

## CQ CONGRESSIONAL TRANSCRIPTS

### Congressional Hearings

#### **Senate Appropriations Committee Holds Hearing on the Impact of Sequestration February 14, 2013**

MIKULSKI:

Good morning, everybody.

Today we're convening the hearing of the Appropriations Committee. It is the first hearing of the Appropriations Committee in the 113th Congress. And it is the first hearing with me as the chair of the full committee.

The focus of today's hearing will be on the impact of sequester on our government agencies and on critical national functions that are important to the security, safety and future of the American people.

Today, as I take and assume this gavel, I am mindful of the history that's gone before me, and I want to acknowledge the previous leadership of outstanding chairs. It has been -- it's a great honor for me to chair this full committee, but I think we all carry the special place in our hearts, in our presence here today of Senator Dan Inouye, who was a great American and a great chair.

This committee has an incredible history of excellent chairmanship on both sides of the aisle. And we also need to acknowledge the incredible role that Senator Stevens and Senator Byrd have played.

I want to acknowledge the wonderful cooperation I received from Senator Thad Cochran. On December 20th I became the chair of this committee. Senator Cochran was the vice chair. And he helped me in those early days to expeditiously move the Hurricane Sandy appropriations. I will be forever grateful for his steady hand, his wise counsel, and -- and the direct assistance that he provided me.

Now I want to acknowledge that my ranking member, and in this committee is called the vice chairman, Senator Richard Shelby. It is well known to many of the members of the Appropriations Committee in the Senate that Senator Shelby and I have a long-standing personal and professional relationship. We came to the House of Representatives together. We served on the same committee, and we've served together.

I look forward to working with him as my vice chair in continuing the tradition of bipartisanship that has been characteristic of this committee. My relationship with Senator Shelby is based on mutual trust, mutual respect, and a desire to move things forward in a regular order.

We know that we will disagree on matters of policy, but we feel that if we could agree on matters of process, and get beyond government of ultimatum, government by crisis, government from lurching from one dramatic event after the other, and return to a regular order, that the country will be better governed, and the American people will be better served.

This Appropriations Committee, I'll remind everybody, is one of only two congressional committees mandated in the Constitution of the United States. The -- a revenue committee, to gather revenue, to operate the government of the United States. The other is to make wise and prudent expenditures in the interests of the United States. We're constitutionally mandated.

All other committees except Finance and Appropriations were created by Congress to govern itself. We were created to help govern the nation.

And this is what brings us to our hearing today. We're going to focus on the impact of sequester. I think it's a bad idea. I think it's bad policy. I think it's bad economic policy. I think it's bad governance policy. And I really don't like it.

It is my goal, working with the leadership, to be able to find a way to vitiate sequester and hope that the higher powers find a way to vitiate it for the nine years that it is mandated.

What we hope to accomplish today is to take a look at the impact on sequester on the American people.

I want to thank all of the panelists for coming.

Mr. Werfel, I want to thank you to get the overview from OMB.

Deputy Secretary Carter, we thank you, because you're going to speak about defense, and we've heard a lot about defense. And it's been well heard, and well spoken.

But there's a lot else for the security of the United States, so we look forward to hearing from you, Secretary Napolitano, on the impact of homeland security.

In the United States military, the military are -- those who wear the uniform will be protected in sequester. And they should. But there are others who wear a uniform to protect the United States of America, and what is the impact on them?

Then we have to look on the future of our country. The day-to-day needs. The ability to build the middle class from the middle on out. And this is where, Secretary Donovan, we want to talk to you about the housing, economy, what is it that we need to do?

MIKULSKI:

And, Secretary Donovan (sic), you hold the future of America in your hands. Yes, we want to out-innovate, but first we have to out-educate. So we want to hear about the impact of sequester on educational reform.

Whether we look at national security or our domestic agencies, I believe we are to rendezvous with destiny. We must solve this problem. But I don't think the American people quite understand the impacts where sequester mandates an \$85 billion cut, equally to be shared by defense, and then by the domestics. And though you're National Security Secretary Napolitano, you're in with the domestics, which is what homeland security is.

I fear furloughs, layoffs, services not delivered to the American people. I also have to cope, along with my members here, the issues related to the fiscal cliff where we already have to take (inaudible) I'd -- also, in the issues of -- because of implementing her homeland security.

So we want to look at the impact on these agencies. For me, it will be about jobs, community safety. Are we going to have air traffic controllers? Are we going to have security guards furloughed? What about the FBI and DEA? What about the people who staff our federal prisons? And in the area of health and education, I understand 4 million meals on wheels won't be delivered. What are they going to do, go to a nursing home that's also shut down because we're cutting payments? We're cutting funding for special-ed, already an unfunded federal mandate.

So we're here to listen to you. And, of course, Secretary Carter, we know the impact that when defense sneezes, the economy could catch a cold or pneumonia. I fear those layoffs, not only -- or furloughs, not only are on the dedicated personnel at DOD, but also shipyard workers that will affect several states.

So we want to hear from you. So enough about hearing from me. Working with the leadership, I will seek to try to find a balanced solution of increased revenue, yes, strategic cuts, and a look at -- prudent look at mandatory spending. There needs to be a balanced solution where the burden isn't borne just by cuts on domestic agencies alone. I would like to make sure sequester doesn't happen this year, but again, not happen over the next nine years. Now, I'd like to turn to my Vice Chairman, Senator Shelby, for his opening statement. We will go to the panel after that.

SHELBY:

Thank you, Chairman Mikuski -- Mikulski.

MIKULSKI:

Mikulski.

SHELBY:

Yes, Mikulski, I know.

MIKULSKI:

Not Murkowski. She's long and lanky and Republican...

(LAUGHTER)

SHELBY:

I can't -- I can't -- and I -- I...

MIKULSKI:

I'm a little bit...

(LAUGHTER)

SHELBY:

... to -- for Senator Mikulski. Thank you for your kind words, too.

Today we will hear from our witnesses on the impact of the sequester, which is appropriate and timely, I believe, because the cuts are poised to take effect in just 15 days. It should be noted that the sequester is something that the Congress and the president set in motion knowing full well that this day would come.

The sequester will bring spending cuts that are automatic and across the board for most discretionary accounts. A ridged formula will determine how cuts are made, instead of what's best for economic growth, safety, and prosperity. Cuts will happen without regard to a program's merit or effort (ph). Some of the most severe cuts, as the -- she -- the chairwoman has said, will hit defense programs.

Although we must reduce spending it should be done, I believe, in a deliberate way. This is why I oppose the bill that created sequester in the first place. The sequester was supposed to be a last resort if the so-called "super committee" failed to agree upon measures to reduce the deficit.

In the end, the super committee reached an impasse. It did not produce even a penny of deficit reductions. It's been over a year since the super committee's failure. Although we have seen the sequester coming, we haven't taken any steps to fix it. In fact, Congress has only delayed it further. This situation presents a perfect opportunity for, I believe, for the president to exercise some leadership. Although he has called on Congress to act, he has not put forward a proposal, on his own, with specific options.

Also, when I hear the president and some members of Congress say that the solution must include raising taxes further, I question their seriousness in fixing the overall problem. As CBO's latest analysis shows, we do not have a revenue problem. We have a spending problem. Revenues are already on a path to increase and to return to levels that are in line with our historical average of 18 percent to 19 percent of GDP.

SHELBY:

In contrast, government spending remains high during the next 10 years and is expected to grow beyond its 40-year average. This will occur, even with discretionary spending caps and sequester put in place by the Budget Control Act. In fact, under current law, CBO estimates that discretionary spending will fall by more than 3 percentage points below its historical average.

The real driver of our debt is not discretionary spending, as we all know, but entitlement spending. As CBO reports, this combination of an aging population, rising health care costs, and an expansion of health insurance subsidies will drive up the cost of mandatory programs. Absent reforms of entitlements, this will lead to an unstoppable debt spiral.

I believe the issue is only compounded by the cost of servicing our debt, which will rise from about \$220 billion in 2012 to over \$850 billion projected in 2023. By then, interest payments will equal 60 percent of our discretionary budget. This growing indebtedness, as CBO states, poses an increased risk of precipitating a fiscal crisis the likes of which we've never seen.

The warning signs that we're moving toward a fiscal meltdown have been in place for a long time. Congress has repeatedly failed to heed these signs. It's been years since Congress has even had a regular order budget process with appropriation measures agreed upon by both chambers. Instead, important decisions on spending and taxes happen at the 11th hour behind closed doors.

I believe the American public deserves a transparent and accountable budget process that restores fiscal order. Sequestration should not be part of the process. It certainly is no long-term solution to our spending problem. It should be a cautionary tale for Congress. The sequester we face today is the tip of the iceberg compared to the austerity measures that will be necessary in the future if Congress does not act soon on comprehensive fiscal reform.

I believe comprehensive fiscal reform must include both tax reform and spending cuts. One without the other is only a partial solution. In his State of the Union address, the president reiterated what appears to be his goal of \$4 trillion in deficit reduction over 10 years. That number alone sounds staggering, but when it's compared with our actual long-term unfunded obligations, \$4 trillion barely scratches the surface.

It's common practice here in Washington when faced with an overwhelming problem to define -- to define it down and then declare victory while pursuing -- pursuing half-measures. That's why I'm

concerned that the debate surrounding the sequester will become a diversion from the real problem facing us. The time for partial and temporary solutions is long past. We need, I believe, a collective acknowledgement of the problem and a comprehensive joint effort to reach a long-term solution.

Anything short of that will inevitably place the American economy on an irreversible downward glide-path. Today, we will hear about the dire consequences of the impending cuts. I do not doubt that they will be painful to bear for many agencies and people across the federal government. If there is a way to mitigate the pain, while we continue to enforce some fiscal discipline, I'm open to discussing it.

But I believe it's very important to reemphasize that the sequester and whatever temporary solution we may devise is just a precursor to the main event.

Thank you.

MIKULSKI:

Thank you very much, Senator Shelby.

Now, we're going to go to our panel, and I'm going to explain how this is going to work. Ordinarily, we would have a series of panels. We would lead it off with OMB, then we would go to the domestics, and we would wrap up with national security. In the interest of time and efficacy, we're going to have one panel, one table, and then be able to ask the questions hopefully where we can get a cross-communication going.

Mr. Werfel, we're going to start with you, then Secretary Duncan, Donovan, Napolitano. And Dr. Carter, we'll wrap up with you. Then we're going to go to questions, alternating on both sides of the aisle, led off by Senator Shelby and myself, and then with senators on the order of their arrival.

So Mr. Werfel, representing OMB, we know that Mr. Zients had obligations with presidential responsibility, so please why don't you go ahead and give us the view from OMB. And then, I'm not going to introduce everybody, just we're going to keep it going.

WERFEL:

Thank you.

Madam Chairwoman, Vice Chairman Shelby, members of the committee, good morning. I'm here today to discuss the automatic spending reductions known as sequestration currently scheduled to occur March 1st as well as impacts of reductions and actions the administration is taking to prepare to implement sequestration, should it be necessary.

I want to start today by reiterating a point that the administration has made on numerous occasions. Sequestration is bad policy, and the administration believes that Congress should pass balanced, bipartisan deficit reduction to avoid it. If allowed to occur, sequestration would have significant and destructive consequences for domestic investments, national security, and core government services.

The cuts required by sequestration harm middle class families, seniors, and the most vulnerable. The president believes that these indiscriminate, across the board cuts are not a responsible way to address our collective goals of balanced deficit reduction.

Working together with Congress, we have already made significant progress in this regard, enacting more than \$2.5 trillion in deficit reduction over the past two years. The vast majority of this progress has come in the form of spending cuts with roughly \$3 in spending cuts for every \$1 in additional revenue.

The president believes there needs to be a balanced approach to further deficit reduction that includes spending cuts but also includes common-sense tax reform that can raise additional revenue. As part of the American Taxpayer Relief Act of 2012, the date on which the president would have to issue a sequestration order was delayed by two months from January 2nd, 2013 to March 1st, 2013. This delay was paid for in a balanced manner with \$24 billion in deficit reduction split evenly, between additional revenue and spending cuts. This approach set an important precedent of avoiding sequestration through balanced deficit reduction that combines additional revenue and spending cuts.

Should Congress fail to act in the next two weeks, a sequestration of approximately \$85 billion will be ordered for the remainder of fiscal year 2013, split evenly between defense and non- defense programs. This will lead to a number of deeply troubling consequences in critical government programs that we all depend on.

It would mean fewer teachers to educate our children, less funding for schools to help disadvantaged students with children with disabilities, less research into life-threatening diseases. It would cut nutrition assistance for vulnerable populations, and reduce funding for essential mental health programs.

It would keep federal agencies from conducting the inspections necessary to keep our food, our air, and our water safe and clean. It would make our country less secure at home, reducing our ability to protect our borders, stay ahead of emerging cybersecurity threats, and keep crime off our streets and out of our neighborhoods. And it would make us less safe abroad, by causing critical degradations in the support for and readiness of our armed forces.

There is no amount of planning that can avoid these damaging impacts. Prudence dictates, however, that the federal government take all reasonable steps to be ready to implement sequestration in the most responsible way possible. Accordingly, federal agencies and OMB have been engaged in ongoing planning activities for months to determine how to operate under a potential sequestration, keeping in mind our primary responsibility to execute our core mission areas on the behalf of the American people.

Let me assure you that, should a sequestration order have to be issued by the president on March 1st, we will be ready to implement the law. But let me also reiterate, no amount of planning or preparation on our part, no matter how thorough or careful, can mitigate the significant and highly destructive impacts that sequestration would have.

Sequestration is not a responsible long-term solution for deficit reduction. The long-term solution is a balanced approach, of spending reductions and revenues that builds upon the significant deficit reduction we have already worked together to achieve, strengthens the middle class, protects investments critical to our nation's continued growth and prosperity, and avoids sequestration.

Thank you. I look forward to answering your questions.

DUNCAN:

Thanks for this opportunity. I just wanted to say quick to Senator Kirk, great to see you again, great to be working with you.

With your support, we've been able to help states, districts and communities make changes that are bringing major benefits for all students, particularly the most vulnerable. The issue of sequestration is

vital and appreciate this opportunity to testify about this topic once again. I hope the committee members will keep those most vulnerable students in the forefront of their minds, because they are the ones who will be hurt most if Congress chooses to let sequestration happen.

I want to be clear that I believe we absolutely have opportunities at all levels of government to make spending on education more productive and more efficient. But boosting educational productivity requires smart, targeted changes to programs, not indiscriminate across the board budget cuts.

Sequestration would force us cut crucial services doing real damage to the life chances of millions of students. There's only unnecessary pain. There is no palatable Plan B. Here who's would get hurt with the sequester.

The biggest cuts take affect next school year, the 2013-2014 school year, but their impact would start sooner. When I ran the Chicago public schools, we made hiring decisions in the Spring, like pretty much every other district. Under sequestration, this is what we have to plan to make do with less, meaning fewer teachers and staff, larger class sizes, fewer courses, less tutoring, and higher unemployment.

This undermines the very stability and predictability every school system works so hard to achieve, and hurts families, children, teachers and school staff. And the vast majority of school districts, obviously, will not be able to make up with these cuts at the local level. When the cuts hit, not surprisingly, they will hurt the most vulnerable students the worst, because federal education resources generally are targeted to those children with the greatest need.

At the K-12 level, here's what that means concretely. Title I grants serve almost 23 million students in high poverty schools. And special education state grants help about 6.5 million special needs students. Sequestration would cut Title I by \$725 million. Which could affect 1.2 million disadvantaged students, and risk the jobs of about 10,000 teachers and support staff.

In special education, we could be forced to cut almost \$600 million which would require states and districts to cover the cost of approximately 7,200 teachers, aides and other staff. And in early childhood education, we've seen very tough cuts, in Head Start, some 70,000 students could be kicked out. And as the president talked about the State of the Union we're trying to do more in terms of early childhood education, not go in the opposite direction. Doing that to our most vulnerable children is educational malpractice, economically foolish, and morally indefensible.

In higher education, the impact is just as destructive. We would have to cut back collection of student debt, decreasing payments to the Treasury, and fall behind on servicing up to 29 million student loans. We would also cut more than 70,000 students from grant and work study programs that help needy students finance the cost of college.

Clearly, that is not the path we want to go down to regain our place as the nation that leads the world in college completion. While those cuts don't take effect until next school year, others will hit right away. And these cuts affect schools and programs that draw much of their direct funding from us, the federal government.

Who would be hurt right away? Disproportionately, families of our military servicemembers, individuals with disabilities and people living on Native-American lands. Just to give you one quick example. In the Gallup-McKinley County public schools in New Mexico which enrolls 7,000 students living on Indian lands, sequestration would cut more than a third, a third of the district's budget. These are young people we need to invest more in, not less.

And we have already warned our own employees at the Department of Education of possible furloughs, which -- which across the board cuts would force us to make. We've already made significant cuts in our department's budget, and we believe in continuing to look for efficiencies.

But let me say this, education isn't just another line in the budget, just another government expense. Education is fundamentally an investment. It's an investment in the future of our children, our communities, our competitiveness, and our country. High quality education from cradle all the way through to career is the only way to build a strong and vibrant middle class and to foster upward economic and social mobility.

At a time when most young Americans don't today meet the minimum qualifications to enlist in the military, it's also an investment in our national security. Budgets, as all of you know, are not just numbers. Whether we, as a nation, choose to invest in children and education, it's a crystal clear statement about our values. Children listen to what we say, but it's our actions and not our words that tells them whether or not we truly care.

DUNCAN:

As President Obama said, in his State of the Union address, these are, and I quote, "sudden, harsh and arbitrary cuts that would devastate priorities like education, energy and medical research. It would certainly slow down our recovery and cost us hundreds of thousands of jobs."

Internationally, I promise you, our competitors are keeping their education system strong and striving to actually get better faster. Do we want to help our children successfully compete in a global economy or do we want our country to drift in the opposite direction?

Madam Chairwoman, you and I both know Congress can take another, better path. Sequestration would represent an uncompromising, rigid, tone-deaf government at its worst.

I would echo the president in asking that you take the time to develop a budget that will permanently replace the sequester. As I testified last summer, the president and all of us here on his team remain ready to work with all of you on a long-term plan to cut the deficit while investing in strategic programs that will strengthen our families, our economy and global leadership. The American people deserve no less. Thank you.

DONOVAN:

Chairwoman Mikulski, Vice Chair Shelby, and the members of the committee, I particularly want to recognize Senator Murray, Senator Collins, the chair and ranking member of our Appropriations subcommittee for their great partnership together and with us in making difficult but important decisions for our agency and for the country. Thank you, all.

And thank you for the opportunity to testify today regarding the impacts of sequestration on the Department of Housing and Urban Development and our programs. Should sequestration go into effect on March 1st, the cuts would be deeply destructive to HUD programs and those who rely on them, including hundreds of thousands of middle- class and low-income individuals.

It would also cause significant damage to our nation's housing market at a time when it's helping to lead our economic recovery.

More specifically, sequestration would mean about 125,000 individuals and families, more than half of whom are elderly or disabled, losing assistance provided through the Housing Choice voucher program (ph) and becoming at risk of homelessness.

Sequestration would also result in more than 100,000 homeless and formerly homeless people, the majority of whom are families, disabled adults or veterans, being removed from their current house or emergency shelter programs, putting them at substantial risk of returning to the streets.

Cuts to the housing opportunities for persons with AIDS, our HOPWA program, would result in 7,300 fewer low-income households receiving supportive housing assistance and threat to add even further to the population of homeless Americans.

Cuts to our Office of Healthy Homes and Lead Hazard Control and related programs would result in more than 3,000 of the most vulnerable children not being protected from lead poisoning or other hazards in their homes.

Cuts to housing counseling grants would result in 75,000 fewer households receiving vital foreclosure protection, prepurchase, rental or other counseling. This means fewer families making responsible, informed choices and greater risk throughout the housing market.

Sequestration will also have a broader, more damaging effect -- economic impact on our still-fragile local economies. While sequestration cuts \$212 million from our Home and Community Development block grant programs (ph), communities lose nearly half a billion dollars in additional funding from private and other sources because they can no longer leverage those critical federal dollars.

Cuts to public housing authority budgets would mean more deferred maintenance and capital repairs on top of an existing capital needs backlog of over \$25.6 billion nationwide, endangering future of these apartments, the families and their neighborhoods.

In 2012, CDBG created and retained almost 22,000 permanent jobs and more than 32.5 million people benefited from the Community Development Block Grant (ph). Sequestration would jeopardize those jobs and services as well.

Indeed, across all of HUD's programs, sequestration will likely result in the loss of tens of thousands of jobs at a time when continued recovery depends on a stable job market, especially in our hard-hit construction industry.

HUD initiatives and program have been central to the recent recovery in the housing market, but our agency's ability to perform critical activities that support the recovery will be severely hampered by sequestration as a result of furloughs that would be required for agency staff.

Sequestration would jeopardize the FHA's ability to process loans at a time when FHA represents a substantial portion of all loan originations for the single-family market, including almost half of all first-time home buyers across the country, as well as 25 percent of all new multi-family construction. That risks destabilizing the market and slowing economic recovery.

Finally, sequestration seriously threatens our Hurricane Sandy recovery efforts. A 5 percent cut amounts to \$3 billion from the Sandy supplemental just passed by Congress, taking away crucial funding for repair and recovery from housing, transportation and other areas.

Just as an example, the funding that would be cut from CDBG would help make necessary repairs to more than 10,000 homes and small businesses in the region.

Whether it's a -- the man-made disaster of the recession or the natural disaster of Hurricane Sandy, HUD has been central to recovery efforts, and we cannot afford to threaten them.

As the president said on Tuesday, we know that broad-based economic growth requires a balanced approach to deficit reduction with everybody doing their fair share, not an approach that clearly harms the middle class and the poor, and comes at the expense of our nation's economy.

Sequestration is a blunt and indiscriminate instrument that was intended to ensure more measured and deliberate cuts would be made.

It is my hope and all of our hope in the administration that Congress can find a bipartisan solution to our budget and deficit concerns without risking our economic recovery and imposing the kind of serious damage that the sequester makes inevitable.

Again, Madam Chairwoman, thank you for inviting me to testify. I'm eager to work with you and your committee in any way I can to help avoid sequestration. Thank you.

NAPOLITANO:

Thank you, Chairwoman Mikulski, Vice Chair Shelby, members of the committee. I appreciate the opportunity to discuss the impacts of sequestration on the Department of Homeland Security.

DHS is a broad mission that touches almost every aspect of our economy. We secure our aviation sector, screening 2 million domestic air travelers each day. We protect our borders and ports of entry while facilitating trade and travel. Last year our CBP officers processed more than 350 million people and facilitated nearly \$2.3 trillion in trade.

We enforce the immigration laws. We partner with the private sector to protect critical infrastructure. And we work with states and communities to prepare for and respond to disasters of all kinds, like Hurricane Sandy, while supporting recovery and rebuilding.

Put simply, the automatic budget reduction mandated by sequestration would be destructive to our nation's security and to our economy. It would negatively affect the mission readiness and capabilities of the men and women on the front lines.

It would undermine the significant progress DHS has made over the past 10 years to build the nation's preparedness and resiliency.

Perhaps most critically it would have serious immediate consequences to the flow of trade and travel at our nation's ports of entry, including many ports represented by members of this committee.

At the major international airports, average wait times to clear Customs will increase by 50 percent. And at our busiest airports like Newark and JFK, LAX and Chicago O'Hare, peak wait times, which can already reach over two hours, could grow to four hours or more.

Such delays not only would cause thousands of missed passenger connections, they would have severe economic consequences at both the local and national levels.

Furloughs of Transportation Security officers (ph) will increase domestic passenger wait times at our busiest airports by more than one hour.

On the Southwest border, our biggest land ports could face waits of five hours or more, functionally closing these ports during core hours.

At our seaports, delays and container examinations would increase up to five days, resulting in increased costs to the trade community and reduced availability of consumer goods and raw materials.

Mid-size and smaller ports would experience constrained hours of operation affecting local cross-border communities. And at cruise terminals, processing times could increase up to six hours, causing passengers, again, to miss flights, delay trips and increase costs.

Trade and travel are absolutely essential to our economy. Indeed, according to the U.S. Travel Association, one new American job is created for every 33 travelers arriving from overseas.

And according to the International Trade Administration, each extra minute of wait times at our busiest southern ports can result in \$116 million in economic loss.

#### NAPOLITANO:

Sequestration would have serious consequences for our other missions. CBP, Customs and Border Protection, would have to furlough all of its employees, reduce overtime and eliminate hiring to backfill positions, decreasing the number of work hours equivalent to more than 5,000 Border Patrol agents. The coast guard would have to reduce its presence in the arctic by nearly one-third, and surface operations by more than 25 percent, affecting management of our nation's waterways, as well as fisheries enforcement, drug interdiction, migrant interdiction, port security, and other law enforcement operations.

Under sequestration, ICE would be forced to reduce detention and removal. We would not be able to maintain the 34,000 detention beds mandated by Congress. Sequestration would reduce our investigative activities into things like human smuggling, counter-proliferation, and commercial trade fraud. Sequestration reductions would require us to scale back the development of critical capabilities for the

defense of federal cybersecurity networks. And the nation's core critical infrastructure would also remain vulnerable.

Sequestration would have impacts on our nation's disaster preparedness, response and recovery efforts. It would reduce the DRF, the disaster relief fund, by over \$1 billion, affecting survivors still recovering from Hurricane Sandy, the tornadoes in Tuscaloosa and Joplin, and other major disasters across the nation. And homeland security grant funding would be reduced to its lowest level in seven years, leading to lay-offs of state and local emergency personnel across the country.

Threats from terrorism and the need to respond to and recover from natural disasters will not diminish because of budget cuts. Even in this current fiscal climate, we do not have the reduction -- the luxury of making significant reductions to our capabilities without placing the nation at risk. DHS will continue to preserve our front-line priorities as best we can, but no amount of planning can mitigate the negative effects of sequestration on the security of the country.

As we approach the first of March, I urge the Congress to act to prevent sequestration and ensure the safety, security, and resiliency of the nation.

MIKULSKI:

Dr. Carter?

CARTER:

Thank you Chair-- is that on? Yes. Thank you, Chairwoman Mikulski, very much, Ranking Member and Vice Chairman Shelby. I -- I thank you both and this entire committee very much from the bottom of my heart for having this hearing, and I'll tell you why.

We have been very concerned now, Secretary Panetta and I and the entire Department leadership, about what we've called the devastating effects of sequester on our nation's defense and everything we do. We've been talking about this for 16 months now, and now the wolf's at the door.

I'd like to describe to you some of the specific consequences of sequester for national security. I should say that, right at the beginning, that we have another contingency that's affecting us. It's not affecting my colleagues at moment, which is the continuing resolution and the prospect that it would remain in force

through the end of the year, for reasons I'll explain shortly that has, particularly, near-term deleterious effect on the department. So for us, there are two things that come together.

The first one is sequester, which is scheduled to kick in just a couple of weeks' time, and, for us, that requires us to remove \$46 billion from our spending in the last seven months of the fiscal year. And moreover, as you all know, to do it in the dumbest possible way from a management standpoint, which is account-by-account, item-by-item.

The continuing resolution has a different -- poses a different problem for us. We have enough money in the continuing resolution. The problem is that it's in the wrong accounts, and, in particular, that it -- the operations and maintenance part is very much short, and that creates problems I shall describe shortly in the remaining months of the fiscal year.

So these two things come together to create what we have been calling, and what the joint chiefs of staff have called, "a crisis in readiness" in the near term. In the far term, over the next ten years, if the budgetary caps triggered at the same time -- sequester is triggered for F.Y. '13 are sustained, we're not going to be able to carry out the defense strategy -- the new defense strategy, that we crafted under President Obama's leadership just one year ago.

The -- it's -- it's not that we don't understand that the Department of Defense needs to make a contribution to the nation's fiscal situation and its resolution. That's why we have accommodated \$487 billion in cuts over the next ten years. We're just beginning to make that enormous transition. That was on top of several hundred billion dollars worth of cuts that Secretary Gates began, eliminating unneeded and under-performing programs. And all of this is on top of the historic reduction associated with the winding down of the wars in Iraq and Afghanistan.

I also understand that the taxpayer deserves very careful use of each and every defense dollar that we do get from you. And that's why we have striven, and will continue to strive, to get better buying power for the defense dollar and inform the acquisition system (ph).

But both a strategic approach to defense spending and efficient use of the taxpayer dollar are undermined by sequestration. And what's particularly tragic, is that sequestration's not the result of an economic recession or an emergency. It's not because discretionary spending cuts are the answer to our nation's fiscal challenge. You do the math. It's not in reaction to a more peaceful world. It's not due to a breakthrough in military technology or to new strategic insight. It's not because paths (ph) of entitlement

growth and spending have been explored and exhausted. It's not because sequestration was ever a plan intended to be implemented.

All this is purely the collateral damage of political gridlock. For our troops, for the force, the consequences are very real and very personal. The president has indicated his intention to spare military compensation from sequestration. And that's a very good decision and one that we -- we intend to carry out.

But make no mistake, the troops are going to feel this very directly in other ways. And I'll just give you, I think, the principal example. There are many. Between now and the end of the year, we will need to sharply curtail training in all of the services. And so that means, for example, a brigade combat team that has returned from Afghanistan that is used to being at tip-top readiness -- and that's what matters to this profession and that's what we want to have matter to them -- can't train. And it -- and the army reports that two-thirds of its brigade combat teams will be at reduced readiness by year's end. And I can go through the same thing true in the Air Force and so forth. So it's going to have a big effect on our uniform people.

Likewise, also, for our much maligned civilians, you know, a lot of people think that D.O.D. civilians are people who wake up in the Washington suburbs and get in a car and drive up 395 and come to an office building here. They're not. Most of them work in depots. They fix airplanes. They maintain ships and overhaul ships. 86 percent of them don't even live in the Washington area. 44 percent of them are veterans. And on or around April 1st, we will need to begin to furlough many of them. And to do that, for up to 22 days, which is the statutory limitation -- and I've promised that when that happens, I'll -- I'm going to give back a fifth of my paycheck to the treasury for those last serve months if we have to furlough people.

You -- I can't be furloughed because I'm a presidentially appointed -- a -- a Senate-confirmed presidential employee, but I'm going to give back a fifth of my salary. There's a real human impact here, is what I'm -- I'm saying. And in addition to the military and civilian personnel, the effects will be devastating on the defense industry, upon which we depend. The -- the quality of our defense industry, second only to the quality of our people in uniform, is which -- what makes our military the greatest in the world. And a technologically vibrant and financially successful defense industry is in the national interest.

CARTER:

The act of sequestration and the longer-term budget cuts, and even the prolongation of uncertainty, will limit capital market confidence in our industry, and companies may be less willing to make internal investments in their defense portfolios. The turmoil's even greater for our sub-contractors. They -- many of them lack the capital structure to withstand this kind of turbulence. And I'll just remind you that 60

cents to 70 cents of every dollar we contract goes not to the prime contractor, but is in turn subcontracted out. Many of these are small businesses. We count on them for the vibrancy and new people, new talent, fresh blood in the defense sector.

And above all, sequester will cause a spike in program inefficiency by stretching out programs and driving up unit costs. So for the force -- military, civilian, our industry -- the consequences are very direct and devastating.

I'd like to close by -- with an appeal which is to de-trigger sequestration and also very importantly to us, to pass appropriations bills not only for defense, but for all our federal agencies for that matter. And in that connection, I'd just like to add, you know, that in the long run, national security rests on a strong economy. It rests on a strong industrial and engineering base. It rests on having science, technology, engineering and math talent here in America.

These are, I recognize, provided in other parts of the budget, but indirectly we depend upon them as well. And understanding the effect of sequestration for us managing in the Department of Defense, I understand the comparable problems that are arising for my colleagues around the table.

The cloud of uncertainty hanging over our nation's defense affairs is already having lasting and irreversible effects. Ultimately, the cloud of sequestration needs to be dispelled and not just moved to the horizon. The magnificent men and women of the Department of Defense and their families deserve no less. They need to know that we're going to keep our commitments to them. Our partners in the defense industry and their employees need to know we're going to have the resources to procure the world-class capabilities they provide. And perhaps most important, the world is watching us. The world is watching...

MIKULSKI:

Secretary Carter...

(CROSSTALK)

CARTER:

Our friends and our enemies are watching us, Madam Chairman -- Chairwoman, and they need to know that we have the political will to forestall sequestration.

Thank you.

MIKULSKI:

Thank you.

To our panel, thank you very much for this really compelling and at some points even riveting testimony of the consequences of this policy. As you can see, we've had an extraordinary turnout among members. We also have to adjourn by one o'clock. So we're going to follow the five-minute rule, which I will impose on myself as well as on the members. And we would ask the panelists to give crisp answers so we can get in as much content as we can.

For -- the reason we need to have a targeted time is there is a Democratic caucus exactly on our proposal to vitiate sequester. I know the other party is also pondering this. So we're going to get right on with it. We're going to recognize people in the order of arrival and look forward to these questions.

Secretary Duncan, I'm going to go right to you. I've heard Secretary Condoleezza Rice, truly an iconic figure in American society, speak not only on national security, what she says repeatedly that education is the civil rights issue of this generation. Education reform began under President Bush the elder, President Bush W., President Obama.

Could you tell me the impact on -- of sequester on our bipartisan, multi-year commitment to educational reform to lift all boats and get our kids ready for the future? Is this going to derail it, dilute it, or just blow it out the window?

DUNCAN:

This would have a devastating impact. And again, the fact that it's so preventable, not that this is easy, but we know we can do better, makes this absolutely untenable. And as I've said repeatedly, and Condoleezza Rice and others, if we're trying to level the playing field, if we're trying to help poor children, disadvantaged children enter the middle class, the only way to do that is to give them a high-quality education.

This is the civil rights issue of our generation. It is an economic imperative. It's also an issue of national security. If you take any one of those by itself, that's a pretty big deal. You put those things together...

MIKULSKI:

What's the impact?

DUNCAN:

The impact would be just, you know, one piece of this, Title I dollars, which go to help poor children, help the children with the greatest need, again trying to break cycles of poverty and social failure. As many as 1.2 million students would be impacted in 2,700 schools. And if we fail to educate these children, what are they going to do? What's the option?

Children with disabilities, tremendous need; done a lot to try and level the playing field, a long way to do. It would have a huge impact there as well. That's just simply again not acceptable to me.

MIKULSKI:

Thank you.

We also understand that housing -- everyone in my business community says housing is one of the sectors to lead us out of the recession. They feel that the economy is poised for recovery, but fragile and vulnerable.

Secretary Donovan, you are the housing guy, along with the secretary of treasury, which is financing. Tell me what you think the impact of sequester will be essentially on housing new starts, rehab, modernization, jobs, the supply chain from the lumber yard, you know, all the way up to big, big construction projects?

DONOVAN:

Senator, you really put your finger on it. As the president said in the State of the Union address, housing has become one of the leading factors that is driving our recovery. And because of the critical role that the Congress created for FHA, we are absolutely central to that recovery at this point. Almost half of all first-time homebuyers in this country today use an FHA loan to buy their first home.

And let me just take one small example. One of the most important factors in our early recovery, particularly in the construction industry, has been multifamily construction. It has jumped dramatically. We drive about 25 percent of all that new multifamily construction. And even just to take a very small number of employees out of our -- by furlough or a lack of hiring, a hiring freeze, we -- we believe just this year that there would be about \$3 billion in financing for a particular kind of multifamily construction that would not -- that would not happen, with all the ripple-effects of jobs.

And that's just one small example. When you multiply that to look at, as I said, almost half of first-time homebuyers, 25 percent construction...

MIKULSKI:

Well, isn't the ripple effect in like the lumberyard, the brickyard, the pipe...

DONOVAN:

It goes from the bricklayer or the plumber or the carpenter on the front line. It goes to the window manufacturer. It goes to all of the ripple effects through our system that would be halted by that.

MIKULSKI:

Secretary Carter, you outlined very compellingly what sequester will be, and I know the other panelists will go. But I want to ask a question that's floating around here about let's minimize the impact on defense. And there are those that would like to give you unlimited authority to revise the defense budget without any recourse of coming to Congress somehow or another to soften the blow.

What is your position and what is the administrative position -- the administration's position in giving you unlimited defense proposal authority without any reprogramming authority? Or do you need something more definite, more reliable and more sustainable?

CARTER:

That would take, my understanding, legislation. And I hope if there's legislation in the area affecting defense, it's one that dispels this problem once and for all. The other thing I'll say is that at this point in

the fiscal year, with cuts of this magnitude, we've got to go where the money is. So, we don't have a lot of choice in the first place.

MIKULSKI:

Do you want unlimited authority without congressional approval?

CARTER:

We would like some reprogramming authority. That would obviously help us in the -- toward the end of the year.

MIKULSKI:

That's not -- Senator Inhofe has a proposal and it's a bona fide one. We acknowledge that it will be out there and debated. I oppose it, which would give up congressional authority. I want you -- I want us to have a real solution to sequester to either vitiate it or to have a proposal go through the C.R. or something where every agency could reprogram and some could do it for the year.

Right now, what they're talking about is just giving Defense, where you all can decide how to do it, but exempt everybody else.

CARTER:

As I said, at this point in the fiscal year, it doesn't help us that much and if the price of that is a -- just kicking this can further down the road and having us continue to live under this uncertainty, that's not a very attractive prospect to me.

MIKULSKI:

My time's up.

CARTER:

Thank you.

MIKULSKI:

I know you'll comment on that, Mr. Werfel.

Secretary Shelby -- Senator Shelby.

(LAUGHTER)

And after Senator Shelby we go to Harkin, Collins, Murray and Coats.

SHELBY:

Thank you, Madam Chairwoman.

I think it's obvious that we need to return to regular order in the appropriations process. The chairwoman talked about it. I've talked about it. You've alluded to it.

Do all of you agree, that in order to provide certainty, which we need for agency budgets, one of the issues here, do all of you support a return to the regular order of the budget and appropriation measures?

That's what I thought.

Now, supporting it and doing is two different things.

MIKULSKI:

(inaudible).

SHELBY:

That's right.

In the interest of re-establishing regular order and in the likely event that sequester moves forward, would all of you consider transmitting budget amendments for fiscal year 2013 that would give you the flexibility to realign agency funding under new constraints? Assuming sequester, I think it's a good assumption, goes into effect?

WERFEL:

Thank you, senator, for that question. I'll -- I'll get the responses started. The administration would oppose a solution that kept the sequester in place and tried to reconstruct it in such a way that would try to dull some of the pain. You -- we simply cannot cut \$85 billion out of our budget over the next seven months without creating significant problems and consequences across both defense and non-defense.

And I think a -- a critical point here is when the sequester was put in place, and it was passed by bipartisan majorities in both the House and the Senate, there was not only agreement that it should drive a compromise and a solution to balanced deficit reduction, I think everyone agreed that it was going to be enormously harmful, and one of the ways it was going to be enormously harmful, it was going to carry on the backs of certain populations this burden of deficit reduction, the middle class, the vulnerable.

And so the notion that we can live within an \$85 billion cut by moving money around does not change the fact that we'd still be in a world where -- who is bearing the burden of deficit reduction, it would be the middle class, the vulnerable, and all of the critical priorities that these secretaries talked. It will not be possible to save -- save all of them. We will see very, very harmful consequences with that.

DUNCAN:

If I could just add quickly, I think it's a great summary, but these are -- you know, the idea of flexibility, you know, sounds nice and, you know, is -- is a manager, but the choices here are just devastating. So the choice would be do we save Title I and take more money away from children with disabilities?

Do we cut more from homeless children to do more for ELL? Do we cut impact aid to do more for stem?

None of these are good choices. We have to invest. And so the idea that somehow we can kick the -- you know, kick the can down the road and just try a little more flexibility leaves us in a situation which just again many -- many hundreds of thousand of young people will be hurt.

DONOVAN:

One other point I would add to that to echo something Secretary Carter said, we're so late in the fiscal year, recognize we're halfway through the year.

Just take one example of a HUD program where we help a homeless veteran get off the street. We don't do that directly. We provide funding to local partners who figure out what are the needs of that veteran, help them locate a place to live. And this late in the year to say, we are going to cut substantially from that program means that you literally -- you don't have flexibility. You have to cut off existing funding for existing units in order to achieve these cuts in such a short time. No amount of flexibility would allow us with this kind of both deep cuts but also precipitous cuts to be able to do this in a way that would mitigate the -- the great damage.

NAPOLITANO:

At this point, flexibility, and I put that in quotes, really isn't flexible. There are only so many places we can get that kind of money. So like my colleagues, it's a Hobson's choice. But there's no way we would get through sequestration even with just a top-line number without serious you cuts at airports, seaports, land ports and all of the consequences that occur from that.

SHELBY:

You've laid it out already, haven't you, Dr. Carter?

CARTER:

(OFF-MIKE) I think so.

SHELBY:

One last question, my time's running away.

The president, in his State of the Union Address, I thought, laid out several new policies that would expand the role of the federal government. But he also said that nothing he proposed, and I'll quote him, "Should -- should increase our deficit by a single dime," that's troubling.

Would any of the president's new policies require an increase in discretionary spending? And if so, would Congress be required to raise the caps on discretionary spending? And if the caps weren't raised would agencies face additional cost burdens to be borne within the current budget constraints?

Mr. Werfel?

WERFEL:

Yes, thank you for the question.

It's -- it's premature for me to talk specifically about the president's budget which would capture a lot of the information that you're requesting. But let me say this. The president's budget will build on the \$2.5 trillion in deficit reduction that has been achieved to date. It will build on the framework from last year's budget for \$4 trillion in total deficit reduction over 10 years.

And I will point to you something that has been made public. When we issued our guidance to agencies to -- to prepare their budgets so we could submit a budget to Congress, there was very clear direction that the -- the discretionary caps put in place by the Budget Control Act that achieved \$1 trillion of the \$2.5 trillion that I just described are in place, and there are very tough choices that need to be made. And this is part of the president's overall framework that he's willing to make tough choices on domestic priorities and those are embedded into the discretionary caps and Budget Control Act.

But moving forward, it does not mean we can't still make critical investments in education, in infrastructure, in energy, while also balancing our budgets by doing smart things on tax reforms and making responsible spending cuts.

SHELBY:

Thank you.

MIKULSKI:

Excellent.

Senator Harkin, the chair and -- the subcommittee chair of Labor, HHS.

HARKIN:

Thank you very much, Madam Chair.

I think, first of all, I want to disagree with those who say we have a spending problem. Everyone keeps saying we have a spending problem. And when they talk about that, it's like there's an assumption that somehow we as a nation are broke. We can't afford these things any longer. We're too broke to invest in education and housing and things like that.

Well look at it this way, we're the richest nation in the history of the world. We are now the richest nation in the world. We have the highest per capita income of any major nation. That kind of begs the question, done it. If we're so rich, why are we so broke? Is it a spending problem? No. It's because we have a misallocation of capital. A misallocation of wealth. All of this wealth that's been built up by hard-working Americans has been accumulated into fewer and fewer hands all of the time.

And then we have a tax code that is skewed toward the wealthy. A tax code riddled with loopholes. A tax code that -- that encourages companies to offshore jobs, offshore their businesses. A tax code that allows a -- a wealthy hedge fund manager to pay less rate of taxes than a nurse, for example.

I think it's -- it's very interesting that all of this talk we have about sequester, talks about the programs that hit the hardest on the homeless and the helpless, the disabled, and, yes, also on the middle class. Why aren't we talking about a sequester that when the curtain falls, it also falls on all of these tax loopholes; that those end on the same day on which we're going to cut back the spending that allows us to educate our kids with disabilities, Secretary Duncan?

HARKIN:

No, we're not talking about that. We're not talking about that. So I -- I take exception to those that say we have a spending problem. We have a misallocation of capital. A misallocation in our tax code. In the 1990s when we had full employment, when we had a balanced budget and a growing economy, our revenues equalled about 20 percent of our GDP. Now it's down to 16 percent of our GDP. So what does that equal? What it equals is more of a burden on families with kids with disabilities, Secretary Duncan.

Secretary Donovan, people are homeless, trying to find a place to live, a shelter for our veterans. And the middle-class people that work on the jobs that protect our country, Secretary Napolitano, and Dr. Carter. falls on them, too, on the middle class.

So I've taken a lot of my time to talk, but I -- but I just -- we've got to start thinking about this in different terms. We can't just focus all of the time on cutting our obligations as a government to build a more fair and just society.

I still believe, as Hubert Humphrey once so eloquently said, that the moral test of government is how it treats those in the dawn of life, our children, how it treats those in the twilight of life, our elderly, and how it treats those in the shadows of life, our homeless, our needy, our disabled. That is a test of government. And I quite frankly don't think we're meeting that test right now. We're backing off of that.

So count me as one of those who, yes, back to a regular order, we got to do all of these things, but we can't lose sight of the fact that this federal government that we represent has to be involved -- has to be involved -- in making this a more fair and just society.

So I know that's sort of an overview and I've taken all my time on that comment. But as we move ahead, and I hear voices saying no, we have to exempt defense from the discretionary cuts, if defense is exempted, then the disabled ought to be exempted also. And the homeless ought to be exempted also. And the middle-class families that work for you, Secretary Napolitano, they ought to be exempted also.

So I tell you, this is -- we've got to get back to a better rational system of revenues and spending in this country and back to our obligations. So I've taken all my time. I didn't ask a question. But I just wanted to make it clear, Madam Chair, that I -- I just feel very strongly that it's not just appropriations that's causing this problem. It's the lack of the revenue that we should be taking in to meet our obligations as a country.

Thank you, Madam Chair.

MIKULSKI:

Thank you very much, Senator Harkin. Your longstanding reputation for passion and persistence in the role of social justice is well-known and well-appreciated.

I'd like to now turn to Senator Collins, who is also the ranking member on the Subcommittee on HUD and also comes to us as the former ranking member of Homeland Security. You bring a lot to the table. And look forward to your questions.

COLLINS:

Thank you very much, Madam Chairman.

It's very difficult to follow the eloquence of my colleague from Iowa.

The fact is, however, I believe we do have a spending problem and the \$16.4 trillion debt is ample evidence of that. And I say that as one who supported increasing taxes on our highest earners.

The fact is there's plenty of blame to go around for the crisis that we find ourselves in. But there can't (sic) be no doubt that these indiscriminate cuts represent an utter failure to set priorities and we simply cannot allow sequestration to go effect.

If we do so, we might as well just pack up and go home, because if we're just going to have across-the-board cuts, what is the point of our being here?

So I hope we can work together to come up with alternatives.

Secretary Carter, I want to follow up on a point that you made because the ramifications of sequestration are extreme. But in my judgment, for the Department of Defense, a year-long continuing resolution also would inflict tremendous damage on the department.

For example, Congress has authorized the Navy to procure 10 destroyers during the next five years in -- as part of last year's Defense Authorization Act. The Navy already has the bids for these ships in hand. The Navy's ready to sign. But the Navy cannot sign these contracts without an appropriations bill.

Now, here's the point. We risk throwing away significant savings on the order of hundreds of millions of dollars as well as jeopardizing the stability of the ship-building industrial base that we've worked so long and hard to preserve if we do not complete work on the F.Y. '13 appropriations bill.

So, Dr. Carter, do you agree that it is essential and equally important that we not only deal with sequester, but pass the defense appropriations bill for this year?

CARTER:

It is. They are, both of them, separately but together, very much so destructive. The problem with shipbuilding goes like this. I referred earlier to the fact that in the C.R. we have inadequate operations and maintenance dollars, which is why the effect of the C.R. hits us so fast, so hard in training.

But separately, to your point, we also need the authority to embark on new starts, and the way shipbuilding is organized, every new ship is a new start. So we're in the absurd position where we're five months into the fiscal year and we have the authority to build the ships that we built last year and no authority to build the ships that we plan to build this year. That's crazy.

And that has nothing to do with sequester, by the way, that's the C.R., which is a whole other problem, as I said. We have -- we have both of them.

(CROSSTALK)

COLLINS:

... we do have to address, and we can't just do sequestration, and I know I've had this same conversation with Secretary Napolitano as well.

Secretary Duncan, I've met with superintendents, principals, educators from Maine who tell me that my state alone would face up to \$11 million in cuts in education funding. That could reduce funding for critical programs such as Title I, special education grants, TRIO program, rural education.

What does the Department of Education intend to do to help schools that are hardest hit by sequestration if this goes into effect?

For example, could you shift the focus of some of your competitive grant programs such as Race for the Top, which I know is your favorite, to help fill the gap in education spending?

DUNCAN:

Race to the Top, the money we spent represented less than 1 percent of spending on K-12. That was \$4 billion. We spend \$650 billion, so it was a little more than half a percent. So to think somehow we could shift a small number of dollars to fill the hole here just doesn't make sense. The numbers don't work.

And so, again, the damage here would be irreparable. There's very little to anything I can do to cushion that blow.

And, again, that's why it's so important, your leadership and others, do right thing here. I wish I had a magic wand to wave. I simply don't have that. And I'd be lying if I told you otherwise.

COLLINS:

Thank you.

And, finally, just a comment for Secretary Carter. You made such an important point about the federal civilian workforce. I think too often it's thought of as white-collar employees who are working inside the Beltway.

Senator Shaheen and I know about the Portsmouth Naval Shipyard in Kittery, Maine. These are welders, nuclear engineers, pipe fitters who are going to work at a pier. These are the firefighters who put out a very dangerous fire on a nuclear submarine. So I think we need to keep that in mind as well.

Thank you, Madam Chairman.

MIKULSKI:

Senator Murray, the subcommittee chair on Transportation and Housing.

MURRAY:

Thank you very much, Madam Chairwoman. I really appreciate the opportunity today to really hear from a really great panel to help us understand the impacts of sequestration, should it go into effect.

I think it's important for all of us to step back and remember sequestration was never written into the bill to be implemented. If it had of been, it would have been a lot more thoughtful.

It was put into the bill simply to force us as members of Congress to come together on a balanced, thoughtful approach on how we deal with our national budget.

So we are here now, two weeks away from implementing a policy that not only should not be implemented but was never written to be implemented. And we cannot shirk our responsibility to move forward to replace it with something that is balanced and fair.

MURRAY:

And I've been work with Senator Mikulski and others on -- on an approach to do that. And I urge all of our colleagues to really think about how we can do that, moving forward.

And I do have a letter for the record, Madam Chairwoman, of over 3,000 organizations in this country, from Human Rights Campaign to law enforcement organizations urging us to do just that. I submit it for the record.

MIKULSKI:

Without objection.

MURRAY:

So, thank you very much for that.

And -- Secretary Donovan, let me begin with you. In your testimony, you pointed out the consequences of sequestration cuts to HUD programs over 200,000 families being at risk of losing their housing. But those kinds of cuts really move past just those -- the implications you talked about. Cuts to military and domestic spending will result in significant job losses across our -- our country. So middle-class families will find themselves threatened because they've lost their job on -- resulting in housing in a fragile time in our housing market and our economy. Could you talk a little bit about how the massive job lay-offs, that would occur if sequestration was implemented, would affect the housing market?

DONOVAN:

What -- one of the things that is so important, as you know, Senator, as the chair of committee, is that for every dollar we put into housing, we are typically seeing \$5 or \$10 of private capital that -- that come in and multiply the impacts.

And so, if you go in reverse, you multiply the impact of these cuts across all of the private investment that comes into housing. So, literally, when you look at whether it's our direct housing construct programs or community development block grant, for every one of the tens of thousands of jobs that you would lose, through the direct spending that we have in construction, the ripple effects into factory workers, at real estate agents, lenders, all of those, what you see is five to ten times the number of job cuts that happen because you don't have private capital coming in. And then, you build on that, a loss of confidence.

Again, housing has been driving our -- our -- our economic recovery. It's been one of the main things that really has turned around in the past year. Just to cut that off at a time you will see less consumer spending, families won't go to restaurants if the equity in their home is dropping, loss of confidence in neighborhoods means prices will -- could potentially turn back around. The ripple effects are -- are -- are enormous because of how central housing is to our economy and our economic recovery.

MURRAY:

Implementation of -- of -- of the sequestration would not only have a direct impact on the housing programs, but on the job market, the other folks, but the confidence factor, at -- at this time, when we're very fragile as well, will have...

DONOVAN:

Absolutely.

MURRAY:

... a huge long-term ripple effect, as well.

Secretary Duncan, education, a top priority of mine. And I know sequestration is going to have a huge impact, as we've heard. I heard from Yakima school district in my state, they have a reduced -- a free and reduced price lunch-rate at 83 percent. They told me it would impact them with \$1.6 million budget cut. This is after our state legislator's already had impacts at our own local school districts. We have districts like Central Kids Happen (ph) and Clover Park that are close to military bases.

Can you tell me how the -- you would see just the general impact of these districts having to cope with sequestration. You alluded a little bit -- those districts right now are making their decisions about hiring teachers. Talk a little bit more about the impacts we would see.

DUNCAN:

Well, first, again, we're not just coming into this situation in a vacuum. You've got to look at the past couple of years. Through the Recovery Act, we were lucky enough -- thanks for your guys' support -- to save about 300,000 educator jobs. But the nation also lost about 300,000 educator jobs.

So we have class sizes that are much higher than we would like. We have less children engaged in after-school programs and summer- school programs. I'm always fighting for more time, not less time. So this is -- we're -- we're at a very, very tough economic time. For many long-time educators, this is the toughest financial situation they've been in in 20, 30, 40 years. So now to compound that problem, and to remove additional resources now, would just exacerbate a really tough situation. We are trying to get better.

Again, other countries aren't doing this. This is not what South Korea's doing. They're investing corn (?). That's where the competition is. So for us to not be thoughtful in this doesn't make sense.

And then, finally, you know, every good superintendent is trying to do their budget planning now for next year. And you're trying to hire staff. You're trying to hire the best staff. You're trying to figure out your after-school program and your summer school programming now for -- for June and July. And when you have a lack of stability -- we don't know what's going on -- you have to plan for the worst. That's the prudent thing to do. So you don't schedule the summer stuff. You raise class sizes.

And so, to -- to take away -- the -- the least we could do in tough economic times is give people stability and predictability so they can manage. To take that away just undermines the -- the great work that people do at the local level. And, again, that's not why any of us came to Washington was to -- was to hurt that.

MURRAY:

I appreciate that, and I just wanted to remind all of us, just increasing class size isn't just a phrase. I -- I talked to a middle school teacher a few weeks ago, after Newton -- Newtown, who told me that she now has so many kids in each one of her middle school classes, she has no ability to know each one of those kids anymore. And at a time when we are really counting on our educators to know their kids, because of the impacts of -- of not knowing them, it -- it's -- this is a real consequence to our country.

DUNCAN:

And just quickly to add, Senator, you and Senator Harkin and so many others, have fought so hard to get more children engaged in early childhood education. The president talked about that extensively. It's the best long-term investment we can make. Our good friend, Secretary Sebelius isn't here today, but I talked early in my testimony, 70,000 potentially less children -- children kicked out of Head Start, not new ones going in, but less children having access. How is that the right thing to do for the long haul?

MURRAY:

And remind us all, they grow up to be adults.

Thank you.

MIKULSKI:

We now go to Senator Coats, Ranking Member now on the Homeland Security sub-committee. That's going to be followed by Senator Tom Udall. You are next, to be followed by Senator Murkowski, to be followed by Senator Feinstein. That'll be the next four. And I'll -- after that, we'll announce the next group.

If you -- if your staff is curious where you all are, come over and talk to my staff. But we're -- we're moving. And this is a very content-rich hearing.

Senator Coats, please.

COATS:

Madam Chairman, it's a pleasure to be moving along with you in the chair, and -- and all of us adhering to the five-minute rule. And I'll -- I'm no exception to that.

The point I want to try to make is, you've all made a case for having to deal with shrinking resources. I didn't support sequester, either. I agree it's not the best way to deal with it. These are issues we should be dealing and working together through the process. Separating the essential from the like-to-do but we can't-afford-it- right-now to do, from maybe-we-shouldn't-be-doing-that at all, and wouldn't it be better if we could transfer those funds into something that's more essential.

Every agency, head, and secretary, and other that have been before our appropriations committee the last two years, I've asked the same question. We have to deal with the reality that our mandatory spending is running away with our budget. The discretionary portion of both defense and -- and non-defense non-discretionary is ever shrinking, not necessarily because that's the way it should be or way we should be allocating the nation's resources, but because the -- the part of the pie that we have no control over, in terms of -- of growth, is just simply continuing to eat up more and more of our annual budget. You can only tax so much before it so impacts on growth and the economy, that that is not successful. We just went through a fiscal issue here with the fiscal cliff. I also supported that.

But the point I want to try to make is, should we not all be dealing with the reality of what we're facing? Look, when World War II ended, our soldiers came home. We recovered from a depression, and everybody started having babies. The so-called "baby boom" has been like a pig going through a python. First, we needed nurseries. And then we needed diapers, enormous amounts, and then elementary schools, and then junior-high schools. This whole bulge that occurred in that post-war period here has moved through our economy, whether it's housing, and now it's retirement -- 10,000 a day, of those baby-boomers, are retiring.

And we have mandatory programs in place that provide needed health care needs and health care finances and retirement security that none of us is trying to undo. But the reality is, these are the facts that we're dealing with. And should we not all be here, Republicans and Democrats and agency heads and secretaries and others, working to try to find a way to address this ever increasing mandatory spending so that we have funds available for defense and essential non-defense functions.

COATS:

Because if -- you know, the sequester is a one-year fix that we're trying to do now. Shouldn't we be doing the long-term fix? And are you pleading with the White House? Are you pleading with us? Are we working together to try to address what everybody -- we should have been addressing, if not years ago, decades ago. We've all seen this company -- coming. This modern miracle of medicine has increased life expectancy which used to be historically from beginning civilization to be not higher than 70, now we are living to be 80 and 85, and 90, 95 years old. We are blessed with these -- this -- this miracle providing us opportunities to live longer. George Will, I think, said, "Once you reach 70, you're living on house money when you look at the whole history of civilization in terms of how long people live."

And secondly, with this -- we've known this Baby Boom crunch is coming the last 30, 35 years. And in all that time we've done one thing to address mandatory spending, the 1984 Social Security fix, which bought us about 35 or 40 years of solvency for Social Security by raising the retirement age, by making some sensible reforms.

And so we talk about this all the time. But here we are pleading with -- with doomsday scenarios about what's going to happen when we all know regardless of where you come down -- are you for medical research, are you for education, are you for better housing, are we strengthening our -- our national defense, or -- or making sure it stays strong, guarding the border, all the things you're discussing here are -- are -- you have to get money from an ever shrinking piece of the pie.

So, I guess my question is, when are we all going to step up and press our respective colleagues, whether you're Republican or Democrat, liberal or conservative to address this problem? And so it's not just a matter of we don't spend too much, or we need to spend more, or it's not a spending problem. It is -- it is a budget problem that we have to deal with on a long-term basis. So I just wanted to make that -- that point. And I've used up all my time.

(LAUGHTER)

WERFEL:

Can I offer a quick -- very quick response?

COATS:

If it's all right with the Chairman, you can. My time is expired.

WERFEL:

Very quick. As quick as I can.

The president on multiple occasions has put forward a plan that would create \$4 trillion in deficit reduction over 10 years, a \$4 trillion deficit reduction is something that both -- that members of both parties, independent experts pointed to as an important benchmark to -- to -- to lay a critical foundation for longer term deficit reduction into many years into the future.

Part of that \$4 trillion plan, key components of it involve sensible reforms to mandatory programs and entitlements. So there is, in the president's proposal, specific areas that start making those types of sensible reforms, also, you know, they embody the spending cuts that were in the Budget Control Act, then tax reform, as well. But I just wanted to make sure that I -- that I got down on the record that within the president's \$4 trillion plan there are sensible entitlement reforms.

COATS:

And I know -- there's -- there's been that in presidents plans whether Republican or Democrat. There have been Democrat Congress plans, Republican leadership plans. We haven't done it. And I think time is up and we need to do it.

MIKULSKI:

Tom Udall.

UDALL:

Thank you, Madam Chair.

And I think the five of you have made a very compelling case of how devastating this sequester could be. And Madam Chair what a great pleasure to participate in my first Senate appropriations committee hearing. I wish it was under more pleasant circumstances. Before I turn to our witnesses for questions, I'd like to make two points.

Sequestration threatens damaging cuts for New Mexico's national labs, military facilities and border security. If implemented, those cuts will be very damaging, I believe, to our national security.

Sequestration will also be very damaging to some of New Mexico's most vulnerable: Children in need of a quality education, rural communities struggling with housing, and homeless veterans seeking emergency shelter.

Mr. Werfel and Mr. Carter, my -- my first question goes to you. New Mexico's national security laboratories, Los Alamos and Sandia work to support our stock pile stewardship mission. I believe the sequester's across the board cuts, including \$9.4 percent cut facing the national security administration weapons account, will hamper the important stock pile stewardship work across the country.

Needless to say, there is absolutely zero tolerance for mistakes when dealing with nuclear weapons. Are you concerned that sequestration cuts pose unacceptable risks to the NNSA? And is DOD concerned about the impacts on its strategic missions as a result?

Mr. Werfel, why don't you go first on that and...

WERFEL:

I -- I will start.

Yeah, because as you mentioned, I think NNSA does fall within the defense category in the sequester, therefore, it faces roughly an 8 percent cut which will be applied, as I understand it, evenly across all NNSA labs and plants.

You mentioned Sandia. It's my understanding that critical milestones will be delayed for that lab as a result of the sequester. For Los Alamos, we are looking at \$46 million cut to procurement, hiring freezes, and furlough days for certain employees. So absolutely, there is -- there is significant concern -- there's concern across government. Your question about NNSA, I think is -- it's not safe from -- from the impacts of sequester.

CARTER:

We're the customer for NNSA. We're the ones who depend upon them making a safe, secure, and reliable nuclear arsenal that we can put aboard our delivery system. So I am concerned about it. Mr. Werfel says at a minimum stretches out all the stock pile life extension programs, which is not good, because makes them, first of all, more expensive, and second of all, we don't have time in many of those cases. So I am -- I am concerned about it. Very much concerned about it.

UDALL:

Thank you for those answers.

I'm going to do everything I can if we go into this sequester to make sure that we protect these national laboratories that are real jewels.

Mr. Carter, New Mexico's military's installations, Cannon Air Force Base, Kirtland Air Force Base, Holloman Air Force Base, White Sands Missile Range, and part of Fort Bliss are -- are unique to our nation's national security objectives due to New Mexico's large unencumbered air space, unique geography, and intellectual capital.

It will impact long-term readiness, as well as future defense research, in favor of a reckless plan to reduce the budget. And I think you've talked a little bit about that. Are you concerned with the impacts of sequester on these installations? What are the near and short-term consequences of reduced training at Air Force bases, and the reduction of research and development at White Sands, and the Air Force research lab and similar test ranges?

CARTER:

In the near term you will see, in the final months of this year, a sharp curtailment of range activity and other training activities. We don't have any choice about that. We're simply going to run out of money in those operations and maintenance accounts.

In the long run, if the reductions in budgetary authority forecast, which in our case is around \$500 billion over 10 years, not all of these facilities can survive. We asked last year for BRAC authority even to make the adjustments -- the huge adjustment we are already making. The \$478 billion that we absorbed last year, that \$487 billion, those cuts extend over 10 years.

And you can't -- you can't keep the tooth if you're not able to cut the tail. Some inevitably, these -- at some of these installations are going to have to be reduced. Both in the near term and far term it will have an effect on those installations. We just don't have any choice.

UDALL:

Mr. Carter, you -- you mentioned in your testimony -- I'm wrapping up, Madam Chair -- you mentioned in your testimony about small business being hurt by this. I think that could be a real impact in New Mexico and across the country.

Thank you, Madam Chair.

MURKOWSKI:

Thank you, Madam Chairman.

MIKULSKI:

Ranking Member (inaudible) Interior, is that right?

MURKOWSKI:

Yes, ma'am, that is correct. Looking forward to it with great enthusiasm.

Secretary Carter, you mentioned that the wolf is at our door on this one. I'm worried that the wolf is already inside. I'm worried that with or without sequestration, we're all trying to -- to acknowledge we don't like sequestration, it's blunt, it's ugly and it just doesn't work, but it does -- it does force us to deal with budget cuts. It forces us to deal with a \$16.4 trillion debt. So whether we are dealing with sequestration or whether we are just dealing with budget cuts, it does force prioritization.

MURKOWSKI:

And if we're not working every day as lawmakers or you within the administration to make sure we are easing the pain of these cuts wherever they may fall, whether it's within our defense, our housing or education, then we're not doing right by our constituents, we're not doing right by our -- our -- our country.

I want to speak very quickly to a frustration that I have, where I'm seeing budgetary decisions that are just not -- not making sense at a time when we are forced to prioritize, we're forced to be looking to spending reductions.

This is what's going on in -- in my state of Alaska with a backdoor BRAC run on Eielson Air Force Base. We're essentially looking at -- at our -- our F.Y. '12 C.R. levels that we recognize and you have pointed out are very problematic. We've got the possibility of sequestration. We have this committee's direction to the Air Force to postpone force structure proposals until the Commission on the Structure of the Air Force reports back in 2014.

We've got a first-year cost on this proposal on Eielson of \$5.6 million, and the fact that essentially the same move was rejected back in 2005, yet the Air Force is moving forward with this plan. Just last week they held four scoping meetings in Alaska, despite the -- the department's ban on non-mission critical travel.

So I look at this and say, "Wait a minute. We're supposed to be prioritizing, and yet you've got the department moving forward with a plan that costs money rather than taking an enterprise-wide look at all our Air Force bases in determining where force structure reductions should fall." So you can probably sense my frustration there.

But when we're talking about priorities, it needs to make sense all the way, not just beyond March 1st. Can you comment on that, please?

CARTER:

I will. You're absolutely right. It does have to make sense beyond March 1st. And that -- and you're also correct that we're paying a -- and will pay a huge long-term price for the short-term disruptions that we're experiencing right now.

I'm already doing things -- we already have to do things in the department to curb spending. So in that sense, the wolf is in the door. And that's another reason why short-term fixes don't really help us out much. They don't help our industry out very much, and they don't give us the stability that we need.

To the particular point you make, that is a -- a very legitimate issue that actually precedes and is somewhat independent of sequester. That is, it was an issue we had last year before sequester came in.

It is a matter of priorities. I understand that -- that there was disagreement this year about a number of the adjustment that the Air Force made, and that's why there is going to be a commission on the future of the Air Force. We understand that. We're absolutely committed to working with that commission. And the Air Force understands that, and we're not going to take actions that countervene the decisions that were made earlier this year.

MURKOWSKI:

Well, I would -- I would certainly hope that we're looking long term to our critical military assets and don't make short-term decisions based on numbers that simply don't hold up.

Let me ask Mr. Werfel...

CARTER:

May I just comment on -- on that point, because that's another very important...

MURKOWSKI:

Yes, but I do need to get to Mr. Werfel before my time expires.

CARTER:

Well, I was just going to say we are making decisions. I mean, sequestration does force decisions that don't make any sense, as does the C.R....

(CROSSTALK)

MURKOWSKI:

Mr. Werfel, let me ask you, one of the most important federal responsibilities across our nation is the trust responsibilities for American Indians, Alaska natives.

One of the programs that we are -- we are dealing with within the IHS is a trust responsibility to these native people.

Now, within the V.A., within Medicare, they're off the table in terms of their cuts. So, my question to you is, given the critical nature of the health care services to our tribes, what actions is IHS taking to minimize the impacts of the delivery of health care on the Indian community, given the trust responsibility that is different than any of the other responsibilities that we have out there, than perhaps our veterans?

And, Madam Chairman, I realize that I've gone over my time, and I do apologize.

MIKULSKI:

Well, Senator Murkowski, I think you're pointing out that the -- that the impacts of the sequester are beyond the bounds of the witnesses here. They impact a broad range of programs and activities, and programs that serve Native Americans are not different.

As you mentioned, Indian Health Services is subject to the sequester. On the mandatory side, it's capped at 2 percent, but it's not at the discretionary side.

Each agency -- what we've asked each agency to do, whether it's an agency that's serving Native American populations or otherwise, is to figure out how to implement the sequester in a way that's gonna best serve mission balancing all other priorities.

And one of the things we've come to the conclusion, and you can -- you can draw that -- that conclusion from the testimony today, there's no way to fully protect mission here. Because the indiscriminate and -- and abrupt cuts, as they were designed, are enormously disruptive.

But with respect to -- to programs that are serving Native Americans, I will take your question back, and we can work with -- with those agencies to get you a fuller answer.

But what I can say is, it is disruptive, and we're really asking the agencies to do everything they can to minimize that disruption. But that's not going to be possible if we go forward with this sequester.

And that's really the point of what we are getting to, which is no matter what, there is no good way out of this. There are no good choices.

We're going to go now to Senator Feinstein, but before we do, just a couple of points. Some members had to leave before they got to ask a question.

I note that Senator Kirk had to leave, and we really wanted to give him a very affectionate SCA (ph) welcome back. If he has a statement, we'll put it into the record. Senator Leahy had to leave. We'll put his statement into the record. And extend those courtesies.

Now, just to give a sense of the lineup, it'll be Feinstein, Blunt, Landrieu, Boozman, and Begich, then Moran and then Shaheen and then we'll be into kind of a moving along. So right now, it's Feinstein then Blunt then Landrieu then Boozman then Begich. OK?

So, you'll be next, Senator.

Senator Feinstein?

FEINSTEIN:

Thank you very much, Madam Chairman.

I want to just begin with something that you just said. I think we're already feeling the effects of sequestration in imprecision and economic uncertainty,

I find it really beginning to happen in California. California will lose the most jobs by far of any state. George Mason University did a study. They predicted that we would lose 225,544 jobs, of which 135,209, Ash Carter, are from your department.

So what's happening is with the knowledge that there's going to be 10 years of this, people are now beginning to make decisions out there, subcontractors, contractors, to cut staff and to be ready.

And so, I happen to believe next to a major war, economically, it is the worst thing that could happen to this -- for this country. And we should end it.

Madam Secretary of Homeland Security, I want to thank you. You were the most precise of everybody as to what we can expect.

I do energy and water. We tried to find out, what does this mean for the labs? Our staff has spent a lot of time trying to find out where are the cuts? Who's going to suffer the cuts? It's like a ghost with nothing under it.

So everybody is concerned that what's going to happen to them, and we can give no one a straight answer. It is a bad, bad phenomenon, and it ought to end before it really catches hold of America and does a great deal of damage.

Let me ask you about one thing, and this is for California. It happens to involve the only shipyard on the West Coast, NASSCO in San Diego, 3,500 jobs. We worked very hard to achieve long-lead financing for three mobile platform ships. We have that financing.

What, exactly, will happen to NASSCO and the long-lead financing, Deputy Secretary Carter?

CARTER:

Well, not good things. I'm concerned about it.

The -- first of all, there's the continuing resolution problem, which I mentioned earlier, which simply having the authority to proceed on the basis that we -- we planned in shipbuilding, but the second is sequester and the reduction in budgetary caps over the long run. And that is going to have a huge effect on our shipbuilding industry. And NASSCO's especially vulnerable in that regard.

I was just there a couple of months ago and I'm very concerned about that. There is no question there will be a major restructuring in ship building as a result. I think we'll get through the continuing resolution thing. It's very inefficient. But as a result of sequester and cuts down the road. And that's just one part of our defense.

FEINSTEIN:

Will it lose long lead financing?

CARTER:

It depends on the -- whether the continuing resolution issue is resolved or not. If that is resolved, is there a chance we can do that. I'd certainly like to.

MIKULSKI:

This is exactly what I'm talking about. It's not your fault, but imprecision, uncertainty, people have to make decisions with respect to contracts. And so they make them negatively. Intelligence. It's my understanding a number of agencies, NSA, NGA, NRO, DIA, all fall under the defense budget. It's my understanding that Director Clapper has asked that he be involved in these decisions. Have you worked out an agreement with him?

CARTER:

Yeah, yeah. No, he and I talk all the time. By the way, I do with all our managers, our service chiefs, our installation heads. There is just a huge amount of detail here. And a huge number of management decisions that we are trying to make in the uncertainty you mentioned. That is all mirrored in our industry. So at NASSCO, are they going to assume that the continuing resolution is lifted? Or not? Or we gonna assume -- I don't know.

So we do tend to make very conservative decisions, which if this all goes away, we'll -- we will regret because they will have introduced waste and delay and inefficiency for no reason at all.

FEINSTEIN:

Thank you. Thank you, madam chairman. Thank you.

MIKULSKI:

Senator Blunt, and I understand you're now the ranking member on agriculture.

BLUNT:

That's right. Thank you, chairman.

MIKULSKI:

We've got a good lineup. This is great.

BLUNT:

Thank you. And thank you for the time.

The -- we keep talking about the fact we can take some balanced approach between spending cuts and revenues. I will tell you, I'm confused by the idea that there appear to be no spending cuts that can be taken.

We have \$60 billion of new revenue this year that we wouldn't have had last year. But we can't find \$85 billion worth of cuts. Now I'll accept the idea nobody told anybody that this sequester was actually going to happen, even though it was in the law. I had a chance to be in a hearing with Secretary Carter they are week. I asked him what number you submitted for the OMB budget planning for this year? And he said they submitted a number based on a pre- sequester number, is that right, Secretary?

CARTER:

That's right. The '14 budget preparation is based on that assumption.

BLUNT:

And did you submit alternates for what happens if you have to deal with the sequester number?

CARTER:

No we have not done that.

BLUNT:

So once again, we are not prioritizing. We are saying this is taking us by surprise. We don't have time to cut, but we're apparently not making any plan to take a cut next year either.

Secretary Napolitano what number did you submit, too, for the budget the president is now putting together?

NAPOLITANO:

The '14 budget. I think the guidance was to go 5 percent below '12 enacted. But I'll have to double check.

BLUNT:

Why don't we just ask. What was the guidance from OMB on the '14 budget?

WERFEL:

I think that's correct. It was 5 percent below the base 2012 enacted.

And, you know, just to respond in real time to -- to one of your earlier points, the -- what's important to remember is the Budget Control Act of 2011 had within it roughly \$1 trillion in discretionary spending cuts that are imposed through 0-- through spending caps. Those are -- were embodied in the president's 2013 budget. And that obviously puts enormous budgetary pressure on our agencies. It requires us to make tough choices.

The challenge, right now, is \$85 billion over seven months. And the way it's done so indiscriminately, across every program, project, and activity that -- that's the challenge that -- that you can plan for but avoid the harmful impacts of.

BLUNT:

Well I accept that. But the -- the idea we need to cut spending, but it needs to be a balanced approach seems to fly in the face of the idea nobody has any ideas how to reach this goal even if half of it is revenue. It seems we are not planning that very well either.

I want to ask a couple of questions. Secretary Donovan, you said just to clarify for me on a reservation funding issue, you said our funding would be cut by a third to a specific reservation. That's a payment lieu of taxes money? Why would it be a third? You're trying to find 5 percent doubled in the end of the year? I could see 10 percent. You can get back to me if you don't know why it's a third.

DONOVAN:

I'm sorry if you could just be -- I'm not clear.

BLUNT:

In your testimony, you mentioned a specific education funding in a reservation that would be cut by one-third in the remainder of this year. Do you have any reason...

DUNCAN:

I believe it was in Secretary Duncan's.

BLUNT:

I'm sorry. I meant Secretary Duncan.

DUNCAN:

It's all Secretary Donovan's fault.

(LAUGHTER)

BLUNT:

I'm inclined to blame Secretary Donovan.

But no, you -- you said this, Secretary Duncan.

DUNCAN:

Yes, sir. This is impact aid. This is aid that goes out to Native American areas. Goes out to areas where there are military families and bases. We would have to cut this money right away. And we disproportionately fund those areas because of lack of property taxes. And in that specific example a third of that -- of that district's budget -- their school budget.

BLUNT:

So the combination of the cuts they would -- a normal district would take plus the sort of payment lieu of taxes money, impact aid money we give.

DUNCAN:

Right. And again, this would happen now, not -- not down the road.

BLUNT:

On -- on another issue, I'm gonna ask an OMB question here, Mr. Werfel. And we told you we might ask about this.

I've got correspondence here from USDA, the committee that Senator Pryor and I will be working on. The -- the Ag Committee on questions on-site inspectors, which if they don't show up in a meat processing facility, that facility can't open. You know, in other kinds of processing centers, the FDA can come by occasionally, and -- and that doesn't really implement -- doesn't really impact whether the plant can be open or not. But if the USDA inspector doesn't open up, a plant can't open.

Is there any way to prioritize those individuals showing up so 100 other workers or 1,000 other workers can show up that day?

WERFEL:

Unfortunately, I don't think there is, Senator. The way the budget is structure for the food safety inspection service at USDA is that 88 percent of their total funding is spent on salaries and benefits for front line personnel that are doing the very inspections you refer to.

So it become a math issue, ultimately. They are going to get a certain amount of budget if we hit the sequester will be canceled. There is no way in which to find other sources of funds, because 88 percent of the entire budget are those very people that need to be at those meat plants doing that inspection to keep them open.

So this is one of the very tangible and clear and significant impacts of sequester is that -- is that this division within USDA will not be able to make its core mission of sending the inspectors to these locations. Therefore, under -- under appropriate laws and regulations, there will be stoppages of work within those areas. So it's a very serious concern.

BLUNT:

Well, one of the questions we'll be asking, Chairman, will be, how do you prioritize the core mission and the legal requirement to be at that Purdue (ph) facility or whatever packing facility they need to be at? We'll be asking that.

LANDRIEU:

Madam chair, thank you so much for your leadership. I couldn't think of a better person to be in that chair to help us address the challenges that are ahead of us. I look forward to doing my part to work with you and the ranking member. One of my colleagues last week made an observation that I think is worth repeating today, when he said, "Offering up flexibility," which is what some of my colleagues are offering to deal with the sequester, "Is like giving the passengers of the Titanic an option after they hit the iceberg as to what level or deck they would like to relocate?"

And I think that's very apt.

LANDRIEU:

Number two, I do think our committee would be well advised to deal in reality. We've mentioned that word several times, the reality of the situation. Why is it not some of my colleagues on the other side will acknowledge the reality that the revenues coming into the government are the lowest level since President Eisenhower was the president. What is it about that reality that the other side of the aisle will not

embrace? Is it that they don't believe the fact? Do they disagree with that fact? Do they have some other facts to put on the table? Because if they do, I will listen to that. I've not heard anyone question that.

So that is a fact I would like to start with, because it helps us to frame the debate, which is we cannot rearrange the passengers on the Titanic and suggest that we're doing anybody a favor. We have to bring more revenues.

And \$600 million, to my friend from Missouri, \$600 billion is not enough. We have a \$4 trillion problem. We've already put cuts, cuts to spending that some people think is too high -- I'll agree that it is in some areas. We've already done \$1.2 trillion. Do the other side expect us to do -- what is that -- \$2.8 trillion more?

What revenues are going to come? That is the solution that we're looking for.

Now, let me ask the question to Secretary Napolitano. Because the same ones that argue for no new revenue also come to my committee and demand that I double the number of border agents in the homeland security budget. So I have done that. I have doubled the number of border agents from 9,000 to 21,000.

We have built 651 miles of fence, which is a third of the southern border, which is 2,000 miles. That's not counting the Canadian border, the eastern border with all the ports, the western border. This is a land border.

We've apprehended 1.2 million illegal -- illegal people coming across the border from 1.2. It's down to 3.6. We've added money at the request of members to do this, and now these same members won't help us find additional money.

So Secretary Napolitano, please again tell us what is going to happen along our southern border -- because you were the governor of Arizona, you should know -- if this sequester goes into effect?

NAPOLITANO:

Well, in fact, I'm having a little bit of outer body experience, because yesterday I was before the Senate Judiciary Committee on immigration reform, and there was a lot of pressing about why we aren't doing more at the border.

The plain fact of the matter is, the administration has put records amount of resources at the border. As someone who comes from the border I can say that needs to be sustained and built upon. I can tell you that under sequester, our calculations are that we will lose in hours, including overtime, 5,000 Border Patrol agents over the next year, out of the 21,370 that we actually have boots on the ground.

In terms of staffing at the actual ports of entry, we will be looking at reductions of -- well, furloughs of 12 to 14 days for every port officer working on a port. We are going to be looking at not being able to invest in the technology that is so important to make the most out of the boots on the ground we have at the border.

So we're looking at longer wait times, less security between the ports of entry. And a third part is that ICE, which does interior enforcement, will not be able to meet even its congressionally mandated level of detention beds.

LANDRIEU:

Yes, which is 34,000, which is mandated by Congress.

My next question you'll have to answer in writing because I have 10 seconds. For Louisiana, this is very important, but also New York, California and many other places. International travel is a driver of our economy, bringing jobs to America. If we cannot put the right number of Customs -- you know, for Customs and TSA, and moving people through the lines, that is gonna have a terrible impact on our ability to create jobs, good-paying jobs for hospitality, international trade.

I'm gonna leave the question there and ask you to answer it in writing, how states like Louisiana, New York, California and others will be affected at that -- at that turn.

NAPOLITANO:

I could give you that with precision.

LANDRIEU:

Thank you.

MIKULSKI:

I'm going to now turn to Senator Boozman.

But before I do, two -- couple of quick -- excuse me -- administrative things. Questions are coming up about the 2014 appropriations. I just want to say this about our committee -- that I've discussed with Senator Shelby: We want to deal with sequester. We also want to deal with the issue of the C.R. versus the omnibus. We don't want a government shutdown. We're working -- we're looking at -- we're working with our House counterparts on this. So we don't want that either.

Also when the president submits his budget, I'm asking my subcommittee chairs and my ranking members to move out swiftly and smartly to begin their hearings. This committee, though the administration is late in submitting its budget to us, is going to meet its timeline of holding hearings and being ready for mark-up in late spring and on the floor this summer. We are, in this committee, going to make every effort to have a regular order and follow the traditions of clock and calendar to do that.

So for all the 2014 we're gonna have real hearings, we're gonna have real debate, real discussion and (ph) a regular order.

And I want really (ph) want to thank Senator Shelby for the way we're working to move (ph) this work.

Senator Boozman?

BOOZMAN:

Thank you (inaudible) thank you, Madam Chair. It's good to be here.

Mr. Werfel, the -- I think I'm correct in stating that the Veterans Administration will be exempt.

MIKULSKI:

Senator Boozman, use your microphone. It's hard to hear you (OFF-MIKE)

I think that's better for you.

BOOZMAN:

Yeah, that's better. It's -- that's how it is when you're the low man on the totem pole...

(LAUGHTER)

Not -- not much...

MIKULSKI:

Or the shortest person in the room.

(LAUGHTER)

BOOZMAN:

We appreciate you all being here.

Again, you know, the -- it -- the House has acted a couple times. They've sent a couple bills over. The Senate hadn't acted; the president hadn't acted. And -- and with the time frame that we've got going forward, it appears that, at least for a short period, we're gonna have to work through this.

So what I'd like to do is just ask about a couple things. Again, a lot of veterans' families have contacted us. They're concerned.

So for the record, can you tell us the -- that veterans' benefits will not be affected, Mr. Werfel?

WERFEL:

Senator, for those that are funded through the Department of Veterans Affairs, they are explicitly exempt under the law. But there are certain veteran services that are funded out of other accounts and in other agencies that would not be exempt and would be affected.

BOOZMAN:

So V.A. hospitals, things like that...

(CROSSTALK)

WERFEL:

That would all be exempt under sequester.

BOOZMAN:

OK, very good.

In your -- Mr. Carter, in your testimony, you mentioned that DOD is investigating ways to reduce the problem of a \$3 billion shortfall in TRICARE. Can you give us perhaps some ways that you hope to avoid, you know, a problem being there? How you're gonna make up for the \$3 billion? What -- what are the investigations...

(CROSSTALK)

CARTER:

We are looking at that. We'd -- we'd like to avoid that \$2 billion or \$3 billion shortfall causing us to have to stop giving care in the last month or so of the year. I'm gonna get back to you in writing because it's very complicated. To be quite honest, we haven't found a way to do it legally yet, but we're working on it.

(LAUGHTER)

(CROSSTALK)

CARTER:

Whatever we do we -- we want to be legal. So if I may, I'd like to get back to you on that.

(CROSSTALK)

CARTER:

But we are working on it, because we understand the gravity of the problem.

BOOZMAN:

I appreciate that. I think everyone on the committee, you know, that's something we'd be very, very concerned about.

Mr. Werfel, in the past when budget years were tight, the FAA has proposed reductions in contract towers and flight service stations, other services to small cities and rural areas. Would you implement these type of reductions? Are these the type of reductions that we're gonna see as a result of sequestration that would perhaps disproportionately affect rural America versus urban America?

WERFEL:

Well, I think there's definitely risks with respect to FAA, and I'm glad you raised the question. FAA's gonna face a cut of roughly \$600 million under sequester. A vast majority of their 47,000 employees will be furloughed for one -- one day per pay period for the rest of the year. And as importantly, this is gonna reduce air traffic levels across the country, causing delays and disruptions for all travelers.

And to your question, it's my understanding that, yes, there will be a curtailment of service at low-activity airports, which typically reside in rural locations. So they will be impacted and feel the effect of the sequester.

BOOZMAN:

OK, very good.

Mr. Carter, you mentioned that the Air Force plans to cut facilities maintenance projects by about half, including cuts to 189 projects at 55 installations in 26 states. Do you have a list of the...

CARTER:

Absolutely, I can provide you with that -- that level of detail. The numbers are correct, and I can give you exactly -- it's basically everywhere.

BOOZMAN:

Very good. One of the things I'm concerned about, the Air Force, you know, if -- if we do go into sequestration, I've heard, that they may have to reduce their flying hours by as much as 18 percent. And very quickly, can you tell us what -- how that is going to affect the air-worthiness of our pilots and -- and -- because, the reality is, is that this actually could mean a 30 percent reduction moving forward, you know, when you're backing up.

CARTER:

No question, flying hours, as I mentioned earlier, steeply decline. What that means is two things. First, is the units are, except for Afghanistan, which were protecting anybody whose going from Afghanistan, their training...

BOOZMAN:

So if you -- if you prioritize that -- I don't mean to...

(CROSSTALK)

CARTER:

We are...

BOOZMAN:

... then that's going to make the other -- the other -- that's...

(CROSSTALK)

CARTER:

Exactly. Bigger...

BOOZMAN:

30 percent comes from...

CARTER:

... bigger cuts in the others, which means they're not going to be ready for other contingencies.

BOOZMAN:

Right.

CARTER:

That's a real national security concern. And -- and -- and if you play this out, when pilots -- if proficiency declines to a certain extent, it takes a while to get them back. And so you're going to see that in our carrier air wings. You'll see it throughout the Air Force. And this is why I said short-term disruption is long-term harm. And that's why we really need some long-term solution here and not something that just moves things down the road.

BOOZMAN:

Thank you.

Thank you, Madam Chair.

MIKULSKI:

The next speaker was -- questioner was going to be Senator Begich. He's not here. His statement will go into the record.

We now go to Senator Shaheen, then Senator Moran, Senator Johanns, Senator Pryor, Senator Alexander, Senator Merkley, and Senator Cochran.

SHAHEEN:

Thank you very much, Chair Mikulski. I'm very pleased to be able to serve on this committee with you and Ranking Member Shelby. And I'm, particularly, pleased to hear you talk about the effort to return to regular order in terms of our budgeting process. I think that's very important for the Senate.

For all of our panelists, thank you very much for being here and for the work that you've done, to date, because, as a Congress, we have been unable to deal with this country's debt and deficits. And I -- I was impressed and pleased to hear all of you talk about, in your remarks, the fact that these automatic cuts that are going to go into effect aren't just going to affect government jobs and government programs. But they're going to affect private sector jobs and private sector efforts to put people back to work in this country, so that they're going to have an impact on businesses, on families, on the jobs that we're creating. And, ultimately, they're going to have an impact on economic activity in this country.

I'm sure all of us saw, and you referred to this, Secretary Carter in your remarks, that fourth quarter activity last year, we saw a decline in economic activity for the first time since 2009. Due because of the reduction in public spending, economists suggest that that was concern about the sequester. CBO estimates that we're going to see a loss of up to 1.4 million jobs if the sequester goes into effect. Secretary -- Senator Feinstein referred to the George Mason study, which suggests that we'll lose 2 million jobs, a million on the defense side and a million on the domestic side of the budget, if we don't deal with this. And, you know, Senator Blunt, you referred to the comprehensive effort to address the sequester.

When I think about the comprehensive effort to address our debt and deficits, I -- I do think it's got to be balanced, that we need to look at the domestic side and the defense side in spending. I think that's appropriate. I think we need to look at mandatory programs, and I do think we need to look at revenue, that we need to solve this problem for the long term. We would not, as families, run our family budgets this way. We would not run our businesses this way. And we should not run the government this way. It's a detriment to all of the good taxpayers across this country.

And, Mr. Werfel, one of the things that I think we have not talked about, is the cost of what we're doing right now in terms of the sequester. And, I wonder if you could give us any kind of an estimate on what it's costing us to try and plan for the sequester and, if it goes into effect, what some of those costs might be.

WERFEL:

Well, thank you for the question. I don't have a specific cost estimate. I can tell you that -- that I'm taking a lot of the central coordinating role across government in planning for sequester. I have a sense of the impact that it's having at many agencies, and -- and my colleagues on the panel can certainly speak to it.

It is enormously disruptive to agency operations. There, you know, -- you hear stories of people pulled into meetings from doing the day-to-day mission-critical work that they're supposed to be doing, to be pulled into a meeting to discuss how to plan for this contingency, which was never meant to occur, and to -- and -- and -- and, at the end of the day, our planning is going to fall short of mitigating its many harmful impacts.

SHAHEEN:

Well, let me ask you, Secretary Carter, because, before the Senate Armed Services Committee earlier this week, you talked about some of the costs of the sequester that will have a real long-term impact in terms of ship-building, for example. So can you speak to some of those costs?

CARTER:

Yes, unit costs will go up in every program affected by sequester. And we can provide you those numbers, whether it's the Joint Strike Fighter, whether it's the DDG-51. So at the very moment that we're trying to be parsimonious with the taxpayer's dollar -- that's what this whole hearing is about -- we're wasting it by forcing our industry partners to behave in an economically and efficient way. And that's very frustrating to me, but it's a real -- real -- real phenomenon.

SHAHEEN:

And, Secretary Donovan, one of the things that the office of the inspector general on Federal Housing Administration programs has recovered about \$1.5 billion and been able to put those dollars to better use. Can you talk about how that inspector general's program might be affected by the sequester?

DONOVAN:

This is a great point, Senator. Because it isn't just the internal costs to the agency. It's the return on investment, if you will, of -- of -- of the dollars we're spending. And this, kind of, indiscriminate cut doesn't take into effect where we're saving money by continuing to -- to invest in certain things.

Our inspector general -- that funding would be reduced just as it would in any other program. This past year alone, we've recovered over \$1 billion from FHA lenders that were not making loans according to our standards. And having to reduce, both our own oversight as well as the inspector general losing critical staff doing that kind of work, will lead to even greater losses to the taxpayer than we're gaining by making these cuts.

On a similar note, with veterans -- we know that, not only do we save lives by getting veterans off the streets, but, in fact, we reduce costs from emergency rooms, from shelters, from prisons, from a whole range of other institutions by investing. We actually save more money by housing a homeless veteran than we do in -- in the cost of housing them simply because of those savings.

SHAHEEN:

Thank you.

Thank you, Madam Chairman.

MIKULSKI:

Senator Moran's -- also, I understand, you're going to be the new ranking member on FHHS (?). Is that right?

MORAN:

Madam Chair, I look forward to that opportunity. And it is true. And I've reached out to Senator Harkin, and to you, in the last few weeks expressing my desire that we have a good committee operation. I congratulate you on your chairmanship and delighted to hear your suggestion, perhaps more than a suggestion that we're going to operate under regular order. I've been asked whether I like being on the appropriations committee. And the answer is yes, if we'll function. It's a great committee. And I look forward to your tenacity to see that we do that. And I look forward to working with you.

MIKULSKI:

Thank you.

MORAN:

First of all, in -- in -- in -- in that regard, I look forward to the hearings in which we get to the point in which we're talking about the appropriations process, a budget is -- is passed, and -- and we're doing our work. I look forward to addressing the issues of spending in a long-term setting rather than the matter of few months in which sequestration will apply.

MORAN:

I need to start, Madam Secretary, with you, as you might expect. I don't think in the two-plus years that I've been a member of this committee or the Homeland Security Committee or the subcommittee on Homeland Security, that we've ever had you in front of us, in which you and I have not talked about the topic of the National Bio-science Agra Facility.

And I'm -- I was really reluctant to do today, but you give me no option because our time is up, and unless you release the CUP (?) funding, the -- Central Utility Pad funding within the next week, the contracts expire.

And so the last time we were together in September in a similar setting, you indicated that it was now time to fish or cut bait. You took a very significant step and authorized the transfer of real estate from the state of Kansas to the federal government. But other round -- allowed the transfer of the land so that this facility could be built. And you have the authority, once again, to take another step which is to release the \$40 million that this Congress appropriated to meet the state's funding to complete the central utility pad. And I'm anxious to know if you are ready to fish or cut bait.

NAPOLITANO:

Sir, we have been working very closely with the state of Kansas on NBAF. And as you know, they've increased their own participation in the NBAF. I view it as a -- a huge security need. It's also a huge immediate for our -- our agricultural industry.

With respect to moving forward on the cup, very well of the -- contract issue, but if I might say that this perfectly illustrates the problem we're all in.

I'm trying to work with the Congress to build a level four agra (ph) facility in Kansas. It is a big investment. It is going to take some years to construct, but the country really needs it. It is virtually impossible to do a long-term capital budget when we have a '12 budget. We don't have a '13 budget, really. And -- and who knows what will happen with '14. And in the middle of this is the threat of sequester.

I would have to echo Secretary Carter here that we are making all of these things more difficult, more expensive, and at the risk of really encouraging risk to the -- to the -- or greater risk to the -- to the nation. But I'm well aware of the cup issue. I have a call with the governor of Kansas this evening. We will -- we will be working through this. But you -- you have made it almost impossible to manage these large departments.

MORAN:

I assume it is the universal you, Madam Secretary. Not the specific you made it nearly impossible to work with.

NAPOLITANO:

That's right. And I would not want to single you out.

MORAN:

Thank you.

(LAUGHTER)

NAPOLITANO:

That is correct.

MORAN:

Well let me again -- I'm glad to know of your conversation -- intended conversation with the governor, but the money is appropriated in -- within your realm of releasing those dollars and again would ask you to do that.

NAPOLITANO:

The issue, if I might, Senator, is -- yes, it is appropriated, but what do we do with the out years now. That's the uncertainty.

MORAN:

That's been an issue which is going to rely upon Congress to fulfill its obligation to fund a facility that we believe is important. And I -- I'm not critical of the -- of the administration in this regard any more than I am critical of Congress.

It's embarrassing in so many circumstances in which we don't do our work, don't pass a budget, don't do appropriation bills, continue to pass continuing resolutions. Again, I asked to be a member of this committee. I think it has important work to do. And I'm so pleased that the chair -- our new chair is -- is tenacious as she is to make certain that this is a process that the Senate complies with, our Constitutional as well as our legislative responsibilities, and we want to make it more easy for you to help us accomplish the goals that benefit this country by doing our jobs.

And so there is no -- you, I understand is all of us. and it is well pastime for this Congress to function in regard to appropriations process. In the 18 seconds I have left, let me ask, I guess, I would focus on NIH. So perhaps you Mr. Werfel.

The impact of sequestration on NIH. I believe that medical resources significant (sic) important help save lives and reduce the cost of health care. One of the things that I think would be significant discretion at NIH for how it handles sequestration in the sense that much of the money goes there and then is provided in grants elsewhere.

The question I wanted to zero in on is, will that money be used internally for research projects at NIH? If -- if there is a reduction in spending will the reductions come in an equal fashion, or how will they be divided between research done at NIH or the 80-plus research done across the country by universities and research facilities?

WERFEL:

Senator, I'm not sure of the exact balance. I will say it is my understanding that NIH, as a result of the sequester, will have to issue hundreds of fewer awards that will have spiral impacts of jeopardizing thousands of jobs, placing prior investments at risk, and ultimately in the bottom line is setting back work on chronic illness and disease.

So while I'm not aware of the exact split -- and we can get that information for you -- I think the for point is that NIH and research and innovation is an for area we have not talked about today and significantly impacted here.

MORAN:

I appreciate the -- the sentiments, the concerns about that. I would -- I am still interested in an answer to the question of how NIH -- which seems to me would have more flexibility than many agencies to -- to determine how would occur. I'd like know what the plan is.

I also would encourage you to provide the committee, at least provide me with the \$4 trillion plan up responded to -- to Senator Coats question, we'd be delighted to know what the president plan is in regard to portraying that.

WERFEL:

And if I could respond to that. The plan has been provided on multiple occasions. It is in the president's 2013 budget, it was provided back to the joint committee when it existed. It's my understanding that the president in terms of ongoing negotiations and work with Congress has used those -- those plans and both the joint committee and the president's budget as a basis for those negotiations.

So -- so our position is that the president has on multiple occasions submitted very specific plans on how to save \$14 trillion over a 10 year period. It is really, we think, up to Congress to work through those

issues, get a bill that can pass both the House and Senate and get it to the president that can avoid the sequester and get us on a balanced path.

MORAN:

One of the problems is in regular order I as a member of the United States Senate am not participating in those meetings that occur between our leaders and the president, nor was I member of the select committee. But it would be -- great to see if a proposal in writing as to what that plan is. And, again, when we go back to regular order, we will have the opportunity to discuss those.

MIKULSKI:

Let's hope so.

Senator Moran, I would like to say thank you for your question on NIH. I will be visiting NIH on Thursday morning. You, of course, will be welcome to join me if you are in town. I offer hospitality. I will ensure your question is asked. It's exactly, sir, one of the questions I have of Dr. Francis Collins of the impact of sequester on NIH, and your staff is more than welcome to accompany me on that visit so that they can hear the firsthand briefing I will receive.

As we will for Senator Harkin's staff.

Let's now go -- Senator Durbin had to leave. His statement will be in the record. Senator -- Deputy Secretary Carter, he'll be talking with you. As you know, in his new role.

Senator Pryor?

PRYOR:

Thank you, Madam Chairwoman.

And let me follow up on one of Senator Blunt's points THAT he made about the Department of Agriculture, if I may. You know, the -- the law meat inspectors says that the inspectors -- that the plants can't operate unless the inspectors are there.

And so closing these plants for 15 days, these are USDA's number could result in lost production volume of 2 billion pounds of meat which is beef and pork, 2.8 to 3.3 billion pounds of poultry, over 200 million pounds of egg products. and what it will do is it will drive the price up. So this is going to adversely affect every consumer in America, it's gonna be very disruptive to our food supply and the -- the chain that we have here in this country. And it is basically -- the bottom line is just as bad for the U.S. economy.

Also, something that I think Senator Blunt did not cover, but I would like to, there's gonna be over 100,000 very low-income residents in rural America that will lose their rental assistance that enables them to stay in safe and affordable housing. These families are generally female headed households. Or there are households with elderly or disabled. And the average monthly income for these folks is \$803.

So these are low-income people. It is the least of these that will take the brunt of these cuts if we can't get our act together here in Washington. And so -- my first question is for you, Mr. Werfel if possible. And that would be, as these furloughs, et cetera, take effect, do you anticipate it'll happen on day one? And it just happens in every agency and every department across the board? Or will it be phased in over time?

WERFEL:

Well, there's legal requirements for notice that I think Deputy Secretary Carter mentioned. We have what we will see is agencies will start doing a couple of key things. First, furloughing is a something that is subject to bargaining. So work is ongoing and will intensify as we approach sequester, with union representation to make sure that the manner in which the furloughs are implemented are fair and equitable and et cetera. And so, that's a very important process that will -- will happen.

Next, there will be a notice period. And as a general matter, those notice periods are different depending on agency and collective bargaining agreement. But I think it can use 30 days as a general manner.

So what we'll start seeing after March 1st is the completely -- the intensification and completion of that bargaining with the unions, where appropriate and then notices will start to be issued.

I think the Defense Department mentioned early April as to when that's going to be triggered.

So -- the -- furloughs themselves will probably happen along a continuum, not exactly on March 1st, but there will be impacts on March 1st, including employee uncertainty but also spending reductions as well.

PRYOR:

Let me ask also, if I may, with OMB, just very quickly. And that is have you all -- has OMB done a study or analysis of the overall adverse impact to the U.S. economy?

I mean, we know how many -- how many federal dollars. We get that. That's very easy to get. But has OMB done a study on the adverse impact to the entire U.S. economy?

WERFEL:

We do not have an official estimate at this time. I will point out that -- that a range of third-party estimates is now coming -- I think some of them have been raised during this hearing. They show a negative impact of 0.5 percent to 0.7 percent in real GDP growth in 2013 alone.

And that's -- you know, that's a macro economic statistic. But what it translates into, and I think the president has been clear, that's going to translate into hundreds of thousands, if not more, job losses. And we've talked about how these are difficult economic impacts to measure because they have ripple effects. There's the -- there's the pulling \$85 billion out of state and local governments, out of federal contractors, very abruptly and suddenly.

You've got impacts down our supply chains, uncertainty impacting decisions to make investment.

So, for me, I don't know the 0.5 percent to 0.7 percent to real GDP growth is an -- is an important macro economic measure. It's -- what does that translate into? And we think it translates into very harmful effects to the economy and in particular, to the middle class and jobs.

PRYOR:

Yeah, I agree with you.

Let me also ask, Secretary Carter, if I may, and I only have about 30 seconds here. But, Secretary Carter, I know that you've talked about when it comes to the industrial base, you talked about -- I know we have contracts and these contracts oftentimes have provisions in them for if the government breaks the contract, you know, there's penalties, et cetera.

And so, when you think about those penalties in the contract, and you said that the unit cost goes up, Has DOD done a calculation of how much this will actually cost DOD in terms of efficiency and how many dollars will, in effect, be wasted as part of this?

CARTER:

Yes, we have. And you can do that program by program. And it's -- it's pretty dispiriting to see the waste associated with it.

And a good measure of the impact on the industrial base is this. Even if we furloughed everybody, every DOD civilian, all 800,000 of them, for the maximum we're allowed to do it legally, we'd get \$5 billion out of the \$46 billion we need.

Where is that other \$41 billion going to come from? It comes from people who are not federal employees, but who work for us indirectly doing the things that we need, whether they're maintaining our ships or building our weapons systems. So it's a huge impact on them.

PRYOR:

Thank you, Madam Chairman.

MIKULSKI:

Excellent questions.

We note that Senator (inaudible) was here and left. And his statement in the record.

Senator Alexander?

ALEXANDER:

Thanks, Madam Chairman. I look forward to working with you on the Appropriations Committee. I thank you for the hearing.

I thank the witnesses for coming this morning.

Mr. Werfel, you mentioned the president's \$4 million (sic) plan the reduce the debt. I assume that's a well -- a published document.

WERFEL:

\$4 trillion over 10 years.

ALEXANDER:

\$4 trillion over 10 years.

WERFEL:

Yes.

ALEXANDER:

That's a published document. And I assume you're pretty familiar with it, right, as comptroller of the Office of Management and Budget.

WERFEL:

I am.

ALEXANDER:

Could you detail for me exactly the plans for reducing entitlement spending over 10 years?

WERFEL:

I can -- yes, I can provide you some additional detail there. So the president's 2013 budget, which contains his plan, has within it -- with respect to the deficit reduction for...

(CROSSTALK)

ALEXANDER:

I'm talking about the specific proposal to reduce spending on pilot programs over the next 10 years.

WERFEL:

OK, there's \$362 billion in health mandatory savings. They include such provisions as reducing Medicare bad debt coverage, aligning payments better to patient care costs for both medical education and rural providers, increasing income-related premiums for Part B and Part D of Medicare. Aligning Medicare drug payments with Medicaid policy...

(CROSSTALK)

ALEXANDER:

So \$362...

WERFEL:

\$362 billion over 10 years.

ALEXANDER:

All right. And how much more is -- what -- how much...

WERFEL:

And there's an additional \$270 billion in the president's budget in savings in other mandatory programs, such as eliminating direct payments to USDA subsidies or ag subsidies, changes to military and civilian retirement, increases in air passenger security fees and then reforms to U.S. Postal Service.

ALEXANDER:

Is there -- is there more than that?

WERFEL:

That covers that -- what I have here for mandatory programs in the president's overall plan for \$4 trillion.

ALEXANDER:

So that's \$500 billion or \$600 billion over 10 years...

WERFEL:

That's correct.

ALEXANDER:

... in reductions in mandatory spending out of the \$4 trillion goal.

WERFEL:

Well, that builds on a trillion dollars that was previously achieved in the BCA for...

(CROSSTALK)

ALEXANDER:

... mandatory spending? No, I'm talking just about mandatory...

WERFEL:

OK. Yes. That is the component of mandatory spending that's in the president's budget.

ALEXANDER:

Right. But -- but the problem with that is that entitlement spending is most of the problem we have, is it not, with -- with spending and deficit -- that -- that the Budget Control Act actually addressed discretionary spend, which is what this committee deals with, 38 percent or 39 percent of the budget.

And if we were to follow the caps that we put on discretionary spending over the next 10 years, we would be growing -- that part of the budget would grow at about the rate of inflation. Is that not right?

WERFEL:

Yes. That's my understanding.

ALEXANDER:

Right. But, so if the whole budget grew at just the rate of inflation, we really wouldn't have a problem, would we?

WERFEL:

I want to go back, Senator, to the -- I think to the fundamental question of the components of the president's plan.

ALEXANDER:

No, I don't want to talk about that. I want to talk about entitlement spending.

(CROSSTALK)

ALEXANDER:

And -- and you said there are \$500 billion or \$600 billion out of a \$4 trillion goal that's entitlement spending. What I said is you've got 38 percent or 39 percent of the budget that's under control and 55 percent that's out of control, that's growing at the rate of 3 percent or 4 percent a year.

And -- and we've raised taxes. We've put caps on discretionary spending. And what's happening is entitlement spending is going to soak up all the money that all of you are worrying about over the next five years. And there's no plan from the president to deal with it.

And this goes -- this isn't just the president's problem. I go back 30 years as governor, when I was sitting there trying to put more money into higher education and federally mandated Medicaid was soaking up money that I'd like to put in higher education.

So what I would like, respectfully, to see from the president is a plan to do what his own debt commission said we needed to do, which is to restructure Medicare and Medicaid in a way that saves them so people can count on them and so that they don't squeeze out of the budget everything else we need to do.

According to the president's own debt commission, federal revenues will be enough in 2025, which is only 12 years away, just to pay for entitlements and the debt. So there won't be any money for any of the things that any of you say are very important to the country, and which I agree with.

So states have to balance their budgets. And why is it that in the federal government we don't get together during these next couple of months and do what everybody knows we have to do which is get control of entitlement spending so we don't have the problem that you're -- you're talking about?

And it will not happen unless the president leads the way with specific proposals, which he has not yet done.

WERFEL:

A very quick response. First, I'm not in any way disputing that the growth of entitlement cost is a major, major driver, the major driver in our deficit reduction challenges.

What I'm pointing to is the fact that both members of both parties and independent experts have pointed to a \$4 trillion benchmark of overall deficit reduction savings as a smart, sensible next move that we can do to stabilize debt...

(CROSSTALK)

ALEXANDER:

But you've got to...

My time is up. Senator Corker and I put on the table a trillion-dollar plan to reduce entitlement spending over the next year. Why hasn't the president done that?

WERFEL:

Well, the president's ready, I think, to negotiate on sensible entitlement...

(CROSSTALK)

ALEXANDER:

He is the president of the United States. He's supposed to lead.

WERFEL:

And he has put forward a plan. The notion that he hasn't is untrue. He's put forward...

(CROSSTALK)

ALEXANDER:

He has not put forward a plan to deal with entitlement spending, because the plan which you related is \$500 billion or \$600 billion out of the \$4 trillion, and it does not address restructuring the programs that

are causing the government to go out of control in spending and causing the devastation that's been described here this morning.

Thank you, Madam Chairman. I've used my time.

MIKULSKI:

This is a preview of things to come.

Thank you, Senator Alexander.

I want to go to Senator Merkley.

Senator Merkley?

MERKLEY:

Thank you very much, Madam Chair. And it's a pleasure to be here at my first meeting of the Appropriations Committee, and I certainly look forward to engaging in these types of discussions as we wrestle as representatives of our respective states on both sides of the aisle, on how to take our nation forward and restore a thriving economy, a growing economy that will -- will bring us back on track. And that's what this discussion is all about.

And I wanted to ask Controller Werfel, if we take the Budget Control Act, combine it with sequestration, and the impact on interest, and we total all that up, how much is the savings? Ballpark?

WERFEL:

Senator, the Budget Control Act had roughly \$1 trillion in deficit reduction. The sequester is -- would impact the deficit by an additional \$1.2 trillion.

MERKLEY:

So about -- about \$2.2 trillion. And I had if you threw in the interest on the -- well, from the Center on Budget and Policy Priorities, they had \$600 billion under the Budget Control Act on defense; \$900 billion on non-defense; an additional \$250 billion in interest savings. So it's a larger number. I'm not sure why the discrepancy.

But is that more or less than the \$600 billion in revenue that is coming out of the December 31st deal?

WERFEL:

It's obviously more.

MERKLEY:

By a factor? By a small amount?

WERFEL:

By a significant amount.

MERKLEY:

OK. Basic math, three or four times as much.

WERFEL:

Exactly.

MERKLEY:

So when I hear folks on both sides of the aisle talking about a 50-50 plan for revenue and expenditure reductions, is that anywhere close to what's -- what's being pursued now with sequestration?

WERFEL:

No.

MERKLEY:

(inaudible) that balanced plan with sequestration have to be replaced by revenue?

WERFEL:

To achieve more balance, yes.

MERKLEY:

Let me ask you another question. Is there any real difference between a \$5,000 tax credit and a \$5,000 expenditure on a similar program?

WERFEL:

From the perspective of -- on the budget deficit?

MERKLEY:

Either a (inaudible) program or the cost on the budget?

WERFEL:

I don't want to speak to the program mission, but the budget impact should be the same.

MERKLEY:

If I spend \$5,000 on affordable housing on a tax credit, and I spend \$5,000 on affordable -- that I appropriate, isn't it basically the same \$5,000?

WERFEL:

Yes.

MERKLEY:

So, when we're talking about spending, why aren't we talking about across-the-board reductions in spending on tax loopholes -- credits and deductions?

WERFEL:

I think the president believes we should be talking about that.

MERKLEY:

Well, so there are a series of things that I'd like to see. We're spending \$85 billion on sequestration as it now stands over this coming year. There is a lot more spending than that on -- on tax loopholes.

WERFEL:

Yes.

MERKLEY:

And if we were -- wouldn't we be closer to that balance we're talking about if we closed some tax loopholes, get back to the regular order, and stop going from crisis to crisis, and putting our entire economy at risk in the process?

WERFEL:

That's the fundamental guiding principles that the president wants for a solution.

MERKLEY:

Secretary Duncan, there is the Edwards-Gingrich payroll tax loophole proposal. That goes back a ways, but it had to do with the gaming of corporate status; saved about \$9 billion. Would it make more sense to end the spending on that tax loophole or to cut Head Start, special education and Title I?

DUNCAN:

The best investment we can make in -- for the future is to get our children off to a great start. We know it's seven-to-one, bang-for-the-buck to not invest in children with disabilities and poor children makes no sense whatsoever. We have to invest in education. We have to invest smartly and wisely, but we cannot cut that investment.

MERKLEY:

And Secretary Donovan, the -- there is the stock-option loophole and offshoring of U.S. profits -- well, just the offshoring of U.S. profits is about \$24 billion cost. I'm not talking about the numbers being exactly even here, but just in concept, does it make sense to close this tax loophole or to cut a vast number of the affordable housing programs that your department oversees?

DONOVAN:

Our entire budget for our section 8 voucher program, which is the single largest help. Over 50 percent of the folks that we serve, elderly people with disabilities, that entire budget is less than the \$24 billion that you -- that you talked about. And I absolutely believe it's a central investment that we need to make and continue to make.

The costs of cutting it are devastating to families. They raise health care costs. They raise other costs for local communities because when families are not housed, they actually cost us more.

MERKLEY:

Well, there's -- I have looked at just a small number of these tax loopholes, including the oil tax loopholes, the one that offshores -- basically subsidizes the offshoring of our jobs, our manufacturing. Just four of them total up to about \$90 billion, or roughly the same amount as the sequestration for the coming year.

Doesn't it makes sense for us to shut down some of these loopholes and -- and basically protect programs that support core services to the middle class and get our act together on having both the budget process and the appropriations process in a regular order?

Anyone's welcome.

WERFEL:

Yes, absolutely, absolutely.

MERKLEY:

OK. Well, I'm out of time. And thank you very much, Madam Chair.

MIKULSKI:

I'd like to now turn to Senator Cochran. Senator Cochran, you weren't here when I thanked you during the time of Senator Inouye's passing, where you were the ranking member. I know under the Republican rules, there was a change because of time limits. But I really thank you, and I'm going to reiterate it with you here.

Your big help during that time was really very, very much appreciated, and all the courtesy you attended to me, the way our staffs worked together, and then the way we worked together to move Hurricane Sandy. And as I said, your steady hand, your wise and seasoned advice and experience, and even direct guidance to me was really very much appreciated. And your service to the nation, and I think it helped during the really awkward time, and even a sad time of transition, you were just terrific. And I just wanted to say that -- say that publicly.

So I'd like to turn to you now for your questions.

COCHRAN:

Well, I deeply appreciate your generous comments, and your friendship over the years. We appreciate your leadership on this committee, too. I think this has been an example of a hearing that has really gotten in to the details and probably more depth than many of us should -- should approach because it is such a big undertaking. And these are -- these are real challenges that we face -- too little money trying to solve too many problems. And there's never enough to go around, but somebody's got to decide.

And we have to identify the priorities and we have to work together, whether we like it or not. The administration can't just send out edicts and this is how much money each department's going to get, or whatever agency it is or program it is.

And so this hearing is very important, and I think it's been an excellent hearing. And due in large part to the even-handed and common-sense leadership of our chairwoman, Senator Mikulski, and to all the members of the committee who've been here and put their best efforts into carrying out our responsibilities.

We thank you, especially. It's been a long day, and I'm going to shut up and not prolong it any further unnecessarily. I did want to ask a question or two about sequestration. I'm just learning how to pronounce it, to be honest.

(LAUGHTER)

But the whole point is that we are operating under some new restraints and guidelines, if you will. But in general, the sequester as it's written cuts off all appropriated accounts at a level that's the same percentage across the board. And so unless there are priorities identified by this committee or by the Congress in consultation with the executive, we're not going to be able to carry out the will of the -- of the people as expressed through the Congress and our Appropriations Committee.

It would be a misguided effort if we turned it all over to the administration, though, to come in and rewrite an appropriations bill. So, I think we're -- we're going to learn by doing and we look forward to working with you in a cooperative way, recognizing that any changes or modifications are going to have to have the collective involvement of both branches of government, and not just one telling the other what needs to be done.

COCHRAN:

I don't have any other specific questions, except to express our appreciation for your cooperation and to thank the chair for her leadership.

Thank you.

MIKULSKI:

Senator Reed, the...

(CROSSTALK)

MIKULSKI:

... you're the chairman of the Subcommittee on Interior.

REED:

Yes, I am, Madam Chairwoman. Thank you.

And I want to add not only my best wishes for your service, but also thank Senator Cochran for his -- his service as the ranking member. So thank you both.

And thank you, panel.

Let me ask the Secretary Donovan a question. We worked together on a bipartisan basis to pass the HEARTH Act, which was directed at helping homeless veterans, particularly, but homelessness in general. And it's disturbing to -- to learn that about 100,000 former homeless people may be removed from current housing or emergency shelters if the sequestration goes through.

Is -- is that the reality?

DONOVAN:

(OFF-MIKE)

Senator, that is the reality. And as you know, the HEARTH Act was --was bipartisan because we recognized both that we need to do more on homelessness. It's not only the right thing to do morally, it's also the right thing to do from a fiscal perspective.

And Senator Boozman earlier made the point that veterans programs were protected. In fact, our VASH program would be protected from sequestration. But the fact is, 10 percent of all the people we serve in

our homeless programs, our regular homeless programs not the VASH program, are veterans. Veterans are 50 percent more likely to be homeless than the average American. It's a tragedy.

And for us to cut funding and to lose what would probably be 10,000 veterans from our housing and be back on the streets would be -- would be tragic.

The other thing I would -- I would just point out, the cuts in funding for the public housing programs and the voucher programs more broadly mean that the fees go down. Last year we had six housing authorities turn back vouchers for homeless veterans -- unthinkable -- because there wasn't adequate funding.

These cuts, I'm afraid, even if VASH is protected, would lead to more housing authorities turning those -- those vouchers back.

And as I said earlier, it's perverse because the truth is that we'd be quote/unquote, "housing" those folks in shelters and in -- in -- prisons, in emergency rooms, in places that are much more expensive than the housing that we provide. So not only would we have terrible human costs, we would also be raising the fiscal cost to the taxpayer by making these cuts in this indiscriminate way.

REED:

Well, you've raised a theme that I heard Secretary Carter echo before the Defense Committee, the Armed Services Committee, is that one of the great ironies here is this sequestration could end up costing us more money than saving it.

And Secretary Carter, can you elaborate on that (inaudible) terms of bringing workforces back, lost (inaudible) lost time...

CARTER:

All of our programs that are required to be stretched out will increase their unit cost, in many cases dramatically. We're at -- forcing our industry to make rapid adjustments and that -- from -- from which they will find a -- find it hard to recover, and it'll be expensive to recover. All those costs get passed on to us.

So what you'll see is us paying more in the long run for everything we do, which is a great tragic irony because we're all trying to save the taxpayers money or do the most we can with the taxpayers' money, and this makes it impossible.

REED:

Just one further quick point, Secretary Carter. At some point you anticipate you'll have to just break contracts and pay penalty fees because you just don't have the funds to do it?

CARTER:

I -- I don't think that we would like to take that particular path in most cases. We may have to do that in some cases.

What really will happen is that we won't be able to enter into contracts in the future, particularly ones that both we and our industry partners have anticipated -- a shipbuilding contract or something we're gonna go in -- they're tooled up, they're staffed up to do it, and we can't enter into the new contract.

And finally, we are -- these are contract terminations, but we are failing to exercise options as the year goes on to -- for maintenance and base operations and so forth. So those aren't contract terminations; wouldn't (ph) have to pay a fee for that, but they're a big deal for the people who do the work. We're gonna stop paying them.

REED:

I've just a few seconds left. But Secretary Napolitano, some -- some of my colleagues -- and we're all searching for ways to offset the -- the cost of the sequestration. Some have suggested not filling positions as a way to pay for this. Particularly with respect to the Border Patrol and some of your other key national security components, what would that do if you literally couldn't fill positions as people retire or leave or -- or positions become available?

NAPOLITANO:

Well, I think that the result, Senator, will be that we will be less able to secure the border between the ports. We will end up staffing fewer lanes at the actual ports. There will be disruptions in Coast Guard activities, disruptions in airport activities; big disruption in cargo and cargo inspections, which is delays the whole supply chain coming into the country. So there will be many, many deleterious effects.

REED:

Thank you.

Thank you, Madam Chairwoman.

MIKULSKI:

Senator Graham, the ranking member on Foreign Ops.

GRAHAM:

Thank you, Madam Chairman.

And I want to echo what's been said about your leadership. I think the committee is functioning very well in at a dysfunctional time.

(LAUGHTER)

So this is one of the oasis I like coming to.

About sequestration, I think we've used every adjective known to man to say this is dumb. Can we just all agree this is a dumb thing?

(UNKNOWN)

Yes.

(CROSSTALK)

GRAHAM:

OK. Well, all right. Good.

Now, the question is how dumb i?

Now, are the Iranians watching us in terms of our national security?

CARTER (?):

They absolutely are.

GRAHAM:

What signal would it be sending to the Iranians to begin to dismantle your force as they try to ramp up their nuclear program?

CARTER:

I think -- I think it very directly shows a failure of resolve, that we're not serious about implementing our new defense strategy. That's the kind of signal, whether it's Iran or North Korea or anybody else -- and I'm very concerned about. They're watching us right now and -- and -- and seeing whether we have the resolve to carry out our...

(CROSSTALK)

GRAHAM:

Do you think we're still at war outside of Iran with radical Islamic groups?

CARTER:

We are.

GRAHAM:

Now, Secretary Napolitano: What signal will it be sending to people trying to -- to come who are trying to come here illegally if we stop securing our border?

NAPOLITANO:

Well, we've done so much over the past...

GRAHAM:

You have did.

NAPOLITANO:

... five years -- four years to really get that border more secure. We would just go backwards. At a critical time, at a time when the -- the Congress also wants to look at the whole immigration system. So sequestration just runs counter to everything else we're trying to do.

GRAHAM:

So sequestration undercuts all the gains we've made in terms of securing our border, and it certainly sends the wrong signal to radical Islamists and Iranian -- the Iranian threat. Do you agree with that, Mr. Carter?

CARTER:

I do. I do.

GRAHAM:

Now, you've suggested that you would reduce your pay by one-fifth?

CARTER:

Yes, I will.

GRAHAM:

How did you arrive at that number?

CARTER:

Because that's the -- if we sequester someone in our workforce to the maximum extent possible under the law, which -- we don't want to have to do but we're gonna have to do in many cases, they'll lose one day a week, one-fifth of their paycheck. And I don't think it's right that they lose one-fifth of their paycheck and I don't -- even though I can't be sequestered because I'm a presidential appointee.

(CROSSTALK)

GRAHAM:

Well, we can't be sequestered either, but I think it would be very wise for us to follow your lead as members of the United States Senate; that if we can't figure this out with the president, that all of us ought to follow your model. And for every day that sequestration's in effect, the president should have his pay docked and we should have our pay decked -- docked just to show that, you know, we don't live completely on a different planet, which some people think we do.

So thank you for the suggestion.

Secretary Duncan, how do you compete in the 21st century without investing in education?

DUNCAN:

It makes it difficult, Senator.

And, again, if you look at other countries that are already doing a great job educating, like South Korea whereby lots of benchmarks they're ahead of us the past eight, nine years, they're up over 30 percent in terms of their investment.

GRAHAM:

Have you been to any graduations lately and -- for people receiving a master's and Ph.D.s in the hard sciences?

DUNCAN:

It's a very diverse group graduating from those classes.

GRAHAM:

OK.

Well, I went to Clemson and University -- University of South Carolina, and when it came to the Ph.D. and master's graduates in the hard sciences, there's one guy named Bob Smith that everybody clapped for because everybody else was coming from India and China -- which is a great thing. I -- I wish we had more native-born Americans getting into the hard sciences, but we need to welcome people from throughout the world to come here and get an education.

Do you agree with that, Secretary Duncan?

DUNCAN:

Absolutely.

GRAHAM:

And, Secretary Napolitano, we should make it easier for them to stay and be part of our country, you agree with that?

NAPOLITANO:

Absolutely.

GRAHAM:

I just don't see how you fix our education, immigration system if we're going to cut the budgets like this.

One final question. If we found ourselves in, sort of, budgetary triage, where we keep doing this dumb thing, and this dumb thing has a momentum of its own, and it begins to take a life of its own, and I'm up here having to decide where the money goes, would you agree with me, Secretary Duncan? And I know you don't like this position you find yourself in. If I had to pick between the secretary -- Department of Education and the Department of Defense, I should pick the Department of Defense over your department.

DUNCAN:

Again, I think these are false choices. And there's a...

GRAHAM:

... but if I had to make that dumb decision, do all of you agree that the number one priority of the federal government should be national security?

DUNCAN:

I think we have to be able to walk and chew gum at the same time.

GRAHAM:

I know, but apparently we can't.

DUNCAN:

I -- I have more hope. You got -- you got a great chairwoman here. You've got some leadership. I think you guys have a chance...

GRAHAM:

Would anybody give a direct answer to that question? Would you, Secretary -- if I had to pick between the Department of Homeland Security and Department of Defense, who should I pick?

NAPOLITANO:

Well, I'm joining with my colleague. False choice presents a false dichotomy...

GRAHAM:

What if it -- what if it becomes a real...

NAPOLITANO:

Secretary -- Secretary Carter already said, in his testimony -- I don't know whether you were here or not, but he said, "Look, you have to have well-educated people..."

(CROSSTALK)

NAPOLITANO:

... if you're going to have an adequate defense.

GRAHAM:

I'll just wrap it up by saying I want to tell the country it is a dumb choice. But if I have to make that choice, I'm going to pick the Department of Defense. And I hope I don't ever have to make that choice.

MIKULSKI:

Was that entrapment?

(LAUGHTER)

Is that question entrapment?

(LAUGHTER)

GRAHAM:

Thank you for indulging me.

MIKULSKI:

First of all, we are about to wrap up, as you can see. This has been an excellent hearing. In terms of the members participating, we had a 98 percent participation rate. And that was excellent. I have one final question that I will exercise, and it will be directed only to OMB.

Here we are, picture March 1. It is now midnight. The clock has moved. And there it is. Can you paint, for me, the picture of how sequester is triggered? In other words, do all of the lights go out in federal buildings? Do furloughs trigger so we tell the NIH researcher, the welder of the shipyard, the person managing the weather satellite, the border patrol park, don't show up every Monday now until Congress acts? Could you paint, for me, literally, what happens when the phrase "sequester" is triggered on March 1? What will that look like?

WERFEL:

What it will look like -- it will be multi-dimensional in its negative impacts. First, we -- as you will see -- you'll see intense bargaining going on with unions getting ready to issue furlough notices for hundreds of thousands of employees across the federal government.

MIKULSKI:

So that's not going on now?

WERFEL:

That is going on now. But as we go across -- this takes time. And that's what the world will -- and once we get into an area where the sequestration order is issued, now it's -- it's real, and it's serious. I'm not saying it's not real and serious now. But then it becomes law.

And that's an important symbolic moment. Contractors will -- federal contractors will receive word of how their contracts will be impacted, whether terminated, whether modified, they'll start getting an understanding of where our agencies won't be investing in contracts -- states and locals, governors will be

digesting information about how their financial footprint will be impacted, how it's going to impact their ability to sustain their government operations in areas like -- or education and health and other areas.

The list goes on and on. The -- the reality is, is that agencies are going -- because we are in a 7-month time frame, agencies are going to have to move quickly to meet this budget cut. And we are doing the preparatory steps right now to -- to get ready.

But once March 1 hits, and those -- those funds are canceled, everything that we're doing in preparation right now becomes even more real and creates that much more uncertainty, that much more...

MIKULSKI:

I understand that.

WERFEL:

Yeah.

MIKULSKI:

but is it then -- like the first month, the issuing of notices to people?

WERFEL:

You'll see a combination -- yes, that'll -- that'll...

MIKULSKI:

will the lights go out, people are told they're furloughed. What, you know -- that -- the word triggers sequester...

WERFEL:

... there -- there's some -- it's -- it's complicated. There are some...

MIKULSKI:

I know.

WERFEL:

... elements of government operations that will feel the more immediate impact.

So, for example, because of -- of furloughs, we talked about the meat packing element. Now, do the furloughs are going to occur March 1? No. It's going to take some time, due to legal requirements. So what the world looks like on March 1 is very intense pre-staging actions that are taking place that are sending out notices and warnings and all kinds of different elements of how the sequester's going to play out.

Some of that's going to occur before March 1. But it's different from a government shutdown. Government shutdown means that, effective at midnight, you can no longer incur any more obligations and things do actually shut down.

MIKULSKI:

No, and that's scheduled to happen March 27th.

WERFEL:

If there's not a -- an appropriations bill, yes. But -- but I think -- let me -- with -- with the final moments, let me just emphasize this point. I do not think that it would be prudent at all to assume that, because the lights don't shut out across the government on March 1, that we can go across that precipice and -- and -- and you know, then pull back later. Because -- because -- even -- you know, we had analogies of the wolf being outside the door or wolf being in the room. The reality is I think it becomes extraordinarily problematic and serious, some of the economic consequences, once we hit March 1st. Because then it's real, and then a lot of these things come to fruition in a more exponential way.

MIKULSKI:

Well, and, I think, it could turn into a firestorm.

So, well, first of all, let me thank the witnesses. You really presented excellent testimony. You answered things in a very forthright, candid, crisp way, and very much appreciated. I want to also note that some other agencies were invited like HHS. They had to be in Chicago with Rahm Emanuel. You make your choices and see what happens. Other agencies have submitted letters, and for those that we wanted to ask questions, like V.A., agriculture, that's why we really appreciated OMB here to do that.

I want to tell the members, and for the record, we have letters from every agency, thanks to the cooperation of OMB. They will now be entered into the record -- a public record, and also staffs on both side of the aisle will be able to scrutinize them while we now work on this.

For my members, I would like to thank the active participation, the fact that really everybody stayed pretty much within the five- minute rule, I mean, it is now just a little past 12:30. And, I think, this is really the tone and the tempo that I'd hope -- we move briskly, people would exercise their due diligence. I thought the questions were excellent, a very content-rich. And also, I think Senator Cochran, you would agree, the decorum of the committee was such that we would he would hope would be the tenor of this committee, and, hopefully, even spread within the Congress.

So, yes, we fear outside foreign predators. We fear, at times, foreign competitors. But this is a self-inflicted wound. And I think we need to deal with it, and we need to deal with it expeditiously.

So thank you. And this committee, if there are no further questions, senators may submit additional questions. The committee stands in recess, subject to the call of the chair.

Thank you very much.

CQ Transcriptions, Feb. 14, 2013

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List of Panel Members and Witnesses

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SEN. JERRY MORAN, R-KAN.

SEN. MIKE JOHANNIS, R-NEB.

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SECRETARY OF EDUCATION ARNE DUNCAN

SECRETARY OF HOMELAND SECURITY JANET NAPOLITANO

SECRETARY OF HOUSING AND URBAN DEVELOPMENT SHAUN DONOVAN

DEPUTY SECRETARY OF DEFENSE ASHTON B. CARTER

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