; both work content and fee will likely be revised.

NOTE: Table update in process to reflect the new program schedule. The rephased FY 06 has not yet been definitized and is not reflected in the above value.

NUNN-MCCURDY BREACHES

3. Senator ENSIGN. Secretary Krieg, do you believe a program should be terminated if it has a Nunn-McCurdy breach?

Secretary KRIEG. Not necessarily. Nunn-McCurdy unit cost reporting tracks unit costs which can increase as a result of directed quantity reductions, or from the cost delta associated with the addition of capabilities related to approved technology insertions. More frequently, Nunn-McCurdy breaches are the result of overly optimistic baseline estimates or unanticipated technical challenges. However, through the required certification review, we may determine that the breached program is essential to national security and there are no less costly alternatives. The Department takes these Nunn-McCurdy certifications very seriously, and each breached program is evaluated on a case-by-case basis. If any program does not meet the specific certification criteria, it will not be certified and therefore will be either restructured as necessary to make it certifiable or terminated. I believe that Nunn-McCurdy unit cost reporting has been an effective, long-term cost control mechanism and we welcome the improvements recently made by this committee in the National Defense Authorization Act (NDAA) for Fiscal Year 2006.

4. Senator ENSIGN. Secretary Krieg, are there any changes you would like to recommend to the law?

Secretary KRIEG. We have been working with your staff on a couple of refinements. One is to clarify the definition of original baseline estimate as the intended Milestone B estimate. Another was to remove an unintended requirement to submit continuous quarterly Selected Acquisition Reports (SARs) for programs with "significant" Nunn-McCurdy breaches (i.e., greater than 30 percent to the original baseline estimate). A formal legislative proposal has been drafted for these refinements. There is one additional change I would like you to consider. The new Nunn-McCur-

dy law permitted a one-time reset of the original baseline estimate for those programs with pre-existing "critical" breaches (i.e., greater than 50 percent to the original baseline estimate). There were 25 Department of Defense (DOD) programs in this category. However, there was no similar "grandfathering" for the 11 DOD programs with pre-existing "significant" breaches to their original baseline estimate. This group includes mature programs such as Advanced Threat Infrared Countermeasure/Common Missile Warning System (ATIRCM/CMWS) and Joint Primary Training System (JPATS) (sitting at 49 percent and 47 percent, respectively) above their original baseline estimates, which are facing "critical" certification-level breaches going forward. Nunn-McCurdy certifications are resource-intensive reviews and would not be, in these cases, a productive expenditure of time. Therefore, I request that the original baseline estimates for the programs with pre-existing "significant" breaches be reset as well.

DEFENSE ACQUISITION CHALLENGE PROGRAM

5. Senator ENSIGN. Mr. Walker, the Defense Acquisition Challenge Program was established to provide an opportunity for nontraditional contractors to offer technologies and capabilities as alternatives to existing programs. What are the benefits and challenges to such a program?

Mr. WALKER. Historically, the DOD has experienced problems in bringing technologies out of the lab environment and into real use. There are a variety of reasons for this. For example, at times, technologies do not leave the lab because their potential has not been adequately demonstrated or recognized. In other cases, acquisition programs—which receive the bulk of DOD's funding in research, development, testing, and evaluation of technology—are simply unwilling to fund final stages of development of promising technology, preferring to invest in other aspects of the program that are viewed as more vital to success. Other times, they choose to develop the technologies as part of development programs, rather than rely on DOD labs to do so—a practice that brings cost and schedule risk since programs may well find themselves addressing problems related to technology immaturity that hamper other aspects of the acquisition process. In addition, it is challenging just to identify and pursue technologies that could be used to enhance military operations given the very wide range of organizations inside and outside DOD that are focused on technology development and the wide range of capabilities that DOD is interested in advancing.

The Defense Acquisition Challenge Program—one of several relatively small programs within DOD that are designed to enhance the transition of new technologies to the warfighter—allows any person or activity outside or inside DOD to offer alternative technology solutions. Thus, potential benefits may come in the form of cost-saving innovations that would have otherwise been ignored by acquisition programs as well as expansion of the defense supplier base since anyone can submit a proposal. It is not known, however, the extent to which these benefits are being realized. We reviewed the Challenge Program last year along with two other transition programs. The Challenge Program had not completed any of the 30 projects it had funded at the time of our review, so we could not assess outcomes. We concluded, however, the program had a disciplined and structured process for selecting and managing projects. Further, the program had encountered few problems managing and overseeing projects. Some projects appeared to offer cost-saving innovations. For example, one project was funding a small business to test and evaluate a new sapphire dome and optics for the Rolling Airframe Missile to resolve operational deficiencies in certain weather conditions. Another project was funding the test and evaluation of a database that will simulate the vibration or shock of various machine guns in order to test new accessories for the guns. This project alone is expected to save almost $780,000 per year in ammunition costs.

However, we also pointed out that program officials had some initial difficulties processing the large number of proposals it received during its first two solicitation cycles. Program officials were planning to limit the scope of future solicitations to high priority needs in an effort to reduce the number of proposals and to better target program funding. We also found that the program had limited measures to gauge individual project success and return on investment. Lastly, given its relatively small size, a program like the Challenge Program can only offer marginal solutions to DOD's overall transition dilemma. Less than $30 million was spent on the Challenge Program in fiscal years 2003 and 2004, whereas DOD spends about $9 billion annually on applied research and advanced technology development and tens of billions more on advanced component development and prototypes. As such,

the Challenge Program cannot be expected to single-handedly overcome transition problems or even to play a significant role in expanding the field of suppliers.

6. Senator ENSIGN. Mr. Walker, how does the performance of small contractors compare to large contractors on defense acquisition programs?

Mr. WALKER. Our prior work has found that smaller suppliers have a high potential to introduce novel solutions and innovations into weapons acquisitions. However, we have not performed a detailed assessment of the performance of small contractors versus large contractors.

QUESTIONS SUBMITTED BY SENATOR JOHN MCCAIN

AWARD/INCENTIVE/FIXED FEES

7. Senator MCCAIN. Secretary Krieg, in the 1980s, DOD used fixed-price contracts, and suppliers who could not stay on schedule and on budget got penalized. Current contracts rely much more heavily on award and incentive fees. The recent GAO report on DOD's use of award and incentive fees concludes that DOD has not used these fees to achieve the outcomes it desires. What actions are you taking to address this problem?

Secretary KRIEG. In collaboration with the military departments we recently established a group to review the recommendations of GAO. As part of its review I have asked the group to identify new ways to utilize award fees and incentive fees to maximize their effectiveness within the DOD. We responded to some of the recommendations in our policy memo on "Award-Fee Contracts" issued on March 29, 2006, and will be addressing the others shortly.

8. Senator MCCAIN. Mr. Walker, in the GAO report and in your statement, you referred to DOD's use of award and incentive fees as a waste of taxpayer dollars. You also indicate that the existence or application of a well-developed and well-implemented monetary incentive alone does not determine the overall success or failure of an acquisition. Since you have stated that award and incentive fees are a waste of taxpayer dollars, why would your report recommend their continued use?

Mr. WALKER. DOD can only improve its acquisition outcomes by taking a comprehensive approach to fixing its acquisition problems. While DOD's current award-fee practices waste taxpayer dollars by paying out award fees regardless of acquisition outcomes and giving contractors opportunities to earn initially unearned or deferred fees, properly structured monetary incentives can play a positive role in helping to address DOD's longstanding acquisition problems. Specifically, award and incentive fees must be structured to ensure that the government is paying contractors for meeting or exceeding cost, schedule, and performance goals. This is just one of six steps that the executive branch and Congress need to take to address fundamental problems in the acquisition system. Specifics on the other steps follow:

- There must be a reconciliation of the "Big A," that is a reexamination of the entirety of DOD's acquisition process including requirements setting, funding, and execution. Wants must be distinguished from needs, while taking into account the resources that are likely going to be available to fund those needs. This has never been done. It requires tough choices and it requires decisions both within the Department and by Congress.
- DOD must set realistic and sustainable requirements, which are informed by systems engineering and what is realistically possible given what DOD is trying to accomplish and the resources it has.
- DOD and Congress must take steps to provide funding stability to programs that have gone through the "Big A" reconciliation and that have realistic and stable requirements.
- DOD must use commercial best practices including making sure the appropriate level of technology, design, and production knowledge is demonstrated before moving forward into the next phase of a program. DOD decision makers need to enforce existing policies related to these practices.
- DOD must move to more streamlined and simplified contracting approaches that better balance cost and risk and that are focused on achieving desired outcomes: cost, timing, and performance.

9. Senator MCCAIN. Secretary Krieg, according to the GAO report, the cost of the F–22's development has increased by over $10 billion since it began, the program has been delayed by over 2 years, and the cost of each aircraft has increased. At the same time, the DOD has paid the contractor over 90 percent of the available

award fee or almost $850 million. Those award-fee numbers would lead someone to believe that this is a very successful program. Award fees are supposed to be a mechanism that provides feedback to the contractor. What message are you sending to contractors when you pay this amount of money for this level of performance?

Secretary KRIEG. Contractors should not earn award fees where performance is less than satisfactory. Recent legislation proposed in Congress stated that "It is the sense of Congress that award and incentive fees should be used to motivate excellent contractor performance and that such fees should not be awarded for below-satisfactory performance." I wholeheartedly support this tenet. This is reflected in our new policy titled, "Award Fee Contracts" issued on March 29, 2006, in support of pertinent recommendations found in GAO Report 06–66, titled "Defense Acquisitions: DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes."

10. Senator MCCAIN. Secretary Krieg, exactly, what performance are you paying for?

Secretary KRIEG. In some cases we are paying award fees for less than satisfactory performance and that has to stop. Contractors should not be rewarded for marginal or unsatisfactory performance. Our policy of March 29, 2006, clarifies the DOD's position. It states specifically that "Performance that is less than satisfactory is not entitled to any award fee."

11. Senator MCCAIN. Secretary Krieg, I'm trying hard to understand how the way these award fees have been used is helping the DOD to get the outcomes it wants. First, we sign a cost-plus contract that puts most of the risk for these major development programs on the government. Next, we offer the contractor the chance to earn an award fee on top of having their costs reimbursed. Then, when a program experiences problems and I think it is fair to say they almost always do, the contractor can still earn millions of dollars in award fees for helping to correct the issues which they are partially responsible for creating. Please explain to me how anyone can consider this to be an effective way of doing business.

Secretary KRIEG. First, generally we utilize cost type and award-fee contracts in high risk development contracts. In these types of contracts, it is appropriate for the government to share the risk with industry. Therefore, GAO also recommended that the Department ensure that award-fee structures are motivating excellent contractor performance by only paying award fee for above satisfactory performance. While the purpose of an award-fee arrangement is to motivate excellent contractor performance, the existing guidance on award-fee arrangements envisions paying award fees on a graduated scale since the guaranteed base fee typically is less than 3 percent. Therefore, it is reasonable to award some portion of the award fee pool for satisfactory and good performance. For this reason, we only partially concurred with this recommendation. We revised DOD's policy on award fees on March 29, 2006, such that contractors earn the preponderance of the award fee by providing excellent performance, but that less than excellent performance that still is satisfactory should earn a portion of the award fee.

12. Senator MCCAIN. Secretary Krieg, what strategies does the private sector use to incentivize their business partners?

Secretary KRIEG. Strategies for business partnership incentives in the private sector start with relationships. Typically, relationships are built, for example, through market opportunities, program experience, and competency gaps. From my experience, we build business cases for partnerships, for example, that identify incentives to provide compelling market entry opportunities, to enhance contract performance, or to bridge respective competencies such that there is a multiplier effect of having versus not having the business partnership.

Business incentives become a part of a business case. Examples of business incentives are summarized as follows:

1. Higher profit
2. Reduced quality control oversight
3. Shared best practices
4. Lower mutual total cost

These incentives, for example, are realized as a result of demonstrating consistent on-time product delivery, fewer product defects, and best practice implementation over periods of time. Business incentives can be structured for different levels of performance resulting in the motivation to maximize performance. Measurement periods are typically utilized on a continuous basis, with the downside for loss of incentives, if/when there is an interruption of the performance.

Sharing and implementing best practices in the private sector provide significant payoff due to having a horizontal impact for the company versus any singular program or functional area. Use of Lean Six-Sigma practices that are fully endorsed by executive leadership can provide a culture of continuous learning and proactive process improvement. Although the terminology characterizing performance may change from time to time, the fundamentals of private sector performance (shareholder value, cash flow, earnings, and market share) will improve.

13. Senator MCCAIN. Secretary Krieg, what changes do you have in store given GAO's findings?

Secretary KRIEG. We have already made changes based on GAO's recommendations. Our policy on award-fee contracts issued on March 29, 2006, provides guidance to the acquisition workforce on the proper use of award fees "rollover" and linking award fees to outcomes. We are evaluating how to best track and collect data to evaluate the effectiveness of award- and incentive-fee arrangements.

14. Senator MCCAIN. Secretary Krieg, fixed-price contracts shift the risk to the contractor and incentivizes the contractor to increase the reliability of the system components. What do you think the Department can do to return to more common use of fixed-price contracts?

Secretary KRIEG. Most of DOD contracts are fixed-price contracts. We utilize cost-type contracts for such things as complex development requirements. We are evaluating ways to reduce risks, such as increasing technical maturity in programs, which, over time, should support greater use of fixed-price contracts.

15. Senator MCCAIN. Secretary Krieg, please comment on the following contractor incentives and tell me if or to what degree they are implemented by DOD:

- Use long-term contracts to provide a more stable production base;
- Be aggressive in eliminating poor performers;
- Reduce administrative oversight of these best-value producers;
- Establish a "fast track" for contractor selection by providing precise requirements, prescreening contractors, publicizing intent to award on initial proposals and reducing award extensions;
- Publicize the "best value" producers; and
- Reward small/disadvantaged business development with an additional 1-percent profit.

Secretary KRIEG. The answer to each of your questions follows:

- Use long-term contracts to provide a more stable production base;
  - Answer: When they are specifically authorized by Congress, we can utilize multi-year contracts to provide program stability.
- Be aggressive in eliminating poor performers;
  - Answer: DOD has established a Past Performance Information Retrieval System (PPIRS) to capture contractor past performance information on contracts that meet various dollar thresholds. Pursuant to statute past performance is a mandatory source selection criteria. PPIRS is used to assist in evaluating contractor past performance in source selections.
- Reduce administrative oversight of these best-value producers;
  - Answer: DOD, especially DCMA, has taken a "risk-based" approach to both pre- and post-award contract administration.
- Establish a "fast track" for contractor selection by providing precise requirements, prescreening contractors, publicizing intent to award on initial proposals and reducing award extensions;
  - Answer: DOD has made progress in advising of our intent to award on initial proposals and utilizing contractor past performance in source selection. In addition, in September 2004 the Department established a Joint Rapid Acquisition Cell (JRAC) to enhance the flow of material to meet immediate warfighter needs and to serve as the focal point in the exercise of DOD's statutory Rapid Acquisition Authority (RAA) to respond to combat emergencies.
- Publicize the "best value" producers;
  - Answer: DOD Past Performance data base, PPIRS, includes performance information, good and bad, on contractors supporting the Department.
- Reward small/disadvantaged business development with an additional 1 percent profit.

• Answer: DOD Weighted Guidelines (profit calculation methodology) allows for consideration of a contractors support of Federal socio-economic programs under the "Performance Risk Factor."

16. Senator McCAIN. Secretary Krieg, these incentives were recommended in 1989 by Robert B. Costello, Under Secretary of Defense for Acquisition. How do you account for the Department's apparently spotty implementation of these recommendations?

Secretary KRIEG. DOD has largely implemented these recommendations.

17. Senator McCAIN. Mr. Walker, in the GAO report and your statement, you mentioned that award-fee evaluations are generally time-based rather than event-based. Please explain what you mean by this and why this may not be an effective practice.

Mr. WALKER. On award-fee contracts, DOD personnel (usually members of an award-fee evaluation board) conduct periodic evaluations of the contractor's performance and recommend the amount of fee to be paid for that period. The frequency of evaluation periods can be based on specific dates or milestones. For most DOD award-fee contracts in our study population, evaluation periods were time or calendar based. In other words, evaluations were conducted and fees paid on a quarterly, semiannual, or annual basis. Only an estimated 10 percent of DOD award-fee contracts in our study population used event-based award-fee evaluations, which are conducted after the completion of program milestones or scheduled for the anticipated completion date for program milestones.

Time-based award-fee evaluations of contractor performance on weapon system development programs that can last a decade or more may not generate meaningful information about progress. Adopting event-based award-fee evaluations would be a logical extension of DOD's new award-fee policy. In its March 2006 policy memo on award fees, DOD recognized the benefit of moving toward more outcomes-based award-fee criteria. To do so, the memo stated that it is imperative that award fees be tied to identifiable interim outcomes, discrete events, or milestones, as much as possible, and offered as examples milestones such as timely completion of preliminary design review, critical design review, and successful system demonstration.

LEAD SYSTEMS INTEGRATORS

18. Senator McCAIN. Mr. Walker, in 2002 then-Under Secretary of Defense for Acquisition, Pete Aldridge, expressed concern that the DOD had backed too far from program management and allowed lead system integrator (LSI) to assume too much responsibility in the largest acquisition programs. Mr. Aldridge said that "The interests of prime contractors—the need for short-term profit—is fundamentally different than the needs of the Pentagon that is charged with maintaining long-term national security, and the preserving means to produce the sophisticated tools of war." Mr. Aldridge advocated wresting total management oversight of programs from prime contractors. Since 2002, the LSI concept has been implemented more and more, not less. The Army's Future Combat System (FCS) is one example. Is it your view that the LSI concept reduces government visibility and oversight, and reduces contractor accountability?

Mr. WALKER. The degree of visibility the government has in any program with an LSI designated as the prime contractor depends on how the oversight mechanism is structured through the contract between the government and the LSI. In the FCS program, the Army, with few exceptions, is expected to be involved in all major program decisions. The Army and the LSI are each represented on the program's integrated project teams, which manage, among other things, the development of the individual FCS platform systems. Furthermore, the Army reviewed and agreed to decisions made by the source selection boards that the LSI conducted to competitively award major subcontracts for key systems and subsystems of the complete FCS. The Army also reviews the selection of lower tier subcontracts. While we know that the Army has a number of oversight mechanisms in place in the FCS program, we have not yet evaluated them to know how well they are working. Presumably, the quality of oversight mechanisms provides insight into how accountable the LSI may be to the Army in the FCS program.

ACCOUNTABILITY

19. Senator McCAIN. Secretary Krieg, what are your thoughts regarding accountability and do you believe that including the combatant commanders and the Service Chiefs in the process will improve accountability?

Secretary KRIEG. To include combatant commanders and the Service Chiefs as much as possible in the process, will not only increase the Department's ability to meet warfighter needs but will, from an accountability perspective, provide direct responsibility and therefore accountability for meeting mission needs. In particular, we need to include combatant commanders and Service Chiefs in the trade-off discussions regarding balancing among cost, schedule, and performance expectations at key points in the program. Working with the Vice Chairman of the Joint Staff and the Resource Community, we are experimenting with bringing the three key decision points in a program. In addition, I welcome the participation of Service Chiefs and combatant commanders at Defense Acquisition Board meetings and they attend occasionally as warranted.

20. Senator MCCAIN. Mr. Walker, in the GAO report and your statement, you briefly described the personnel who generally make up the award-fee boards. I understand that program office personnel may be in the best position to offer input on the contractor's performance, but since they may have a vested interest in presenting the program in its best light, are they the most appropriate officials to be recommending how much fee the contractor should earn?

Mr. WALKER. Independence is a key factor for ensuring the integrity of the award-fee process. Award-fee boards on major weapons programs are generally made up of personnel from the program office, which as you point out may be in the best position to offer input on contractor performance. However, our past reports have shown that programs are incentivized to suppress bad news and to continually produce optimistic estimates—largely due to continual funding competition. Moving towards more outcomes-based award-fee criteria that reflect cost, schedule, and performance goals helps to address this issue. Using these types of award-fee criteria in combination with fee determining officials who are independent from programs, would provide a more objective and transparent basis for award-fee decisions.

21. Senator MCCAIN. Secretary Krieg, if contractors perform, they should be awarded. If they fail, they should be penalized. Mr. Walker in his statement says that the DOD fails to wield the stick as well as the carrot. The National Aeronautics and Space Administration (NASA) has proposed penalizing nonperformers with "negative fees." Not only would the nonperforming contractor lose the fee, but they would lose the maximum fee that they could have earned. So for example, if it were a contract with a 15-percent maximum earned fee potential, and they only earned 7 percent, not only would they have to give back the 7 percent that they earned to the government, but they would also have to give back an additional 8 percent, so they would have to pay the government a negative fee. What do think about the negative fee concept?

Secretary KRIEG. We have been in contact with NASA regarding its recent initiatives in the award-fees area. We will follow-up to see if there are applications that could be incorporated by DOD in our policy.

22. Senator MCCAIN. Secretary Krieg, does DOD have anything like it? If not, why not?

Secretary KRIEG. No. Generally we do not take punitive measures against contractors.

GENERAL ACQUISITION

23. Senator MCCAIN. Mr. Walker, I noticed that the programs you use as examples in both the report and your statement have been rebaselined (and thus avoided a Nunn-McCurdy violation)—in the case of the F–22, 14 times. What does this say about the soundness of the business cases that DOD uses to justify these systems?

Mr. WALKER. It is a strong indication that the business case at the outset of the program was not sound. GAO has recommended for many years that DOD spend more time up front before starting a major acquisition program to balance requirements with available resources. This means DOD needs to do its "due diligence" to ensure a match of requirements with resources—mature technologies, feasible designs based on systems engineering, highly confident cost estimates, and sufficient funding to develop and deliver the system to the warfighter when needed. If a match is not achieved, trades are necessary and should include reductions to the requirements. However, often times the warfighter is reluctant to reduce requirements and programs move forward with impossible goals.

The F–22 and other major acquisition programs that have experienced poor cost and schedule outcomes did not do a good job at making this match. They started

system development with immature technologies and designs that were not shown to be feasible based on sound systems engineering. In the case of programs like F–22, B–2, Crusader, Comanche, and others the result has been programs out of control resulting in substantially higher costs, late deliveries or cancellations, limited or no recapitalization of legacy systems, and then the need to begin the next recapitalization sooner than expected—a highly inefficient use of limited taxpayer dollars. We have found in our recent work that DOD continues to start programs before this match has been achieved and the cost and schedule outcomes so far continue to be bad. Programs like FCS, Joint Strike Fighter (JSF), Aerial Common Sensor, Global Hawk, Expeditionary Fighting Vehicle, and others are experiencing significant growth in development costs and slippages in schedule. DOD needs to stop this cycle of inefficiency by following the intent of acquisition policy and best practices that are anchored in incremental and knowledge-based acquisition precepts.

GAO is not alone in its concerns. The Defense Acquisition Performance Assessment report in December 2005 highlights similar concerns and recommendations as past GAO reports.

24. Senator McCAIN. Secretary Krieg, in the 2006 Defense Authorization Law, Congress instructed the Pentagon to report on every program that costs at least 50 percent more than initial projections. The provision was designed to tie programs to their original cost estimates, rather than updated cost and schedule baselines. The Pentagon has been allowed to change its baseline without invoking the penalty. For example, the Army's Boeing-led FCS program hasn't triggered an official breach despite a $161 billion cost estimate that is more than double its original baseline estimate. What plans do you have in place to ensure programs are held to their original baseline figures instead of allowing the current practice of rebaselining?

Secretary KRIEG. The Department is fully implementing the NDAA for Fiscal Year 2006. Program managers will continue to report unit cost information quarterly to OSD on the status of both the current Acquisition Program Baseline (APB) and the original APB, to include significant and critical breaches, through our existing internal reporting process. I am stressing how important the original baseline is, especially as programs proceed through Milestone B and establish their original baseline, and I discourage rebaselining, except for usual reasons, which must be approved by me (or the Milestone Decision Authority). In addition, each quarter, as part of our SAR reporting to Congress, we list any programs that have been rebaselined and the reasons for such rebaselining, including milestone approvals. Furthermore, in accordance with section 804 of the NDAA for Fiscal Year 2006, in January 2007 the Department will submit a report on the acquisition status of each major defense acquisition program whose unit costs has exceeded the original APB by 50 percent or more. I am committed to making the original baseline the standard for our acquisition programs.

25. Senator McCAIN. Secretary Krieg, how do you plan to implement this new amendment to Nunn-McCurdy specifically as it applies to the FCS and F–22 programs?

Secretary KRIEG. The new Nunn-McCurdy amendment will be applied equally across all programs. In the specific cases of the FCS and F–22, both reported unit cost increases of more than 50 percent against the original APB in the December 2005 SAR. In accordance with the new provisions, both were given revised original baselines equal to their current APBs as of the date of enactment of the statute (i.e., January 6, 2006). No certification was required, although the Secretary of Defense must provide to the congressional defense committees within 1 year of enactment: (1) an assessment of the costs to be incurred to complete the program if the program is not modified; (2) an explanation of why the costs of the program have increased; and (3) a justification for the continuation of the program notwithstanding the increase in costs.

26. Senator McCAIN. Mr. Walker, DOD loses credibility with contractors when requirements and numbers of units to be purchased change. At one time, the Air Force was going to purchase 750 F–22s. Now, at $300 million a copy for procurement and development costs, it can afford only 180. Once the F–22 was an air-to-air fighter. Now it's a multi-role aircraft. Turbulence in requirements and purchase size incentivizes contractors to pad their cost estimates. By my logic, the government must be a smarter buyer if it wants higher quality producers. How do you recommend improvement in the DOD's requirements process?

Mr. WALKER. We generally believe that DOD's weapons acquisition problems cannot be solved without looking at the entirety of DOD's acquisition process and making deep-seated changes to program requirements setting, funding, and execution in

addition to changing how DOD views success, and what is necessary to achieve success. At present, DOD's requirements process generates so many highly complex programs resulting in more demands than the fiscal resources can support. Once too many programs are approved, the budgeting process exacerbates the problem. This is further compounded as program costs rise demanding more funds than originally budgeted. Because the budget can no longer fund all the programs, the Department often elects to stretch out the schedules and cut quantities to keep as many of these programs alive. Areas in the requirements process that we have reported on in the past and have suggested improvements to the process include:

- ensuring the warfighter need exists and can best be met with chosen concept (all alternatives have been examined),
- establishing a strategy that involves time phased requirements for meeting the warfighters needs,
- maintaining flexibility in requirements up to program start so trades can be made in order to match requirements with resources in formulating the business case,
- establishing and putting in place controls to ensure requirements can be met with mature technologies,
- constraining individual program requirements by working within available resources and by leveraging systems engineering, and
- ensuring that the workforce is capable of managing requirements trades, source selection, and knowledge-based acquisitions.

We are currently examining how to improve the DOD's requirement and budgeting process.

27. Senator McCAIN. Secretary Krieg, I understand that there is a difference between GAO and the JSF Program Office on the percentage of the award fee that has been paid. GAO has adjusted its percentage to reflect money that was initially unearned and rolled over and is still available to be earned. The report mentions that this money is put into a reserve award-fee pool, which could be as high as $90 million. How does the DOD intend to use this money?

Secretary KRIEG. The JSF Program typically places unearned fee in a reserve award-fee pool. The Government is under no obligation to make any of the reserve award-fee pool available to the contractor. However, the Fee Determining Official may decide it is in the Government's best interest and in support of the objectives of the contract to: (1) add the reserve award-fee pool to the overall award-fee pool; (2) make the reserve award-fee pool available to target improvement in an area not currently identified; or (3) apply it to basic contract costs as required. Experience shows use of award fee is an effective tool to motivate the contractor. Planned uses of the funding currently in the reserve award-fee pool have not yet been determined. Those decisions will be made over time based on assessment of issues or challenges that emerge during contract execution.

28. Senator McCAIN. Secretary Krieg, will it be used to fix the problems that the contractor is in part responsible for creating?

Secretary KRIEG. The decision on that has not been made yet. The JSF Program has the option to use unearned fee in a future incentive pool, or to use it for a non-fee related purpose. Those decisions are made over time based on assessment of the optimum uses of funding based on contract execution status and issues.

BUDGET

29. Senator McCAIN. Mr. Walker, you have repeatedly raised the issue of fiscal imbalance in the Federal Government. In November, your managing director for acquisition issues highlighted how these imbalances could affect DOD. Tough choices will need to be made. What progress has been made in making these hard decisions?

Mr. WALKER. The progress on this front is limited as DOD has not rationalized wants from needs. To illustrate, the projected cost of DOD's top five programs in fiscal year 2001 was about $291 billion. In 2006, it was $550 billion. A primary reason why budgets are growing is that DOD is undertaking new efforts that are expected to be the most expensive and complex ever. Moreover, it is counting on these efforts to enable and support the transformation of military operations.

- The Army, for example, is undertaking the FCS program to enable its combat force to become lighter, more agile, and more capable. FCS is comprised of a family of weapons, including 18 manned and unmanned ground vehicles, air vehicles, sensors, and munitions, which will be linked by an information network. These vehicles, weapons, and equipment will comprise

the majority of the equipment needed for a brigade combat team in the future. When considering complementary programs, projected investment costs for FCS are estimated on the order of $200 billion. Affordability of the FCS programs depends on two key assumptions. First, the program must proceed without exceeding its currently projected costs. Second, FCS has expected large annual procurement costs beginning in 2012. FCS procurement will represent 60 to 70 percent of Army procurement from fiscal years 2014 to 2022. As the Army prepares the next defense plan, it will face the challenge of allocating sufficient funding to meet increasing needs for FCS procurement in fiscal years 2012 and 2013. If all the needed funding cannot be identified, the Army will have to consider reducing the FCS procurement rate or delaying or reducing items to be spun out to current Army forces.

- At the same time, the Air Force is undertaking two new satellite programs that are expected to play a major role in enabling FCS and other future systems. The Transformational Satellite Communications System, which is to serve as a linchpin in DOD's future communications network, and space radar, which is focused on generating volumes of radar imagery data for transmission to ground-, air-, ship-, and space-based systems. Together, these systems are expected to cost more than $40 billion. The Department has also been focused on modernizing its tactical aircraft fleet. These efforts include the JSF aircraft program, currently expected to cost more than $200 billion, and the Air Force's F–22A Raptor aircraft, expected to cost more than $88 billion.
- Concurrently, the Navy is focused on acquiring new ships and submarines with significantly advanced designs and technologies. These include the *Virginia* class submarine, expected to cost about $80 billion, and the DDG–51 class destroyer ship, expected to cost some $70 billion, and the newer DD(X) destroyer program, which is focused on providing advanced land attack capability in support of forces ashore and to contribute to U.S. military dominance in the shallow coastal water environment. The Navy shipbuilding plan requires more funds than may reasonably be expected. Specifically, the plan calls for shipbuilding funds to double by 2011 and stay at high levels for years to follow.

30. Senator MCCAIN. Mr. Walker, in particular, how do the QDR and the fiscal year 2007 budget address these hard decisions?

Mr. WALKER. The Quadrennial Defense Review (QDR) and fiscal year 2007 budget are clear indications that the Department wants everything they were proposing before and more. Neither documents lay out a long-term, resource-constrained, investment strategy. In fact, the gap between wants, needs, affordability, and sustainability seems to be greater than ever. Hard choices are necessary now, particularly given the Department's long-term fiscal and management challenges.

31. Senator MCCAIN. Secretary Krieg, you've been in the job over 6 months now and the fiscal year 2007 budget, I assume, is the first one to bear your mark. We all enjoy policy discussions, but budgets reflect the true decisions, the real philosophy. How would you characterize your "mark" on this budget?

Secretary KRIEG. I agree with you that budgets reflect decisions of DOD and, as I've stated in other testimony, we're working exceedingly hard to more closely integrate and align our decision processes. Budgeting is one of those processes. Although individuals can, and do make substantive contributions to a budget, the result is the product of extensive collaboration resulting in a balanced recommendation from the Secretary to the President. Success is not measured in terms of organizations or program winners and losers, but by how effectively we enhanced DOD's capabilities and contribution to national security. An example of this collaborative outcome in the budget is what we did with the Joint Tactical Radio System program. It was not easy, but we brought all the stakeholders together and crafted a governance structure and restructured program that we believe creates much better conditions for successful program execution. Similarly we made some hard choices with respect to funding levels for chemical-biological defense and chemical demilitarization, the DD(X), and SBIRS-High, among others. I hope my "mark" is getting us better at doing the right analysis with the right information and stakeholder involvement to get better outcomes, and balancing among cost, schedule, and performance in problem choices over time.

WEAPONS SYSTEMS

32. Senator MCCAIN. Secretary Krieg, what is different about it in the area of weapon system investments compared with the past?

Secretary KRIEG. The QDR analysis concluded that most of our weapon systems remain relevant and the budget reflects these conclusions. We continue to focus our investment strategy on providing those capabilities that warfighters tell us they need.

33. Senator MCCAIN. Secretary Krieg, what changes were you personally involved with?

Secretary KRIEG. The budget recommendations forwarded to the Secretary and ultimately to the President were the result of a collaborative process that involved not only myself, but all the relevant stakeholders and decisionmakers of the DOD.

34. Senator MCCAIN. Secretary Krieg, what philosophy or beliefs do you believe they represent?

Secretary KRIEG. I think these changes represent a commitment to providing our men and women in uniform a balanced set of capabilities they need in a timely and efficient manner. The enemy we face demands an agility in our business practices that heretofore had been missing. We're making great progress in the right direction.

35. Senator MCCAIN. Secretary Krieg, can one assume that the major programs that have not been altered now enjoy your full support?

Secretary KRIEG. As noted earlier, budgets reflect the decisions of the DOD which I support. However, I continually review our programs, and as circumstances and conditions change, I am willing to reevaluate our portfolio and make appropriate adjustments.

QUADRENNIAL DEFENSE REVIEW EXECUTION ROADMAPS

36. Senator MCCAIN. Secretary Krieg, in January, the Deputy Secretary of Defense commissioned the "2005 Quadrennial Defense Review Execution Roadmaps" and assigned you, along with the Chairman of the Joint Chiefs of Staff, the lead on the "DOD Institutional Reform and Governance" panel. The panel will provide guidance on implementation of new acquisition policies, procedures, and processes and will explore options for a "portfolio-based approach" to defense planning, programming, and budgeting. In your testimony you note the Defense Acquisition Performance Assessment and QDR identified an initiative on the need to have "considerably greater integration among the requirements, budgeting, and acquisition communities" which would lead to reductions in technical and schedule risks, stable long-term funding, and setting requirements in recognition of technology readiness. How will you achieve integration of these communities and the outcomes you list here?

Secretary KRIEG. Our focus is squarely on the customer—the joint warfighter and delivering the capabilities they need to be successful. They face an enemy today that forces them to be flexible and agile. Similarly, DOD's business practices and processes need to be just as flexible and agile. The first step in integrating these communities—acquisition, requirements, and budgeting—is building consensus among the DOD's senior leadership we've termed the "governance layer." I am actively engaged in that effort in an open, transparent process with a lot of frank discussions. We are also building a common capability "lexicon," and creating authoritative shared data so we all operate on the same set of facts. The next step is to develop and implement an appropriate process that brings together the respective interests of the communities in such a manner that allows DOD to make better informed investment decisions. We are experimenting this year with a number of approaches and portfolios to learn what works best. I think we are building the right foundation and are on the right track. We look forward to working with this committee and Congress to review the results of those experiments and process changes over time.

[Whereupon at 4:49 p.m., the subcommittee adjourned.]

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