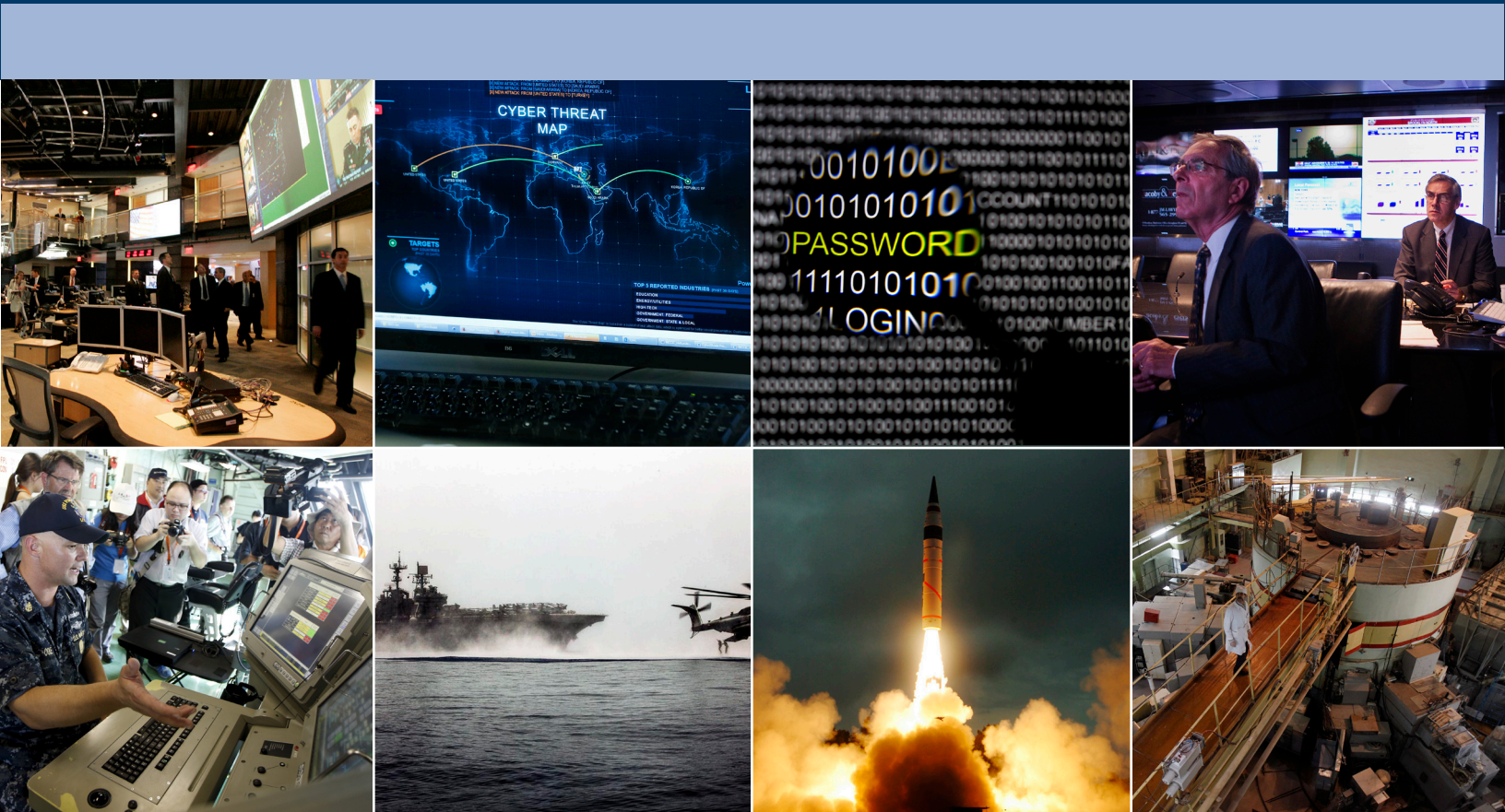


Budgetary turmoil at the Department of Defense from 2010 to 2014: A personal and professional journey

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SUMMARY

During the past five years, the Department of Defense (DOD) has experienced nearly constant budgetary turmoil. The large and sudden sequester cuts of 2013 and the government shutdown in that same year constitute the best known events. Other instances are less well known but contributed to disruption. They include creating plans to shut down DOD on five different occasions, creating two budgets for the same year on several occasions because of uncertainty about the ultimate size of the appropriation, a major out-of-cycle planning process, and accommodating budgets that were six months late in enactment during two of the past five years. While this paper focuses on past budgetary turmoil at DOD, that turmoil unfortunately continues today.¹

As the comptroller and chief financial officer for DOD from 2009 to 2014, I coordinated many of DOD's efforts to accommodate this turmoil, working under the guidance of the secretary of defense and his deputy. This paper documents the budgetary turmoil and the problems it created for DOD and its employees and contractors. To do so I have drawn on my own experiences, interviews with key personnel inside and outside the Department, media coverage, and analyses by outside organizations.

I believe that this budgetary turmoil imposed a high price on DOD and therefore on the nation it serves. The price was not measured in dollars, since DOD certainly

didn't get any extra funding to pay the costs of the turmoil. Rather, the price took the form of harm to the efficiency and effectiveness of the Department's mission. The 2013 sequestration led to adverse effects on military readiness, leaving the military less prepared than it should have been had a major contingency occurred. The 2013 back-to-back furloughs for sequestration and shutdown led civilian employees to wonder whether the Department still valued their efforts. That year's sequestration and government shutdown imposed costs that siphoned money away from more useful purposes, not to mention about \$400 million in wasted civilian personnel costs. Finally, the budgetary turmoil consumed substantial amounts of the time of thousands of managers already burdened with managing the wars in Iraq and Afghanistan, thereby delaying their efforts to bring about long-term improvements such as audit readiness.

Many of the wounds caused by past turmoil have healed with the passage of time. But one has not. The budgetary turmoil contributed significantly to sharply declining employee morale, particularly among civilian employees. Poll data suggest that the morale of government civilian employees has declined by about 12 percent since the turmoil began in 2010. Interviews with Department leaders who lived through the budgetary turmoil confirm the decline. These leaders believe the morale problem continues today.

The budgetary turmoil also affected me personally. I lost a bet about sequestration and had to buy the chairman

¹ The budgetary turmoil addressed in this paper also had adverse effects at federal agencies other than DOD. These agencies have important missions, including some that directly affect national security. While they are not the subject of this paper, they too no doubt paid a substantial price during this period.

of the Joint Chiefs a good bottle of scotch. I experienced restless nights wondering if our financial proposals to offset turmoil and maintain military readiness would be accepted by Congress and what I would do if they were not accepted. Most of all, my role in overseeing the sequester and shutdown furloughs led to considerable personal misgiving. I knew that I was implementing actions that harmed the morale and, in the case of sequester furloughs, the pocketbooks of hundreds of thousands of DOD civilian employees who were helping defend our nation.

What should be done about the harm caused by budgetary turmoil? We cannot reverse past events, but we must end the threat of future turmoil. As soon as possible, and no later than the next month or so, the president and the Congress need to reach a two-year budget agreement that provides reasonable budgetary certainty. The country also needs a long-term and broader budget agreement that ends the threat posed by sequester cuts, government shutdowns, and budget delays. That agreement will no doubt have to wait until after the 2016 election, but it should be a high priority for the next administration.

With the turmoil halted, DOD needs to take steps to repair the morale of its employees, especially its civilian employees. There are many changes that need to be made in the civil service system, and they often require legislation. One simple step, however, can be taken by the Department right now. DOD can more effectively harness the power of praise, making sure that whenever Department leaders thank military personnel for their service to the country they also thank the civilians who support them. This small step should begin to reassure civilian employees regarding their value to DOD.

NATURE OF THE TURMOIL

In terms of DOD budgetary turmoil, 2013 is the year that will live in infamy. On March 1, 2013, the Office of Management and Budget (OMB) complied with the Budget Control Act of 2011 and “sequestered”—that is, cut—about \$37 billion in defense funding for FY 2013, the fiscal year that ended on September 30, 2013. The cut had to be applied equally in percentage terms in about 2,500 line items of the defense budget (so-called programs, projects, and activities). DOD had to take ac-

tion to accommodate each and every cut or risk violating the Antideficiency Act, which imposes criminal penalties for willful violations.

No sooner had DOD complied with these sequester cuts than the government shut down. Near midnight on September 30, 2013, as I sat anxiously at my desk in room 3E770 in the Pentagon, the OMB director released a memo confirming that Congress and the president had not agreed on a budget for FY 2014. Therefore, DOD and most other federal agencies had to cease all operations except those required to maintain safety of life and protect property. All DOD civilian employees other than those “excepted” (involved in safety of life and protection of property) had to be placed on furlough.

Sequester and shutdown are the poster children for budgetary turmoil, but there was more. Since 2010 DOD planned to shut down its operations no fewer than five times while I served as comptroller.² Three of those events resulted in useless work but only limited disruption. The first was the shutdown scare in FY 2010 when Congress delayed passage of a large supplemental funding bill for the war. The second happened in August 2013 as the country approached, but fortunately did not exceed, the debt ceiling imposed by law. Breaching the debt ceiling would not have forced DOD to shut down its operations, but the Department might not have been able to pay all of its bills. The final scare during my tenure as comptroller occurred in late 2013 when Congress was again late in agreeing on a budget.

Two of these five shutdown planning efforts ran to completion—one in 2011 when shutdown was averted just a few hours before the April 8 deadline and the other in 2013 when shutdown actually occurred on October 1. These planning actions were disruptive. Completed shutdown planning efforts require detailed guidance regarding what activities can continue during the shutdown, guidance that must be extensively reviewed and disseminated across thousands of DOD installations and commands. Civilians who are to be furloughed because of the shutdown must be identified by commanders and staff and then notified by individual letters, leading understandably to a barrage of questions and much employee angst. Employee concerns and added workload consume most of senior managers’ time during the period before the possible shutdown.

² In December 2014, after I had left government, DOD prepared for shutdown yet again. In that case shutdown was averted with only an hour to spare.

The 2011 shutdown was averted with less than two hours to spare on April 8, a Friday night. When I walked into the next morning's staff meeting held by the secretary of defense, a senior military leader came up and said firmly, "Bob, don't ever do that again!" He understood the chaos caused by planning for shutdown, even if the shutdown itself was averted. Unfortunately, I was not able to comply with his direction.

Uncertainty also forced DOD to prepare multiple budget plans. For FY 2013 DOD prepared two budgets, one at a level the Department believed was appropriate for national security and another at the lower budget cap levels specified by the law (often called sequester-level funding³). Preparing a single budget for one of the world's largest organizations requires a great deal of time. Preparing two budget plans for one year wasted substantial amounts of time that would have been better spent managing budgetary execution and pursuing long-term productivity improvements. In FY 2013 DOD also completed an out-of-cycle planning process (the Strategic Choices and Management Review) designed to provide guidance for adapting to cap-level budgets. This review, which came hard on the heels of that year's regular review, represented a useful and much-needed exercise but one that ate up still more time. DOD repeated the wasteful multiple-budget process for FY 2014, submitting a budget and then assisting as Congress reduced it to levels required by the budget caps.

Some lesser-known events also contributed to budgetary turmoil. Twice over the past five years Congress has forced DOD to rely on continuing resolutions (CR) for at least six months. During the other years the CRs lasted two or three months. When Congress and the president cannot agree on a budget by the beginning of the fiscal year, they usually rely on a CR to prevent the shutdown of government. CRs generally instruct DOD to operate at the same rate of funding as in the past year for each of its roughly 50 appropriations. Sometimes the previous year's levels leave the money in the wrong appropriations, which occurred to a significant extent in FY 2013 and added to that year's dismal quality. Even if the money is distributed in the right pots and in roughly the right amounts, CRs require considerable effort to implement. They are a poor way to manage any organization, especially a massive and complex one like DOD.

Finally, budgetary turmoil led to large, time-consuming reprogrammings. Once Congress appropriates funds into a budget account, the Department cannot move substantial amounts of funds from one account to another except through the reprogramming process. Reprogramming permits such moves, which reflect a changing world and military needs, and typically involves moving funds from the investment accounts to meet needs in the operating accounts. During the past five years substantial reprogramming shifts were often required just to maintain required training and readiness.

Reprogrammings, however, are a "zero sum" game—any add to one account must be offset by a cut in another. Moreover, the process effectively requires the approval of every one of DOD's four congressional committees; objection by any committee essentially prevents the reprogramming shift.⁴ Frequently over the past five years DOD has needed to persuade congressional committees to grant unanimous approval to cuts in investment funds, which affect programs and jobs at particular companies in members' states or districts, in order to meet readiness and other military needs. With military readiness at stake, congressional committees usually worked with DOD to meet its most critical needs. But the process consumed months, and there was no guarantee of success.

In particular, in late summer of 2012, Leon Panetta, then the new secretary of defense, pushed hard on Congress—and on me—to be sure that Congress approved reprogrammings needed to maintain the readiness of a military at war. We eventually succeeded in most of our efforts but not without some restless nights for DOD's comptroller.

SUMMARY OF DISRUPTIVE BUDGET EVENTS, 2009-2014

- Sequestration cuts \$37 billion in mid-2013
 - Resulting in about 30 percent cut in day-to-day operating funds
- Government shuts down for 16 days in 2013
- DOD plans for potential shutdown on five different occasions
- No on-time budgets during this period
 - Requiring continuing resolutions every year
 - Twice the resolutions last at least six months
- Two budgets per year twice during this period
- Large out-of-cycle re-planning process in 2013
- Large reprogramming requests in every year

³ Technically, automatic sequestration cuts occurs only when appropriations approved by Congress and the president exceed the budget caps set in law. Often, however, the term sequestration is used whenever DOD may be forced to operate at the levels in the budget caps.

⁴ In the House a fifth committee becomes involved if the reprogramming includes intelligence funding.

NEAR-TERM MISSION HARM

The table above summarizes the disruptive budget events that occurred from 2009 through 2014. So what was the impact on the Department of Defense?

Wartime activities protected

What's absent from the list of turmoil effects is as important as what's on it. Throughout the past five years of turmoil, and especially in the dark days of 2013, DOD sought to protect wartime operations. Through reprogramming or other actions, wartime funding was made whole—even though most Overseas Contingency Operations accounts, which fund added wartime costs, were subject to sequestration. DOD also exempted civilians serving in war zones from furloughs. I personally communicated with some of our wartime commanders to ensure that DOD protected their activities, and they always agreed that they were protected. Senior managers interviewed for this paper also agreed.

While wartime activities were largely protected, there were adverse effects elsewhere. This paper first addresses those effects of budgetary turmoil that occurred in the near-term—that is, at the time of the disruption or in the year or so thereafter.

Mission degradation: Readiness

In the fall of 2012 the sequester cuts scheduled for January 1 loomed large. However, based on judgments by the president, senior congressional leaders, and DOD's own senior leaders (myself included), DOD decided not to anticipate sequestration—relying instead on Congress and the president to reach a budget deal to avoid sequester cuts.

Not everyone was convinced that sequestration would be avoided. In the fall of 2012 I made a friendly wager with General Martin Dempsey, chairman of the Joint Chiefs of Staff. I bet that sequestration would be avoided; he bet it would occur. The next year I delivered a bottle of good scotch to the chairman at one of Secretary Chuck Hagel's staff meetings. The chairman was gracious in this small victory, as he was in all matters. He

also made clear that he would have much preferred to have lost this particular bet.

Specifically, in the fall of 2012 the Department chose not to plan for sequestration or to slow spending in anticipation of cuts. Secretary Leon Panetta made this decision clear during internal meetings with senior DOD leaders and to the press.⁵ As we said internally at the time, "We won't sequester ourselves." Deputy Secretary Ashton Carter formalized this decision in a memorandum to the Department issued on September 25, 2012.⁶

Critics assailed the Department for its failure to plan for sequestration, especially because DOD has a reputation for planning for every contingency.⁷ In truth, some organizations quietly performed limited advance planning. For example, I told my own staff to brush up on the laws that govern sequestration and to help me do the same. Those acts included not only the Budget Control Act of 2011 but also the Balanced Budget and Emergency Deficit Control Act of 1985, an old and arcane act that governs all the details of sequestration. I also asked them privately to help me think through how the Department would accommodate sequestration if it occurred. Sadly, those efforts paid dividends later. Other organizations also apparently did some quiet advance planning.⁸

The decision not to plan extensively for sequestration in the fall of 2012 in part reflected a calculated effort to maintain the pressure for a budget deal. Also, planning in the fall, and especially slowing spending, would have disrupted ongoing activities and frightened employees even earlier than eventually occurred. Moreover, the resulting plans would have been largely useless because, as noted below, congressional action and budgetary events in 2013 led to major changes in the eventual sequestration.

Not taking action made sense in the fall of 2012. However, on January 2, 2013 the president signed the American Taxpayer Relief Act. The Act delayed sequestration to March 1 and reduced the expected cut for DOD below \$55 billion. However, it left in place a substantial sequester cut that would eventually total \$37 billion. It was becoming obvious that significant cuts would occur. As a result, in early January Carter issued a memo

5 For example, see "Pentagon Still Not Planning for Sequestration, Panetta Says," *Defense Communities* 360, October 28, 2012.

6 Ashton Carter, "Guidance on Fiscal Year 2013 Joint Committee Sequestration," memo, September 25, 2012.

7 Anna Mulrine, "Why Pentagon won't say how it would cut \$55 billion starting Jan. 1," *Christian Science Monitor*, November 8, 2012.

8 *Ibid.*

directing that the Department begin to trim spending, especially operating spending.⁹ He also directed that, to the maximum extent feasible, cuts be made through actions that could be reversed—just in case sequestration went away. The military services and defense agencies responded with actions that included freezing civilian hiring, trimming travel, cutting back on professional education, delaying facilities maintenance, and reducing administrative costs.

As the March 1 deadline for sequestration neared, OMB provided guidance along with thousands of numbers detailing the required cuts by line item.¹⁰ Then on March 1, the president issued a terse memo implementing sequestration.¹¹ The sequestration required cuts that averaged about 7 percent across the DOD budget. But, as I struggled to make clear to senior leaders, the effects were far worse in DOD's day-to-day operating accounts for a number of reasons.

- Until March 27, DOD was operating under a continuing resolution that, because it was based on prior-year funding levels, provided too much investment funding and not enough dollars in the operating accounts.¹²
- The decision to hold wartime funding harmless, while definitely the correct choice, meant other operating funding had to be reduced by more in order to comply with the overall sequester cuts.
- DOD elected to make larger cuts elsewhere to protect operating funds for high priority programs including critical homeland defense activities, the core nuclear deterrent, and some special operations activities.
- In the spring of 2013 the Army estimated that it was short \$10 billion in wartime funding. It is hard to estimate the costs of war as many as two years in advance, as budget lead times require. Sometimes DOD asked for too much funding; sometimes it requested too little. As luck would have it, in FY 2013 DOD didn't request enough wartime funding. This FY 2013 wartime shortfall further exacerbated ef-

fects on non-wartime operating accounts, which had to be cut by more to protect needed wartime funds.

- The president exercised his authority to exclude military personnel funding from sequestration because of the drastic effects associated with rapid cuts in funding for military personnel. By law these foregone sequester savings had to be found in other accounts.
- Finally, unanticipated events could demand operating dollars, as had already happened with the Haitian earthquake and the Libyan war. DOD needed some financial flexibility to handle the unforeseen.

Given all these factors, in early calendar year 2013 DOD faced a shortfall of about 20 percent in non-wartime DOD funding for the day-to-day operating budget (technically known as the "operation and maintenance" appropriation). The Army's percentage shortfall was significantly larger. Even after the March 27 legislation effectively ended the continuing resolution for DOD and put funding in the right categories, the shortfall remained at about 15 percent for DOD as a whole. Moreover, because DOD had decided not to sequester itself and make cuts at the beginning of FY 2013, most of the operating cuts had to be accommodated in about half a year. So the Department effectively faced cuts of about 30 percent in day-to-day operating funding during the second half of FY 2013.

The services and agencies began taking more drastic steps. They halted almost all facility maintenance projects except those necessary to protect life and property. Maintenance depots laid off more than 7,500 temporary and term workers, hurting people and slowing planned maintenance. But these and other actions still weren't nearly enough to ensure that the Department met the legally-binding sequestration cuts.

The services reacted to the need for further cuts in varying ways. In April 2013 the Air Force stopped all training flying at 17 of its 62 operational squadrons and reduced flying at 10 others.¹³ Depending on the unit, flying resumed one to three months later after a successful re-

9 Ashton Carter, "Handling Budgetary Uncertainty in FY 2013," memo, January 10, 2013.

10 Danny Werfel, "Agency Responsibilities for Implementation of Potential Joint Committee Sequestration," Office of Management and Budget memo, February 27, 2013.

11 Barack Obama, "Sequestration Order for Fiscal Year 2013 Budget," White House memo, March 1, 2013.

12 The March 27 legislation technically just extended the continuing resolution for the rest of FY 2013. However, legislative language in the DOD portion of the continuing resolution made the legislation similar to an appropriation bill for the Department of Defense.

13 "Sequestration: Documenting and Assessing Lessons Learned Would Assist DoD in Planning for Future Budgetary Uncertainty," Government Accountability Office, May 2015, pp. 50-51.

programming effort pumped more money into Air Force operating accounts.

The Army also curtailed training. Of the 14 brigade combat teams scheduled to rotate through the Army's combat training centers, the service cancelled plans to send seven—sending only those brigades that were scheduled to deploy to Afghanistan. Completing this training is a culminating event, and the cancellation of the training left those seven brigades less than fully combat ready had they been required to deploy. Even when more operating funds became available, scheduling issues limited the ability of the Army to reverse this decision and provide training to the seven units. For some individuals in the unit, the training loss was permanent. Even when the unit returned to the combat training centers, those individuals might no longer be assigned to the unit or would no longer be in the appropriate paygrade or leadership position required to benefit from the training.

The Department of the Navy, which generally was able to manage sequestration with fewer effects than other departments, nonetheless decided that funding and other factors required delay in the 2013 deployment to the Persian Gulf of the USS Truman and the carrier's associated strike group even though the region's combatant commander had requested the ships. The Truman deployment was delayed for four months, and other ship deployments were cancelled. In this case, sequestration resulted in failure to meet a military mission. The Navy also trimmed flying hours, and all the services cut various types of professional and other training.

The sequester cuts also resulted in cancellation of joint exercises with other nations. Both the Navy and Air Force reported cancellations, including the Navy's Northern Edge 13 joint training exercise and the Air Force's joint and multinational Red Flag exercises.¹⁴ These cancellations may have generated concern about U.S. military strength on the part of the country's allies. Indeed, during internal discussions DOD leaders indicated that allies were privately asking why the world's only superpower couldn't get its fiscal house in order.

As these events were unfolding, I was asked by senior leaders whether far-reaching actions like cessation of training were really necessary. Their questions may have been prompted by critics who claimed that the military

was overreacting to sequestration cuts that averaged only about 7 percent Department-wide.¹⁵ I reminded these leaders that, in the operating accounts, war and other factors cited above resulted in cuts of roughly 30 percent in the final half of FY 2013. I also noted that in more than 40 years working in and around defense I had never seen the military services choose to stop training. Training is fundamental to military life, and I believe the decision to cut back on training underscored the services' great concern about their ability to meet the legally-binding budget targets.

As we look back at this tumultuous period of sequestration, it is fair to ask whether the sequester cuts actually harmed military readiness and DOD's mission. I believe they did. Mission needs were not met. Had a major war occurred near the time of sequestration, training cutbacks would have left the military less able to respond than the country had a right to expect. To me, that constitutes a serious effect of budgetary turmoil.

Significant readiness problems still persist at DOD, but today they are no longer closely associated with the budgetary turmoil of 2013. Instead, they are more a product of overly lean budgets and the need to return to full-spectrum training after more than a decade in wars that required that counterterrorism be the primary focus for training.

Mission degradation: Furloughs

By the spring of 2013, even after numerous actions including cancellation of deployments and training, the services were still not confident they could meet their budget targets. DOD leaders concluded that further training cutbacks would pose too much risk to military readiness. So, as a last resort, DOD began planning for unpaid furloughs. Because of the nature of military work contracts, which require that military personnel be paid until they separate from service, furloughing them would have saved nothing. Planning therefore focused on furloughs for civilian employees.

Law and policy require that the furlough planning process follow a series of actions that must be taken sequentially and consume considerable time. So furlough planning had to start early. On February 20, 2013, as the March 1 sequestration deadline loomed, DOD notified

14 "Sequestration," Government Accountability Office, pp. 51-52.

15 John Bennett and Paul McLeary, "After Dire Sequestration Warnings, Skepticism Abounds," *Defense News*, March 10, 2013.

the Congress that civilian furloughs of as many as 22 days were possible and began the 45-day wait required by law.¹⁶ (Furloughs for more than 22 days required lengthy reduction-in-force actions and so were not considered.)

Furlough planning also requires negotiations with the unions representing civil servants. The unions cannot prevent the furloughs, but they can negotiate regarding their implementation. Exemptions from furloughs were a key discussion point. From the start of the planning process, DOD leaders agreed that, if furloughs happened, they should be widespread to avoid concentrating the economic hardship and mission effects on a small group of civilian employees. But there were exemptions. Civilians in war zones were exempt, as were those civilians directly involved in activities related to safety of life and protection of property (but only to the extent needed for safety and protection). DOD also provided exemptions for a limited number of other key groups, such as civilians repairing nuclear submarines (to prevent disproportionate harm to military readiness) and childcare workers (to ensure the welfare of the children).

On May 14, 2013, I accompanied Secretary of Defense Hagel to the Mark Center in Alexandria, Virginia. There Hagel spoke in an auditorium packed with civilian employees and told them that most of them would be furloughed for up to 11 days.¹⁷ A reduction in maximum furlough days from 22 to 11 had been made possible by the March 27 legislation that made more operating funds available, and Hagel promised that he would seek further reductions in furloughs. The secretary also stated that he deeply regretted the furlough decision.

DOD ultimately furloughed about 640,000 civilian employees, roughly 85 percent of its workforce. Furloughs started in early July of 2013, with most affected civilian workers furloughed for one day per week. But no sooner had furloughs begun than some congressional members expressed great concern about them, especially those furloughs involving workers paid through DOD's working capital funds.¹⁸ Because more than 80 percent of DOD civilians work outside the Washington, D.C. area,

the congressional concerns were widespread.

I spent hours on Capitol Hill explaining DOD's decisions and signed numerous letters responding to congressional critics. The irony was not lost on me. The members of Congress now pleading the case for civil service workers in their states and districts served in the very bodies that could not agree on a budget that would have avoided all the furloughs. But I also understood that, no matter what their politics, members of Congress must defend the interests of their constituents.

By the summer of 2013 Congress had approved most of the two large reprogramming requests that transferred funds from the investment to operating accounts. Also the reductions that had been put in place (including cessation of training and cancellation of facilities maintenance) helped to ease the pressure on these accounts still more. As a result, DOD was able to reduce the days of unpaid furloughs from a planned maximum of 11 days to six. Furloughs ended for almost all DOD employees in August 2013.

After the furloughs had ended, an independent board began reviewing some of the furloughs, and it appears to be upholding the legality of DOD's actions. Government civilians who were furloughed had the right to appeal the furlough decision to the Merit Systems Protection Board. In July and August 2013, more than 32,000 employees appealed.¹⁹ In September I joined several DOD officials in filing a declaration with the Board explaining DOD's rationale and procedures for handling the furloughs.²⁰ One of the Board's recent reports indicated that it is still processing the furlough appeals but upholding very few of them.²¹

Throughout 2013 critics asserted that DOD has overstated the effects of sequestration. No doubt there was hyperbole in some DOD estimates of sequester effects, as the Department sought to persuade Congress to reach a budget deal and avoid this unfortunate action. The hyperbole was most noticeable in the overall characterizations of the effects of sequestration, especially those offered well before sequestration occurred. In

16 Leon Panetta, letter to the Honorable Joseph R. Biden, President of the Senate, February 20, 2013.

17 "Hagel Issues Memo Directing Preparations for Civilian Furloughs," American Forces Press Service, May 15, 2013.

18 Joe Davidson, "DoD furloughs workers not paid through budget funds," *The Washington Post*, July 17, 2013. Also Michael Hoffman, "House Votes to Block 2014 DoD Civilian Furloughs," *Military.com*, July 24, 2013.

19 "Annual Report for FY 2013," Merit Systems Protection Board, May 30, 2014, p. 8.

20 "Declaration of Robert F. Hale," Merit Systems Protection Board, September 16, 2013.

21 "Annual Report for FY 2014," Merit Systems Protection Board, February 2, 2015, p. 1.

2012, for example, Secretary Panetta called sequestration “disastrous.”²² (As was his habit, he offered much more colorful assessments during internal meetings.) Military leaders labeled sequestration as “ruinous” and compared it to the effects of a government shutdown magnified “to the nth degree.”²³ Interviews with senior congressional staffers suggest that these sequester characterizations harmed DOD’s credibility.

However, changes in sequestration plans, such as the restarting of Air Force flight training after a couple of months and the reduction in furlough days from the estimated 22 in February to the actual level of six days, primarily reflected changing events and legislative action. There was some uncertainty about how much could really be saved quickly through DOD’s budgetary actions; lags in budgetary reporting and accounting added to the uncertainty. Time resolved some of these uncertainties in DOD’s favor. Based on updated information not available in the spring of 2013, the Army concluded during the summer that its wartime funding shortfall was about \$5 billion rather than \$10 billion. That re-estimate eased pressure on non-wartime operating accounts. Also, as noted above, Congress passed legislation and approved reprogrammings that moved more funds into DOD’s operating budgets. All these factors mitigated the effects of sequestration on the operating accounts and permitted reductions in actions such as furloughs and training cutbacks.

Mission degradation: More furloughs

When the sequester furloughs ended in August of 2013, DOD hoped it was done with furloughs. It was not.

By September 2013, the Department was again actively planning for a government shutdown. Guidance from 2011 was updated, managers again identified excepted and non-excepted employees as they had done in 2011, and employees once more received letters indicating that furloughs might occur. Shutdown issues resulted in yet another round of seemingly endless meetings, many involving senior leaders.

Then on the evening of September 30, just as I had done in April 2011, I waited in my Pentagon office, hoping for

another deal to avoid shutdown. It didn’t happen. Disagreements about federal funding, and particularly about funding for the Affordable Care Act, led to gridlock. As midnight neared, the director of OMB issued a short memo directing that government agencies execute their plans for an orderly shutdown.²⁴ On behalf of the secretary, I passed along this guidance in an email to senior defense officials sent around midnight Eastern Time.

After sending this email, I prepared for the deluge of actions that would occur the next morning and then drove home. I got to my suburban Virginia home well after midnight. As I checked my Blackberry, I noticed an e-mail from one of our senior commanders in Europe. It was morning there, and he was at work. He asked me how I was doing, and I replied that I was very frustrated, sad, and tired. He thanked me for doing my best and for keeping everyone informed during the chaotic period prior to shutdown, and he suggested that I go to bed. I sent him an email expressing my appreciation for his concern, which came at a point when my own morale was quite low. I then took his advice and went to bed.

Starting on October 1, with the Defense Department in shutdown, all civilian employees not directly involved in activities relating to the safety of life and protection of property had to be furloughed. These were emergency furloughs that had been planned in advance, so they happened much more quickly than sequester furloughs. During the day on October 1, about 350,000 DOD civilians had to report to work but then again found themselves heading home on furlough.²⁵

As with the sequester furloughs, some members of Congress were angry about these shutdown furloughs. Just hours before the shutdown began on Tuesday, October 1, Congress passed and the president signed the Pay Our Military Act, a bill intended to permit DOD to pay its military and civilian personnel and thus avoid furloughs. (Contractors could also be paid in some cases.) Unfortunately, the hastily-written law was vaguely worded, leaving doubt about which civilians it was intended to cover. DOD needed a fully supportable legal interpretation before recalling civilian employees from furlough, and that required substantial effort over several days.

22 Callum Borchers, “Defense Secretary Leon Panetta warns against ‘disastrous’ spending cuts,” *The Boston Globe*, May 27, 2012.

23 Bennett and McLeary, “After Dire Sequestration Warnings, Skepticism Abounds.” Also Carlo Munoz, “Sequester would be like government shutdown for Pentagon warns admiral,” *The Hill*, March 8, 2012.

24 Sylvia Burwell, Office of Management and Budget memo, September 30, 2013.

25 Because the nature of their contract required them to be paid, military personnel were not furloughed.

The delay greatly angered a few members of Congress. One member, in discussing the delay, publically accused me of going out of my way to inflict as much harm as possible in order to achieve political objectives, compromising U.S. national security in the process.²⁶ Nothing could have been further from the truth. I was therefore gratified by the expressions of personal support I received from numerous DOD employees, including some from people I didn't know but who spoke to me in the halls of the Pentagon. Privately, I even received support from a few members of Congress.

By Friday of the first week of furloughs, DOD had worked with other government agencies to resolve the ambiguities in the Pay Our Military Act and had authority to recall most of its furloughed workers. Secretary Hagel told me that Friday that he wanted all those DOD civilian employees no longer subject to furlough back at work by Monday morning. I told him I wasn't sure that was feasible, particularly since some employees needed to help execute the recall were themselves on furlough. But he reiterated his guidance. Military service and defense agency personnel, along with employees in the Office of the Secretary of Defense (myself included), started early on Saturday and worked feverishly over the weekend to notify employees. Everyone did a great job, and most DOD civilian employees were back at work by Monday.

Even after most DOD civilian employees returned to work on October 7, the shutdown dragged on until October 16 and required continued actions to comply with the law. Shortly after the shutdown began, I started chairing daily, late-afternoon meetings of senior service and defense agency personnel. We used these meetings to seek consistency among organizations regarding the many detailed decisions required to implement the shutdown. At these meetings I relied heavily on comptroller personnel, especially my own staff, along with fiscal lawyers and others. They all worked hard to minimize the harm caused by the shutdown, and I will always appreciate their herculean efforts during these difficult periods.

As one of these afternoon sessions drew to a close, an aide rushed in to say that Hagel was on his way to join the meeting. A few minutes later the secretary arrived. He asked how we were doing, and we commiserated about the absurd decisions required by the shutdown.

He then thanked all of us for working hard to minimize harm to mission while obeying the law. I very much appreciated him taking the time to thank us for what was generally a thankless task. (After sequester and shutdown had passed, Hagel awarded unit citations to several staffs that worked on sequestration, including some of my own comptroller personnel.)

Looking back, did furloughs associated with sequester and shutdown harm DOD's mission? In my view, absolutely. It is true that military personnel continued to work, and together with civilian personnel not on furlough they accomplished the highest-priority tasks. Wartime activities were fully supported. But many tasks suffered, especially during the sequester furloughs. Depot backlogs grew, and there is anecdotal evidence that some skilled technicians left DOD depots because of the budget uncertainty. Testing ranges could not meet schedules, which delayed some weapon programs. Discretionary medical care was delayed. Efforts to improve financial information and move toward auditable financial statements were delayed as the financial community and most DOD leaders focused on furloughs and sequester cuts. Many other long-term planning activities suffered as leaders concentrated on current crises.

The furloughs also affected me personally. Even though I played a lead role in planning and executing and defending furloughs, I did so with considerable personal misgiving. I knew that I was implementing policies that harmed the morale and, in the case of sequester furloughs, the pocketbooks of hundreds of thousands of DOD civilian employees who were helping defend our nation. That included my own comptroller staff, most of whom I had to furlough even though I depended heavily on them to help manage the sequester turmoil and to carry out other important financial tasks.

The back-to-back furloughs understandably left many civilian employees wondering about their value to the Department. It was a sad period in DOD's history. What's worse, it could have been avoided.

Wasted money

The budgetary turmoil of the past five years did more than degrade DOD's military capability—it wasted taxpayer dollars. The most obvious example occurred during the government shutdown in 2013 when about

26 Jared Serbu, "GOP Lawmakers Lambaste DoD Over Shutdown Furloughs," Federal News Radio, October 11, 2013.

350,000 DOD civilian employees were directed not to work for four days. They were even told that they could not consult their Blackberries because that would constitute an illegal work activity. But then these furloughed workers were paid anyway as Congress tacitly acknowledged that they were not at fault. Their pay for the days on furlough amounted to about \$400 million and constituted pure waste.

In its review of sequestration, the Government Accountability Office identified a few other areas of waste that could be quantified.²⁷ Sequestration resulted in delays in establishing depot maintenance facilities for the Navy's P-8 aircraft, facilities that save money. The Navy estimated that sequestration added \$57 million to P-8 costs. The Navy also reported that, though the four-month delay in deploying the aircraft carrier Truman helped lower 2013 costs and accommodate sequestration, the action added costs of about \$8 million required to maintain the ship's operational readiness. Navy officials also noted that deferring maintenance on a landing ramp later resulted in approximately \$600,000 required to repair a landing craft when loose concrete damaged its engine.

Much of the waste associated with budgetary turmoil could not be readily quantified. For example, continuing resolutions force contracting officials to establish short-term "bridge" contracts that extend the life of the contract to the end of the continuing resolution period but not beyond. Reopening contracts can add to costs if the contractor has the leverage to push for increases in payments. Budgetary uncertainty also discouraged DOD from pursuing cost-saving strategies such as multi-year contracts, which require long-term funding commitments. During the shutdown, some employees attending training classes away from their homes had to come home, at government expense, and then return to class once the shutdown ended, again at government expense.

Wasted time

Almost every aspect of the budgetary turmoil wasted the time of DOD personnel, including many of its senior leaders. Late on the afternoon of April 8, 2011, as we approached a midnight deadline to either have a budget or shutdown, I told Deputy Secretary Bill Lynn

that I would draft two emails: a "white smoke" email indicating the shutdown had been averted and a "black smoke" email telling DOD personnel to shut down the Department. The deputy approved both emails. Fortunately, just a couple of hours before the deadline, I was able to send out the white-smoke email on behalf of the secretary. But as I drove home late on that spring night, I found myself thinking of all the time-consuming steps we had been forced to take. I had just overseen a process that had ended without shutdown but had wasted countless hours of time. For me, it was one of many frustrating moments during 2013.

The Department then repeated the shutdown planning exercise in September 2013, followed by an actual shutdown for 16 days. The shutdown itself disrupted almost all DOD activities and consumed countless hours as DOD leaders dealt with a plethora of problems including: how to handle personnel away at training (most had to come home and then go back); academy athletics and other events (most were cancelled but some had outside financing and could go on); military funerals (a close legal call, but they continued); and church services led by contract clergy that DOD sometimes could not pay (some of us prayed a bit on this and other issues, and then we all found ways of meeting religious needs).

Sequestration also wasted a great deal of time. All the military services and agencies had to revise their FY 2013 budget plans and get new ones approved, a time-consuming process that usually takes a year but had to be done in about a month. Service and agency leaders spent countless hours managing efforts to accommodate the legally binding sequester cuts.

The wasted time often involved DOD's most senior leaders. In early 2011 as Congress continued to struggle to pass the DOD budget for FY 2011, Secretary Robert Gates (along with myself and other leaders) became concerned that a budget lapse could disrupt the activities of a military that was still engaged in two wars. Gates labeled the absence of a budget "a crisis on my doorstep" and devoted his own time working the Hill to get a budget passed.²⁸ As was noted above, Congress finally passed the FY 2011 budget on April 8 of 2011, just hours before the deadline, and the crisis ended. Little did we know at the time that, compared to future crises, this one would appear tame.

27 "Sequestration," Government Accountability Office, pp. 25, 26, 37.

28 "Gates faults Congress for 'crisis at my doorstep,'" *USA Today*, January 27, 2011.

Some of the budget turmoil mainly wasted my own time. In August 2011 Congress passed the Budget Control Act of 2011, the now-infamous legislation that established sequestration. The Act also set up a congressional Supercommittee and tasked the group to find \$1.2 trillion in deficit reductions by November 2011. As the Supercommittee staff assembled options, I worked with them periodically on DOD issues and briefed senior DOD leaders. Some of the actions the Supercommittee staff considered, including military retirement changes without protection for those already serving, would have caused considerable angst in DOD. In the end, however, the Supercommittee could not reach agreement, and the time I spent went for naught.

In one case I was fortunate not to have been involved. In December 2013 Senator Patty Murray and Representative Paul Ryan proposed what would become the Bipartisan Budget Act. This Act raised the budget caps in FY 2014 and 2015 and provided some much-needed budget stability, especially in FY 2015. The legislation definitely helped DOD.

However, the Act also contained limits on the cost-of-living allowances for military retirees (the so-called “COLA-minus-one” provision) that would have applied almost immediately to all those serving in the military and to those already retired. In other words, there were few grandfathering provisions, even for disabled retirees who would have been disproportionately affected. Veterans groups immediately opposed the limits, and DOD objected to the absence of grandfathering for those retired on disabilities.²⁹ Rep. Ryan suggested in the press that the idea for cost-of-living limits came from DOD, and Secretary Hagel asked me directly if I had been involved in the discussions leading to the budget deal. I told him that I had not been involved nor, to my knowledge, had anyone from DOD. But I added that, with appropriate grandfathering, the cost-of-living limits made sense as part of a deficit reduction package. (Congress later rescinded the cost-of-living limits for disabled retirees and for all those already retired or serving on active duty as of January 1, 2014.)

All the added work associated with budgetary turmoil came at a time when DOD managers were already burdened with daunting tasks. They were managing a war during this period, sometimes two. Wartime efforts included making difficult tactical and troops decisions,

finding needed resources for the wars on short notice, and fielding new approaches—such the Mine-Resistant Ambush Protected (MRAP) vehicle—to counter enemy initiatives. Wartime tasks were time-consuming but rightly received the highest priority. Shortcuts were not acceptable. During this period DOD also began major efforts to streamline its overhead activities to free up funds for mission activities while accommodating lower budget limits. These streamlining efforts required the substantial involvement of many DOD managers. The substantial added workload associated with budgetary turmoil came on top of these and other pressing tasks.

Without an expensive survey and analysis, it is impossible to estimate exactly how much time was wasted on activities related to budgetary turmoil. But if only a few percent of DOD’s personnel spent a substantial share of their time on wasted activities, the dollar value of the wasted time would quickly mount into the hundreds of millions, if not more. Since no extra people were added to accomplish this work, there were no added budget costs. Instead, important but longer-term efforts, including long-term management improvements, were delayed.

I wrote numerous memos to Secretaries Gates, Panetta, and Hagel on the effects of budgetary turmoil. In several of those memos, I ended by noting that accommodating the turmoil represented a “colossal waste of time.” For me, these words sum up my reaction to most aspects of the budgetary turmoil that has occurred during the past five years.

LINGERING EFFECTS ON MORALE

Many of the effects of past budgetary turmoil are by now becoming less noticeable. But adverse impacts on morale linger to this day.

Harm to morale wasn’t limited to DOD employees. It also occurred in organizations outside DOD, as the examples below suggest.

- Congress, often cast as the villain in the budgetary turmoil drama, nonetheless plays a key role in the U.S. system of government and has a substantial staff to assist it. Some members of Congress found sequestration and shutdown just as frustrating as it was for DOD leaders because their legislative initi-

²⁹ Tom Philpott, “Hagel, Ryan Defend Retiree Cola Caps,” *Military.com*, December 26, 2013.

atives were swallowed up by the turmoil. Members and staff wasted time drafting and passing continuing resolutions that did little more than get to the next resolution. Members and staff had to waste time handling multiple budgets and working to understand and explain the endless turmoil, usurping time that would otherwise have been available for activities in support of productive legislation and oversight. A few congressional staff members were furloughed because of sequestration; others were laid off. Interviews with senior congressional staff verify that morale suffered significantly among some members and many staff. (It is appropriate to note, however, that other members of Congress viewed sequestration and shutdown as hard-won victories in the fight to reduce the federal government's size and funding.)

- Veterans and other organizations experienced problems, especially in 2013 when sequestration caused DOD to halt most demonstration flying as well as band appearances and other activities that support veterans events. In all, DOD cancelled support for about 1,500 community events in the latter half of 2013, reducing support for military recruiting and harming the organizations that support U.S. veterans.
- Private companies receive about half of base-budget defense funds in return for goods and services they provide in support of national security. These companies and their employees were sometimes hurt by the budget turmoil. An online poll found that in 2013 nearly one-third of the companies that furnished products and services to the government reported a decline in revenues of more than 10 percent, with small businesses suffering the most.³⁰ As the 2013 shutdown neared, companies worried about whether to notify workers under the WARN Act, which requires notices of plant closing and mass layoffs 60 days in advance under most circumstances.³¹ Conflicting guidance from the administration about WARN Act notifications added to company concerns. Also, rules for company activities were not always clear, especially during the 2013 shutdown. Some private-sector employees who work in closed DOD facilities were not

permitted to come to work during the shutdown; interviews suggested that some were told that they could not even work at offsite locations. Furloughs and layoffs sometimes followed for private-sector employees even though their efforts are critical to maintaining U.S. national security.

Budgetary turmoil also harmed the morale of military personnel. As previously noted, military personnel were not furloughed, but the training cutbacks that occurred during sequestration certainly harmed morale. Military personnel join the military to train and be ready if their country needs them. In 2013 some military personnel were not allowed to do that.

Uncertainty added to morale problems. During a government shutdown, DOD (along with other federal agencies that shut down) has no authority to disperse funds, including funds for payroll. Had the 2013 shutdown extended over a payday that involved workdays when DOD was shut down, the Department would not have been able to make payment for those workdays. Sequester and shutdown both also had the potential to affect community services and health care services of particular concern to families.

This budget uncertainty caused concern among some military personnel and their families. In early 2011, as DOD planned for the potential April shutdown that fortunately did not occur, Secretary Gates traveled to Afghanistan. When he returned, he stated that only a few troops asked him about how the war was going and when it would end even though that conflict was at a critical juncture. Instead, many asked him, "Will my family and I be paid if the government shuts down?" Unfortunately, he could not give an unequivocal answer.

Death gratuities represented one of the most poignant effects of the turmoil. During a government shutdown, DOD has no authority to make the cash payments that help families of deceased military personnel pay the added costs that occur during this terrible period in their lives. When I mentioned this problem during a press conference on shutdown, it quickly became a symbol for shutdown dilemmas.³²

DOD leaders agonized over their inability to pay death

30 William Welsh, "Government Contractors Feel Pain from Shutdown, Sequestration," *Information Week*, December 23, 2013.

31 Gregory McNeal, "Obama Administration Tells Contractors Facing Sequestration to Not Warn Employees About Potential Layoffs," *Forbes*, September 30, 2012.

32 Andrea Mitchell and Matthew DeLuca, "Pentagon warned of cut to military death benefit days before shutdown," *NBC News*, October 10, 2013.

gratuities. The Department's lawyers spent many hours searching, without success, for a way to make them while adhering to the law. I will always be grateful to the Fisher House Foundation, which offered to pay the gratuities with their own funds even though DOD could not guarantee them reimbursement. Fortunately, Congress passed emergency legislation that permitted DOD to make these payments during the shutdown. But this incident served as a grim symbol of the adverse effects of budgetary turmoil.

While military morale was damaged, it was DOD's civilian employees who suffered the most. Many were furloughed twice even while the military personnel they support continued to work. They were categorized as excepted or non-excepted, which was better than the phrases used during the shutdown in the 1990s—essential and non-essential—but subtly degrading nonetheless. DOD civilian employees were no doubt aware that their counterparts in most other agencies which faced different budget problems experienced fewer furlough days or none at all.

DOD civilians also worried about career effects. For example, some civilians had jobs that required access to classified information. This access requires maintenance of security clearances, which in turn require that personal bills be paid in a timely fashion. A few civilians understandably asked what would happen to their security clearances if unpaid sequester furloughs rendered them unable to pay their bills. DOD officials explained that, if civilians could explain the circumstances and work out repayment arrangements, their clearances would be unaffected. But the angst was clear and understandable.

Other pocketbook issues arose. In 2013 most DOD civilians lost six days of pay during the sequester furloughs and were not sure whether they would be paid during the shutdown. Civilian monetary awards ended during sequestration unless they were required by law. DOD and other government civilians also received no pay raises for three years (even though military personnel received raises during those years), and Congress reduced retirement benefits for new civilian employees.

Not surprisingly, morale of civilian workers suffered. Since 2003 the Partnership for Public Service has creat-

ed an annual index of government worker morale based on questions asked in a survey of government civilians administered by the Office of Personnel Management (OPM).³³ The Partnership index trended upward between 2003 and 2010, probably reflecting the strong economy and post-9/11 commitment. But after 2010, as budgetary turmoil took over, the index fell sharply. The latest available survey results (based on questions asked April to June of 2014) show the index down about 12 percent from its 2010 level, to the lowest point since it was created. Interestingly, a companion survey of morale among all U.S. workers (compiled by Hay Associates) began trending up in 2012 as the economy began to improve—leaving a sharply widening gap between morale of government civilians and all U.S. workers.

Data in the Federal Employee Viewpoint Survey, administered annually by OPM, is the source of data for the indices cited above. The answers in that survey underscore the decline in morale suggested by the Partnership index. Every question on the OPM viewpoint survey relating to worker satisfaction declined from 2011 to 2012 and then again from 2012 to 2013. The OPM director concluded that there has been a “significant drop in [government] employee satisfaction.”³⁴

The Partnership's indices do not publicly identify morale for DOD as a whole. Nor do those OPM survey results that are publicly available. However, the Partnership provides morale scores for each of the military departments. The scores for the departments, when compared to those for non-DOD organizations, suggest that the government-wide index reflects DOD's declining morale all too well.

These declines in morale come at a time when the federal civil service faces an increasing need to hire younger workers to replace the many senior civil servants who have already retired or who are likely to retire in the near future. Declining morale among current workers will certainly not help in this task, which has already been made difficult because of factors such as limits on federal civilian pay raises and recent declines in the trust Americans accord to the executive branch of the federal government.

Employees work at their best when they feel that their employer treats them well and values their work. After

33 “The Best Places to Work: The Big Picture Government-Wide,” Partnership for Public Service, December 2014.

34 Katherine Archuleta, “A Message from the Director: 2013 Federal Employee Viewpoint Survey Results,” Office of Personnel Management, October 2014.

the events of the past five years, fewer DOD employees—and especially civilian employees—appear to have those feelings about their employer. One former DOD leader interviewed for this paper described many of them as disenchanted employees who no longer view DOD or the federal government as an employer of choice. Another suggested that many DOD civilian employees feel they are just pawns in a chess match.

These feelings are unfortunate but understandable. Morale may be the most important casualty of these five years of budgetary turmoil.

WHAT TO DO NEXT

There is an old saying: If you find yourself in a hole, you should first stop digging. The Congress and the president need to end the budgetary turmoil. At this writing the turmoil in DOD may continue because of uncertainty regarding the FY 2016 defense budget, which could be reduced by as much as \$35 billion below the level requested by the president. The cuts might well occur after the fiscal year has begun, adding to the turmoil. Moreover, while I very much hope that Congress will not force the government to shut down again, it is possible that delays will require DOD and other federal agencies to plan for yet another shutdown. As this paper has tried to make clear, planning for shutdown is itself disruptive.

A full assessment of options for eliminating budgetary turmoil is beyond the scope of this paper, which focuses on past budgetary tumult. However, at a minimum, during the next month or so Congress and the president need to agree on budget changes that provide reasonable levels of funding for DOD and other federal agencies for FY 2016 and 2017. This year's budget deal should cover both years so that the tumult is not repeated next year in the midst of a presidential election.

There is precedent for such an agreement. In 2013 Congress passed and the president signed the Bipartisan Budget Act (often referred to as the Murray-Ryan agreement). The American Taxpayer Relief Act also helped create stability.

The country needs a broader and longer-term budget agreement that addresses needed slowdowns in the growth of entitlement spending and increases in revenues. That agreement should eliminate the threat of meat-axe sequester cuts. It could either raise the caps on discretionary funding to more reasonable levels or eliminate the caps altogether and rely on the annual appropriations process to set limits. This broad agreement will no doubt have to wait until after the next presidential election, but it should be a top priority for the next administration.

DOD also needs to look for ways to bolster the morale of its employees, particularly its civilian workforce. There are many changes that need to be made in the civil service system, including faster hiring and greater ability to terminate poor performers. Civil servants also deserve reasonable levels of pay and benefits. Secretary of Defense Ashton Carter has included DOD civilian employees in his efforts to design a military force of the future. This initiative will hopefully help bring about needed improvements, many of which will require legislation.

But DOD can take some steps on its own. It can, for example do more to harness the power of praise as one means of improving civilian employee morale. The Department does an excellent job in commending military members for their service to the nation. That praise is well deserved and should of course continue. However, as the 2013 sequestration and shutdown make clear, the military cannot fight effectively without the support of the Department's civilian employees. Whenever the Department thanks members of the military for their service, I hope they will also thank the civilians who support them.

The budgetary turmoil of the past five years imposed a high price on the Department of Defense. In particular, it wounded the morale of its employees, especially civilians. It is time to begin healing those wounds.

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