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US Defense Budget Cuts, Sequestration, and the FY2014 Budget Submission

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The Realities that Should Shape US Strategy and US Military Forces for FY2013 and the Next Decade

- *Concepts are not a strategy. Broad outlines do not set real priorities. A strategy requires a plan with concrete goals numbers schedules and costs for procurement, allocation, manpower, force structure, and detailed operational capabilities.*
- *For all the talk of 10 years of planned spending levels and cuts, the President and Congress can only shape the actual budget and defense program one year at a time. Unpredicted events and realities will intervene. There is a near zero real world probability that the coming plan and budget will shape the future in spite of changes in the economy, politics, entitlements, and threats to the US.*
- Strategy will, however, be driven as much by changes in the national economy, national resource and cost constraints, and entitlements pressures, as by threats.
- Real world forces and mission capabilities will be budget and cost driven-barring unexpected existential threat. The command and JCS must develop resource-constrained joint plans and budgets.
- New threats, strategies, and tactics – cyberwarfare, space, cost-oriented asymmetric warfare -- will pose a growing challenge putting constant additional new pressures on force plans and resources.
- But, the global emergence of new economic powers and economic competition will be as important as military threats.
- A valid national strategy must increasingly consider the actions of potential allies and threats, global economic changes, domestic spending needs, foreign policy and aid, homeland defense,
- Non-traditional alliances and relations will continue to become steadily more important.
- The military aspects of strategic choices should be joint choices made by major mission and command. The services should not be strategic planners, only enablers. Interservice rivalry will be self-destructive.
- The quality of execution and cost control is critical, and must have top down Secretarial and Service Chief responsibility.

US Strategy Was Shaped
by Constraints on Topline
Defense Spending Long
Before Sequestration

Topline in For FY 2012-FY 2017 in FY 2012 Budget *Without Sequestration*

- \$525 topline (Baseline) billion for FY2013, rising to \$567 billion in FY217 in current dollars. Down from \$531 billion in FY2011.
- Wartime (OCO) account drops from \$115 billion in FY2011 to \$88.4 billion in FY2012.
- Conforms to 2011 Budget Control Act requirement to reduce future DoD expenditures by \$487 billion over next decade (a cut of nearly 9%), or \$259 billion over next five years.
- The new budget level for the Defense Department will rise from FY 2013 to FY 2017; however, total U.S. defense spending, including both base funding and war costs, will drop by about 22% from its peak in 2010, after accounting for inflation.
- By comparison, the 7 years following the Vietnam and Cold War peak budgets saw a similar magnitude of decline on the order of 20 to 25%.
- Cuts are a continuation of the effort begun in 2010, which identified more than \$150 billion in savings over five years allocated among the three military departments, the defense agencies, combatant commands, and the Secretary's staff. This left less room for additional reductions to meet the new target of \$259 billion over FY13-17.
- Nonetheless, DoD found about \$60 billion in new projected savings over FY13-17.

How Much Should Be Enough? FY2012 Budget Still Called for Roughly 4% of GDP in FY2001-FY2017:

\$ in Billions	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13*
Base	296.9	328.1	364.9	376.5	400.0	410.5	431.4	479.0	513.2	527.9	528.2	530.6	525.4
OCO/ Supplementals	13.4	16.8	72.5	90.7	75.6	115.7	166.2	186.9	145.6	162.3	158.8	115.1	88.5
Other**	5.8	--	--	0.3	3.2	8.1	3.1	--	7.4	0.7	--	--	--
Total	316.2	345.0	437.4	467.6	478.9	534.4	600.9	665.9	666.3	690.9	687.0	645.7	613.9

Numbers may not add due to rounding

Data is discretionary budget authority. FY 2001 through FY 2011 are actual levels. The FY 2012 is the appropriated or enacted amount.

** Budget Request.*

*** Non-war supplemental appropriations, e.g. funding needed in base budget for fuel costs, hurricane relief, and other disaster relief.*

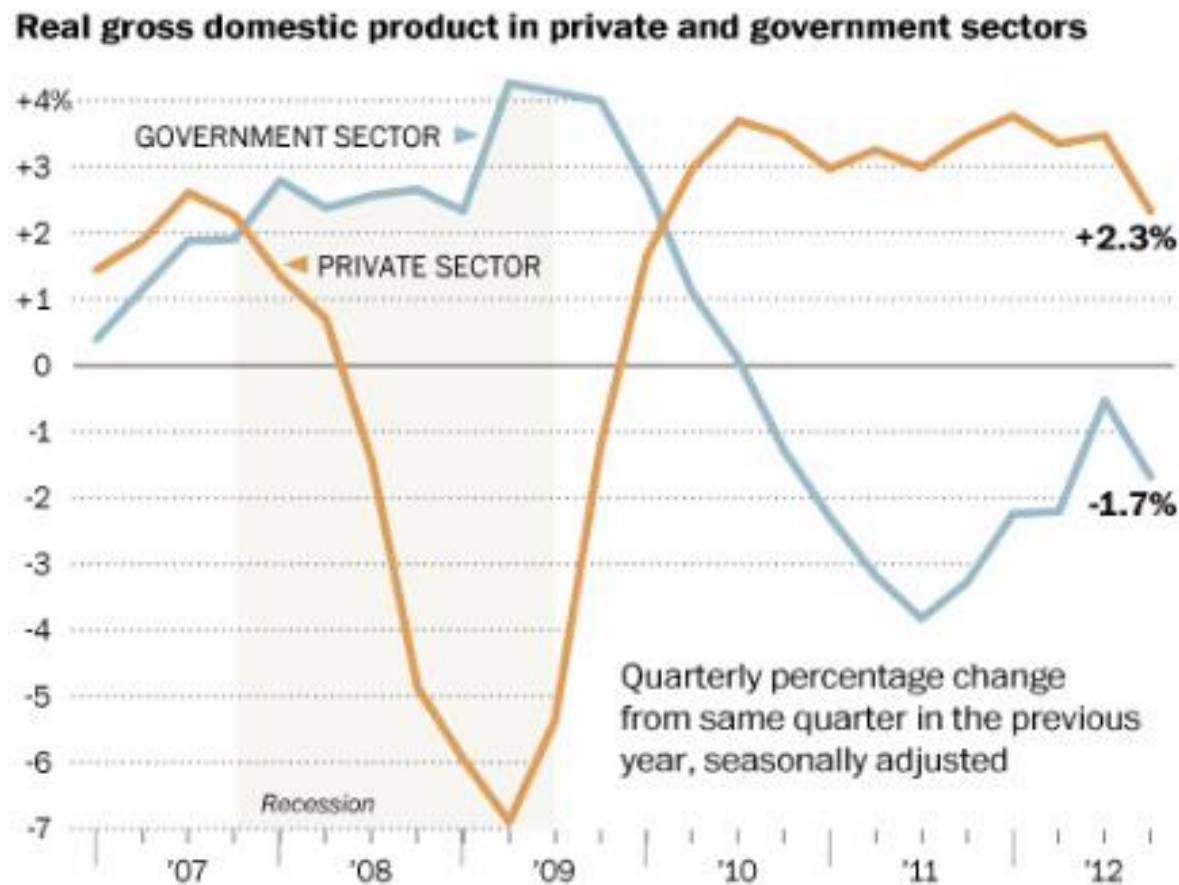
\$ in Billions	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY13 – 17 TOTAL
FY 2012 PB	570.7	586.4	598.2	610.6	621.6	2,987.5
FY 2013 PB	525.4	533.6	545.9	555.9	567.3	2,728.1
Delta	-45.3	-52.8	-52.3	-54.7	-54.3	-259.4
Real Growth	*-2.5%	0.0%	+0.8%	+0.2%	+0.2%	** -0.3%

**Real growth calculated from the FY 2012 appropriation (\$530.6 billion).*

***Average annual real growth for FY 2013 – FY 2017.*

Source: DoD FY2013 Budget Summary

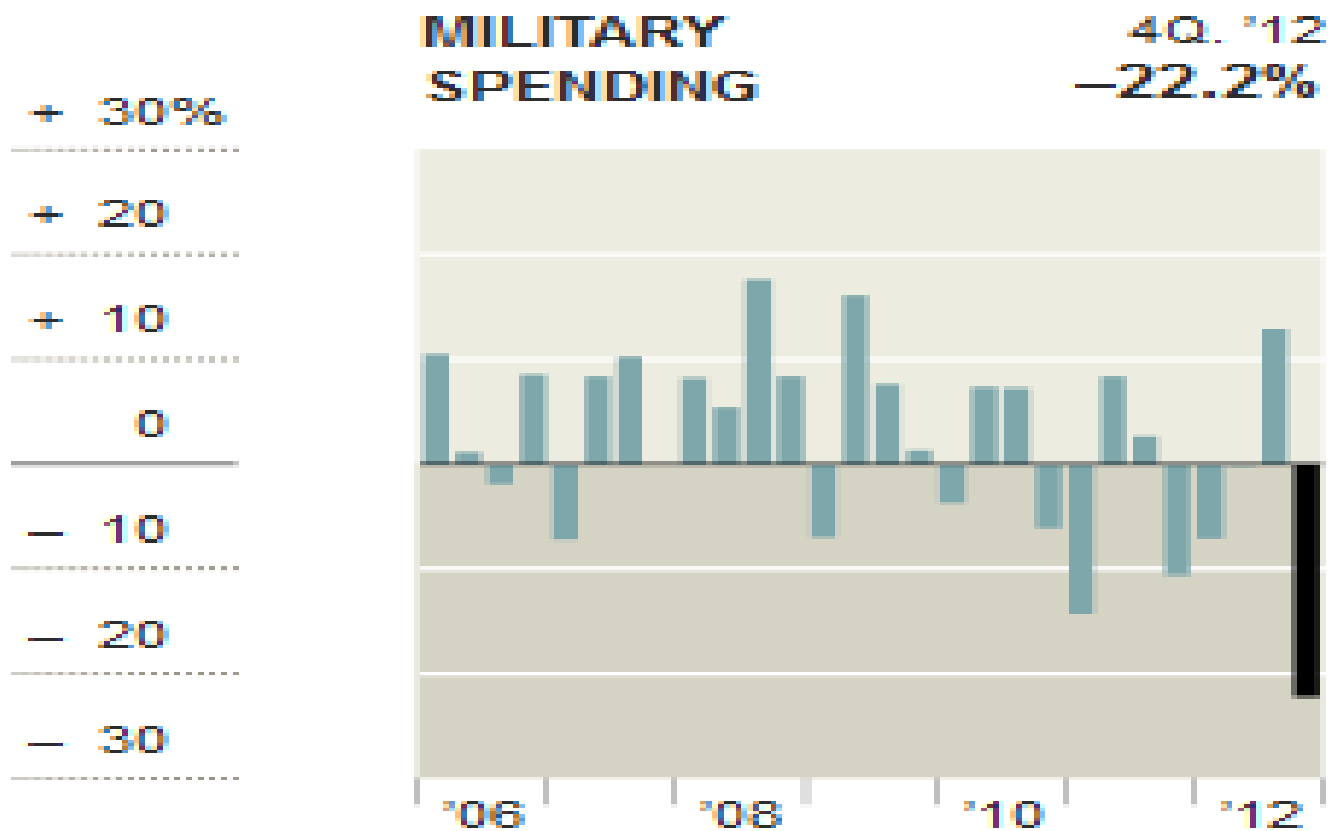
Economic Impact of Government Spending Cuts to Date: Cuts in Defense Spending Alone Cut Growth by 1.3% in 4Q 2012



Sources: White House, Bureau of Economic Analysis. The Washington Post. Published on January 30, 2013, 7:54 p.m.

Source: Ylan Q. Mui, "Economy shrinks as federal spending cuts trump private sector's growth", The Washington Post, published January 30, 2013.

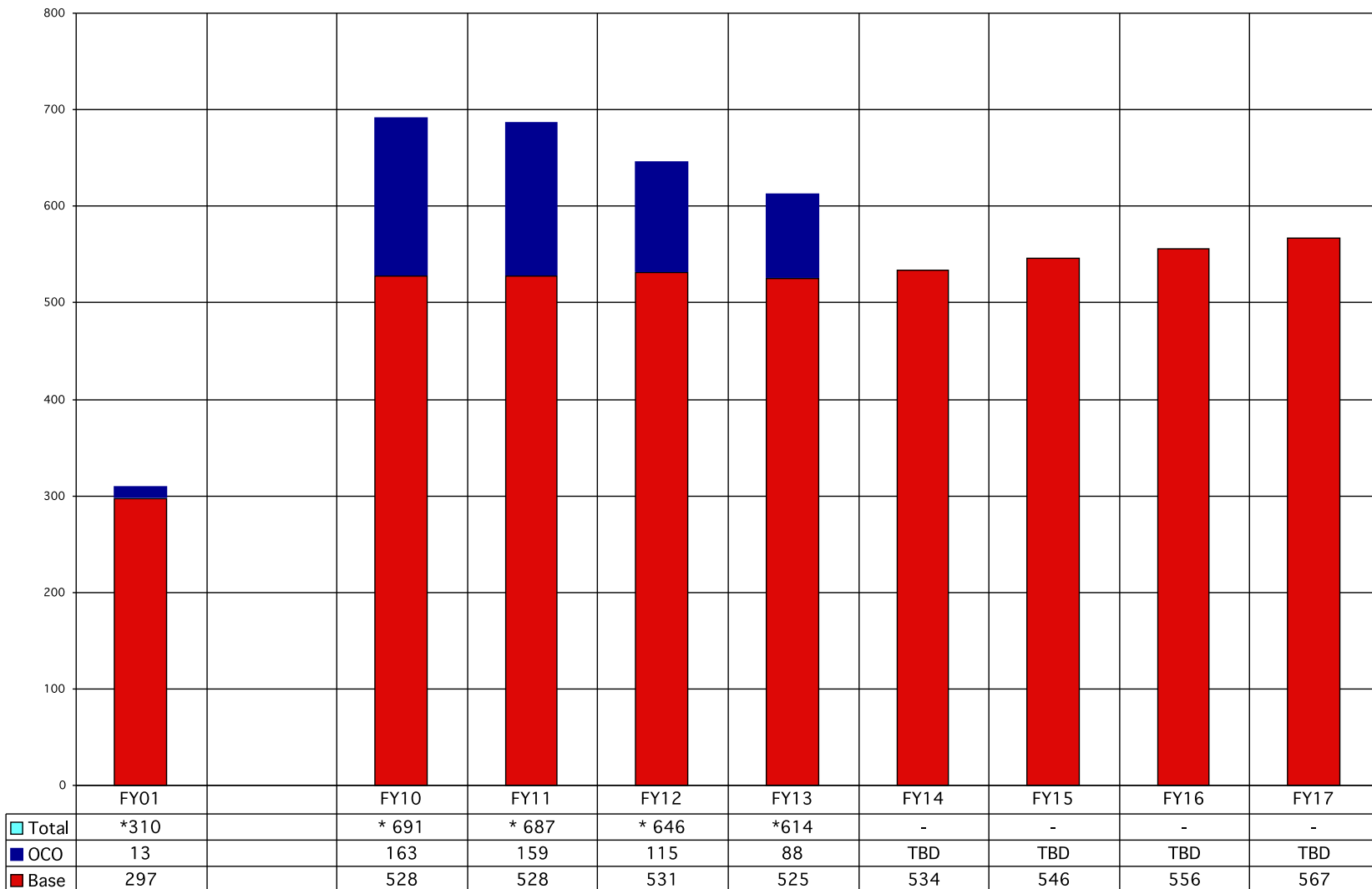
Military Spending Trends Before the Current Sequestration Debate



Source: Bureau of Economic Analysis, as published in the New York Times, January 31, 2013

FY2013-FY2017 Budget Remained High If Exclude Wartime Spending

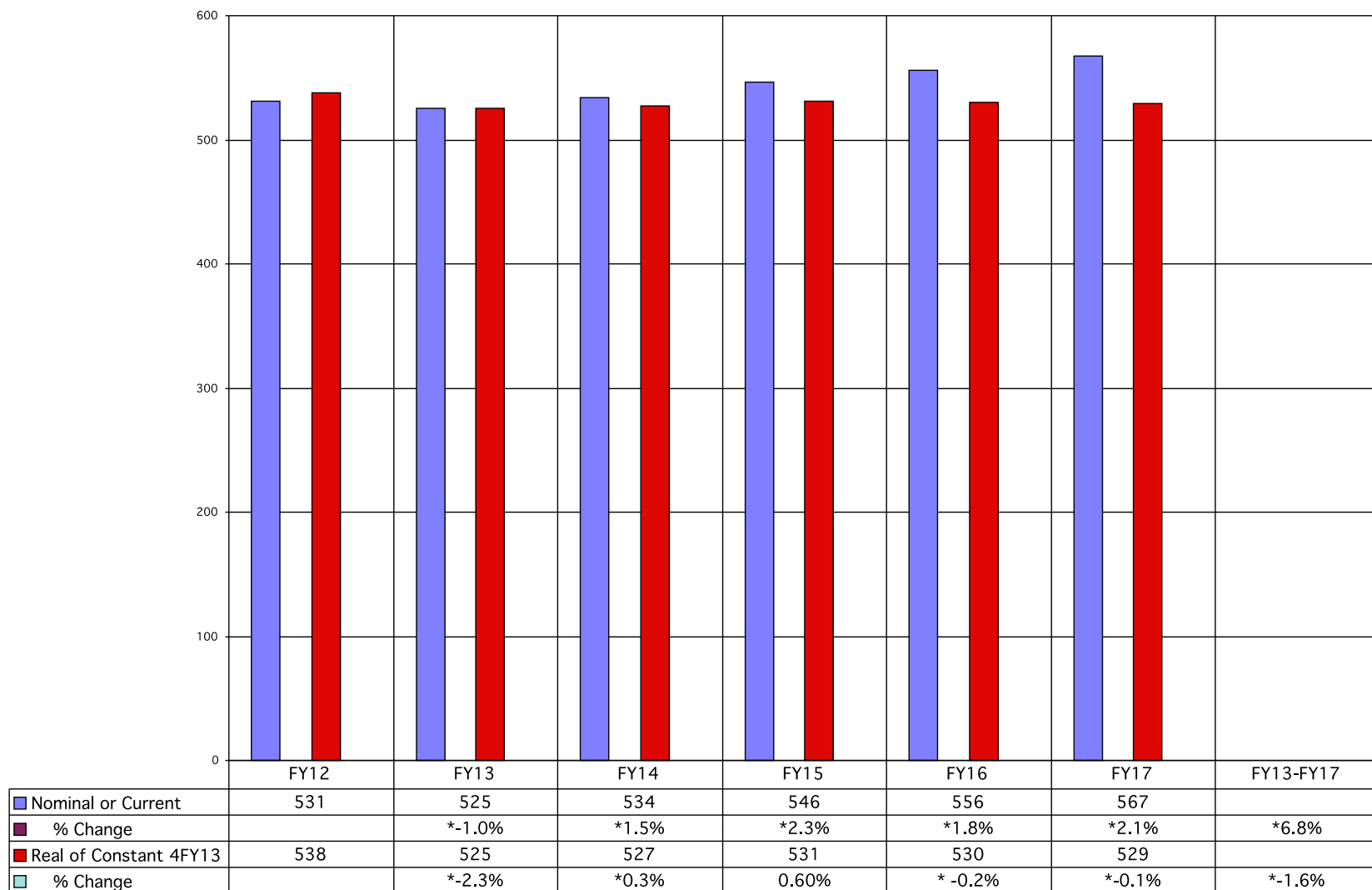
(\$US in Current or “Nominal” Billions)



Source: Adapted from DoD Factsheet issued by OSD (PA) on 26.1.12

Baseline Cuts Were Limited Even in Constant Dollars

(\$US in Current vs. Constant Billions)



Secretary Panetta on the Risks of Letting Budget Limits Drive Strategy

- “The risks come with the fact that ... we will have a smaller force...when you have a smaller force, there are risks associated with that in terms of our capability to respond ... We think we've dealt with those risks because the combination of the forces we have in place and the ability, if we have to, to mobilize quickly will give us the capability to deal with any threat.”
- “We’re depending a great deal on being at the technological edge of the future ... Can we develop the kind of technology we're going to need to confront the future? I’m confident we can, but there are risks associated with that.”
- “The reality is that as we draw down from Iraq and Afghanistan, we still face a number of very important threats in the world ... Obviously we're continuing to fight a war in Afghanistan, and we continue to face the threat of terrorism.”
- “We see the threats coming from Iran, and a nuclear-capable Iran represents a threat to us and to the world ... Weapons of mass destruction and proliferation of weapons of mass destruction are a concern. North Korea is a concern because they, too, are developing a nuclear capability.”
- “You can see the vast array of threats that we have to confront with the force that we've designed here ... So it's all of those that are my concern for the future.”

Jim Garamone, “Panetta, Dempsey Discuss Future Risks, Threats,” *American Forces Press Service*, Washington, Jan. 26, 2012.
<http://www.defense.gov/news/newsarticle.aspx?id=66945>

Hagel to SASC on Existing Budget Cuts

“Part 1 of the Budget Control Act (BCA) enacted on August 2, 2011 established budget caps designed to realize \$917 billion in budget savings in federal discretionary spending over the period from fiscal year 2012 to fiscal year 2021. As a result, the administration’s DoD current budget plan for fiscal years 2012 to 2021 is \$487 billion lower than the \$6.14 trillion it had projected a year earlier for the same ten-year period. This reduction amounts to nearly 8 percent compared to the previous plan.

Do you believe that defense spending reductions of this magnitude (absent a sequester) can be accomplished without significant adverse impact on our national security?

“Based on my review to date, my answer is yes. I believe the Department’s strategy can be accomplished within the constraints of the Budget Control Act. But only if the Department has to retain the flexibility to adjust the size of its forces and infrastructure, and take steps to control its costs, in accordance with the Administration’s present strategy and budget.

“How would you assess the national military strategy to deal with the changed budget environment?

“I believe the Department has taken a hard look at the new security environment and developed a strategy that appropriately allocates reduced defense resources to the highest priority needs and ensures our national security objectives are met. If confirmed, I will further assess the strategy according to changes in the security environment and continued fiscal pressure.”

Source: “Advance Policy Questions for the Honorable Chuck Hagel: Nominee to be Secretary of Defense, US Senate Committee on Armed Services, undated. <http://www.armed-services.senate.gov/statemnt/2013/01%20January/Hagel%2001-31-13.pdf>. p. 6-7.

Chairman Dempsey on FY 2013 Baseline Risks

- “The greater risk would be had we decided that we would just wish away any particular capability or any particular form of conflict.. So, say, ‘no, ... we’re just never going to do that.’ What you’re expressing here is the recognition that we are retaining our full-spectrum capability, and that we didn’t take any risk with that.”
- “At the same time, we put national security above parochial interest -- exactly what the American people should expect of us.”
- “Capability is more important than size... We get leaner. But this budget does not lead to a military in decline. It leads to a joint force that is global and networked, that is versatile and innovative, that is ably led and that is always ready.”
- “[aforementioned joint force] can win any conflict, anywhere,”
- According to Karen Parrish of the American Forces Press Service, “There are no proposed pay freezes or reductions, and department officials will not change health care benefits for active-duty troops, those with combat injuries or service members who have medically retired [...]” As Chairman Dempsey stated, “But we cannot – we cannot – ignore some hard realities...Pay and benefits are now roughly one-third of defense spending. ... pay will need to grow more slowly in the future.”
- “We’ll take the time to determine how to enact any retirement reforms over the next year.”
- “It represents responsible investment in our national security...But make no mistake, the tradeoffs were tough. The choices were complex.”
- “The primary risks lie not in what we can do, but in how much we can do and how fast we can do it. [...] The risks, therefore, are in terms of time and capacity.”
- “I am convinced we can properly manage them by ensuring we keep the force in balance, investing in new capabilities and preserving a strong reserve component...As I’ve said before, we will face greater risks if we do not change the way we’ve been doing things.”
- “Much will be said and written about the individual decisions underlying this budget...Some may be tempted to view them through the prism of a zero-sum game, parsing through each cut, each change, to look for a winner and a loser. That is actually the least-productive way to assess this budget...I’m confident it meets our nation’s needs in our current fights and for our future.”

Sources: Jim Garamone, “Panetta, Dempsey Discuss Future Risks, Threats,” *American Forces Press Service*, Washington, Jan. 26, 2012. <http://www.defense.gov/news/newsarticle.aspx?id=66945>; and Ken Parrish, “Dempsey: Defense Budget Reflects Clear Strategic Choices,” *American Forces Press Service*, Washington, Jan. 26, 2012. <http://www.defense.gov/news/newsarticle.aspx?id=66941>

The Impact of the Gates–
Panetta Cuts on the FY 2013
Budget Submission
FY 2001–FY 2017

The Myth of Efficiency: “More Disciplined Use of Resources” = DoD Wide Cuts Worth \$30.8 Billion in FY2013-FY2017

- ❑ Civilian Pay Raises (\$10.4 billion). The civilian pay increase for FY 2013 was limited to 0.5 percent.
- ❑ Defense Agency/Office of the Secretary of Defense (\$10.7 billion). Initiatives include reducing overhead, staffing, and expenses; more efficient contracting and acquisition; and more.
- ❑ Better Buying Power (\$5.3 billion). obtain greater efficiency and productivity in defense spending by improving the way the Department acquires critical defense goods and services.
- ❑ Ensure Compliance with the Executive Order on Promoting Efficient Spending (\$0.5 billion). Reductions were made to travel, printing and reproduction by leveraging technology to teleconference and provide information in electronic form.
- ❑ Reduce Combatant Command Support Costs (\$1.5 billion). Initiatives include reducing overhead and support costs.
- ❑ Reduce Defense Working Capital Fund Rates (\$1.1 billion). Reduce rates for supplies and printing provided by the Defense Logistics Agency, financial services provided by the DoD
- ❑ Finance and Account Service, and Pentagon space as a result of cost reductions.
- ❑ Delay and restructure various facility projects (\$0.6 billion)

“More Disciplined Use of Resources”

Budget Cuts by Service: FY2013-FY2017 – \$30.8 Billion

Department of Army (\$18.5 billion)

- Streamline installation support functions and reduce installation support (\$5.3 billion)
- Consolidate information technology enterprise services (\$1.4 billion)
- Streamline management headquarters and administrative support functions (\$0.7 billion)
- Reduce civilians supporting overhead functions (\$0.9 billion)
- Reduce recruiting, advertising and enlisted incentives as a result of economic conditions (\$0.7 billion)
- Defer training range revitalization projects (\$1.3 billion)
- Delay MILCON projects and facility restoration and modernization (\$5.8 billion)
- Reduce equipment technical support and ammunition sustainment (\$1.7 billion)
- Streamline Personnel Security administration (\$0.4 billion)
- Other streamlining efficiencies (\$0.3 billion)

Department of Navy (\$5.7 billion)

- Implement strategic sourcing of commodities and services (\$2.2 billion)
- Consolidate information technology enterprise services (\$1.6 billion)
- Streamline organizations (\$0.7 billion)
- Reduce procurement modifications (\$0.3 billion)
- Increase buying power (\$0.7 billion)
- Other streamlining efficiencies (\$0.2 billion)

Department of Air Force (\$6.6 billion)

- Consolidate information technology enterprise services (\$1.1 billion)
- Reduce service support contractors (\$1.2 billion)
- Reduce administrative travel and permanent change of station travel (\$0.5 billion)
- Streamline contracting (\$0.4 billion)
- Reduce inventories (\$0.3 billion)
- Reduce accessions and force development and training (\$0.5 billion)
- Delay MILCON projects (\$2.4 billion)
- Other streamlining efficiencies (\$0.2 billion)

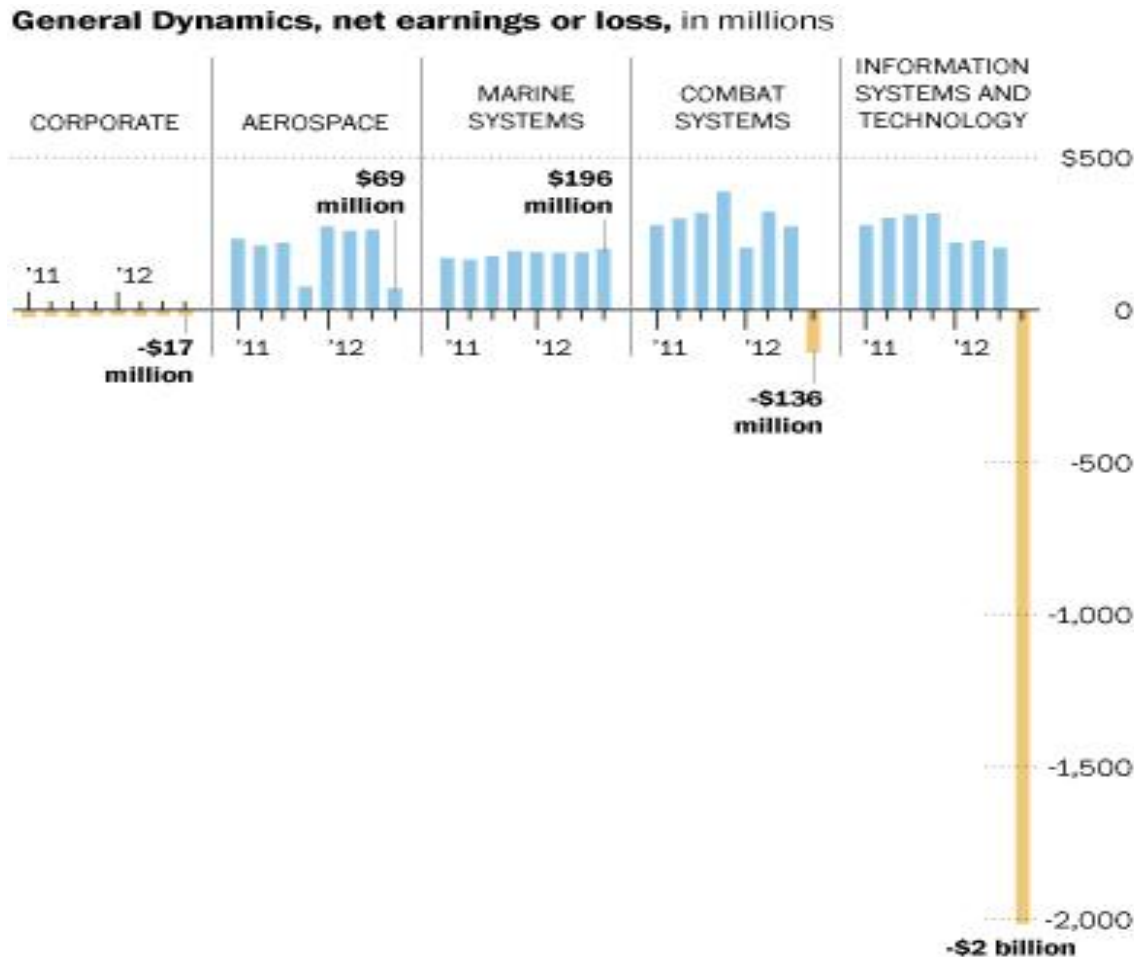
\$60B More Identified by DoD for Savings

According to the Department of Defense:

“This was a continuation of the effort begun in 2010, which identified more than \$150 billion in savings over five years allocated among the three military departments, the defense agencies ,combatant commands, and the Secretary’s staff. This left less room for additional reductions to meet the new target of \$259 billion over FY13-17. Nonetheless, did find about \$60 billion in new projected savings over FY13-17.”

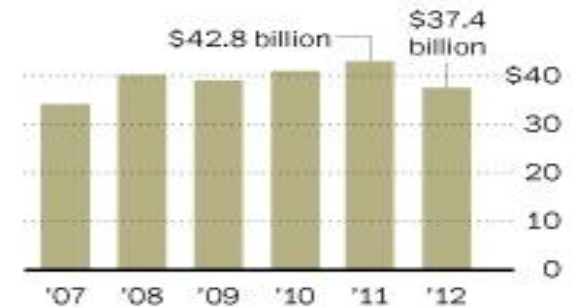
- The Department specifies the following specific areas for savings:
 - More skillful contracting practices to increase competition, reduce costs, and increase buying power
 - Better use of information technology
 - Better use of business and enterprise systems
 - Streamlined staff
 - Limitations on official travel
 - Better inventory management
 - Reductions in contract services
 - Deferral of some military construction to align our facilities more closely with the size and posture of our future force
 - Reductions in planned civilian pay raises
- “Beyond the roughly \$60 billion in efficiencies and overhead savings, we eliminated a number of poorly performing programs” described earlier.

General Dynamics: Case Study in Impact of Existing Drop in Government Spending



The economic impact of decreased defense spending in the Washington area:

Prime contracts awarded by the Defense Department in Virginia, in billions



State employment job losses of the Budget Control Act of 2011 for fiscal years 2012 and 2013*

MARYLAND		
39,395	75,400	Total: 114,795
WASHINGTON		
15,169	112,238	127,407
VIRGINIA		
136,191	71,380	207,571
Defense department		Non-defense department

*Direct, indirect and induced job losses; excludes impacts from entitlement program cuts.

Senior US Officials and Officers On Impact of Sequestration and BCA on US Ability to Fund a Viable Strategy

Panetta on Sequestration Delay

“On behalf of the Department of Defense, I want to express our thanks to the Democratic and Republican Members of Congress who voted to temporarily avert sequestration. Hopefully, this will allow additional time to develop a balanced deficit reduction plan that would permanently prevent these arbitrary cuts.”

“Had Congress not acted, the Department of Defense -- along with other federal agencies -- would have been forced to begin taking dramatic steps that would have severely impacted our civilian personnel and disrupted our mission. For more than a year, I have made clear that sequestration would have a devastating impact on the Department. Over the past few weeks, as we were forced to begin preparing to implement this law, my concerns about its damaging effects have only grown. As an example, had Congress failed to act, I would have been required to send out a notice to our 800,000 civilian employees that they could be subject to furlough.”

“Congress has prevented the worst possible outcome by delaying sequestration for two months. Unfortunately, the cloud of sequestration remains. The responsibility now is to eliminate it as a threat by enacting balanced deficit reduction. Congress cannot continue to just kick the can down the road.”

“This Department is doing its part to help the country address its deficit problem by working to implement \$487 billion in spending reductions in accordance with our new defense strategy. The specter of sequestration has cast a shadow over our efforts. We need to have stability in our future budgets. We need to have the resources to effectively execute our strategy, defend the nation, and meet our commitments to troops and their families after more than a decade of war.”

“Every day, the men and women of this Department put their lives on the line to protect us all here at home. Those of us in Washington have no greater responsibility than to give them what they need to succeed and to come home safely. My hope is that in the next two months, all of us in the leadership of the nation and the Congress can work together to provide that stability and to prevent sequestration once and for all. Our national security demands no less.”

Secretary Panetta's Departing Remarks on Sequestration

- “Make no mistake, if these cuts happen, there will be a serious disruption in defense programs and a sharp decline in our military readiness. ... We’ve implemented hiring freezes. We’ve curtailed facilities maintenance. We’re laying off temporary and term employees. We’re looking at putting 46,000 jobs at risk.”
- “[If there is sequestration] We will furlough as many as 800,000 DOD civilians around the country for up to 22 days. They could face a 20 percent cut in their salary.”
- “We’re going to cut back on Army training and maintenance, putting about two-thirds of our active brigade combat teams outside Afghanistan at a reduced readiness level. We’ve got to cut back on their training. We’re going to have to cut back on the ability to support the troops who are not in the war zone. So what happens is we put more stress on those who are in the war zone.”
- “We’re going to have to shrink our global naval operations with a reduction of as much as one-third in our western Pacific naval operations. This whole idea about trying to rebalance will be impacted.”
- “We’ll cut the Air Force flying hours and weapons system maintenance, putting flying units below acceptable readiness standards by the end of the fiscal year.”
- “And even if Congress acts again temporarily to prevent the effects of this crisis, and hopefully they will do that, but I have to tell you, if they only kick the can down the road, it continues the long shadow of doubt about whether the fundamental problems we face can really be resolved. That is a high price – a very high price that could be paid as a result of governing by crisis.”

Chairman Dempsey on the Risks of Sequestration

- “That’s why I’m saying that we will be unprepared in a year, because we won’t be able to go to that level of collective training... Will we be able to go to the rifle range or go to the motor pool to turn a wrench? Sure. But we won’t be able to do the kind of live-fire training that pilots need. Flying hours [and] steaming hours will be cut back, and it’ll take about a year to feel the full effect.”
- “We’ve got the people. We’ve got the equipment that we need... But we won’t have the ability to train.”
- “What we’re experiencing is the potential for hollowness related to readiness.”
- “We pushed responsibility, authority, resources to the edge -- to where captains and majors and lieutenant colonels had capabilities, responsibilities and authorities that I didn’t have as a major general.”
- “We haven’t even begun to model the effect of a prolonged readiness problem... I can tell you that readiness problems always have an effect on retention.”

Source: Jim Garamone, “Sequestration Will Hollow Out Force Fast, Dempsey Says,” *American Forces Press Service*, January 17, 2013.
<http://www.defense.gov/News/NewsArticle.aspx?ID=119040>

Hagel to SASC on Sequestration

“What do you believe would be the impact on the Department of Defense of a full sequester in FY 2013?”

As Secretary Panetta has repeatedly stated, sequestration – both the size and the arbitrary manner of these cuts – would be devastating to the Department. It would harm military readiness and disrupt each and every investment program. Based on my assessment to date, I share his concerns. I urge the Congress to eliminate the sequester threat permanently and pass a balanced deficit-reduction plan. Impacts of sequester could include the need to revise the defense strategy, fewer day-to-day global activities reducing our presence and partnerships, less training including cuts to flying and steaming hours which would reduce readiness, near universal disruption of investment including 2,500 procurement programs, research projects, and military construction; reduced and delayed weapons system buys with resulting price increases, furloughs and hiring freezes for civilian workers resulting in reduced maintenance of weapons systems, oversight of contracts and financial systems; negative effects on morale and welfare of the force including recruiting and retention problems.

“What is your understanding of the impact that the combination of a full-year continuing resolution and a sequester would have on the readiness of the Armed Forces?”

“It is my understanding that under this scenario, the Department would be forced to cut over \$40B from our budget in a little over half a year, using a mechanistic formula to do it. It would result in 20% cuts in the Department’s operating budgets. As the Joint Chiefs have warned, such cuts, if allowed to occur, would damage our readiness, our people, and our military families. It would result in the grounding of aircraft and returning ships to port, reducing the Department’s global presence and ability to rapidly respond to contingencies. Vital training would be reduced by half of current plans and the Department would be unable to reset equipment from Afghanistan in a timely manner. The Department would reduce training and maintenance for non-deploying units and would be forced to reduce procurement of vital weapons systems and suffer the subsequent schedule delays and price increases. Civilian employees would be furloughed for up to 22 days. All of these effects also negatively impact long-term readiness. It would send a terrible signal to our military and civilian workforce, to those we hope to recruit, and to both our allies and adversaries around the world.”

Source: “Advance Policy Questions for the Honorable Chuck Hagel: Nominee to be Secretary of Defense, US Senate Committee on Armed Services, undated. <http://www.armed-services.senate.gov/statemnt/2013/01%20January/Hagel%2001-31-13.pdf>. p. 9.

Studies in 2012 Showed that
Implementing Budget Control
Act and Sequestration Would
Have a Serious Impact on
Defense Resources

Sequestration in Broader Perspective

- Both defense and non-defense discretionary spending were expected to decrease in 2012 (before sequestration) by 4%, while mandatory spending is expected to increase by 1%. It is expected that the DoD reduction in 2012 outlays will be \$3 billion more than all non-defense discretionary reductions combined.
- Social Security, Medicare, and Medicaid alone are anticipated to reach 55% of federal expenditures – 12.2% of GDP – by 2022, *even with sequestration*. Sequestration does not adequately address growth in mandatory spending, but rather forces disproportionate cuts to discretionary spending.
- While the CBO groups together sequestration and the expiration of tax cuts as one scenario, policymakers may not consider these issues in tandem when legislating on the budget. The decision to continue the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 cuts could cost the budget \$2.7 trillion in potential revenue from 2013-2022 – offsetting the \$1 trillion in savings incurred from sequestration by over two-and-a-half times. *Sequestration cannot be expected to balance the deficit in the event that revenue-generating measures are not supported by Congress.*
- By the same token, *sequestration will trigger significant damage to the American economy without making a considerable impact on shrinking the deficit if enacted*. Sequestration – coupled with the expiration of tax cuts – is forecast to trigger an unemployment rate climbing to 9.1%, -0.5 real GDP growth, and a possible recession in 2013.
- The grouping together of sequestration and the expiration of tax cuts by the CBO makes it difficult to decipher the macroeconomic consequences of sequestration alone. *A thorough assessment of sequestration – including an evaluation of what programs would be impacted, how large that impact would be, and what the macroeconomic fallout would be on the US economy – is necessary by the CBO to gain better perspective.*

-Figures referenced above from “An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022,” *Congressional Budget Office*, August 2012.
http://www.cbo.gov/sites/default/files/cbofiles/attachments/08-22-2012-Update_to_Outlook.pdf

CBO Estimate of How Sequestration Will Affect US Economy

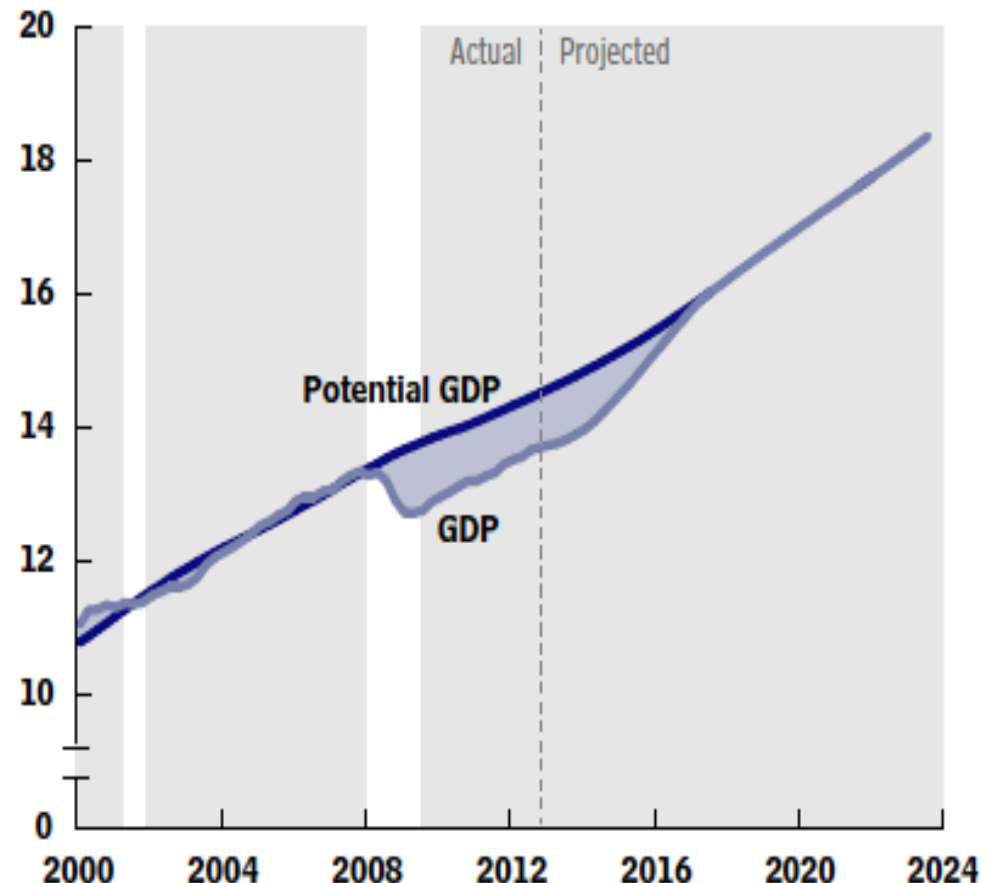
“[U]nder the fiscal policies embodied in current law, output is expected to remain below its potential (or maximum sustainable) level until 2017...CBO projects that the total loss of output, relative to the economy’s potential, between 2007 and 2017 will be equivalent to nearly half of the output that the United States produced last year.

“...CBO expects that economic activity will expand slowly this year, with real GDP growing by just 1.4 percent... That slow growth reflects a combination of ongoing improvement in underlying economic factors and fiscal tightening that has already begun or is scheduled to occur—including the expiration of a 2 percentage-point cut in the Social Security payroll tax, an increase in tax rates on income above certain thresholds, and scheduled automatic reductions in federal spending. That subdued economic growth will limit businesses’ need to hire additional workers, thereby causing the unemployment rate to stay near 8 percent this year...

“After the economy adjusts this year to the fiscal tightening inherent in current law, underlying economic factors will lead to more rapid growth, CBO projects—3.4 percent in 2014 and an average of 3.6 percent a year from 2015 through 2018...[and a better-performing housing market will in part] spur a virtuous cycle of faster growth in employment, income, consumer spending, and business investment over the next few years.”

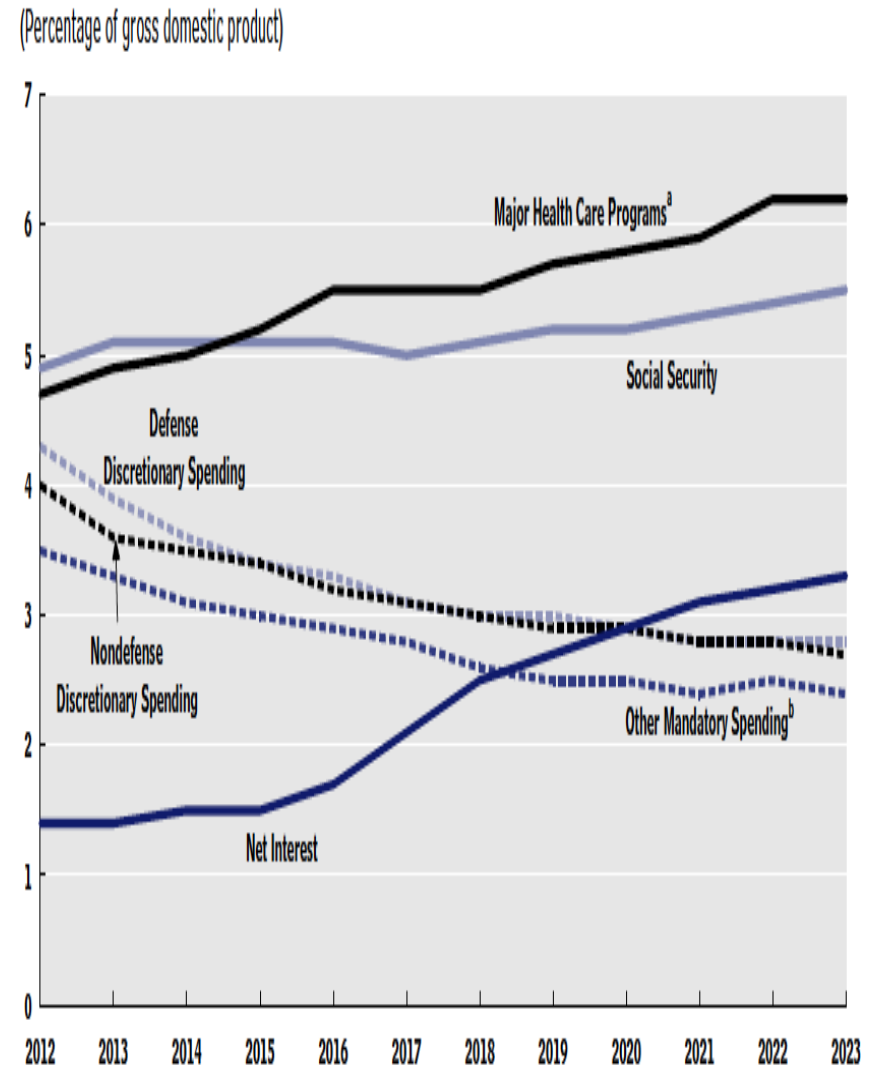
GDP and Potential GDP

(Trillions of 2005 dollars)



Sequestration Cuts in Defense Spending as % of GDP Relative to Mandatory and Other Discretionary Outlays: 2012-2023

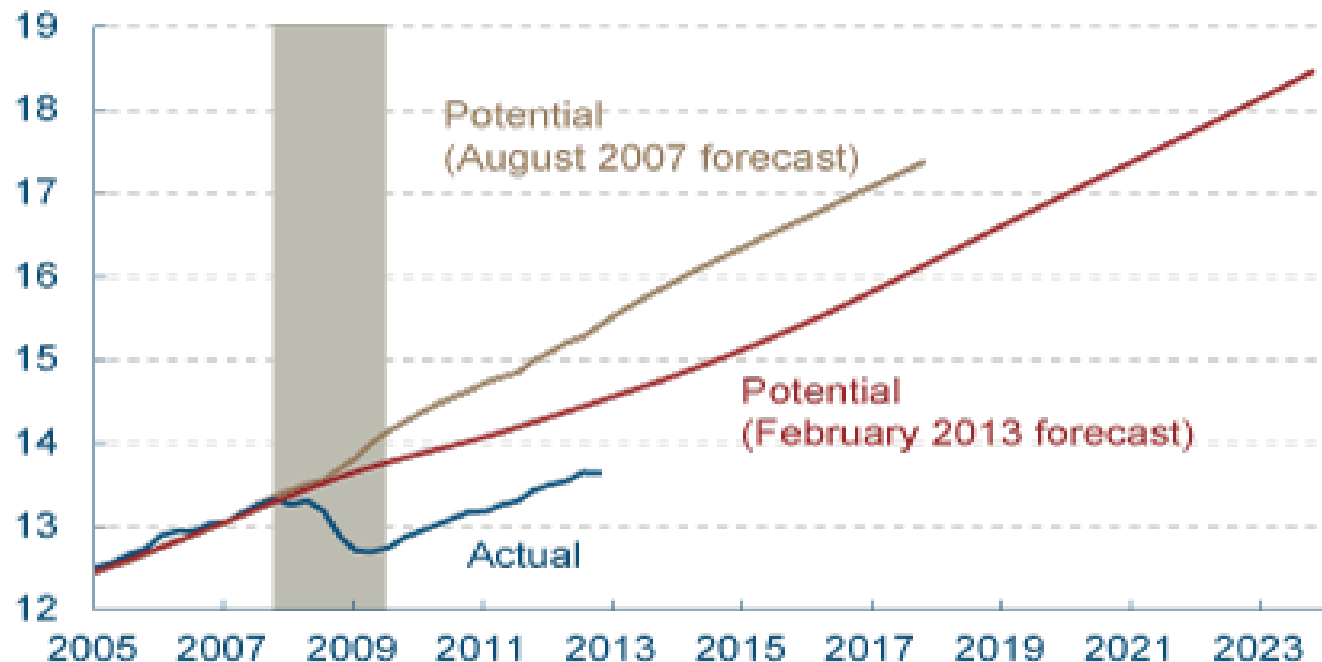
- “[T]otal [Federal] outlays are projected to decline slightly relative to GDP between 2014 and 2017 and then to rise in most years through 2023—averaging 22.1 percent over the decade, slightly above the 21.0 percent of GDP that has been the average for the past 40 years.
- “...outlays for Social Security will total 5.1 percent of GDP this year and stay near that percentage for the next few years but reach 5.5 percent of GDP by 2023.
- “Outlays for the major health care programs—Medicare (net of receipts from premiums), Medicaid, the Children’s Health Insurance Program (CHIP), and subsidies offered through new health insurance exchanges and related spending—will soon be even greater than outlays for Social Security.
- “Spending for major health care programs will be nearly 5 percent of GDP in 2013, and such spending is projected to grow rapidly when provisions of the Affordable Care Act are fully implemented by middecade, reaching 6.2 percent of GDP in 2023
- “Net interest is currently equal to 1.4 percent of GDP, but, in CBO’s baseline, rising interest rates push that total to 3.3 percent of GDP in 2023.
- “...discretionary outlays would fall to 5.5 percent of GDP by 2023, more than 3 percentage points below their average from 1973 to 2012.
- “Specifically, defense outlays in 2023 would equal 2.8 percent of GDP, compared with a 40-year average of 4.7 percent, and nondefense outlays in 2023 would equal 2.7 percent of GDP, compared with a 40-year average of 4.0 percent.”



The Unstable Economy and its Toll on Actual vs. Potential Output

Actual and Potential Real GDP

Trillions of dollars



Notes: The 2007 forecast potential GDP is deflated using the 2013 GDP deflator. The shaded bar indicates a recession.

Sources: Bureau of Economic Analysis; Congressional Budget Office.

Debt Reduction Through Sequestration, the BCA, and Other Measures - I

How They Were Accomplished

Budget appropriations	Budget Control Act caps	"Fiscal cliff" deal	Sequestration	Interest savings
2011 fiscal year	Aug. 2011	Jan. 2013	March 2013*	
\$635 billion	\$910	\$720	\$995	\$660

Totals reflect 10-year savings from 2014 to 2023. They do not include savings from 2011 through 2013 that resulted from the above measures.

*Set up as a part of the Budget Control Act in Aug. 2011.

Adapted from: "Recent Reduction to the Deficit," *New York Times*, March 2, 2013.
<http://www.nytimes.com/interactive/2013/03/02/us/politics/Recent-Reductions-to-the-Deficit.html>

Debt Reduction Through Sequestration, the BCA, and Other Measures - II

Spending Cuts vs. Revenue Increases

A majority of the \$3.9 trillion in reductions comes from spending cuts. Republicans have resisted raising revenues, but agreed to \$680 billion in increased taxes on the wealthiest as a part of the fiscal cliff deal.



Where the Spending Cuts Come From

Discretionary spending on military and domestic programs bears nearly all of the impact of the cuts, though those categories make up less than a third of all federal spending (not including interest payments).



Share of federal spending



Reflects share of all federal spending (not including interest payments) from 2014 to 2023.

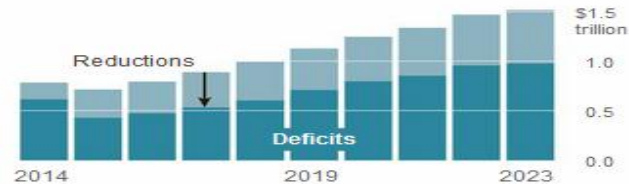
*Category includes Medicare, Medicaid and health insurance subsidies.

†Category includes agricultural programs, unemployment benefits and federal worker benefits.

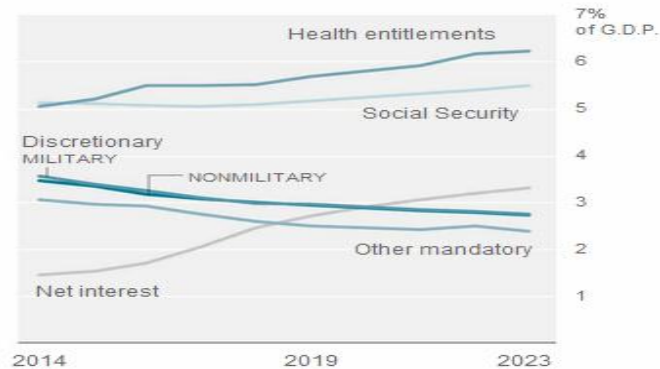
Debt Reduction Through Sequestration, the BCA, and Other Measures - III

Impact on the Debt

The reductions trim annual deficits by about 36 percent over the next 10 years.



But the reductions don't do much to address the fastest growing contributors to the debt: health care and Social Security.



While the savings reduce the public debt, the debt is projected to begin to grow again as a share of the economy by 2019, mostly because of the retirement of baby boomers and rising medical costs.



By ALICIA PARLAPIANO

Sources: Committee for a Responsible Federal Budget; Center on Budget and Policy Priorities; Congressional Budget Office

Impact of Sequestration and BCA on US Defense Budget and Programs

Uncertain Dynamics of FY 2013 Sequestration

- “Congress could ... amend the Budget Control Act to adopt a more gradual path where year-to-year reductions grew over time, for example, from \$25 billion in FY2013 to \$60 billion for FY2015–FY2017, returning to \$55 billion in later years through FY2021. The overall \$490 billion in defense savings from the BCA caps for FY2012–FY2021 would still be achieved, which might also raise concerns.
- Under a strict year-long CR, military personnel would receive the 1.7% pay raise authorized in the FY2013 National Defense Authorization Act using the funds available under the CR and after a sequester. There would be no sequester to military personnel accounts because the President exempted those accounts from a sequester last year.
- “Sequester reductions would be levied on individual procurement, RDT&E, and military construction programs (Program Elements listed in DOD’s P-1, R-1, and C-1 budget exhibits).
- “DOD would not be able to increase production rates of items, fund new starts, or sign new multiyear contracts for its procurement, Research, Development, Test & Evaluation (RDT&E), or military construction programs under a strict CR;
- “DOD would have discretion to move funds within individual procurement accounts from less to more critical programs under a strict year-long CR as long as FY2012 funding at the individual account level was met, with the exception of programs with higher production rates, new programs, multiyear contract, or shipbuilding programs.
- “The March 2013 sequesters would require a \$22 billion reduction in Operation and Maintenance (O&M) funds, which would require an overall reduction of 17.5% to O&M funds available in the latter half of the fiscal year;
- “DOD could limit reductions to the services’ readiness-related O&M funding that supports training for Operational Forces (Budget Activity 1) to 10% to 12% if the department implemented a civilian hiring freeze, furloughed civilians for 22 non-consecutive days, and reduced other O&M activities by 18% to 20%;
- “Military construction funding is provided for individual projects, each of which are considered to be ‘new starts.’ For that reason, DOD would not be able to carry out any military construction under a year-long CR. If an exception were provided, then an 8.5% cut would be levied on each individual project.”

Impact on Defense FY2013 Budget

	Shortfall in active base operating budget (\$B) (compared to PB13 request)	
	OLD CR	Appropriation
Sequestration (total cut: as much as \$41 billion)	13	11
Protect wartime operations	5	4
Continuing Resolution in wrong appropriations	11	--
Higher wartime operations costs	6-7	6.8 – 10.1
	35-36 23% of request, 7 months to go	22 – 25 15 to 17% of request 6 months to go

Army Has Biggest Problem

Impact of March 2013 Sequestrations on Defense 050 Account

In Billions of Dollars and Percentage Reduction

Estimated Total Effect of the March 1, 2013 Sequester on National Defense

Enacted/ Budgetary Resources	FY2013 Continuing Resolution	Budgetary Resources Subject to a Sequester	Sequester Amount	Post-Sequester Funding	Cut to all accounts	Cut to affected accountsd
Base Budget	556.9	419.6	-31.7	525.1	-5.7%	-7.6%
War Funding	88.5	74.5	-5.6	82.8	-6.4%	-7.6%
Total FY2013 050	645.3	494.0	-37.4	608.0	-5.8%	-7.6%
Unobligated Balances carried forward	106.0	69.1	-5.2	100.8	-4.9%	-7.6%
Total Nat'l Defense resources	751.3	563.1	-42.6	708.7	-5.7%	-7.6%

Estimated Total Effect of the March 27, 2013 Sequester on National Defense

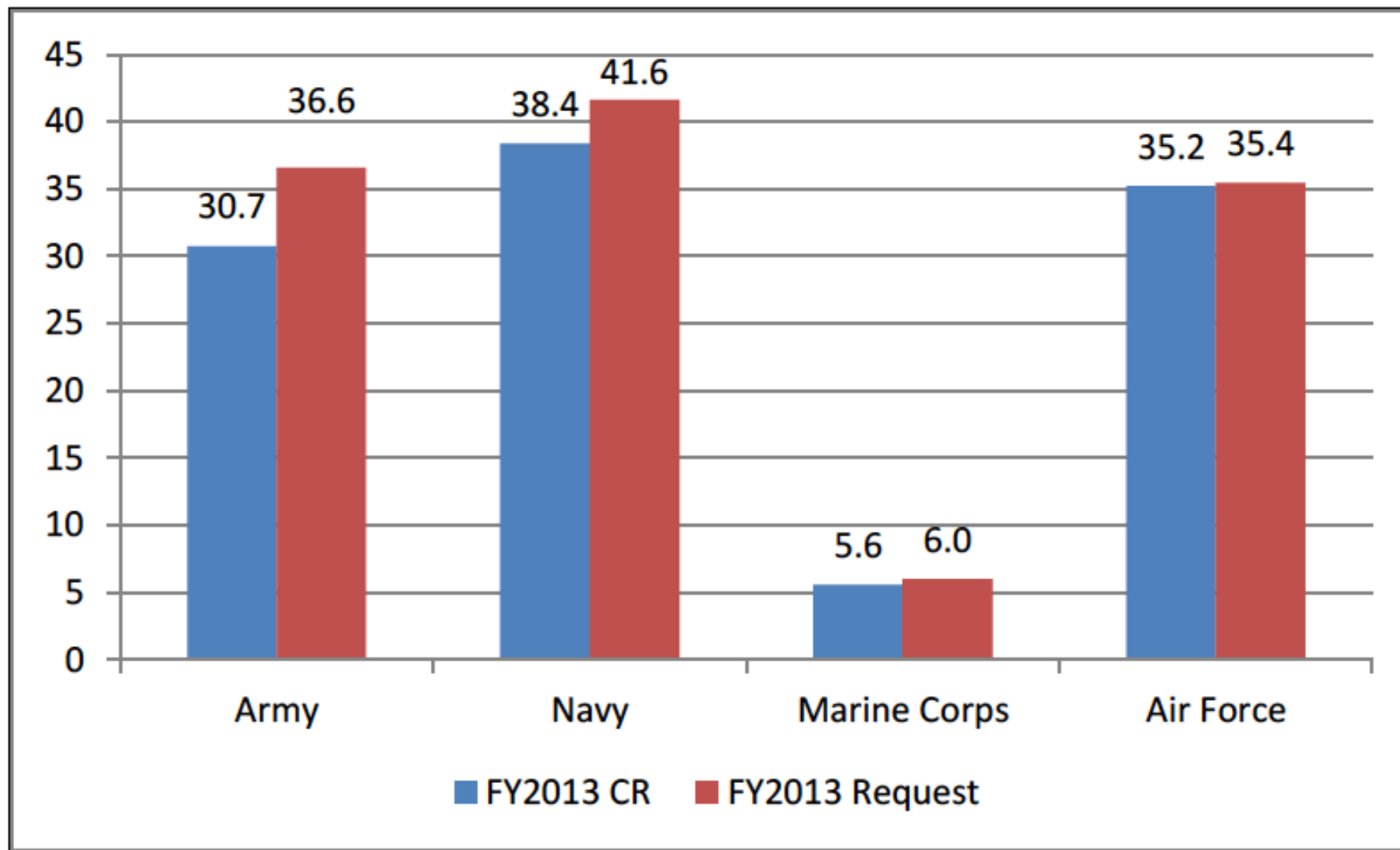
Enacted Funding/Budgetary Resources	FY2013 Continuing Resolution	FY2013 Budgetary Ressources	Sequester Amount	Post-Seq. Funding	Cut to All Accounts	Cut to Affected Accounts
Base Budget	556.9	419.6	-3.9	521.1	-0.7%	-0.9%
War Funding	88.5	74.0	-0.7	82.1	-0.8%	-0.9%
Total FY2013 050	645.3	494.0	-4.7	603.3	-0.7%	-0.9%
Unobligated Balances carried forward	106.0	69.1	-0.6	100.1	-0.6%	-0.9%
Total Nat'l Defense resources	751.3	563.1	-5.3	703.5	-0.7%	-0.9%

Estimated Total Effect of the March 2013 Sequesters on National Defense

Enacted/ Budgetary Resources	FY2013 Continuing Resolution	Budgetary Resources Subject to a Sequester	Sequester Amount	Post-Sequester Funding	Cut to All Accounts	Cut to Affected Accounts
Base Budget	556.9	419.6	-35.7	521.2	-6.4%	-8.5%
War Funding	88.5	74.5	-6.3	82.1	-7.2%	-8.5%
Total FY2013 Budget Function, 050	645.3	494.0	-42.0	603.3	-6.5%	-8.5%
Unobligated Balances carried forward	106.0	69.1	-5.9	100.1	-5.5%	-8.5%
Total Nat'l Defense resources	751.3	563.1	-47.9	703.5	-6.4%	-8.5%

FY2013 and FY2013CR Funding Levels for Active Duty O&M By Service

In Billions of Dollars



Potential Impact of Sequestration on O&M

In Billions of Dollars and Percent Reduction

Total Impact Assuming Allocated Evenly to All Categories

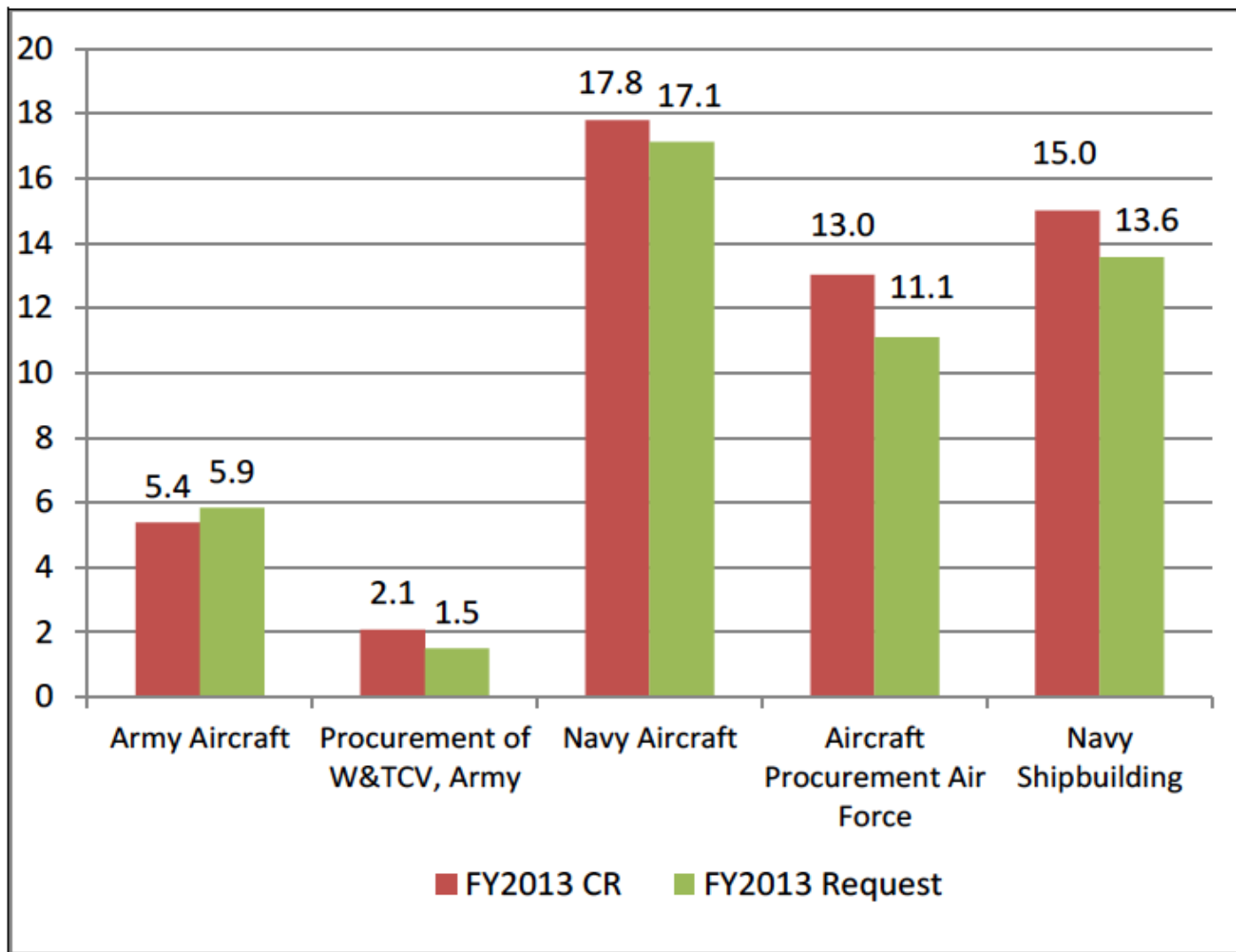
Base Budget	\$198.9
War Spending	\$64.0
Total enacted as of FY13 CR	\$263.3
Percent Sequester Cut	-8.5%
Sequester Cut	-\$22.4
O&M Funds Likely to Be Available to Absorb a Sequester	
Excluding War Spending	\$199.3
Excluding estimated obligations available	-\$71.4
Estimated Base O&M Available for Sequester	\$127.9
Sequester Cut assuming allocated Evenly to all categories of O&M	-17.5%

Potential Allocation

Source of Potential Savings	In Billions of \$	In Cut to Available Funds
O&M Civilian Hiring Freeze as of February 1, 2013	-\$2.3	-9.0%
Furloughing O&M Civilians as of March 1, 2013 for 22 days	-\$3.7	-14.6%
Civilian Savings in Working Capital Fund from hiring freeze and furloughs ⁰	-\$1.6	-19.0%
Operating Forces Funding (Budget Activity 1)	-\$5.5 to - \$6.6	-10% to -12.0%
Other O&M: Mobilization, Training and Recruiting, Administrative and Service-wide including all Base Support	-\$9.3 to -\$8.2	-20.2% to -17.8%
Total	-\$22.4	-17.5%

FY2013 and FY2013CR Funding Levels Major Weapons System Accounts By Service

In Billions of Dollars



Programs Exempt by Law

Programs exempt by law

- Military personnel funding
- Certain categories of employees (e.g., 53 PAS appointees)

Exempt by policy (little or no effects)

- Support of Afghan wartime operations
- Wounded warrior programs
- Nuclear deterrence core plans (including all three legs of triad), National Mission Force
- Senior leader essential travel

Programs protected by policy (limit effects to extent feasible)

- “Fight tonight” in Korea
- Preferentially protect those forces forward deployed to Gulf and Asia Pacific
- Readiness of other forward-deployed units
- Intelligence, Surveillance, and Reconnaissance (ISR) in critical theaters
- Family programs
- DoD Education Activity as needed to provide creditable school year
- Other programs closely associated with new Defense Strategy
- Programs where reductions are particularly difficult to reverse

OSD Assessment of Sequestration/BCA in April 2014

- By end FY 2013, many non-deployed Army units won't be ready
- By end FY 2013, many non-deployed AF combat units not ready
- Navy/USMC readiness degraded, deployments curtailed
 - One less carrier strike group in the Gulf
 - Near-term USMC readiness comes at the expense of crisis response forces
- Furloughs damage productivity and readiness
 - Now up to 14 days
- Investment programs: unit cost increases, schedule delays, adverse effects on industrial base
- Impacts of Sequestration/OCO Shortfalls
- Even With An Appropriation Act
- Sequestration Is Inefficient and Damaging

Sequestration, Budget Uncertainty and its Impact on Military Planning – I

Each of the military branches have issued memos highlighting steps to be taken to cope with the threat of cuts to the defense budget:

NAVY

- Under continuing resolution:
 - Terminate private-sector maintenance on vessels and aircraft in FY 2013 3rd and 4th quarters
 - Cease civilian hiring, except for “mission-critical” personnel
 - Suspend non “mission essential” training and travel
 - Decrease “base operating support” and “facilities sustainment” by 10 and 50%, respectively
 - “...curtail training and education, including training events not related to either maintaining forward-deployed readiness or the readiness of next-to-deploy forces”
 - “...limit administrative expenses and supply purchases to essential consumption only”
- Under sequestration:
 - “Stop all deployments to the Caribbean and South America”
 - “Limit European deployments to only those supporting ballistic missile defense missions”
 - “Reduce the number of ships and aircraft deployed”
 - “Cease stateside training, flying, steaming and other operations for the majority of ships and aircraft preparing to deploy, unless funded by Fleet Commander’s proposed offsets”
 - “...consider the possibility of civilian furloughs of up to 22 days...”

Source: Memo from Jonathan W. Greenert,, “DIRECTION REGARDING THE CONTINUING RESOLUTION AND SEQUESTRATION,” US Department of the Navy, January 25, 2013.

http://www.pscouncil.org/c/e/EventList/Sequestration/Direction_Regarding_the_Continuing_Resolution_and_Sequestration.aspx

Sequestration, Budget Uncertainty and its Impact on Military

Budget Uncertainty and its Impact on Military Planning – II

ARMY

- For implementation in January 2013:
 - Cease civilian hiring with “exceptions for humanitarian and mission-critical purposes”
 - “Terminate temporary employees...term appointments shall not be extended unless a specific exception is approved...”
 - “...30% reduction of FY 13 Base Operations Support (BOS) spending levels compared to FY 12 levels...reduce utilities consumption to the maximum extent possible”
 - “Curtail temporary duties and professional training that are not mission-critical...”
 - “Curtail training...not related to maintaining readiness for Operation Enduring Freedom, the Korean forward-deployed units, Homeland Defense and the Division Ready Brigade”
 - “Limit administrative expenses and supply purchases to essential FY 13 consumption only...Ceremony expenses shall be similarly limited.”
 - “Cease facilities sustainment activities that are not directly connected to matters of life, health or safety...cease all Restoration & Modernization projects...”
 - “...plan to cancel 3rd and 4th quarter depot maintenance and reset orders and contracts that do not directly support units deployed to a theater or entering the Army Force Generation-available pool”
 - “...stop Army-wide Second Destination Transportation shipments...”
 - “...submit all Research, Development, Test and Evaluation and production contract awards or modifications that exceed \$500 million to the Under Secretary of Defense (Acquisition Technology and Logistics) [USD(AT&L)] for approval prior to award”
 - “Accelerate Joint Reconciliation Program reviews...”
- Suggest FY 2013 furloughs may be implemented

Source: Memo from General Raymond T. Odierno and John M. McHugh, “Risk Mitigation in the Face of Fiscal Uncertainty,” US Department of the Army, January 16, 2013.

http://www.pscouncil.org/c/e/EventList/Sequestration/army_guidance.aspx

Sequestration, Budget Uncertainty and its Impact on Military

Budget Uncertainty and its Impact on Military Planning – III

AIR FORCE

- For implementation in January 2013 (January 14 memo):
 - Cease civilian hiring, “...immediate elimination of temporary employees and not renewing term hire employees with exceptions for mission-critical activities...”
 - “Review OCO requirements and identify potential reductions which will not impair wartime operations...”
 - “Cancel all temporary duties that are not mission-critical...”
 - “Curtail flying not directly related to readiness...”
 - “Curtail or cancel ongoing and scheduled studies that are not Congressionally-directed or mission critical”
 - “Limit supply purchases to essential FY13 consumption...”
 - “Defer non-emergency Facility Sustainment, Restoration and Modernization (FSRM) projects...”
 - “Where practical, de-obligate/incrementally-fund contracts to encompass only FY13...”
- For implementation under sequestration (January 7 memo):
 - “Reducing Weapons System Sustainment (aircraft depot maintenance and engine overhauls) by as much as 17%, pushing aircraft availability and mission capable rates much further below standards”
 - “Reducing flying hours by as much as 18%...driving nearly all flying units to unacceptable readiness levels by the end of FY13”
 - “Implementing civilian furloughs to the maximum level possible without initiating reduction-in-force procedures across the total force”
 - “Prioritizing and curtailing operational training exercises...”
- F-35, KC-46, and “long-range bomber” programs could be jeopardized by sequestration (Defense News)
- Flying hours at minimums in Air Force Mobility Command – about 40% drop for spring 2013 through end of FY 2013 (April 11 report)

Sources: Memo from General Larry O. Spencer and Jamie M. Morin, “Fiscal Year 2013 (FY13) Near-Term Actions to Handle Budgetary Uncertainty,” Under Secretary of the US Air Force, January 14, 2013. http://www.pscouncil.org/c/e/EventList/Sequestration/usaf_guidance.aspx; Memo from Michael B. Donley and General Mark A. Welsh III, “Fiscal Year 2013 (FY13) Near-Term Actions to Mitigate Sequestration Impacts,” Secretary of the Air Force, Chief of Staff, United States Air Force, January 7, 2013. http://www.pscouncil.org/c/e/EventList/Sequestration/donley_letter.aspx; Defense News Staff, “U.S. Services Detail Fiscal Crisis Impact,” *Defense News*, January 20, 2013. <http://www.defensenews.com/article/20130120/DEFREG02/301200014/U-S-Services-Detail-Fiscal-Crisis-Impact>; Army Sgt. 1st Class Tyrone C. Marshall Jr., “Sequestration Consumes Intellectual Efforts, Commander Says,” *American Forces Press Service*, April 11, 2013. <http://www.defense.gov/news/newsarticle.aspx?id=119758>

Ongoing Impacts in April 2014

- Near-term actions
 - Civilian hiring freezes
 - Release temps/terms
 - Travel, conferences
 - Facilities maintenance
 - Base operating cuts
 - Review/delay contracts
- Effects of year-long sequestration/OCO
 - Training/maintenance
 - Training cutbacks
 - Equipment maintenance cutbacks
 - Furloughs
 - Overall approach
 - Consistency and fairness
 - Notifications
 - Union bargaining
 - Concern for morale/productivity
 - TRICARE issues
 - Disruption of as many as 2,500 investment programs

Sequester Will Have an Impact on DoD Civilian Personnel and State GDPs

Defense Department furloughs
as a percentage of all jobs in each state*

FURLOUGHS			
1.	Hawaii	3.2 %	19,728
2.	Va.	2.4	89,810
3.	D.C.	1.8	13,268
4.	Md.	1.8	46,459
5.	Alaska	1.6	5,421
6.	Okla.	1.5	23,888
7.	Ala.	1.4	26,620
8.	Me.	1.2	6,916
9.	Utah	1.2	14,551
10.	Wash.	1.0	29,000
	U.S. avg.	0.5	

Federal spending on procurement, salaries and
wages as a percentage of state G.D.P.

D.C., Md., Va.	19.7 %	
Hawaii	15.8	
Alaska	13.3	
N.M.	12.8	
Ky.	9.9	
Ala.	8.9	
Mo.	7.6	
S.C.	7.4	
Colo.	7.0	
Ga.	6.9	
U.S. avg.	5.3	

*Civilian jobs

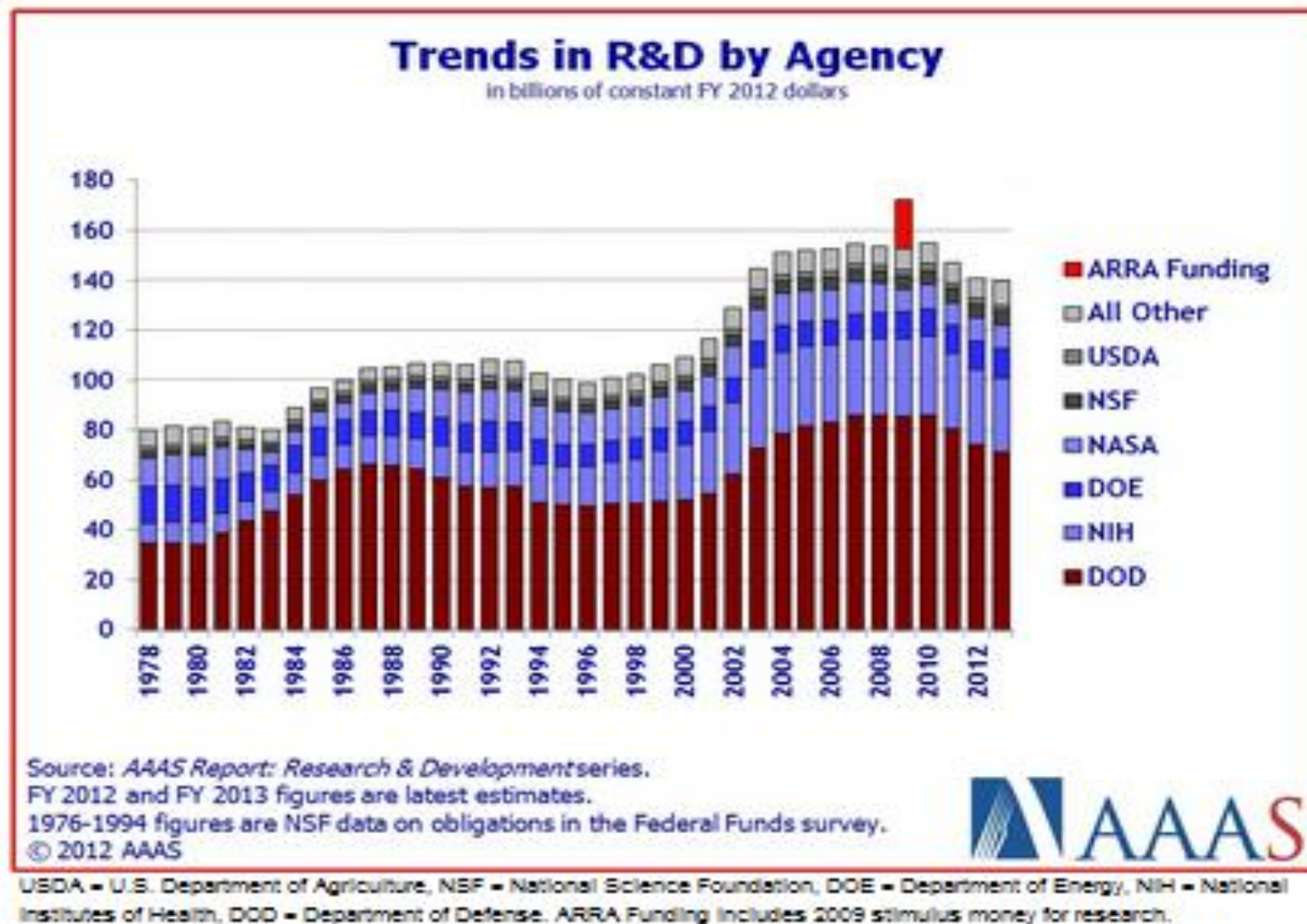
The New York Times

Sources: Defense Manpower Data Center; Bureau of Labor Statistics; Pew Center on the States

Adapted from: "Sequestration's Impact," *New York Times*, March 2, 2013.

<http://www.nytimes.com/interactive/2013/03/03/us/virginia.html?ref=politics>

Research and Development Trends Already on Decline During Recession



Sequestration Could Further Jeopardize R&D, Causing the US to Lag Behind China

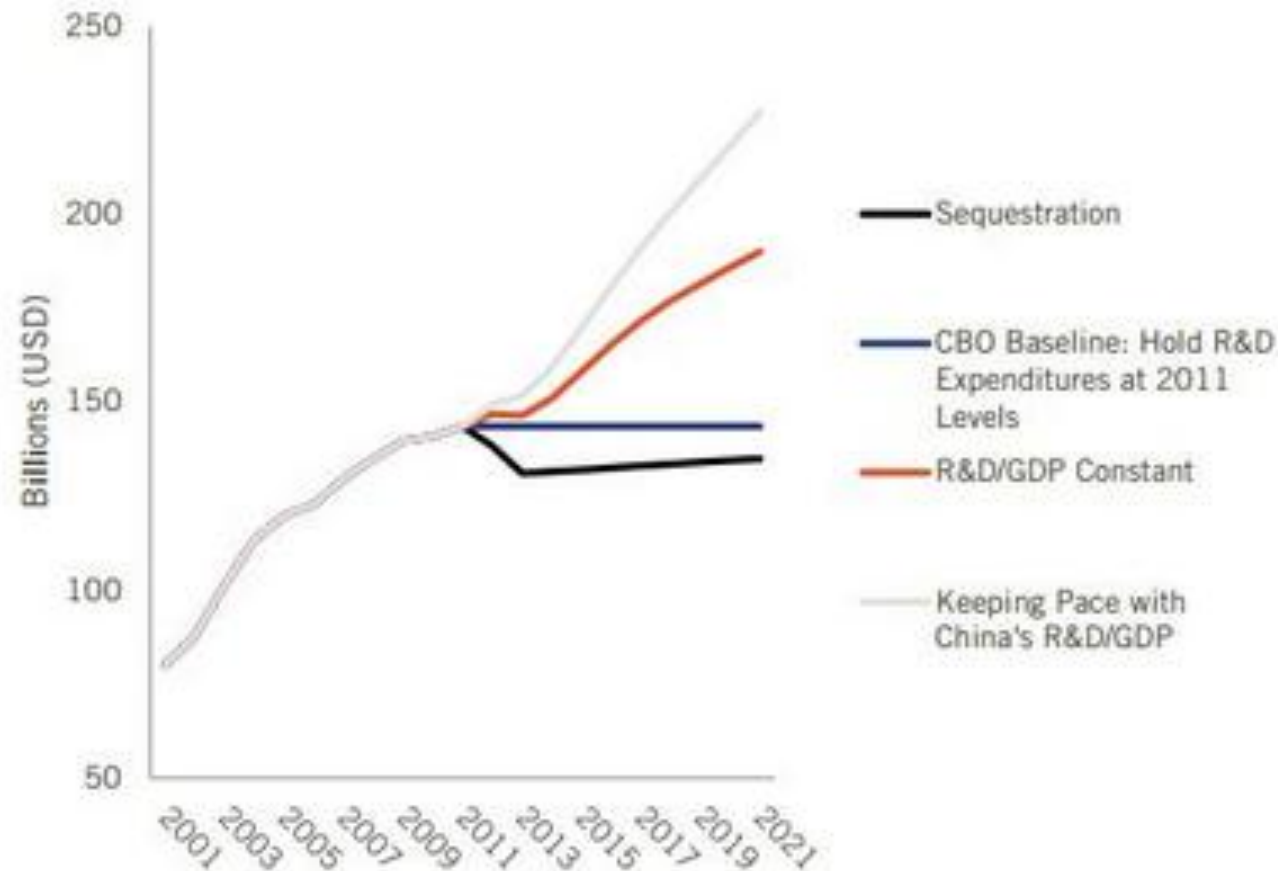
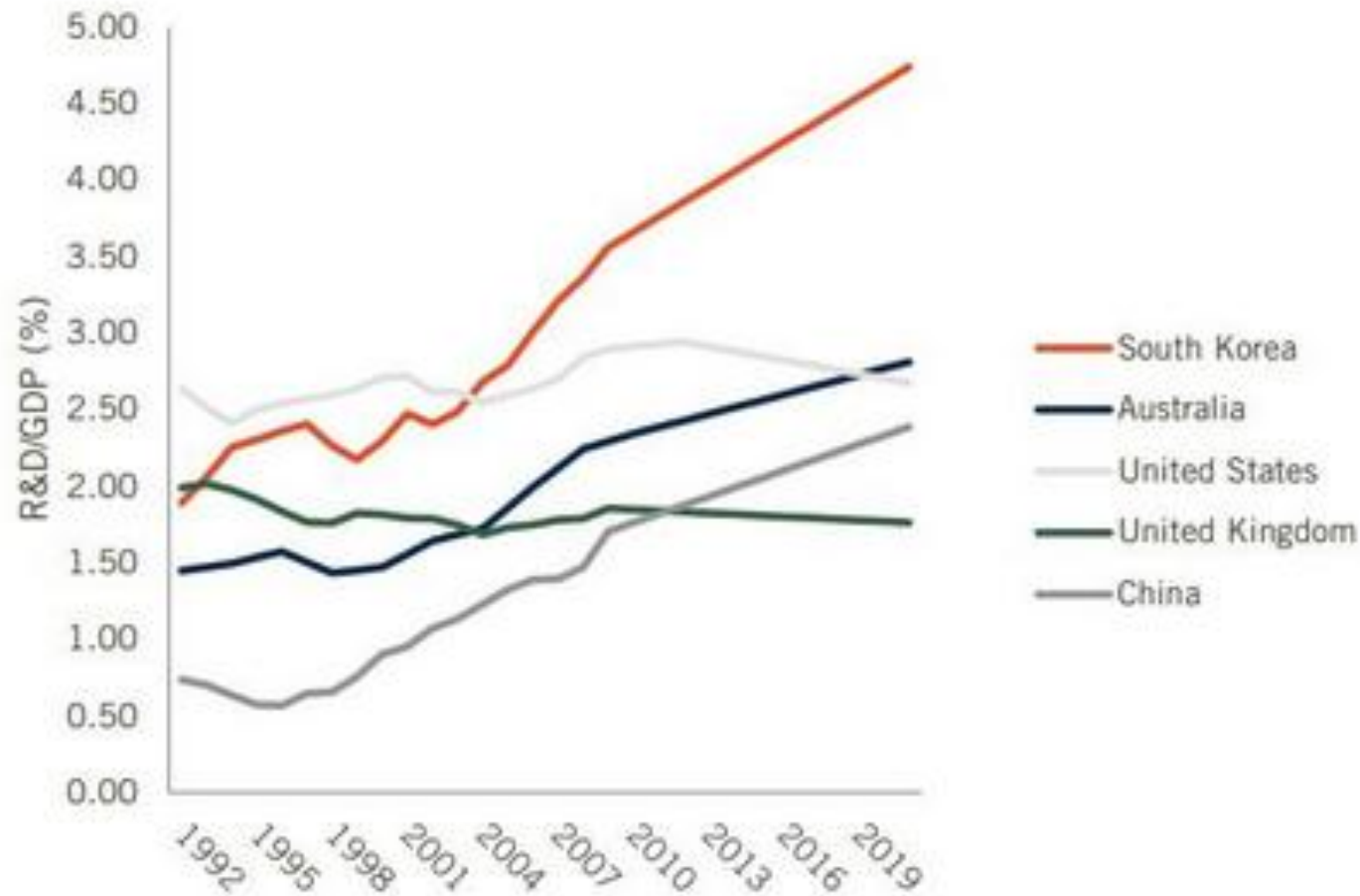


Figure 4: Sequestration and the Three Federal R&D Expenditure Benchmarks, Sources: NSF, OMB, CBO, BEA, ITIF

27-Year Growth Trends in R&D Favor Key Asia-Pacific States Over the US



Adapted from: Brad Plumer, "The Coming R&D Crash," Wonkblog, *Washington Post*, February 26, 2013.
<http://www.washingtonpost.com/blogs/wonkblog/wp/2013/02/26/the-coming-rd-crash/>

From Sequestration Prevention to Adaptation – March 1 and Beyond

- FY 2013 Continuing Resolution:
 - The failure of sequestration prevention through tax increases and other means by Senate Democrats shifted focus to House Republicans, who proposed a continuing resolution (CR) for FY 2013 to alleviate the impact of required cuts on defense, while allowing the sequester to continue through the fiscal year.
 - The CR was passed by Congress and signed by President Obama in late March 2013.
 - The resolution allows greater leeway in determining the allocation of funding within the Department of Defense, while not eliminating the sequester.
 - 800,000 civilian furloughs postponed under CR.
- Debt Ceiling:
 - Reports suggest that Rep. Paul Ryan will propose a plan to end federal budget deficits within a decade – which would likely require cuts to entitlement programs.
 - If Democrats in Congress and the Obama Administration are forced to accept the House's continuing resolution to avoid an unfunded government, it raises doubt over the likelihood that the Senate and the administration will also concede to the spending cuts – particularly to entitlement programs – that Rep. Ryan's proposal would require.
 - Current deal extending debt ceiling ends May 19, though the Treasury Department may be able to prolong a debt ceiling crisis beyond the 19th.

Sources: Lori Montgomery and Rosalind S. Helderman, "Congress Heads Out as the Sequester Blows In," *Washington Post*, February 28, 2013; Rosalind S. Helderman, "House Republicans Introduce Bill to Keep Government Running," *Washington Post*, March 4, 2013; Kristina Peterson, "House GOP Budget Bill Expected to Pass," *Wall Street Journal*, March 3, 2013. <http://online.wsj.com/article/SB10001424127887324539404578338631888876400.html>; Jonathan Weisman, "House G.O.P. Plans a Budget That Retains Tax Increases and Medicare Cuts," *New York Times*, March 6, 2013. <http://www.nytimes.com/2013/03/07/us/politics/congress-ready-to-start-work-on-budget.html?pagewanted=all&r=0>; CBS News, "Obama to Sign Spending Bill, Bit It's Not What He Hoped For," *CBS This Morning*, March 26, 2013. http://www.cbsnews.com/8301-505263_162-57576273/obama-to-sign-spending-bill-but-its-not-what-he-hoped-for/; Roger Runningen and Brian Faler, "Obama Inks 2013 Funding Bill Locking in Cuts He Opposes," *Bloomberg*, March 27, 2013. <http://www.bloomberg.com/news/2013-03-26/obama-inks-2013-funding-bill-locking-in-cuts-he-opposes.html>; Thom Shanker, "Pentagon Reduces Furlough Days for Civilian Staff," *New York Times*, March 28, 2013. <http://www.nytimes.com/2013/03/29/us/politics/defense-department-cuts-some-furlough-days-for-civilians.html>; Lori Montgomery, "Republican Goal to Balance Budget Could Mean Deep Cuts to Health Program," *Washington Post*, March 4, 2013; Suzy Khimm, "Here are all the Budget Deadlines We're facing in the Next 3 Months," *Washington Post*, January 23, 2013.

Possible Ways to Soften FY2013 Sequestration Impacts

- “For O&M funding where CR limits and sequester reductions are set at the account level, DOD could transfer funds from less critical to more critical programs, resolving many potential funding mismatches between FY2012 and FY2013, and potentially protecting readiness-related activities. For procurement accounts where a strict CR would set funding limits at the account level, DOD could also move monies within accounts to offset mismatches. Sequester reductions, however, would likely occur at the individual program level, which could cause some temporary delays.
- “If DOD wanted to protect critical programs, it might use reprogramming authority to transfer funds between appropriation accounts as long as the four congressional defense committees approved. DOD currently has about \$5 billion available in prior-year reprogramming authority that can be used to move funds appropriated in previous years. This could provide DOD a way to protect some critical programs by offsetting sequester decreases to unobligated funds.
- “Since program elements may include several contracts, monies could be allocated among contracts in such a way as to protect the most critical elements. Some contracts, for technical data or support, could be let in future years without necessarily affecting deliveries of weapon systems.
- “Congress could also choose to include statutory language addressing specific anomalies (such as for those individual ships considered essential to buy in FY2013) in the final year-long CR.
- “Another way to soften the impact of the March sequesters would be to spread savings for this year and FY2014 more gradually over the next three years. Instead of requiring annual savings of \$55 each year from the revised caps in the BCA, Congress could amend the Act to require annual savings that would grow from \$25 billion in FY2013 to about \$55 billion in FY2014, \$60 billion for FY2015 through FY2017, and then resume the \$55 billion reductions in the BCA through FY2021. The American Taxpayer Review Act included a partial and somewhat similar version of this option.
- “Under such a smoothed path, DOD would be better able to implement savings that build over time, such as reductions in force structure or to the civilian and contractor workforce, relying primarily on annual turnover rather than more costly early retirement incentives. After FY2017, DOD could return to the BCA path of annual savings of \$55 billion, and still achieve the \$490 billion in savings compared to BCA caps over the FY2012-FY2021 decade. Starting in FY2015, DOD funding levels would include 2% to 3% increases that could cover inflation and modest growth. Under this path, DOD funding in the FY2012-FY2021 decade would average between the FY2007 and FY2008 level in real terms, i.e., adjusting for inflation, a level that matches the Reagan era of the 1980s and the past decade, both historically high levels of defense spending.”

The President's FY 2014 Budget Request

“A guiding principle of DoD budget choices is to first seek efficiencies and target excess overhead costs before cutting military capabilities such as force structure or modernization investments.”

-“Defense Budget Priorities and Choices–Fiscal Year 2014,” US Department of Defense, April 2013.

<http://www.defense.gov/pubs/DefenseBudgetPrioritiesChoicesFiscalYear2014.pdf> . p. 3.

FY 2014 Budget Request – Part I

President Obama's FY 2014 budget would offset sequestration through a combination of lowered spending and revenue increases that would still have implications on defense.

- The President's proposal involves addressing entitlement spending – which is largely neglected by the sequester – by eliminating \$980 billion in spending, including cuts to Medicare and Social Security spending
- Revenue would be raised by \$580 billion
- Some \$400 billion would be cut from healthcare costs within a decade
- Social Security costs will be brought down by shifting to a chained Consumer Price Index (CPI)

Implications on defense include:

- \$100 billion cut in defense spending within a decade (compared to about \$500 billion through the sequester)
- \$550 million year-over-year cut in missile defense spending in FY14 – cutting funding for the Medium Extended Air Defense System (MEADS)
- \$35 billion less in retirement benefits for federal employees – presumably including DoD personnel.
- Budget has been criticized by some for not taking into account the possibility of BCA cuts continuing into 2014.
- Sequestration-offsetting defense reductions mainly geared toward FY 2018 and onwards so DoD can prepare for reductions.

Sources: John Bennett, "Boehner Rejects Obama Budget; Defense Again Caught in Ideological Crossfire," *Defense News*, April 5, 2013. <http://www.defensenews.com/article/20130405/DEFREG02/304050015/Boehner-Rejects-Obama-Budget-59-Defense-Again-Caught-Ideological-Crossfire?odyssey=tab|topnews|text|FRONTPAGE>; Janet Hook and Colleen McCain Nelson, "Obama Budget Draws Fire," *Wall Street Journal*, updated April 5, 2013. <http://online.wsj.com/article/SB10001424127887324600704578404240080001504.html>; Tony Capaccio, "Pentagon to Seek Less for Missile Defense in 2014 Budget," *Bloomberg*, April 8, 2013. <http://www.bloomberg.com/news/2013-04-08/pentagon-to-seek-less-for-missile-defense-in-2014-budget.html>; Joe Davidson, "Federal Retirement Benefits Targeted," *Washington Post*, April 8, 2013. David Lerman and Tony Capaccio, "Hagel to Defend 2014 Budget Ignoring Cuts," *Defense Week Ahead, Bloomberg Government*, April 8, 2013; Karen Parrish, "Hagel Presents Defense Budget Request to Congress," *American Forces Press Service*, April 11, 2013. <http://www.defense.gov/news/newsarticle.aspx?id=119755>

FY 2014 Budget Request – Part II

Other implications on defense include:

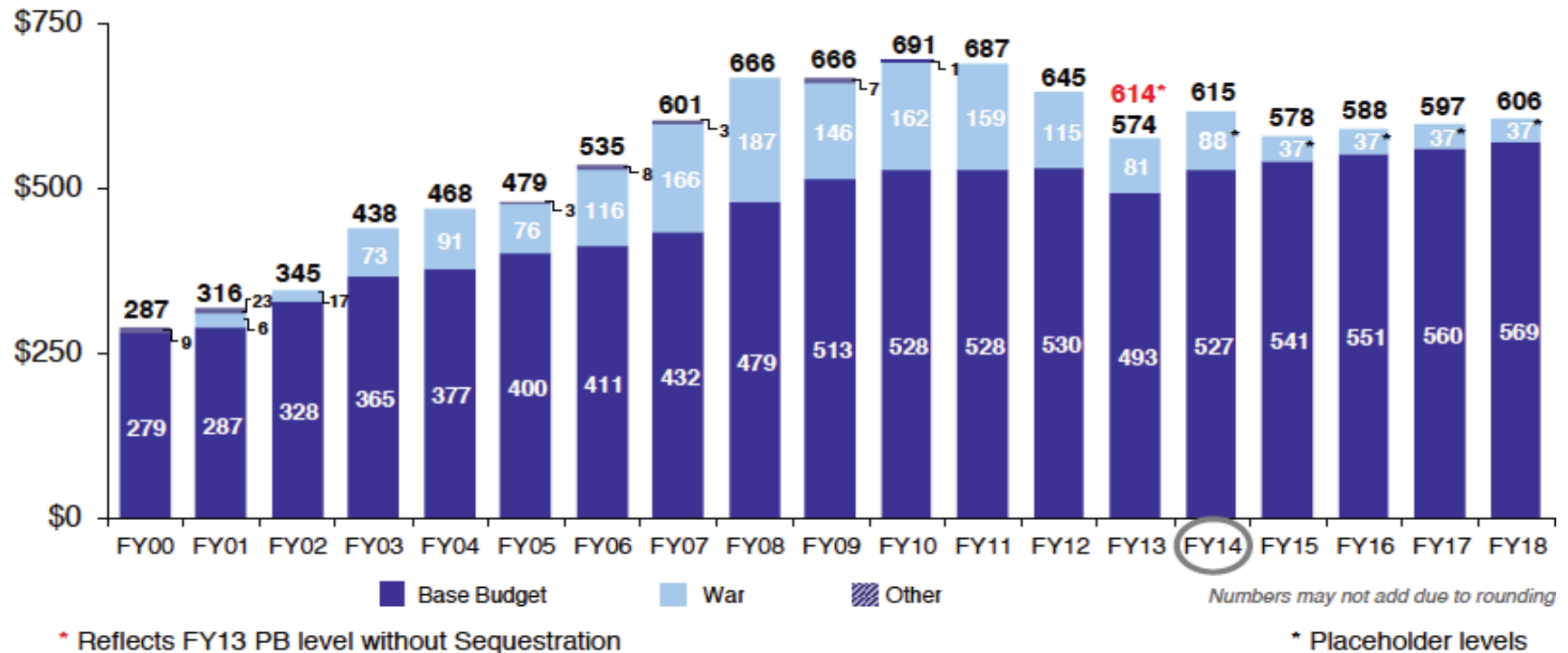
- “Asia Pivot:” “Back in January I gave direction about what is exempt or protected from sequestration, and the services and components are applying that guidance – and it explicitly applies protection, wherever possible, to the activities of the rebalance’ (Asia pivot).... ‘The rebalance is not in jeopardy.’” – Deputy Secretary Ashton Carter, April 2013
- Defense Base Closures and Realignments (BRACs) starting in 2015 (Congress has proven reluctant to back such measures)
- There are two key challenges to the defense budget request:
 - The revenue increases and cuts to entitlement programs involved in the President’s budget request are highly-sensitive political issues
 - The defense request is \$52 billion over the mandated cap

If revenue increases and/or entitlement cuts are rejected by Congress, the defense budget could be vulnerable to being scaled-down to within the limits of the cap – adding further uncertainty to programming

Sources: Carter quote: Amber Corrin, “‘Asia Pivot’ Untouched by Sequester,” *FCW*, April 9, 2013. <http://fcw.com/articles/2013/04/09/asia-pivot-carter.aspx>; Karen Parrish, “Hagel Presents Defense Budget Request to Congress,” *American Forces Press Service*, April 11, 2013. <http://www.defense.gov/news/newsarticle.aspx?id=119755>; Robert Zarate, “FPI Analysis: Obama’s FY2014 Defense Budget & the Sequestration Standoff,” *The Foreign Policy Initiative*, April 11, 2013. <http://www.foreignpolicyi.org/content/fpi-analysis-obama%E2%80%99s-fy2014-defense-budget-sequestration-standoff>

Budget Totals in President's FY 2014 Budget Request: DoD Topline, FY 2000 – FY 2018

(Current Dollars in Billions)



***President's Budget Proposes More Deficit Reduction
Than Budget Control Act Requires***

Source: Office of the Under Secretary of Defense (Comptroller), Fiscal Year 2014 Budget Request and FY2013 Update, April 2013

Topline History and Projected Baseline: FY 2001 – FY 2018 (Current Dollars in Billions)

Topline: FY2001-FY2014

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Base	287.4	328.2	364.9	376.5	400.1	410.6	431.5	479.0	513.2	527.9	528.2	529.9	527.5	526.6
OCO	22.9	16.9	72.5	90.8	75.6	115.8	166.3	186.9	145.7	162.4	158.8	115.1	87.2	88.5
Other	5.8	–	–	0.3	3.2	8.2	3.1	–	7.4	0.7	–	–	0.1	–
Total	316.2	345.1	437.5	467.6	478.9	534.5	600.9	665.9	666.3	691.0	687.0	645.0	614.8	615.1

Numbers may not add due to rounding

Data are discretionary budget authority. FY 2001 through FY 2012 are actual levels. The FY 2014 OCO figure is a placeholder pending submission of a final OCO request.

Projected Baseline (OCO Projection Not Yet Ready): FY2001-FY2014

<i>Current \$ in Billions</i>	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY14 – FY18 TOTAL
FY 2013 PB	533.6	545.9	555.9	567.3	579.3	2,782.0
FY 2014 PB	526.6	540.8	551.4	560.0	568.6	2,747.4
Delta	-6.9	-5.1	-4.5	-7.3	-10.7	-34.6
Real Growth	-1.8%*	+1.3%	+0.2%	-0.3%	-0.5%	-0.2%**

** Real growth calculated from the FY 2013 enacted amount (\$527.5 billion)*

***Average annual real growth for FY 2014 – FY 2018.*

Source: Office of the Under Secretary of Defense (Comptroller), Overview: US Department of Defense Fiscal Year 2014 Budget Request, April 2013

Major Uncertainties in the Topline

- Uncertainty in FY 2014 topline
 - Budget Control Act (BCA) would cut \$52 billion if no change in law
 - President's budget meets BCA deficit targets without FY 2014 defense cuts
 - House and Senate Budget Resolutions support proposed funding
- Even more uncertainty in years beyond FY 2014
 - BCA could cut \$500 billion over 10 years if no change in law
 - Senate Resolution likely to cut \$130 billion over 10 years compared to President's budget
 - House Resolution adds to President's plan

Combat Force Composition: FY 2013 – FY 2014

Service	FY 2013	FY 2014	Objective Force FY14 PB	Objective Force FY13 PB	Delta Objective Force FY13 - FY14
Army Active					
Brigade Combat Teams (BCTs)	45	44	37	37	--
Army National Guard					
BCTs	28	28	28	28	--
Navy					
Number of Ships ^{1/}	285	273	291	285	+6
Carrier Strike Groups	10	10	11	11	--
Marine Corps Active					
Marine Expeditionary Forces	3	3	3	3	--
Infantry Battalions	27	26	23	23	--
Marine Corps Reserve					
Marine Expeditionary Forces	--	--	--	--	--
Infantry Battalions	9	8	8	9	-1
Air Force Active					
Combat Coded Squadrons	41	40	40	41	-1
Air Force Reserve					
Combat Coded Squadrons	3	3	3	3	--
Air National Guard					
Combat Coded Squadrons	19	21	21	19	+2

^{1/} The Navy force structure plan reflects the FYDP Ship Building Plan. The current 30-year Ship Building Plan reflects a force structure of 306 ships.

Adapted from: Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, "Overview: United States Department of Defense Fiscal Year 2014 Budget Request," US Department of Defense, April 2013, p. A-1.

Budget, Plan, and Strategy Under Further Review: The Strategic Choices and Management Review

- Secretary Hagel has ordered this review
 - DoD must constantly examine the choices that underlie our defense strategy, posture, and investments
 - Especially important in the period ahead—budgetary and strategic uncertainty affect our planning
- Review conducted by Deputy Secretary Carter working with General Dempsey, CJCS
 - Service Secretaries, Chiefs, OSD principals, and Combatant Commanders serve as essential participants
- 2012 Defense Strategic Guidance point of departure
 - Review will define major strategic choices and institutional challenges
 - Necessary to preserve and adapt defense strategy and management under a wide range of future circumstances
- Results will frame Secretary's guidance for FY 2015 budget and be the foundation for the Quadrennial Defense Review
- Review will report to Secretary Hagel at regular intervals and conclude by May 31, 2013

***FY 2014 Request Provides a Detailed Blueprint
SCMR Will Develop a Framework For FY 2015 And Beyond***

Implementing New Strategic Guidance - I

Smaller, leaner force

- Continue PB13 force reductions
- Army, USMC reductions continue
- Ship and aircraft retirements

Rebalance to Asia Pacific/Sustain in Middle East

– Asia Pacific

- Modernize and strengthen alliances and partnerships
- Most capable forces forward
- Enhance presence in region
 - Expand access and cooperation with Australia, Philippines, Singapore
 - Develop Guam as strategic hub

Middle East: Maintain presence and strengthen relationships to:

- Pressure Iran
- Provide a stabilizing presence
- Be prepared to respond to regional unrest
- Current Gulf posture is substantial

Implementing New Strategic Guidance - II

Protect and prioritize key investments and new capabilities

- Sustain Counter-Terrorism (CT) activities and Special Operation Force (SOF) growth
- Space and cyberspace
- Intelligence, Reconnaissance & Surveillance (ISR), Ballistic Missile Defense (BMD) and countering Weapons of Mass Destruction (WMD)

Build innovative partnerships

- Global Security Contingency Fund
- Use existing authorities more effectively

Confront and defeat aggression

- Maintain the world's finest fighting force
- Deter aggression on the Korean Peninsula
- Continue investments in enhanced power projection capabilities

No Clear OCO Plan As Yet

Goal is to Fully Fund a Responsible Drawdown in Afghanistan

- Force level assumptions not finalized
- Pricing assumptions now identified
 - 34K troops in Afghanistan by end of February 2014
 - For pricing only, assume 34K continues through September 2014

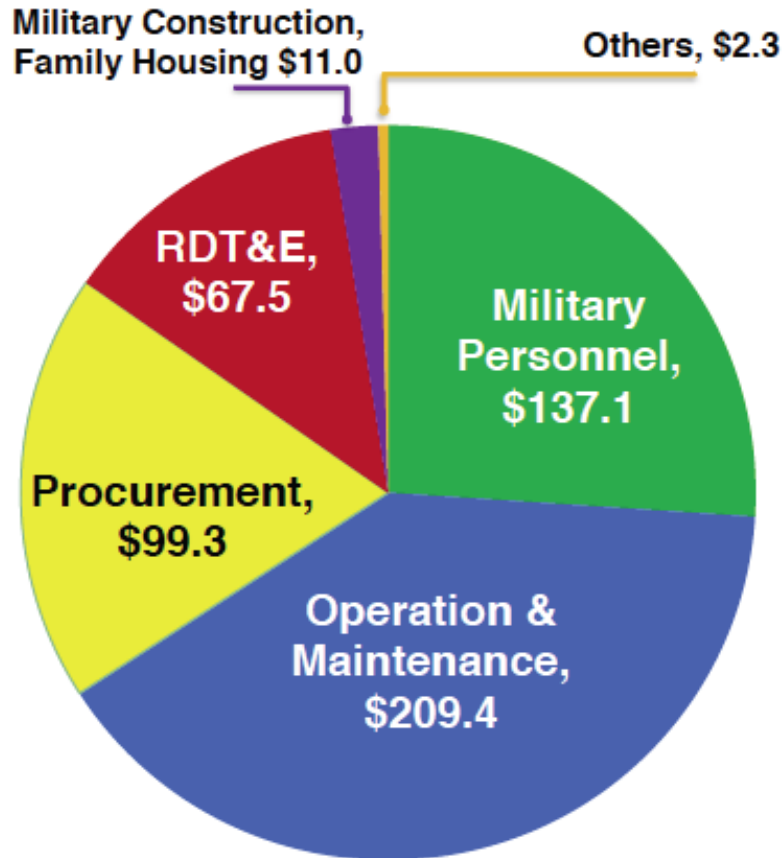
OCO budget amendment being prepared

- Expect submit in late April/early May

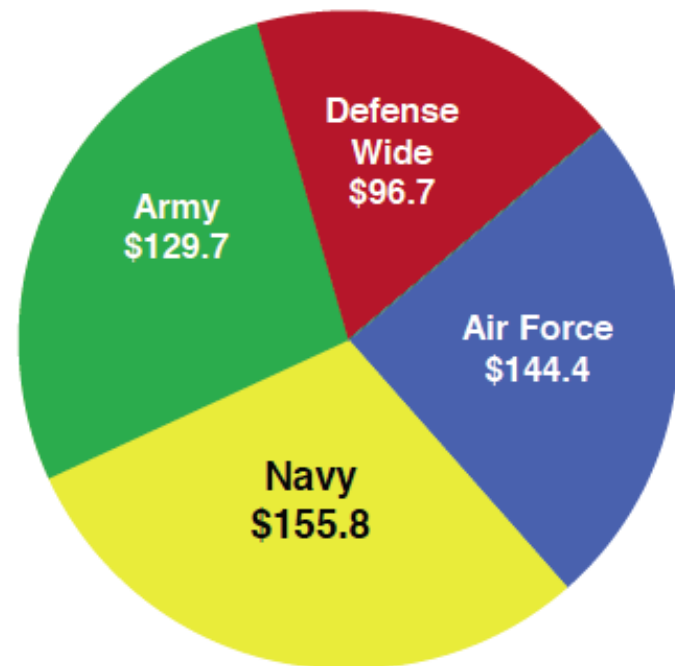
Allocation of FY 2014 Budget Baseline Request

(Dollars in Billions)

Base Budget



Budget By Military Department



Budget Request: \$526.6 Billion

Source: Office of the Under Secretary of Defense (Comptroller), Fiscal Year 2014 Budget Request and FY2013 Update, April 2013

Adjusted FY2013 Baseline Budget and FY 2014 Baseline Request

(Dollars in Billions)

	FY 2013 Enacted w/Sequester	FY 2013 (PB Request)	FY 2014 (PB Request)
Military Personnel	135.4	135.1	137.1
Operation and Maintenance	194.0	208.8	209.4
Procurement	89.3	98.8	99.3
Research, Development, Test and Evaluation	63.4	69.4	67.5
Military Construction	7.4	9.6	9.5
Family Housing	1.4	1.7	1.5
Revolving Funds	2.0	2.1	2.3
Total	492.9	525.4	526.6

Story: Not Much Change From PB 13 Request

Numbers may not add due to rounding

Source: Office of the Under Secretary of Defense (Comptroller), Fiscal Year 2014 Budget Request and FY2013 Update, April 2013

DoD Base Budget: FY 2013 vs. FY 2014 – Part I

The largest year-over-year cuts in the base budget will be to RDT&E, while military personnel, military construction, and revolving and management funds will see an increase in funding.

<i>\$ in Thousands</i>			
Base Budget	FY 2013 Enacted	FY 2014 Request	Delta FY13 - FY14
Military Personnel	135,390,003	137,076,631	1,686,628
Operation and Maintenance	210,095,636	209,442,776	-652,860
Procurement	99,849,144	99,309,426	-539,718
RDT&E	69,394,555	67,520,236	-1,874,319
Military Construction	8,937,726	9,468,920	531,194
Family Housing	1,648,602	1,542,713	-105,889
Revolving and Management Funds	2,211,102	2,276,527	65,425
Total	527,526,768	526,637,229	-889,539

Note: Reflects Discretionary Budget Authority

Numbers may not add due to rounding

Adapted from: Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, "Overview: United States Department of Defense Fiscal Year 2014 Budget Request," US Department of Defense, April 2013. p. A-3.

DoD Base Budget: FY 2013 vs. FY 2014 – Part II

In terms of service branches, the Navy has the largest base budget but also the largest cuts going into FY 2014 – over \$3 billion worth. The Air Force on the other hand – despite having the second-largest base in both years, will experience considerable gains of \$6.4 billion in its FY 2014 base budget.

<i>\$ in Thousands</i>			
<i>Base Budget</i>	FY 2013 Enacted	FY 2014 Request	Delta FY13 - FY14
Army	131,934,373	129,665,529	-2,268,844
Navy	158,905,773	155,790,152	-3,115,621
Air Force	139,776,561	144,425,239	4,648,678
Defense-Wide	96,910,061	96,756,309	-153,752
Total	527,526,768	526,637,229	-889,539

Note: Reflects Discretionary Budget Authority

Numbers may not add due to rounding

Adapted from: Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, "Overview: United States Department of Defense Fiscal Year 2014 Budget Request," US Department of Defense, April 2013. p. A-3.

Key Savings and Expenditures in FY 2014 Defense Budget Request

- Defense budget request for FY 2014 of \$526.6 billion
- Emphasis in reducing personnel costs:
 - Roughly 5% cut in DoD civilians from FY 2012 to FY 2018 – including 5,235 from the Military Health System (MHS)
 - Slow FY 2014 military pay increases to 1%
 - Raising TRICARE pay-ins
 - Reduction in force levels for active duty Army and Marine Corps; reduction in reserve forces for Navy and Army; reduction in Army National Guard force levels
- Impact on platforms:
 - Cutting 7 Aegis cruisers, 2 amphibious ships over course of FYDP
 - Cutting 31 active duty Air Force planes, while returning 44 Air National Guard and 30 Air Force Reserve planes following Congressional consultations on planned FY 2013 fleet cuts
- Focusing on “Asia Pivot” through:
 - Deploying next-generation EA aircraft to the region (EA-18Gs)
 - Developing interoperability in Guam
 - Developing anti-access/area denial (A2/AD) and counter-A2/AD systems
- Emphasizing expenditures on cyber security; space; airborne intelligence, surveillance, and reconnaissance (AISR) capabilities; command, control, and communications (C3) systems; US missile defense; ties to industry; and alternative energy initiatives

Major New and Ongoing Cuts

Selected initiatives (\$5.5 billion in 2014, \$34 billion in FY 2014 – 2018)

- Consolidate infrastructure (BRAC in 2015)
- Study restructure of military healthcare system
- Restructure civilian workforce, and contractor costs
- Control healthcare costs
- Revise missile defense programs

Slow growth in military compensation (\$1.4 billion in 2014, \$12.8 billion in 2014 – 2018)

- Set FY 2014 pay raise at 1% (civilian pay raise same)
- Resubmit military healthcare proposals with changes

Currently implementing many past initiatives

- Services have processes in place
- Audit efforts
- Better buying power
- Others: IT, strategic sourcing, fuel, military construction

Restructuring Readiness

Work to establish new readiness posture for the post-Afghanistan period

- **Army:** Regionally aligned forces, forward deployed, trained for decisive action
- **USMC:** Crisis response, full spectrum training, reconstitute in stride
- **Navy:** Full spectrum training, maintain global at-sea presence
- **Air Force:** Set course to restore full spectrum readiness
- **USSOCOM:** Full spectrum, global capabilities and regional expertise

Personnel Costs and Priorities

- Family Support Programs \$8.5 billion
 - DoD Schools, Commissaries, Counseling, Child care
 - Transition Assistance Programs/Tuition Assistance
 - Suicide Prevention
 - Sexual Assault Response and Prevention
- Wounded Warrior programs sustained
- Basic allowance for housing \$21 billion (Rates up 4.2%)
- Basic allowance for subsistence \$5 billion (Rates up 3.4%)
- Housing privatization nearly complete
- Military and Civilian Pay Raise 1%
- Military Healthcare System \$49.4 billion
- Military compensation 1/3 of budget, absorbed about 1/10 of \$487 billion in savings

Cuts in Active Force End Strength (In Thousands)

Force Funded in Base Budget

Service	FY 2013 Enacted	FY 2014	Delta FY13 - FY14
Army	502.4	490.0	-12.4
Navy	322.7	323.6	+0.9
Marine Corps	182.1	182.1	—
Air Force	329.5	327.6	-1.9
TOTAL	1,336.7	1,323.3	-13.4

Force Funded in OCO Budget

Service	FY 2013 Enacted	FY 2014 ^{1/}	Delta FY13 - FY14
Army	49.7	30.0	-19.7
Marine Corps	15.2	8.1	-7.1
TOTAL	64.9	38.1	-26.8

Total Force

Service	FY 2013 Enacted ^{2/}	FY 2014	Delta FY13 - FY14
Army	552.1	520.0	-32.1
Navy	322.7	323.6	+0.9
Marine Corps	197.3	190.2	-7.1
Air Force	329.5	327.6	-1.9
TOTAL^{3/}	1,401.6	1,361.4	-40.2

Limited Cuts in Reserve Forces

(End Strength in Thousands)

Selected Reserve	FY 2013 Submit	FY 2014 Request	FY 2018 Plan
Army Reserve	205.0	205.0	205.0
Navy Reserve	62.5	59.1	60.0
Marine Corps Reserve	39.6	39.6	39.6
Air Force Reserve	70.9	70.4	69.5
Army National Guard	358.2	354.2	350.2
Air National Guard	105.7	105.4	105.3
Total	841.9	833.7	829.6

Numbers may not add due to rounding

(\$ in Billions)

Program (Base Budget)	FY 2013 Submit	FY 2014 Request
Army Reserve	8.9	8.7
Navy Reserve	3.6	3.5
Marine Corps Reserve	1.0	1.1
Air Force Reserve	5.5	5.9
Army National Guard	17.8	18.6
Air National Guard	9.9	10.4
<i>Subtotal Reserve</i>	<i>19.1</i>	<i>19.2</i>
<i>Subtotal National Guard</i>	<i>27.7</i>	<i>29.0</i>
Total	46.8	48.2

- Maximizes critical capabilities and capacities for meeting national defense strategy.
- Mitigates strategic risk at less cost than a large standing full-time force, while also reducing operational risk.
- Provides cost effective returns on significant DoD investment and the ability to retain that investment.
- Maintains a higher level of readiness in the RC than strategic only.
- Integrates more closely with, and reduces stress on the Total Force.

Source: Office of the Under Secretary of Defense (Comptroller), Fiscal Year 2014 Budget Request April 2013, p 3-6.

Investment Priorities:

FY 2013 – FY 2014

(Current Dollars in Billions)

\$ in Billions

Weapons Category	FY 2013 PB	FY 2014 PB	Change
Aircraft	46.6	45.4	-1.2
C4I Systems	7.9	7	-0.9
Ground Systems	8.2	8.4	0.2
Missile Defense	9.1	8.5	-0.6
Missiles & Munitions	9.2	9.2	--
Mission Support	45.4	45.8	0.4
RDT&E S&T	11.9	12	0.1
Shipbuilding and Maritime Systems	22.6	23.2	0.6
Space Based Systems	8	8	--
Total	168.8	167.5	-1.3

Numbers may not add due to rounding

(Includes: Procurement, RDT&E, and the NDSF accounts)

Source: Office of the Under Secretary of Defense (Comptroller), Overview: US Department of Defense Fiscal Year 2014 Budget Request, April 2013

Priority Programs

(Dollars in Billions)

<u>Increases</u>	<u>FY 2013 Enacted</u>	<u>FY 2014 PB</u>	<u>Change</u>
Cyberspace Operations	3.9	4.7	+0.8
SSN (Virginia Class Submarine)	5.0	5.4	+0.4
EA-18G (Growler)	1.0	2.0	+1.0
C-130J Aircraft	1.4	2.1	+0.7
Precision Munitions	2.7	3.2	+0.5
P-8A (Poseidon)	3.2	3.8	+0.6
Evolved Expendable Launch Vehicle (EELV)	1.7	1.9	+0.2

Sequestration Will Disrupt Some Investment Programs

Source: Office of the Under Secretary of Defense (Comptroller), Fiscal Year 2014 Budget Request and FY2013 Update, April 2013

FY 2013 vs. FY 2014 Systems Funding – Part I

Despite overall downward pressure in expenditures, select systems are being allocated greater base funding in FY 2014 than in FY 2013. Below is a list of such systems:

Aircraft		Figures in millions of Dollars	
System	FY2013 Base	FY2014 Base Request	
C-130J Hercules	835.1	2,078.4	
Combat Rescue Helicopter (CRH)	183.8	395.6	
F-15 Eagle	363.7	622.0	
E-2D Advanced Hawkeye	1,159.1	1,416.2	
EA-18G Growler	1,074.6	2,012.9	
H-1 Huey/Super Cobra	821.7	868.1	
P-8A Poseidon	3,258.2	3,764.4	

C4 Systems			
System	FY2013 Base	FY2014 Base Request	
Warfighter Information Network-Tactical (WIN-T)	1,225.5	1,278.2	

Ground Vehicles			
System	FY2013 Base	FY2014 Base Request	
Joint Light Tactical Vehicle (JTLV)	116.8	134.6	
Amphibious Combat Vehicle (ACV)	95.1	137.0	

Missile Defense Systems			
System	FY2013 Base	FY2014 Base Request	
AEGIS Ballistic Missile Defense	1,382.0	1,517.9	
Terminal High Altitude Area Defense (THAAD)	777.7	850.0	
PAC-3/MSE Missile	81.9	609.2	
Ground-Based Midcourse Defense (GMD)	903.2	1,033.9	

FY 2013 vs. FY 2014 Systems Funding – Part II

DoD data suggests that Navy and Air Force aircraft, missiles and missile defense, Navy systems, and space systems are the categories seeing the most year-over-year base budget increases.

Munitions/Missiles		Figures in millions of Dollars	
System	FY2013 Base	FY2014 Base Request	
Advanced Medium Range Air-Air Missile (AMRAAM)	423.2	524.3	
Air Intercept Missile - 9X (AIM-9X)	204.5	300.4	
Joint Air-to-Surface Standoff Missile (JASSM)	248.4	297.6	
Joint Direct Attack Munition (JDAM)	101.9	191.0	
Joint Standoff Weapon (JSOW)	133.3	137.5	
Javelin Advanced Tank Weapon	86.1	115.5	
Evolved Seasparrow Missile (ESSM)	58.2	76.8	
Rolling Airframe Missile (RAM)	66.8	67.6	
Tomahawk Cruise Missile	320.3	324.9	

Ships/Maritime Systems			
System	FY2013 Base	FY2014 Base Request	
CVN 21 Carrier Replacement	781.7	1,680.0	
Littoral Combat Ship (LCS)	2,336.8	2,389.5	
VIRGINIA Class Submarine (SSN 774)	4,257.7	5,417.8	
CVN Refueling Complex (CVN RCOH)	1,613.3	1,951.2	
Ohio Replacement Program (ORP)	564.9	1,083.7	
Afloat Forward Staging Base (AFSB)	0.0	524.0	

Space Systems			
System	FY2013 Base	FY2014 Base Request	
Evolved Expendable Launch Vehicle (EELV)	1,687.8	1,880.9	
Space Based Infrared System (SBIRS)	902.8	935.7	
Wideband Global SATCOM System (WGS)	48.9	52.3	

Constant Spending in R&D

(\$ in billions)

Program	FY 2012 Enacted	FY 2013 Request	FY 2014 Request	FY13 – FY14 Change
Basic Research (6.1)	2.1	2.1	2.2	+0.1
Applied Research (6.2)	4.7	4.5	4.6	+0.1
Adv Tech Dev (6.3)	5.4	5.3	5.1	-0.2
Total S&T	12.2	11.9	11.9	0.0

Total DoD S&T budget request for FY 2014 is \$11.9 billion.

This is the same overall amount requested in the FY 2013 budget.

The FY 2014 budget request:

- Increases of \$100 million for Basic Research and Applied Research
- Funds the Defense Advanced Research Projects Agency at \$2.9 billion to develop technologies for revolutionary, high-payoff military capabilities
- Maintains S&T funding in each Military Department at approximately \$2.2 billion

US Army FY 2014 Budget Request

FY 2014 Base Budget Request – Army

Department of the Army	FY 2013 Enacted	FY 2014 Request	Delta FY13 - FY14
<i>\$ in Thousands</i>			
Military Personnel	56,227,401	56,637,064	409,663
Operation and Maintenance	46,006,543	45,521,124	-485,419
Procurement	17,732,903	17,018,515	-714,388
RDT&E	8,622,250	7,989,102	-633,148
Military Construction	2,751,332	1,917,687	-833,645
Family Housing	533,986	556,879	22,893
Revolving and Management Funds	59,958	25,158	-34,800
Total Department of the Army	131,934,373	129,665,529	-2,268,844

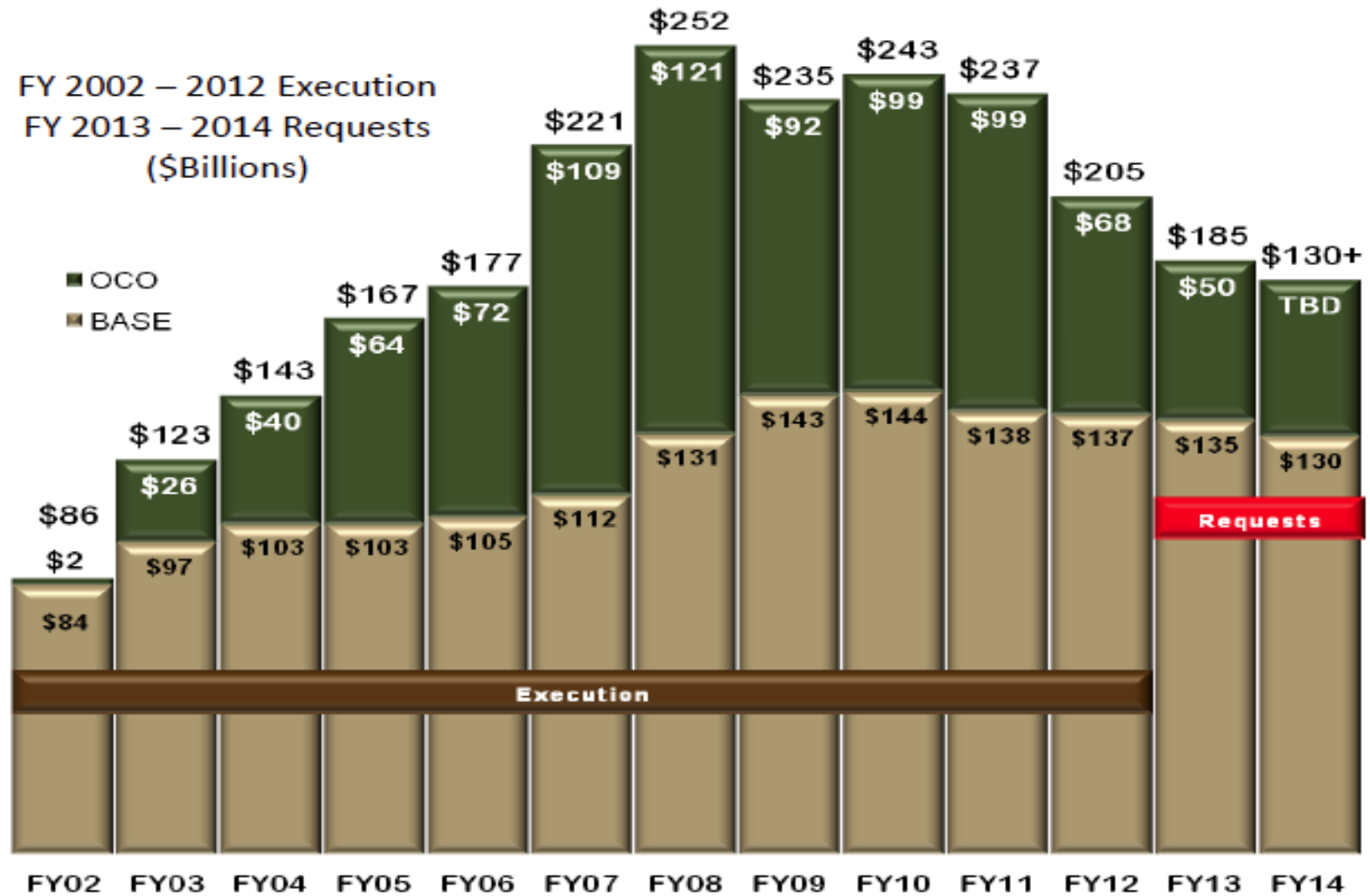
Numbers may not add due to rounding

Adapted from: Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, "Overview: United States Department of Defense Fiscal Year 2014 Budget Request," US Department of Defense, April 2013. p. A-4.

- Less emphasis on counterinsurgency in training
- \$1.8 billion for tech programs including Warfighter Information Network - Tactical (WIN-T), Joint Tactical Radio System (JTRS), Joint Battlefield Command – Platform (JBC-P), Nett Warrior (NW), Distributed Common Ground System – Army (DCGS-A)
- Key upgrades and alterations:
 - Stryker alterations such as “Double V-hull” (\$395 million)
 - M1A2 Abrams (\$178 million)
 - Bradley Fighting Vehicle (\$158 million)
 - OH-58 Kiowa Warrior (\$184 million)
- Key procurements:
 - CH-47 Chinook (6 new, 22 re-manufactured) (\$1 billion)
 - UH-60M (41) and HH-60M (24) (\$1.2 billion)
 - AH-64 Apache (42) (\$813 million)
 - MQ-1 Gray Eagle (\$518 million)
 - M4A1 carbines (12,000), Individual Carbines (29,897) (\$71 million)

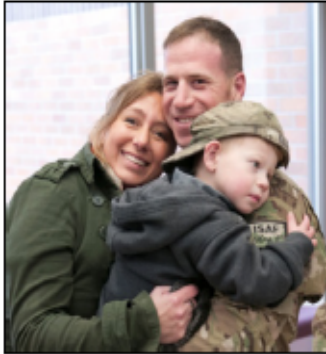
Source: C. Todd Lopez, “Army Officials Describe \$129.7 Billion Budget Request,” *American Forces Press Service*, April 11, 2013. <http://www.defense.gov/news/newsarticle.aspx?id=119753>

Army Budget Trends: FY2002-FY2018



Source: DoD Comptroller Information System

Army Personnel: FY2002-FY2018



Appropriation Title	FY 13 Request (\$M)			FY 14 Request (\$M)
	Base	OCO	Total	Base
Active Army	40,778	9,165	49,943	41,038
Army National Guard	8,103	584	8,687	8,041
Army Reserve	4,514	157	4,671	4,565
MERHCF Medicare Eligible Retiree Health Care Fund	3,020	206	3,226	2,993
Totals	56,415	10,112	66,527	56,637

Authorized End Strengths	FY 13	FY 14
Active Army	552,100	520,000
Army National Guard	358,200	354,200
Army Reserve	205,000	205,000

*The FY 2014 OCO Request will be submitted at a later date
Numbers may not add due to rounding*

- ❖ **Active and Reserve Component end strength to support the National Defense Strategy**
 - 490,000 AC enduring end strength funded in the Base
 - 27,000 non-enduring AC end strength in support of ongoing operations will be requested in OCO
 - 3,000 Temporary End strength Army Medical (TEAM) to support Soldiers in the Integrated Disability Evaluation System will be requested in OCO
- ❖ **Increases military pay (1%) and allowances: 3.9% housing and 3.4% subsistence**
- ❖ **All-Volunteer Force incentives (recruiting/retention bonuses, education benefits, loan repayment)**

Army O&M: FY2013-FY2014

Appropriation Title	FY 13 Request (\$M)			FY 14 Request (\$M)
	Base	OCO	Total	Base
Active Army	36,609	28,598	65,205	35,073
Army National Guard	7,109	386	7,495	7,054
Army Reserve	3,162	155	3,317	3,095
Sub-Total	46,879	29,137	76,017	45,222
Environmental Restoration	336		336	299
Totals	47,215	29,137	76,352	45,521

Current Operations and Training 21 combat training center events
 6 mission command exercises and COCOM engagement activities
 Training miles and flying hours adjusted to support refocused training
 Day-to-day operations of 158 Army installations worldwide
 Continued commitment to Soldier and Family programs
 Global Mobility Army Prepositioned Stocks and industrial preparedness
 Training and Recruiting Recruiting and Initial Military Training for enlisted Soldiers and officers
 Military education for Officers, Non-Commissioned Officers, and Civilians
 Institutional Army Activities Enterprise-level logistics, communications, and security programs
 Manpower management and other service support

Army Modernization: FY2013-FY2014

- The Army's FY 2014 modernization objective is to maintain technological advantage in any operational environment
- The Network, a critical enabler supporting this objective, includes: Warfighter Information Network-Tactical, Joint Battle Command-Platform, Joint Tactical Radio System, Nett Warrior, Distributed Common Ground System-Army
- The objective is also supported by modernizing survivability, lethality, mobility, and Soldier equipping, such as: Combat vehicle modernization — continues Ground Combat Vehicle and Armored Multi-Purpose Vehicle development
 - Joint Light Tactical Vehicle — enhances survivability and mobility at lower cost through the Joint Light Tactical Vehicle program's economies of scale
 - Fire support modernization — continues the Paladin Integrated Management program, an essential component of balanced alignment with Armored Brigade Combat Teams
- Base request is \$1.7B or almost 7% less than last year's request. The reduction reflects the Army's acceptance of measured risk to accommodate a tightening fiscal environment.

Army Procurement Summary

Appropriation Title	FY 13 Request (\$M)			FY 14 Request (\$M)
	Base	OCO	Total	Base
Aircraft	5,854	486	6,340	5,024
Missile	1,303	50	1,352	1,334
Ammunition	1,740	357	2,097	1,540
Weapons and Tracked Combat Vehicles	1,502	15	1,517	1,597
Other Procurement	6,326	2,016	8,342	6,465
Totals	16,724	2,925	19,649	15,961

Numbers may not add due to rounding

The FY 2014 OCO Request will be submitted at a later date



The Network
\$1,808M
Connect the Force



Stryker
\$395M
Double V-Hulls & mods



Paladin PIM
\$260M
Modernizing Fire Support



Patriot MSE
\$540M
Missile Segment Enhancement



CH-47 Chinook
\$1,050M
F Model upgrade & mods



UH-60 Black Hawk
\$1,237M
M Model upgrade & Mods



Kiowa Warrior
\$184M
Mods



MQ-1 Gray Eagle UAV
\$518M
Equip one (+) company

US Navy FY 2014 Budget Request

Navy Impact of Sequestration

- **Public Law 113-6 provides an appropriation for DoD**

- Corrects funding misalignments created in annualized Continuing Resolution
- Obviates O&M shortfalls that would have been created by annualized CR
- Properly resources investment accounts
- Provides authorities for new starts, multiyear procurements, quantity increases, and military construction projects

However, sequestration remains: 7.8% reduction to all accounts - except Military Personnel

- DON impact ~\$10.7 billion
- Reduces DON O&M accounts by \$4.4 billion
- Significant Training, Readiness, and Maintenance impacts continue

Reduces investment accounts by \$6.3 billion

- Detailed review ongoing
- Several programs will require immediate fixes
- May result in quantity reductions

Unfunded Requirements and growth must also be addressed

- MIAMI and PORTER repairs, GUARDIAN, fuel rate adjustments, etc.

FY 2014 Base Budget Request – Navy

Department of the Navy	FY 2013 Enacted	FY 2014 Request	Delta FY13 - FY14
<i>\$ in Thousands</i>			
Military Personnel	44,386,124	45,395,854	1,009,730
Operation and Maintenance	51,793,082	47,977,059	-3,816,023
Procurement	43,259,194	43,370,683	111,489
RDT&E	16,694,090	15,974,780	-719,310
Military Construction	1,596,586	1,877,825	281,239
Family Housing	479,778	463,251	-16,527
Revolving and Management Funds	696,919	730,700	33,781
Total Department of the Navy	158,905,773	155,790,152	-3,115,621

Numbers may not add due to rounding

Adapted from: Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, "Overview: United States Department of Defense Fiscal Year 2014 Budget Request," US Department of Defense, April 2013. p. A-4.

□ Key programs being developed:

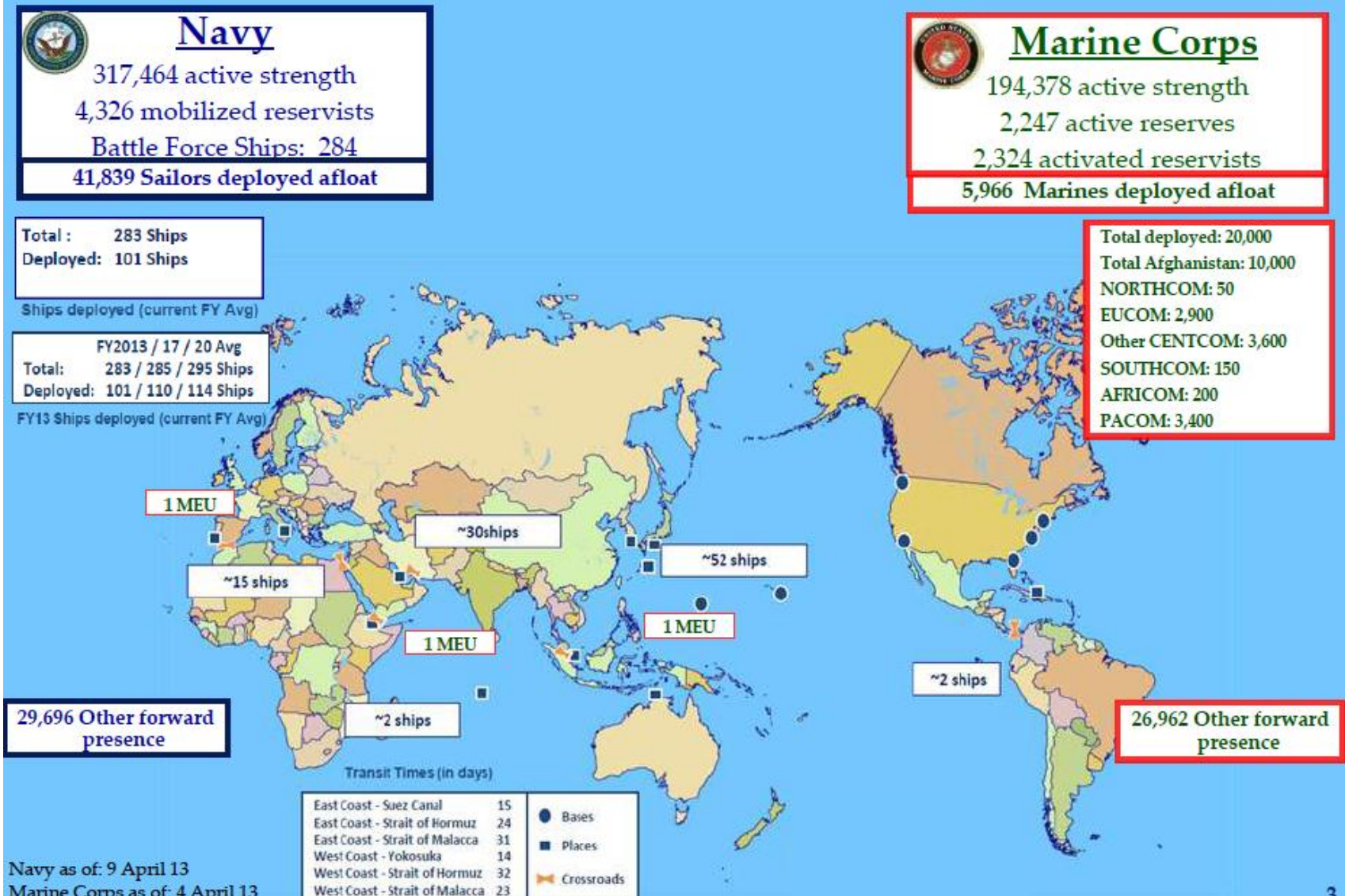
- Production for the Gerald R. Ford-class aircraft carrier, including the USS John F. Kennedy (over 200% year-over-year hike)
- Virginia-class submarines (\$5.41 billion, 27% year-over-year increase in spending)

□ Key procurements:

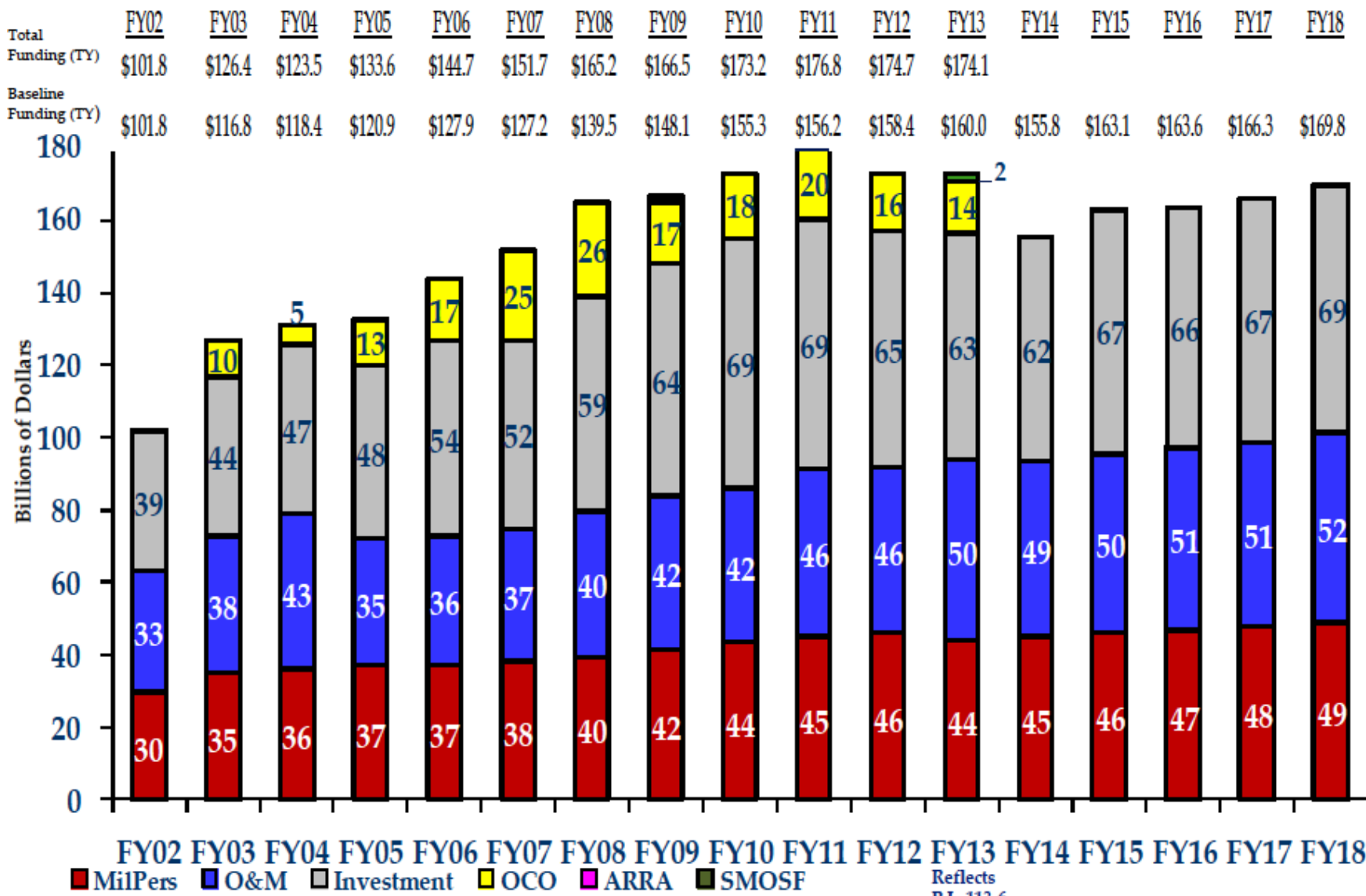
- DDG-51 destroyer (1) (\$1.7 billion)
- Littoral combat ships (4) (\$1.8 billion)

Navy: Bloomberg News, "Navy to Seek More Money for Subs, Aircraft Carriers,"
Norfolk Virginian-Pilot, April 9, 2013;

Navy & USMC Global Engagement



Navy Budget Trends: FY2002-FY2018

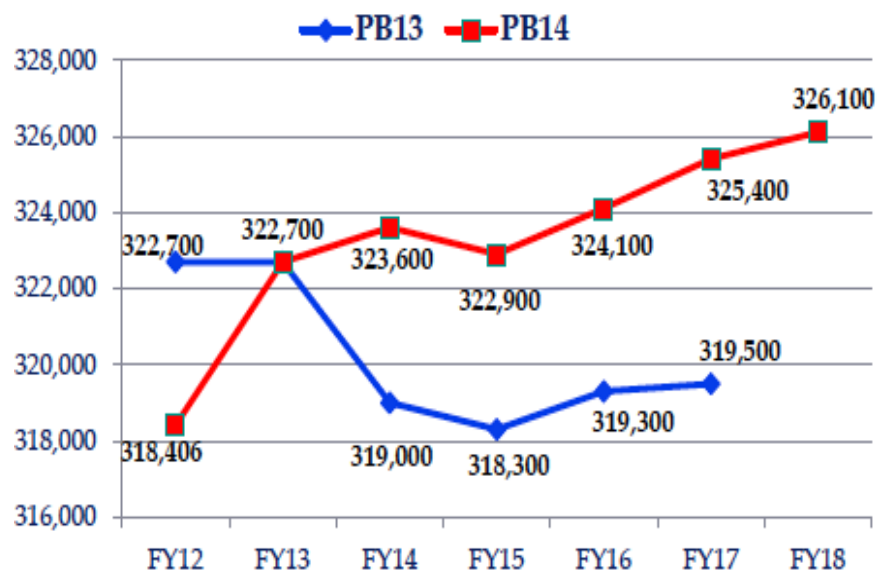


Navy Military Personnel: FY2012-FY2018

Navy Personnel Strength

Stabilizing the Force

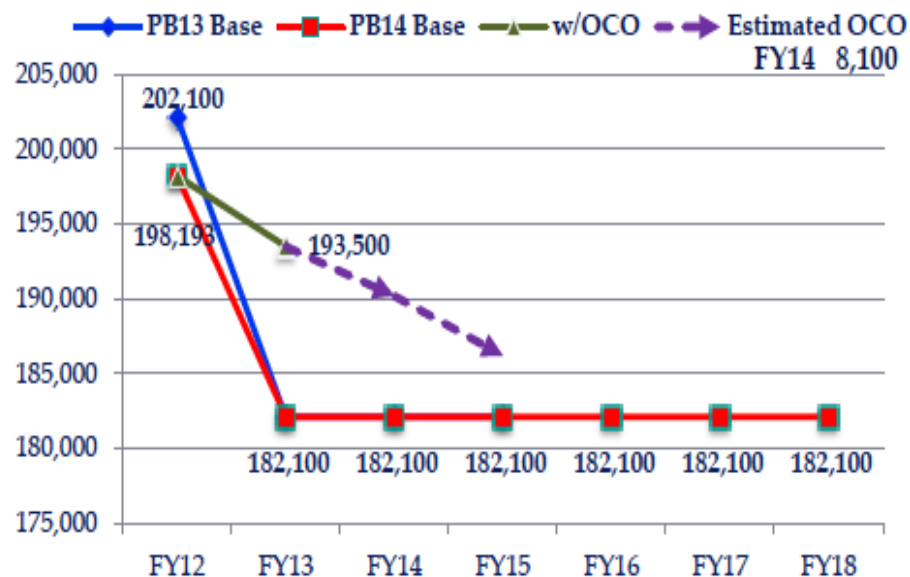
- FY14 Active end strength 323,600
 - o Reduce manning gaps at sea, improve sea/shore flow
 - o Increase the Navy's Cyber capabilities
- Increase from FY13 to FY14 by 900 personnel to improve manning gaps at sea
- FY14 Reserve end strength 59,100



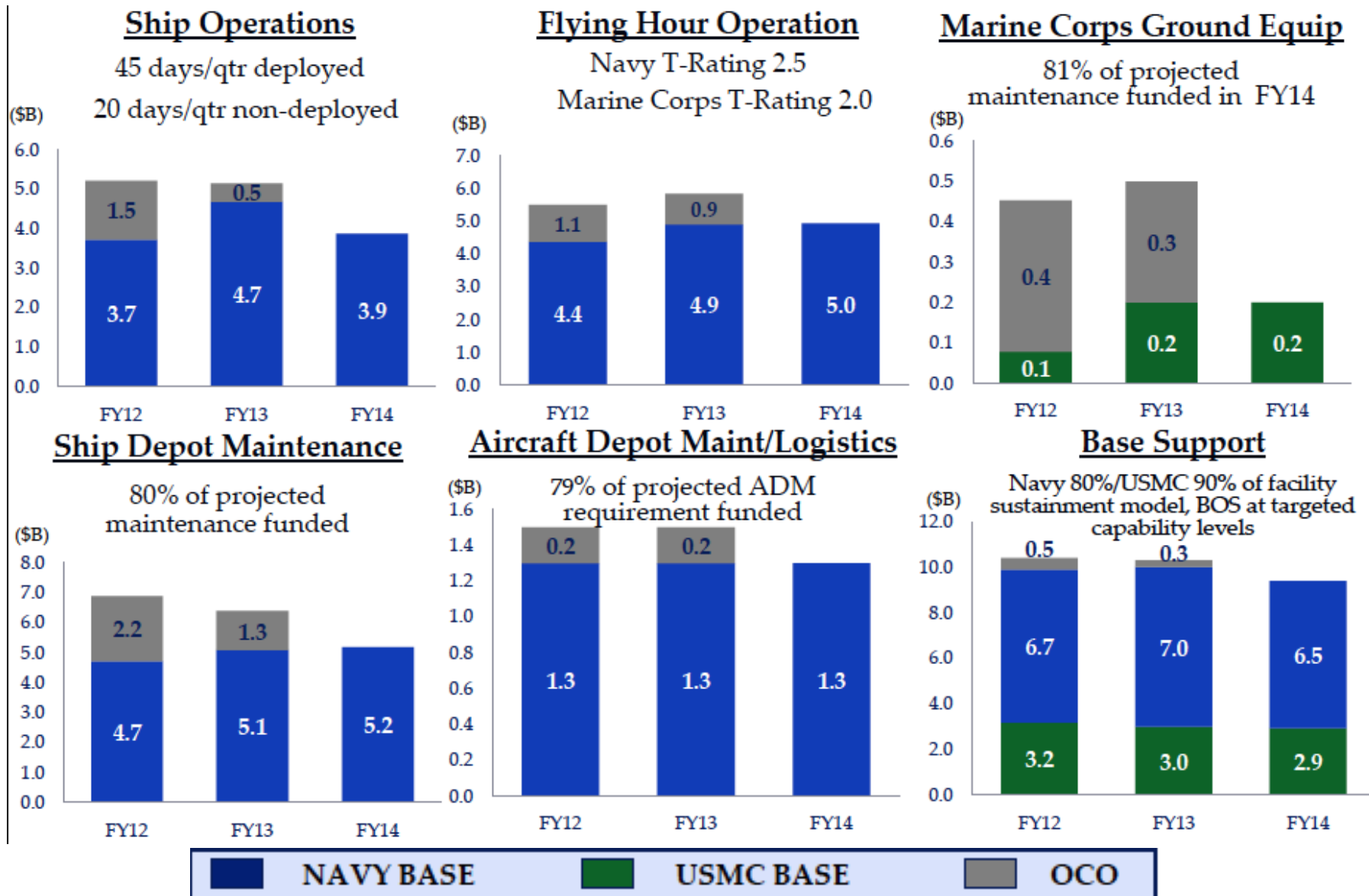
Marine Corps Personnel Strength

Right Sizing The Force

- FY14 end strength 190,200
- Marine Corps strength drawdown from 202,100 to 182,100 by the end of FY16. Strength above 182,100 is anticipated to be in the OCO request
- Remaining agile, flexible, and ready for a full range of contingencies
- FY14 Reserve end strength 39,600



Navy Readiness: FY2012-FY2014



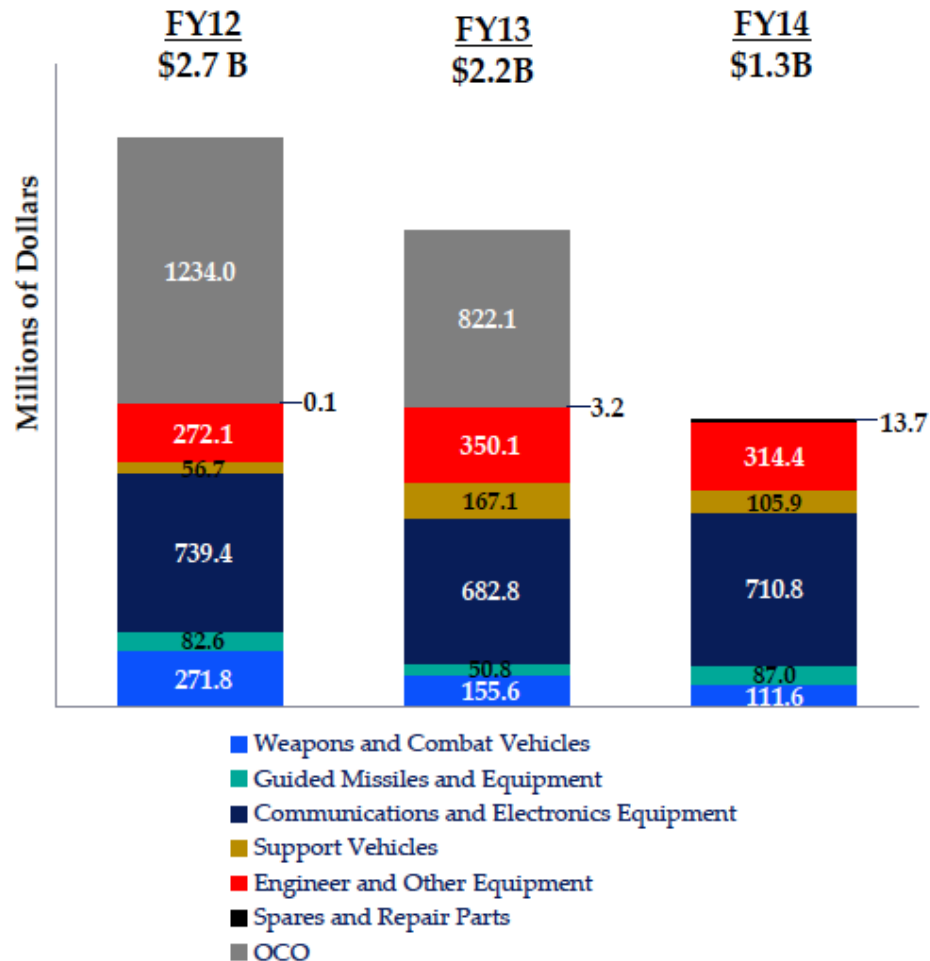
Navy Shipbuilding: FY2013-FY2018

	FY13	P.L. 113-6	FY14	FY15	FY16	FY17	FY18	FYDP
CVN-21	1		0	0	0	0	1	1
SSN-774	2		2	2	2	2	2	10
DDG 51	2	3	1	2	2	2	2	9
LCS	4		4	4	2	2	2	14
LHA(R)	0		0	0	0	1	0	1
T-ATF *	0		0	0	0	2	1	3
JHSV	1		0	0	0	0	0	0
MLP/AFSB	0		1	0	0	0	0	1
T-AO(X) *	0		0	0	1	0	1	2
New Construction Total QTY	10	11	8	8	7	9	9	41
New Construction Total (\$B)	\$10.9	\$13.0	\$10.9	\$14.0	\$12.9	\$15.3	\$17.4	\$70.5
LCAC SLEP	2	4	4	4	4	4	4	20
Ship-to-Shore Connector	1		0	1	4	5	7	17
Moored Training Ships	0		0	1	0	1	0	2
CVN RCOH	0		0	0	1	0	0	1
Total Shipbuilding QTY	13	16	12	14	16	19	20	81
Total Shipbuilding (\$B)	\$13.8	\$15.9	\$14.3	\$16.5	\$15.9	\$18.9	\$19.0	\$84.7

Navy Aircraft Procurement: FY2013-FY2018

	FY13	P.L. 113-6	FY14	FY15	FY16	FY17	FY18	FYDP
Fixed Wing								
F-35B (STOVL JSF)	6		6	6	9	14	20	55
F-35C (CV JSF)	4		4	6	9	14	20	53
F/A-18E/F	26	37	0	0	0	0	0	0
EA-18G	12		21	0	0	0	0	21
E-2D AHE	5		5	5	6	8	8	32
P-8A (MMA)	13		16	16	16	14	10	72
C-40A (USMC)	0	1	0	0	0	0	1	1
KC-130J (USMC)*	0	3	2	1	1	1	2	7
UC-12W	0		1	0	0	0	0	1
Rotary Wing								
AH-1Z/UH-1Y*	28	31	25	26	27	28	30	136
CH-53K (HLR)	0		0	0	2	4	7	13
MV-22B	17	18	18	19	19	18	4	78
MH-60R	19		19	29	29	0	0	77
MH-60S	18		18	8	0	0	0	26
UAV								
MQ-8 (VTUAV)	6		1	5	8	2	2	18
RQ-4	0		0	3	4	4	6	17
STUAS (NAVY)	5		0	0	0	0	0	0
Training								
T-6A/B (JPATS)	33		29	0	0	0	0	29
TOTAL	192	211	165	124	130	107	110	636

Marine Corps Procurement: FY2013-FY2018

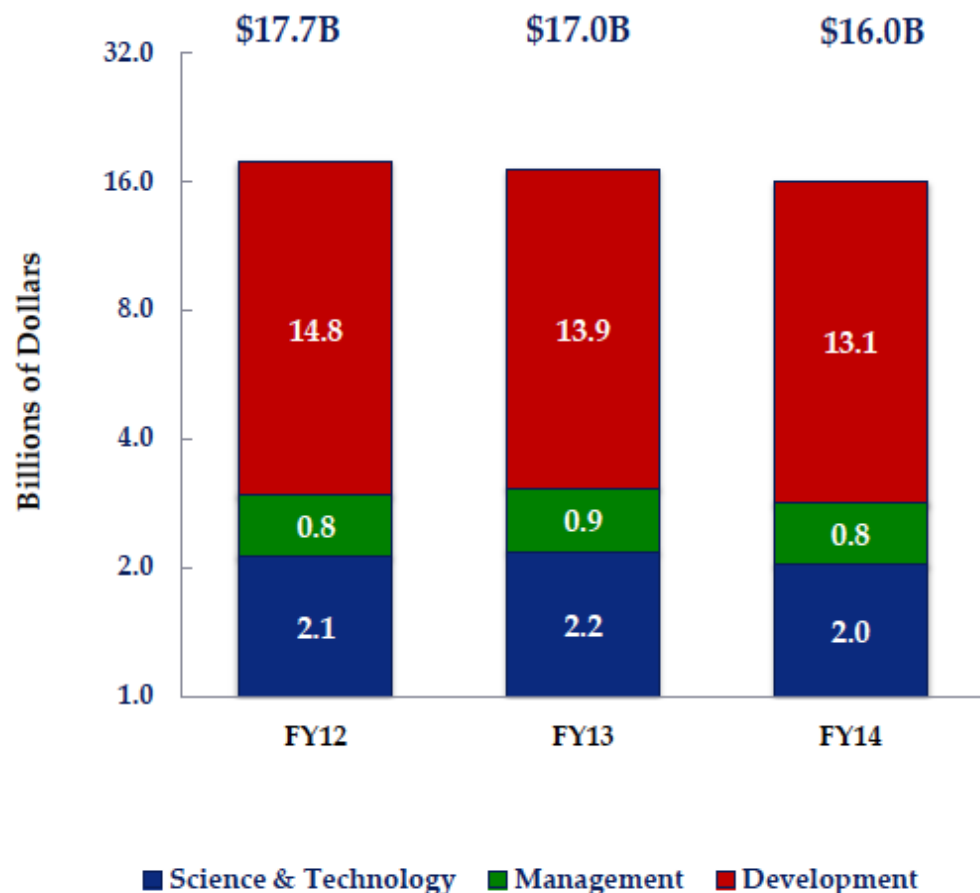


(\$B)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FYDP
Base	1.4	1.4	1.4	1.3	1.8	1.7	1.7	2.2	10.8
OCO	1.8	1.2	0.8	0	0	0	0	0	3.8
Total	3.2	2.7	2.2	1.3	1.8	1.7	1.7	2.2	14.6

Major Systems (SM)	FY12	FY13	FY14
Weapons and Combat Vehicles			
AAV PIP	9.9	16.1	32.4
Mod Kits (Armor/Weapons)	52.2	48	38.4
Weapons and Combat vehicles Under \$5M	42.2	17.7	20.3
Guided Missiles & Equipment			
Ground Base Air Defense (GBAD)	12.3	11	15.7
AAWS-Medium	2.5	29.2	36.2
Mod Kits (Missiles)	63.3	41.6	33.9
Communications & Electrical Equipment			
Combat Support System	25.5	25.8	2.9
Common Computer Resources	235.8	226.5	121.9
Command Post Systems	116.3	35.2	83.3
Radio Systems	216.4	125.5	74.7
Radar Systems (G/ATOR)	66.7	136.1	114.1
Intelligence Support Equipment	111.4	42.7	75.9
Support Vehicles			
Commercial Cargo Vehicles	14.3	13.9	31.1
HMMMWV	0	8	36.3
Family of tactical Trailers	46.7	55.8	27.4
Engineer & Other Equipment			
Tactical Fuel Systems	22.1	70.4	21.5
Power Equipment Assorted	134.5	76.5	61.4
Material Handling Equipment	79.6	39.8	48.5
EOD Systems	220.2	436.3	40.0

Numbers may not add due to rounding

Navy R&D: FY2013-FY2018



Major Systems (\$M)	FY12	FY13	FY14
Aviation			
Joint Strike Fighter (F-35)	1,250	1,439	1,047
CH-53K	606	606	503
Next Generation Jammer	161	167	258
MMA (P-8A)	595	436	317
Shipbuilding			
Ohio Replacement Program	761	488	1,084
LCS	297	429	204
DDG-1000	250	125	188
CVN 21	144	173	148
Virginia Class SSN	109	90	122
Unmanned			
Triton RQ-4 UAV (BAMS)	549	657	375
UCLASS	71	102	147
NUCAS - D	202	142	21
Other			
Defense Research Sciences	446	482	484
AMDR	149	233	240
MC Comms Systems	211	210	179
Amphibious Combat Vehicle	37	83	137
Surface Electronic Warfare Improvement Program	153	114	132
Surface Ship Torpedo Defense	122	93	89
G/ATOR	102	75	78
Sat Com (Space)	259	188	66
Joint Light Tactical Vehicle	45	39	50
Marine Personnel Carrier	19	36	21
JTRS	601	267	3

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US Air Force FY 2014 Budget Request

USAF: Strategy versus Fiscal Reality

Defense Strategy

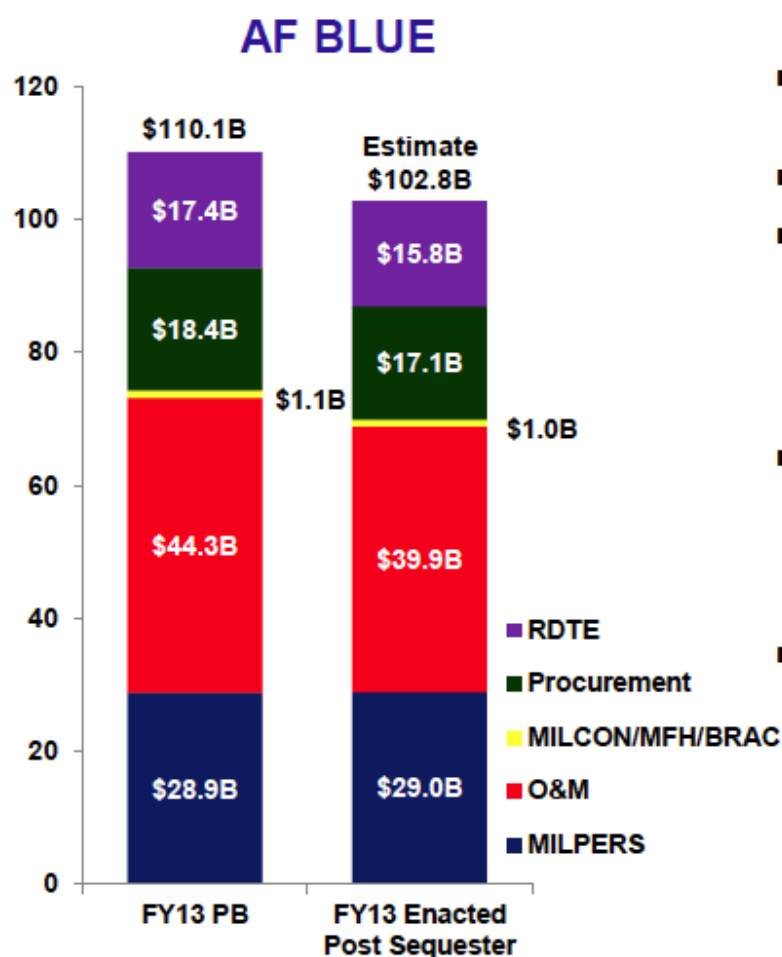
- Focus on Asia-Pacific and Middle East regions
- Evolve strategic posture in Europe
- Size force for one large scale combined campaign, plus deter/deny capacity
- Seek innovative partnerships
- Protect new capabilities and key investments
- Smaller, modernized, agile, ready, reversible force



Fiscal Reality

- Budget Control Act of 2011: DoD must trim \$487B over 10 years, \$259B over five years
- \$54B AF TOA in reductions across FYDP
 - AF TOA cut from FY12 enacted to FY13 PB
- Infrastructure – “over capacity”
- Avoid a hollow force
- Focus on key modernization programs

USAF: Impact of Sequestration



FY13 Actions

- Implemented ~\$40B in efficiencies for FY12 & FY13 across FYDP
- Smaller, but capable Air Force
- Force Structure Changes
 - Reduce 119 A/C (terminates C-27J) & 4.9K slots
 - F-35A reduced by 5 in FY13; 98 across FYDP

FY13 Sequestration Impacts/Actions

- Limited available funds w/ 6 months left of fiscal year
 - MILPERS exempt
 - Upfront costs & must pay bills – civ payroll, utilities, & awarded contracts
- Flying Hours, weapon system sustainment (WSS), and civilian pay represents over 60% of the budget
 - Hours & sustainment are scalable programs
 - Furlough option
 - Will cause catastrophic impact to readiness w/ bow-wave of mission requirements into FY14

Sequestration creates significant FY13 bow-wave into FY14

USAF: Sequestration “Bow-wave”

FY13 Sequestration Actions

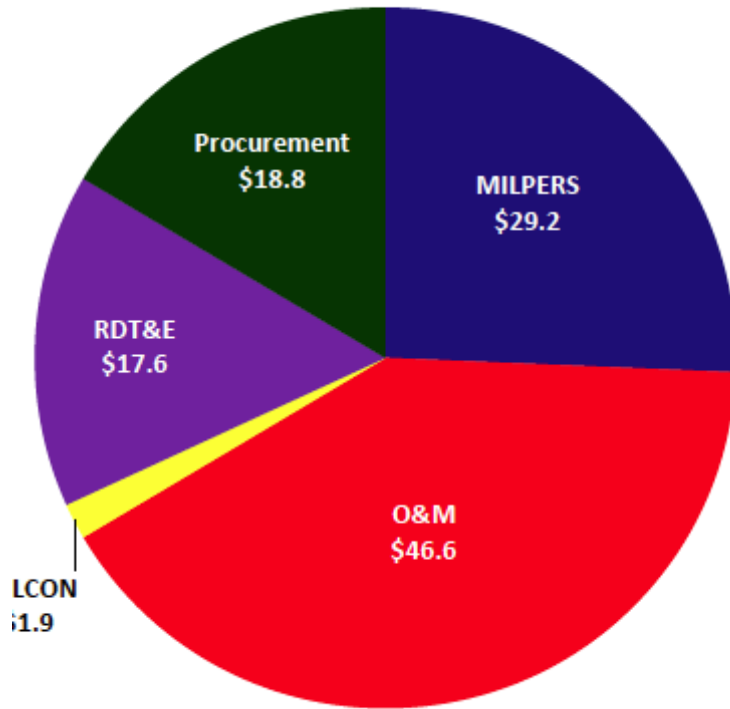
- ~203K flying hours reduction
- Cut WSS by ~18% of budget
- Reduced MAJCOM/COCOM O&M spending targets by over 10%
- Implemented civilian hiring restrictions - hiring freeze, & released temporary employees; planning for furloughs
- Deferred all non-emergency Facility Sustainment, Restoration and Modernization (FSRM)
- Sequestration cuts drive significant impacts to investments

Bow-Wave Impacts to FY14

-➤ ■ 6 months to restore pilot proficiency – will create a potential bath tub effect
-➤ ■ ~70 deferred depot inductions - multiple years to recover
-➤ ■ Military education/training cycle backlog may affect promotions; increased risk on real-time communications for warfighter
-➤ ■ Impairs civilian retention & recruiting; creates bottleneck for hiring; increase workload for existing force
-➤ ■ Exacerbates facilities maintenance & restoration backlog – magnifies risk
-➤ ■ Investment reduction drives increased acquisition costs/delay critical capabilities
 - F-35A quantity reduction

USAF: FY2014 Baseline Request

***\$114.1B Blue Baseline**



MILPERS ■ O&M ■ MILCON ■ RDT&E ■ Procurement

Numbers may not add due to rounding

***FY14 OCO will be submitted separately**

■ MILPERS

- Funds Housing/Subsistence allowances & pay raise

■ O&M

- Supports 1.2M flying hours, \$7.8B
- Resources WSS at 69%, \$10.5B, for 5.2K aircraft
- Funds FSRM at 80%, \$2.4B

■ MILCON

- Funds KC-46A & F-35A bed-downs, 10 projects/\$0.3B

■ RDT&E

- Continues KC-46A tanker development, \$1.6B
- Develops logistics, interoperability, & commonality systems for the F-35A, \$0.8B
- Designs and develops the Long Range Strike Bomber, \$0.4B

■ Procurement

- Recapitalizes C-130 fleet, \$1.9B
- Procures 5 Evolved Expendable Launch Vehicles (EELV), \$1.9B
- Restores depleted Joint Direct Attack Munitions (JDAM) inventory, \$0.2B

FY14 PB does not fix FY13 bow-wave nor assumes top-line cut

USAF Military Personnel



	FY14 PB
(\$B)	
Air Force Active Duty	23.2
Air National Guard	3.2
Air Force Reserve	1.7
Medicare Eligible Retiree Health Care	1.1
Total	\$29.2


Numbers may not add due to rounding



- **Increases basic pay and allowances for Housing and Subsistence**
 - **Housing Allowance – 4.2%**
 - **Subsistence Allowance – 3.4%**
 - **Basic Pay – 1.0%**
- **Balanced Active – Reserve Component force structure mix aligns with current defense strategy**
 - **Total Force End-Strength (E/S) – 503.4K**
 - **Active Duty E/S decreases by 1.9K to 327.6K**
 - **Air Force Reserve E/S decreases by 0.5K to 70.4K**
 - **Air National Guard E/S decreases by 0.3K to 105.4K**
- **FY13 Sequestration Impact: MILPERS exempt**


Maintain sufficient Total Force capacity to meet operational needs

USAF O&M



	FY14 PB
(\$B)	
Flying Operations	18.3
Civilian Pay	11.4
Installation Support & FSRM	6.4
Space/Other Combat Forces	6.1
Logistics Ops & AF Wide Support	2.3
Training & Recruiting	1.1
Mobility Forces	1.0
Total	\$46.6

Numbers may not add due to rounding





- Provides 1.2M flying hours for pilot proficiency, new pilot production; supplies trained crews to COCOMs
- Pay and benefits for 184K civilian personnel...includes 1% pay raise
- Adequately supports core services – child/youth programs, fitness centers, dining facilities
- Funds facilities sustainment at 80% and slows erosion of Air Force infrastructure
- Continues ISR capability for today's fight – on track to reach 65 CAPs in FY14
- Adds funding to restore under-resourced ranges; enhances full-spectrum training
- Supports current fleet of ~5.2K aircraft – funds WSS at 69%
- *FY13 Sequestration Impact: Potential ~\$4.4B FY13 O&M bow-wave*

Other threats to readiness – operational costs rising faster than the budget

USAF R&D

	FY14
(\$B)	PB
Operational System Dev	8.2
Engineering Manufacturing Dev	5.1
RDT&E Management Support	1.2
Applied Research	1.1
Demonstration/Validation	0.9
Adv Technology Dev	0.6
Basic Research	0.5
Total	\$17.6
Numbers may not add due to rounding	

- Modernizes air fleets to meet current and future threats
 - Continues development of the KC-46A tanker aircraft (\$1.6B)
 - Develops, integrates and tests air systems - logistics, interoperability, and commonality efforts for the F-35A (\$0.8B)
 - Designs and develops the Long Range Strike Bomber; program on track (\$0.4B)
- Increases for Space Situation Awareness (\$133M) to include Space Fence to search, track and identify the expanding number of debris objects in orbit
- Maintains Science and Technology funding to remain on the cutting edge of technology
- ***FY13 Sequestration Impact: FY14 Budget Request does NOT provide margin to repay programs that will be sourced to pay for critical readiness in FY13***
 - ***Potential ~\$1.6B FY13 RDT&E bow-wave***

USAF Procurement



	FY14 PB
(\$B)	
Aircraft Procurement	11.4
Missile Procurement	4.5
Other Procurement	2.2
Ammunition Procurement	0.7
Total	\$18.8
Numbers may not add due to rounding	



- Maintains F-35A procurement and ramps production up to 60 per year within FYDP
- Continues CV-22 and implements Multi-Year Procurement Strategy for C-130 platforms
 - Procures 3 CV-22s, 6 C-130Js and recapitalizes MC-130 and AC-130
- Invests in depleted munitions inventories
- Committed to annual production rate of evolved expendable launch vehicle booster cores based on restructured acquisition strategy
- Sustains Efficient Space Procurement strategy for Advanced Extremely High Frequency and Space Based Infrared System (SBIRS)
- Low Rate Initial Production begins for Family of Advanced Beyond Line of Sight Terminals
- *FY13 Sequestration Impact: Potential ~\$1.3B FY13 Procurement bow-wave*

Maintenance & sustainment costs are rising as budgets flatten, and new threats & technologies require investments

USAF Major Procurement Efforts



AIRCRAFT	FY13*	FY13 OCO	FY14
MQ-9A Reaper	24	0	12
F-35A Lightning II	19	0	19
MC-130 Recapitalization	4	0	4
CV-22B Osprey	4	0	3
HC-130 Recapitalization	1	0	1
C-130J Super Hercules	0	0	6
AC-130 Recapitalization	2	0	5
Total	54	0	50
SPACE	FY13	FY14	
GPS III	2	2	
SBIRS GEO	2	0	
EELV	4	5	
Total	8	7	
WEAPONS	FY13*	FY13 OCO*	FY14
JDAM	3,259	1,419	6,965
AGM-114 Hellfire	413	304	413
AIM-9X Sidewinder	164	0	225
AIM-120D AMRAAM	113	0	199
AGM-158 JASSM	157	0	183
Small Diameter Bomb	144	0	144
Total	4,250	1,723	8,129

FY 2014 Base Budget Request – Air Force

Department of the Air Force	FY 2013 Enacted	FY 2014 Request	Delta FY13 - FY14
<i>\$ in Thousands</i>			
Military Personnel	34,776,478	35,043,713	267,235
Operation and Maintenance	44,987,865	47,441,273	2,453,408
Procurement	33,762,285	34,262,210	499,925
RDT&E	25,248,244	25,702,946	454,702
Military Construction	375,412	1,448,408	1,072,996
Family Housing	580,885	464,958	-115,927
Revolving and Management Funds	45,392	61,731	16,339
Total Department of the Air Force	139,776,561	144,425,239	4,648,678

Numbers may not add due to rounding

Adapted from: Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer, "Overview: United States Department of Defense Fiscal Year 2014 Budget Request," US Department of Defense, April 2013. p. A-4.

- Active force growing by 1,860 men and women over FY 2013 – reserve and guard shrinking by 480 and 300, respectively.
- Key procurements:
 - C-130J (6), HC-130 (1), MC-130 (4), AC-130 (5)
 - MQ-9 Reaper (12)
 - F-35A Lightning II (19)
 - CV-22B Osprey (3)
 - Extremely high frequency satellite vehicles
- Key programs being developed
 - KC-46A
 - F-35
 - Long-range bomber
 - Minuteman III

Source: Air Force Master Sgt. Amaani Lyle, "Air Force Budget Official Outlines Fiscal 2014 Funding Request," *Armed Forces Press Service*, April 11, 2013. <http://www.defense.gov/News/newsarticle.aspx?ID=119754>

Budget Cuts Are Only Part
of the Problem:
*Continued Cost Escalation
Could Equal the Impact of
Planned Cuts or
Sequestration*

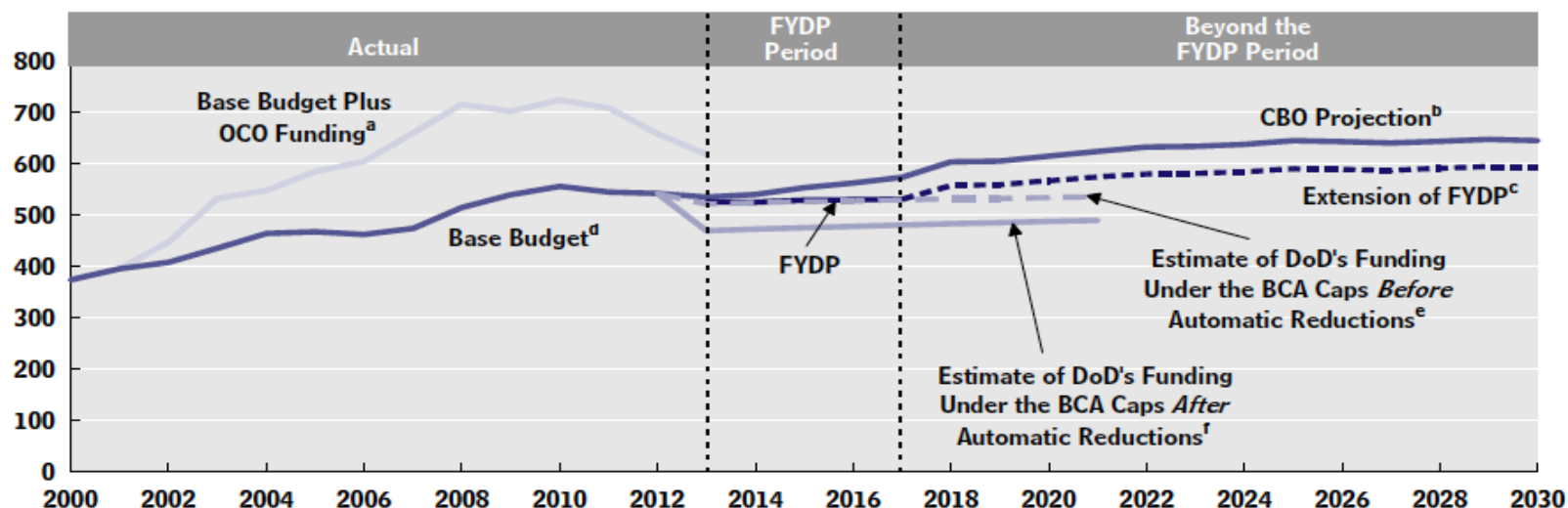
Impact of Cost Escalation in Cutting Procurement Goals and Raising Costs in 14 Recently Finished Programs

Fiscal year 2013 dollars in millions

Program	Percent quantity change	Percent change in development cost	Change in delivery of initial capability (months)	Nunn-McCurdy unit cost breach	Total acquisition cost
Joint Mine Resistant Ambush Protected Vehicle	73	182	0	No	\$42,790
Expeditionary Fighting Vehicle	-98	109	—	Yes	3,812
AH-64D Longbow Apache	0	67	-5	Yes	15,203
F-22 Raptor	-71	62	27	Yes	81,454
Airborne Signals Intelligence Payload	0	59	—	No	570
Force XXI Battle Command Brigade and Below	51	41	4	Yes	4,288
Advanced Threat Infrared Countermeasures /Common Missile Warning System	-32	24	0	Yes	4,995
Increment 1 Early-Infantry Brigade Combat Team	-67	24	—	Yes	1,314
C-5 Avionics Modernization Program	-37	21	16	No	1,319
Large Aircraft Infrared Countermeasures	0	14	0	No	472
Space Based Space Surveillance Block 10	0	11	4	No	1,000
Lewis and Clark Class Dry Cargo / Ammunition Ship	17	0	7	No	6,797
B-2 Radar Modernization Program	-5	-7	29	No	1,321
C-27J Spartan	-51	-9	10	Yes	2,326

Cost Escalation Could Double the Impact of Sequestration

(Billions of 2013 dollars)

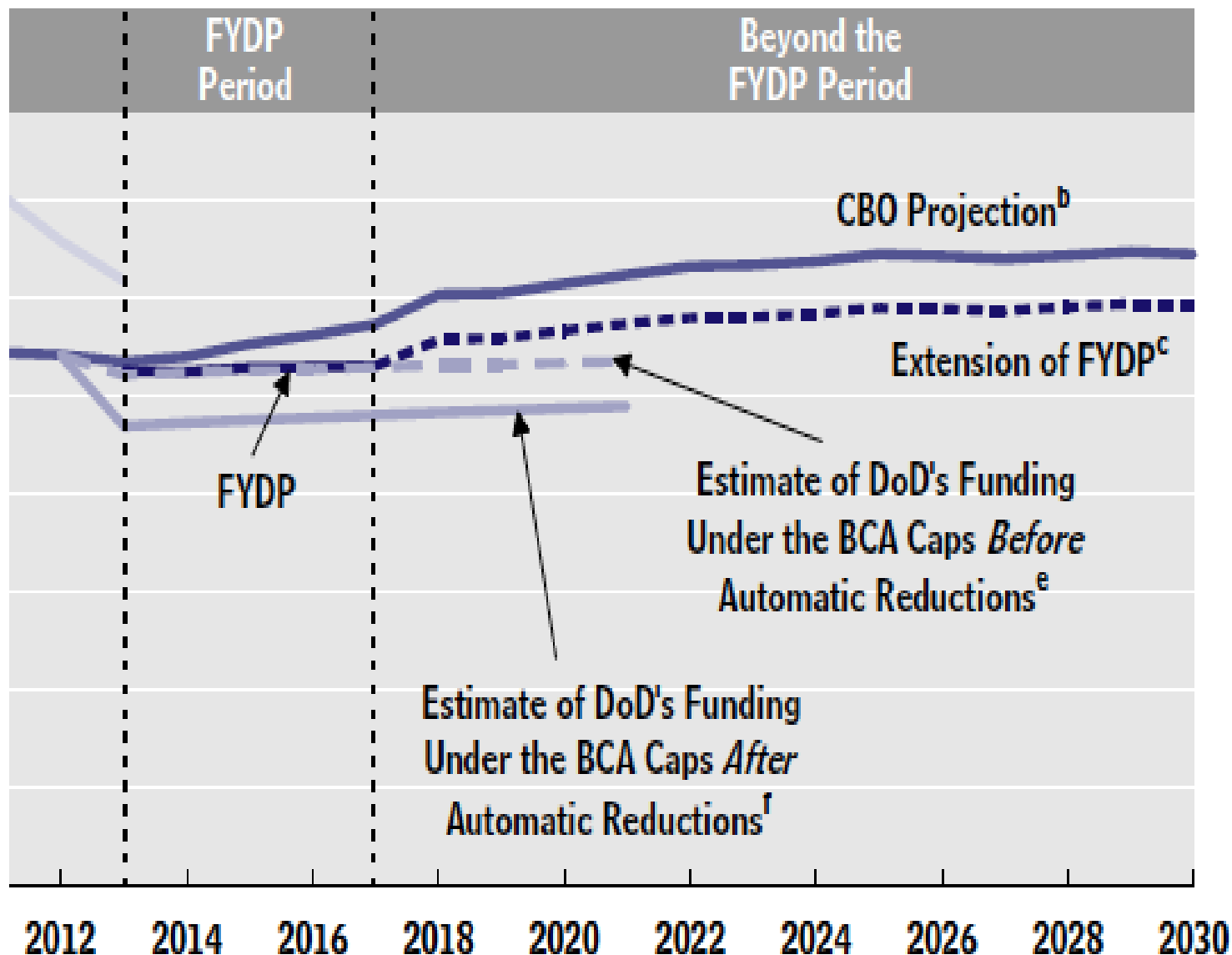


Source: Congressional Budget Office.

Note: FYDP = Future Years Defense Program; FYDP period = 2013 to 2017, the years for which the Department of Defense's (DoD's) plans are fully specified; BCA = Budget Control Act of 2011.

- For 2002 to 2013, supplemental and emergency funding for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data.
- The CBO projection of the base budget incorporates costs that are consistent with DoD's recent experience.
- For the extension of the FYDP (2018 to 2030), CBO projects the costs of DoD's plans using the department's estimates of costs to the extent they are available and costs that are consistent with CBO's projections of price and compensation trends in the overall economy where the department's estimates are not available.
- Base-budget data include supplemental and emergency funding before 2002.
- This estimate assumes that DoD would receive 95.5 percent of the funding limit for national defense *before* reductions due to the BCA's automatic enforcement procedures, on the basis of DoD's average share of that funding in base budgets from 2002 to 2011.
- This estimate assumes that DoD would receive 95.5 percent of the funding limit for national defense *after* reductions due to the BCA's automatic enforcement procedures, on the basis of DoD's average share of that funding in base budgets from 2002 to 2011.

Zooming In On The Future: FY2013-F2030



Looking at the DoD/BCA Reality Gap by Year: FY2013-F2022:

\$14B in FY2013 without BCA; \$66B with BCA

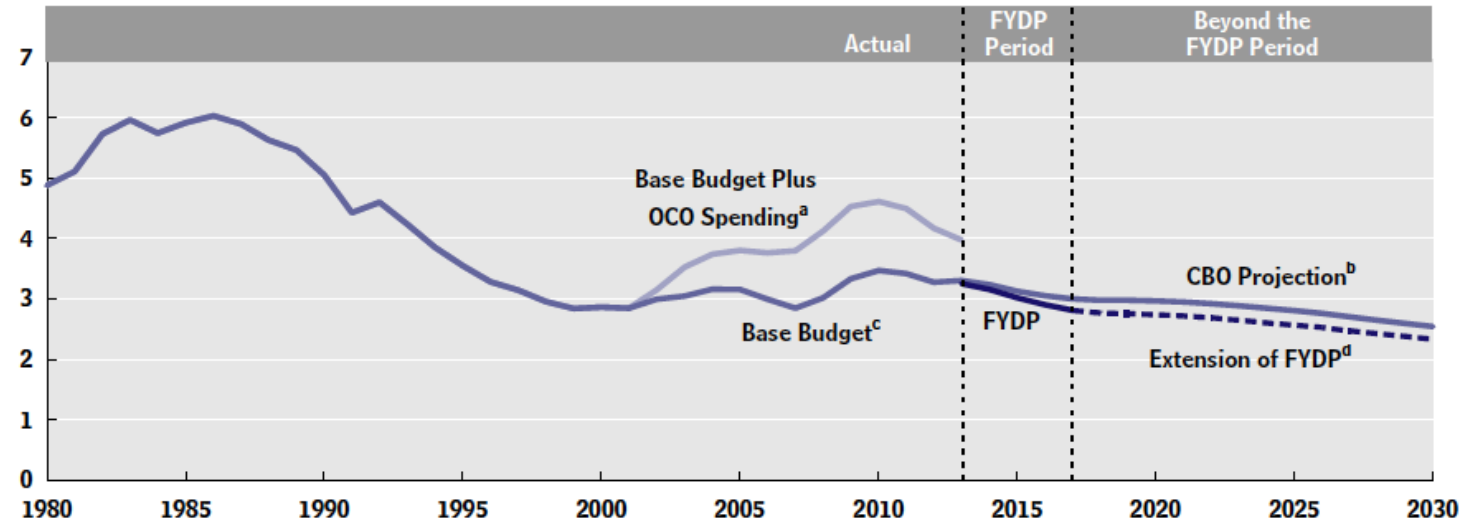
(Billions of dollars)

	Budget Control Act									
	Future Years Defense Program					2018	2019	2020	2021	2022
	2013	2014	2015	2016	2017					
Nominal Dollars										
CBO Projection ^a	535	549	570	590	613	657	670	694	718	742
FYDP and Extension ^b	526	534	546	556	567	607	620	641	661	680
Estimate of DoD's Funding Under the BCA Caps <i>Before</i> Automatic Reductions ^c	521	531	540	551	563	576	588	602	615	632 ^d
Estimate of DoD's Funding Under the BCA Caps <i>After</i> Automatic Reductions ^e	469	479	488	499	511	524	536	549	563	578 ^d
2013 Dollars										
CBO Projection ^a	535	541	553	563	574	604	605	615	624	633
FYDP and Extension ^b	526	525	529	530	532	558	559	568	575	581
Estimate of DoD's Funding Under the BCA Caps <i>Before</i> Automatic Reductions ^c	521	524	525	527	529	531	532	533	535	539 ^d
Estimate of DoD's Funding Under the BCA Caps <i>After</i> Automatic Reductions ^e	469	472	475	477	480	483	485	487	489	493 ^d

Yet, CBO Projected Defense Burden on GDP (and Federal Spending) Would Still Shrink

Costs of DoD's Plans as a Share of Economic Output

(Percentage of gross domestic product)



Source: Congressional Budget Office.

Notes: For this figure, estimates describe outlays (as opposed to total obligational authority).

FYDP = Future Years Defense Program; FYDP period = 2013 to 2017, the years for which the Department of Defense's (DoD's) plans are fully specified.

- For 2002 to 2013, supplemental and emergency spending for overseas contingency operations (OCO), such as those in Afghanistan and Iraq, and for other purposes is shown separately from the base-budget data.
- The CBO projection of the base budget incorporates costs that are consistent with DoD's recent experience.
- Base-budget data include supplemental and emergency spending before 2002.
- For the extension of the FYDP (2018 to 2030), CBO projects the costs of DoD's plans using the department's estimates of costs to the extent they are available and costs that are consistent with CBO's projections of price and compensation trends in the overall economy where the department's estimates are not available.