

FISCAL YEAR 2014 BUDGET REQUEST AND FY 2013 UPDATE



April 2013



OFFICE OF THE UNDER SECRETARY OF DEFENSE
(COMPTROLLER) / CHIEF FINANCIAL OFFICER

Agenda

- ➔ FY 2013 under Sequestration
 - Damaging effects on readiness
- FY 2014 President's Budget Request
 - Key initiatives designed to implement and deepen new strategy
 - Great uncertainty regarding topline and effects of FY 2013 Sequestration



Two Remaining Problems in FY 2013

- Defense Department now has an FY 2013 Appropriations Act
- Sequestration remains
 - Total cut: as much as \$41 billion
 - By law cuts must be across-the-board within each program, project, and activity (PPA)
 - DoD decision: protect wartime operations funding
- Overseas Contingency Operations (OCO) shortfalls add to problems
 - Actual OCO spending significantly higher than expected

Operating Budget Challenges in FY 2013

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

Programs Exempt or Protected

- 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

Planning For FY 2013 Challenges

- 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

Impacts of Sequestration/OCO Shortfalls

- 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

***Even With An Appropriation Act,
Sequestration Is Inefficient and Damaging***

Agenda

- ✓ FY 2013 under Sequestration
 - Damaging effects on readiness

➔ FY 2014 President's Budget Request

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What FY 2014 President's Budget Seeks to Accomplish

- Act as good steward of taxpayer dollars
- Implement and deepen program alignment to new strategic guidance
- Seek a ready force
- People are central
- Fully fund responsible drawdown in Afghanistan

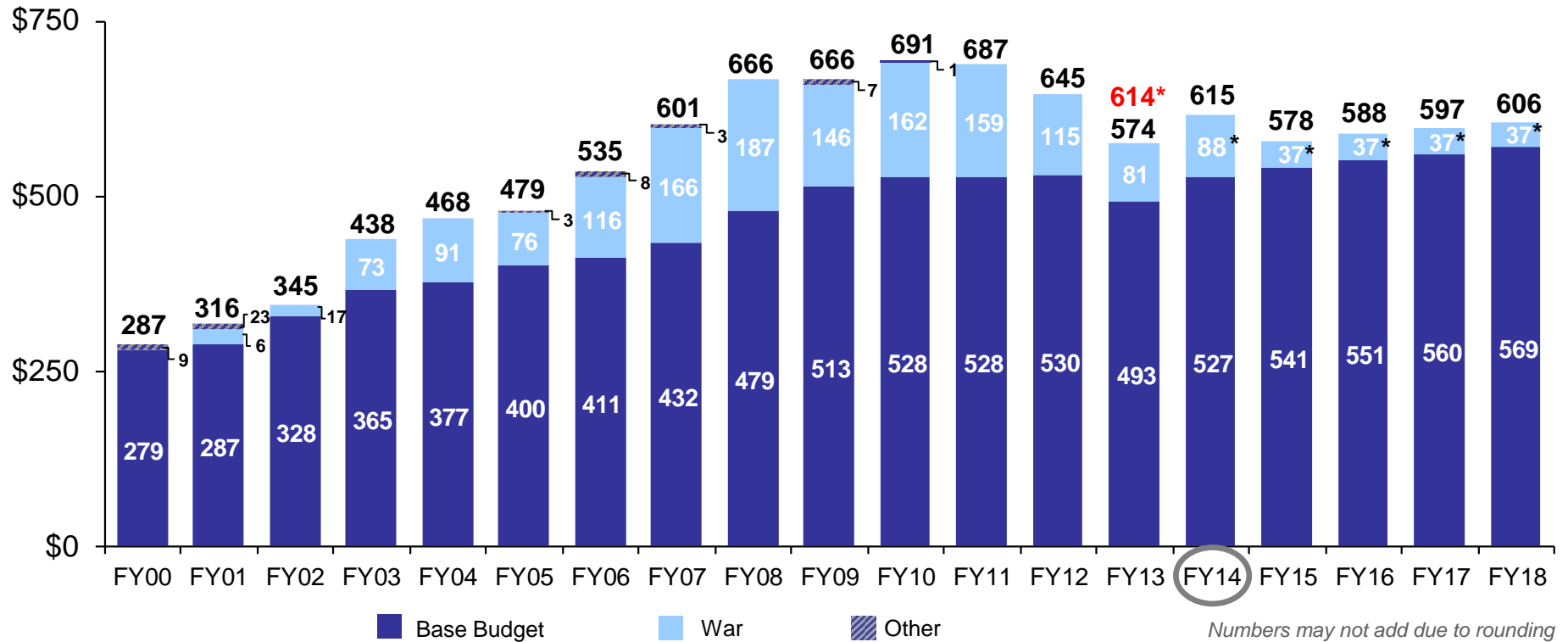


FY 2013 Sequester Will Significantly Affect FY 2014 Programs

Budget Totals in President's FY 2014 Budget Request

DoD Topline, FY 2000 – FY 2018

(Current Dollars in Billions)



* Reflects FY13 PB level without Sequestration

* Placeholder levels

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

Focus on FY 2014 Base Budget

(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

Act as Good Stewards

- 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

FY 2013 Sequestration Harms Efficiency Efforts

Implement and Deepen Program Alignment to New Strategic Guidance

- 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



Implement and Deepen Program Alignment to New Strategic Guidance (con't)

- 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



Selected Examples – There Are Many Others

Implement and Deepen – Emphasize Priority Investments

(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

Seek a Ready Force

- 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

***Sequestration Will Damage FY 2013 Readiness
“Get Well” Plan Needed – Not In FY 2014 Budget***

People Are Central

- 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

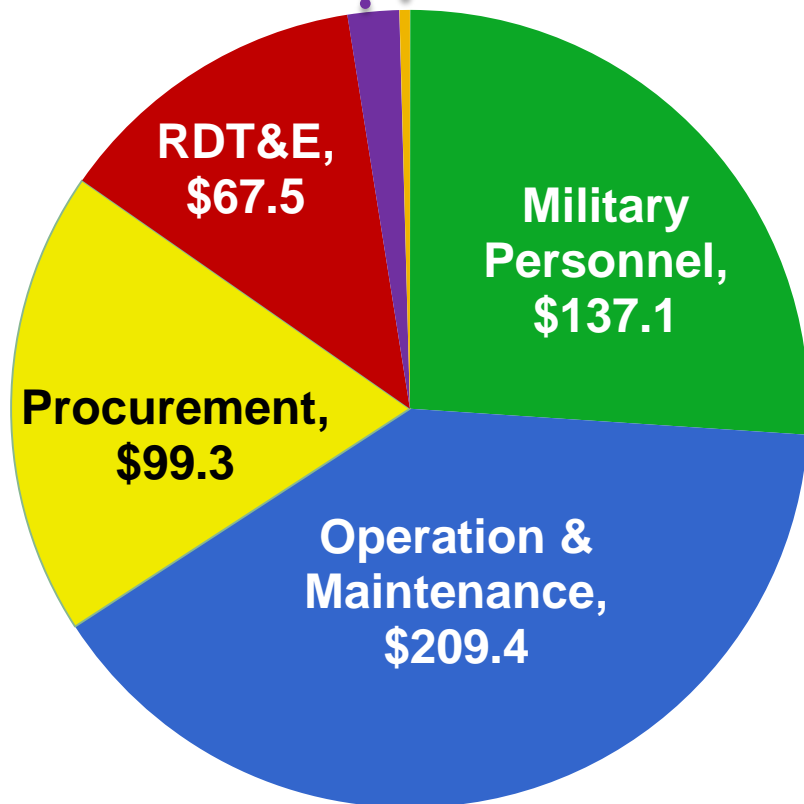
***Civilians Devastated By Sequestration
Military Training Also Affected***

FY 2014 President's Budget

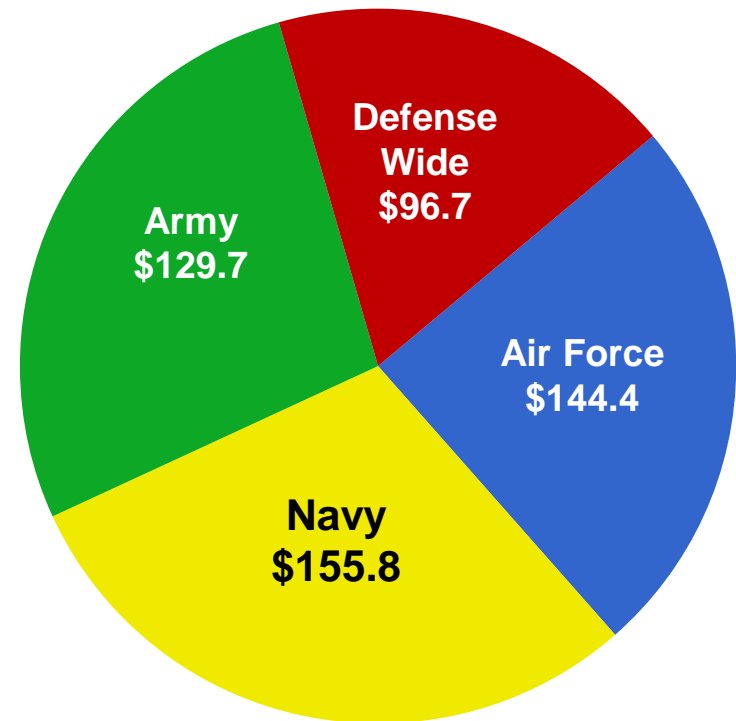
(Dollars in Billions)

Base Budget

Military Construction, Family Housing \$11.0
Others, \$2.3



Budget By Military Department



Budget Request: \$526.6 Billion

FY 2014 OCO Goal: 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



Uncertainty Regarding Budget 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

Strategic Choices and Management Review (SCMR)

- 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***

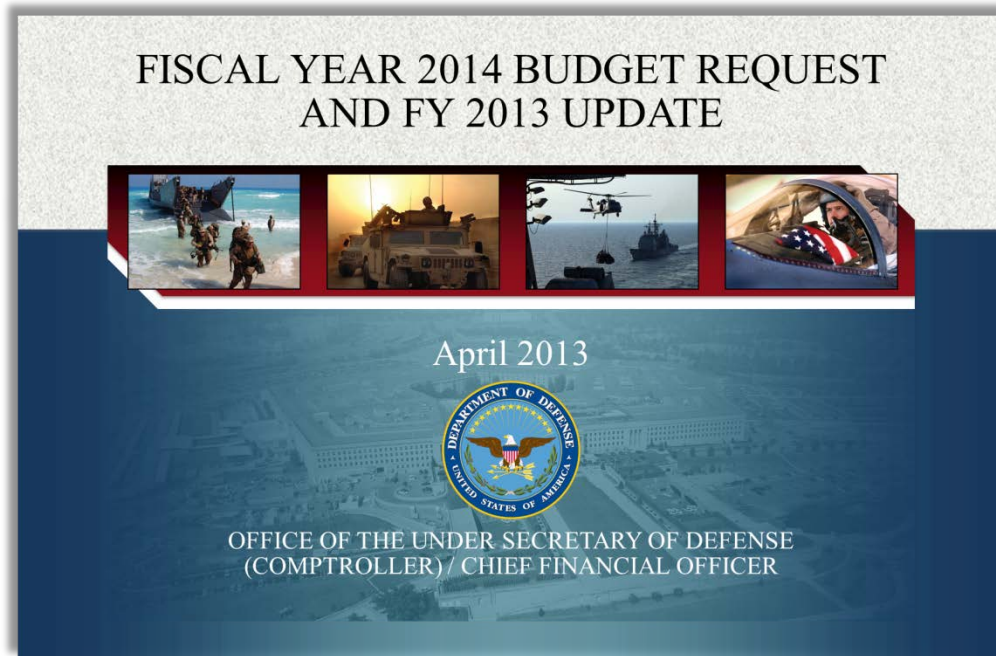
Summary

- President's budget request for \$527 billion
 - Implements and deepens commitment to new strategy
- There is major uncertainty
 - Topline (hence our strategic choices initiative)
 - FY 2014 effects of FY 2013 sequestration



For More Information

- For more information, visit the website for the Office of the Under Secretary of Defense (Comptroller) at:
 - www.budget.mil
 - Download the Department's *FY 2014 Budget Request*



Backup

Shifts in Base Budget

(Dollars in Billions)

BY COMPONENT	FY 2013 Enacted w/Sequester	FY 2013 Request	FY 2014 Request	Δ% FY14/FY13 Req
Army	125.2	134.6	129.7	-4%
Navy	148.9	155.9	155.8	--
Air Force	130.1	140.0	144.4	+3%
Defense-Wide	88.7	94.9	96.7	+2%
Total	492.9	525.4	526.6	--
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