



SECRETARY OF DEFENSE
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MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Implications of Ongoing Fiscal Cliff Negotiations

We are providing you this information regarding the potential impact of sequestration here at DoD. As you are all likely aware, the Administration and Congress are continuing to work to resolve a series of economic or fiscal events, collectively referred to as the "fiscal cliff," that are scheduled to occur around the end of the year. One of the key issues involves potential across-the-board reductions in Federal spending—also known as "sequestration"—which were put in place by the Budget Control Act of 2011. Under current law, these reductions are scheduled to take effect on January 2, 2013. Many of you have raised questions regarding the impact of a potential sequestration for the Department of Defense, and I would like to take a moment to clarify a few things.

I want to start by noting that this past summer, the President indicated his intent to exercise his legal authority to exempt military personnel funding from sequestration. This means that military endstrength will not be affected by sequestration in FY2013.

Our civilian employees should keep in mind that the Administration remains focused on working with Congress to reach agreement on a balanced deficit reduction plan that avoids such cuts. Sequestration was never intended to be implemented, and there is no reason why both sides should not be able to come together and prevent this scenario.

Nevertheless, with only a couple of weeks left before sequestration could occur should a deal not be reached, it is important to clarify the potential implications. Let me start by explaining what sequestration is and what it is not. Sequestration is an across-the-board reduction in budgetary resources for all accounts within the Department of Defense that have not been exempted by Congress. If it occurs, sequestration will reduce our budgetary resources for the remainder of the fiscal year (which runs through September 30). These cuts, while significant and harmful to our collective mission as an agency, would not necessarily require immediate reductions in spending. Under sequestration, we would still have funds available after January 2, 2013, but our overall funding for the remainder of the year would be reduced. Accordingly, this situation is different from other scenarios we have encountered in recent years, such as threats of government shutdown due to a lapse in appropriations.

For these reasons, I do not expect our day-to-day operations to change dramatically on or immediately after January 2, 2013, should sequestration occur. This means that we will not be executing any immediate civilian personnel actions, such as furloughs, on that date. Should we have to operate under reduced funding levels for an extended period of time, we may have to consider furloughs or other actions in the future. But let me assure you that we will carefully examine other options to reduce costs within the agency before taking such action, taking into



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consideration our obligation to execute our core mission. Moreover, if such action proves to be necessary, we would provide affected employees the requisite advance notice before a furlough or other personnel action would occur. We would also immediately cancel any scheduled personnel actions should a deficit reduction agreement be reached that restores our agency funding.

I want to assure you that we will do our very best to provide clear information about the status of events as they unfold.

Finally, let me express my gratitude during this holiday season for your continued hard work and dedication to the vital mission of the Department of Defense. Your contributions touch people's lives in many significant ways, and I want you to know how deeply appreciative the President and myself are for all that you do.



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