OPERATION AND MAINTENANCE TITLE SUMMARY

			($ in Millions)			
FY 2001 Actual	Price Growth	Program Growth	FY 2002 Estimate	Price Growth	Program Growth	FY 2003 Estimate
114,539.7	+2,775.3	+18,026.3	140,229.9	+5,996.0	+3,948.1	150,174.1

The Department of Defense's Operation and Maintenance (O&M) programs underpin the military readiness of the United States. America's military must be capable of responding effectively to crises in order to protect our national interest, demonstrate U.S. resolve, and reaffirm the role of the United States as a global leader. The U.S. forces must be able to execute the full spectrum of military operations -- from deterring aggression and coercion, to conducting concurrent smaller-scale contingency operations, to fighting and winning major theater wars.

To fulfill these roles, U.S. forces must be prepared and ready to execute their combat missions decisively. Resources dedicated to O&M reflect the Department's commitment to readiness. The Department's first-to-fight forces are the best in the world. However, due to many years of inadequate O&M funding levels together with the intensity of operations, readiness has become more difficult to sustain. To protect U.S. military excellence and to reverse signs of any degradation in readiness, the FY 2003 budget estimates substantially increase O&M funding levels in order to bolster U.S. military readiness.

The funding amounts reflected in this Overview are expressed in Total Obligational Authority (TOA) terms. The term "TOA" includes Budget Authority and financing adjustments (e.g., transfers from unobligated balances), which comprise the total funding available for obligation in the appropriations included in the O&M Title. The previous summary tables identifies the TOA for the appropriations included in the O&M Title and provide an explanation of the financing adjustments. The FY 2003 TOA for the O&M Title is $140.2 billion, which reflects a net increase of $9.9 billion above the FY 2002 funding level. This increase is made up of $6.0 billion for pricing changes and $3.8 billion (+2.7 percent) of net program growth.

The Budget Authority for the O&M Title increases between FY 2002 and FY 2003 as a percentage of the DoD portion of the National Defense Function (051 function) reflected in the FY 2003 budget estimates. In FY 2003, the O&M share of the Defense budget is 37.9 percent increasing from 36.4 percent in FY 2002.

The following provides a summary of the pricing changes affecting the O&M appropriations. This is followed by a description of the significant programmatic changes in the FY 2003 budget estimates for the O&M Title compared to the enacted FY 2002 funding level. A summary of the functional transfers into and out of the O&M appropriations is included at the end of this Summary section.

PRICE GROWTH

Price growth reflects the additional cost of executing the previous year's program at the next year's prices. In general, price growth amounts are estimated by applying price change rates to amounts budgeted for various commodity groups (i. e., civilian pay, Working Capital Fund purchases, medical supply purchases, general nonpersonnel purchases, etc.). The FY 2003 price growth is $5.3 billion. Rates used for the major commodity groups follow:

For civilian pay, the FY 2003 price growth is based on annualization of the FY 2002 pay raises for classified and wage board employees to include locality increases, which were effective January 1, 2002, and the portion of the FY 2003 pay increases scheduled to become effective January 1, 2003. It also provides for foreign national employee pay raises at the rates the host country provided its public sector personnel. For FY 2002, the budgeted pay raise increase is 4.6 percent for classified and wage board employees and is effective January 1, 2002. For FY 2003, the budgeted pay raise increase is 2.6 percent for classified and wage board employees and is effective January 1, 2003.

Consistent with Office of Management and Budget (OMB) direction, the general non-personnel purchase rate is 1.6 percent for FY 2002 and 1.5 percent for FY 2003.

Fuel purchase prices from the Working Capital Fund reflect a decrease of 16 percent in FY 2003 based on world fuel market prices. With these rates, Working Capital Fund customers pay an average cost per barrel of $42.00 in FY 2002 and $35.28 in FY 2003. The FY 2003 customer fuel prices are based on revised estimates of fuel purchase inflation provided by OMB and recovery of actual losses through the end of FY 2002.

Other Working Capital Fund rates change by business area and vary from year to year. The following list of FY 2003 rate changes represent those business areas that account for the vast majority of orders from O&M customers: Army Managed Supplies and Materials (+9.2 percent), Navy Managed Supplies and Materials (+9.6 percent), Air Force Managed Supplies and Materials (+10.3 percent), Defense Logistics Agency (DLA) Managed Supplies and Materials (+3.5 percent), Army Equipment Purchases (+9.2 percent), Navy Equipment Purchases (+9.6 percent), Air Force Equipment Purchases (+10.3 percent), Army Depot Systems Command - Maintenance (+5.3 percent), Naval Aviation Depots (+8.8 percent), Naval Shipyards (-0.3 percent), Depot Maintenance Air Force - Organic (+13.8 percent), Army Armament (-27.0 percent), and Navy Civil Engineering Services (+17.7 percent).

The FY 2003 budget estimate for overseas purchases is based on foreign currency exchange rates that are consistent with recent market conditions. Overall, these rates reflect a reduction in the purchasing power of the U. S. dollar. In three currencies where DoD has its largest overseas presence, Japan, Korea and the Euro zone, the dollar's value has decreased since last years estimate. For the Japanese

Yen, the buying power of the dollar decreased by 1.9 percent from 126.680 Yen in FY 2002 to 124.330 Yen in FY 2003. Likewise, the U.S. dollar decreases in value compared to the Korean Won by 6.3 percent, moving from 1,349.5 Won in FY 2002 to 1,265.0 Won in FY 2003. In Germany, where the DoD has its largest overseas presence, the dollar declines from 1.1967 Euro's to 1.1386, a decrease of 4.9 percent.

PROGRAM GROWTH

The FY 2003 budget estimate includes $3.9 billion (+2.7 percent) of net program growth for the O&M Title, which is targeted to sustain the readiness programs. The level of O&M funding sought in the FY 2003 budget will continue to reverse the decline in readiness attributable to years of underfunding, high tempo of operations, and escalating maintenance costs of aging weapon systems. The following indicators reflect planned operating tempo (OPTEMPO) rates for FY 2003. The Active Army budget request supports executable objective OPTEMPO rates of 849 training miles (homestation, National Training Center, and simulator miles) per year for M1 Abrams tanks and an average of 14.5 flying hours per aircrew per month. The Active Navy steaming days continues to be funded at the planning level of 54.0 days per quarter for deployed fleets and 28.0 days per quarter for the non-deployed fleets. Further, the FY 2003 budget request supports an average of 21.5 tactical flying hours per crew per month for the active Navy and Marine Corps. The active Air Force tactical fighter aircrew flying hour rates increase from 17.1 to 17.3 flying hours per pilot per month. The active Air Force bomber crew flying hour rates decline slightly from 15.5 to 15.4 flying hours per crew per month. The following outlines program change by major program area:

The Air Operations program finances the cost to maintain aircraft and to train pilots to achieve and maintain flying proficiency in support of the national military strategy. The OPTEMPO portion of the Air Operation program is commonly referred to as the "flying hour program." The flying hour program is based on pilot training syllabuses, which are used to estimate the number of training hours needed to achieve and to maintain aircrew skill levels. The flying hour program costs are a function of training hours multiplied by the cost of depot level repairables, consumable spare parts, and fuel necessary to operate the aircraft. The other significant portion of the Air Operations program is aviation depot maintenance. The FY 2003 budget request of $31.5 billion for the Air Operations program reflects a net program increase of $0.6 billion (+1.8 percent) above The FY 2002 funding level. The FY 2003 increases fully fund the Services' flying hour requirements to meet readiness-training goals. The major program changes are primarily due to increases in the cost of the flying hour program for consumables and depot level repairables due to aging aircraft and additional support to recapitalize end items as part of the Army's Transformation efforts. Additional air operations funding will reduce the strain on mission capable rates.

The Land Forces program includes funding to train and sustain active Army and Marine Corps ground combat forces. The Army's program includes units assigned to heavy, airborne, air assault and light division; corps combat units. The Marine Corp program includes divisions, service support groups, helicopter groups, and light anti-aircraft missile battalions that constitute the Marine air-ground team and Marine security forces. The FY 2003 budget request of $4.4 billion for Land Forces programs reflects a program increase of $0.4 billion (+10.2 percent). The Army's FY 2003 budget funding level of $3.7 billion increases by $0.3 billion (+8.1 percent) above The FY 2002 program level. The Army program reflects the Army's training strategy that exposes all soldiers to a full range of realistic training exercises. The Army's funding level in FY 2003 supports 849 training miles (homestation, National Training Center, and simulator training miles) for ground OPTEMPO for the M1 Abrams tank. The FY 2003 funded level supports an increase of 18 homestation tank miles above the FY 2002 level to fund training miles at the highest training level executed in the last decade (i.e., FY 2001). The Marine Corps FY 2002 amended budget request of $0.6 billion for land forces reflects a program increase of $0.1 billion (+24.9 percent) from the FY 2001 funding level, primarily due to the cost growth in the Navy Marine Corps Intranet Services based on the first full year of service costs.

The Ship Operations programs include OPTEMPO as well as depot maintenance and support. The FY 2003 budget request of $8.5 billion includes a net program increase of $0.7 billion (+9.2 percent). This net program growth in FY 2003 is primarily attributable to the attainment of increased notional requirements for depot maintenance availabilities ($+0.3 billion); increased fleet modernization efforts for CVN68, FFG7, CG47, SSN, LHD and LPD4 class ships ($+0.3 billion); and increased Enterprise Resource Planning (ERP) effort for regional maintenance that will benefit both the fleets and the support establishment ($+0.1 million).

The Mobilization program provides for airlift and sealift capability to deploy combat forces and materiel in contingencies by providing funding to maintain an inventory of immediately available supplies and equipment to sustain the forces as outlined in the National Military Strategy. The FY 2003 budget request of $5.2 billion for the Mobilization program reflects a net program decrease of $21.4 million (-0.4 percent) below the FY 2002 funding level. The Air Force ($+125.6 million) budget reflects increases primarily to the Airlift Operations Training, Mobilization Base Support, and Mobilization Facilities Sustainment, Restoration, and Modernization. The Air Force's increase is offset by net decreases in the Army program ($-71.7 million) due to the effect of one time congressional increases for Industrial Mobilization Capacity (IMC), the completion of the transition from operating older ships to new end-state fleet of 15 ships, and the transfer of IMC to the Defense Working Capital Fund (DWCF), Army to directly augment the WCF. The Marine Corps program decrease ($-6.7 million) is due to a one-time congressional increase for maritime prepositioning ship offload exercises/Battle Griffin exercises, savings associated with various improvement initiatives, and reduced support for the Maritime Prepositioning Force program. The Navy reflects a net program increase ($-68.6 million) primarily due to changes in the activation/inactivation workload.

The Depot Maintenance program funds the overhaul, repair, and maintenance of aircraft, missiles, ships, submarines, combat vehicles and other equipment. Depot maintenance efforts are performed at both public (DoD) and private (contractor) facilities. These efforts provide maintenance necessary to sustain the operational readiness of combat forces, to ensure the safe and efficient operation of weapon systems, and to renovate assets that are being transferred from active forces to the Reserve Components. The FY 2003 Depot Maintenance budget request of $9.1 billion reflects a net program decrease of $0.2 billion (-1.8 percent) from the FY 2002 funding level. This decrease is primarily driven by significant decreases in the Air Force budget ($-0.4 billion) to mitigate depot workloads that cannot be accomplished in FY 2003 and the effect of one-time FY 2002 increases for depot quarterly surcharge to pay Working Capital Fund cost recovery losses. Adjusting for the impact of this one-time surcharge the real program growth in overall depot maintenance funding is $0.1 billion (0.7 percent) above the FY 2002 funded level. The decrease in the Air Force program is offset by program increases for the Navy and the Marine Corps ($+0.2 billion) primarily to increase the percent of the requirement funded to get closer to the optimal level of funding for Depot Maintenance. In addition, the FY 2003 budget also increases the Army program (less than $+0.1 billion) primarily to increase the number of aircraft recapitalization (i.e., UH-60 and CH-47) and a slight increase for USSOCOM (less than $+0.1 billion) air survivability equipment to enhance the survivability of fixed and rotary wing aircraft.

The Transportation program provides for the movement of materiel between contractors' plants, military logistics centers, and field activities throughout the world. The FY 2003 budget request of $1.4 billion reflects a net program increase of $162 million (+13.1 percent) above the FY 2002 funding level. The majority of this net program increase is for the Army ($+117 million), which is primarily to support increased force modernization and sustainment movements including those supporting the Army Transformation and increases to sustain the program at the historically executed level; Air Force ($+11 million), which is mostly due to the permanent transfer of funds from the Overseas Contingency Operations Transfer Fund (OCOTF) to support Air Force operations in Bosnia, Kosovo and Southwest Asia; and the Defense-wide activities ($+18 million) to support 34,000 C-17 equivalent flying hours and 1,100 steaming days for the Chairman of the Joint Chiefs of Staff (CJCS) exercise program.

The Training and Education program finances the operation of training centers, Service schools, and scholarship programs, which are necessary to acquire and maintain a trained force of personnel able to effectively support DoD’s military units, ships, aircraft, and installed weapon systems. Also included are resources to finance base support activities and facility sustainment. The FY 2003 budget request of $8.1 billion includes program growth of $0.3 billion (4.5 percent). All of the Services have reflected increased training and education support. Most of the increase is in base support and facilities sustainment ($+136 million), Specialized Skills training ($+130 million), and Professional Development ($+50 million).

The Recruiting, Advertising, and Examining program provides funds to support the recruiting commands and stations throughout the United States, to finance the costs for local, regional, and national advertising to support the procurement and retention of quality enlisted and officer personnel, and to support the U.S. Military Entrance Processing Command to process all enlisted personnel entering active duty. The FY 2003 budget of $1.4 billion includes net program growth of $0.1 million (+4.4 percent). Most of the net program increase is for the Defense-wide activities with $25.2 million restoring a one-time decrease in the Defense Human Resources

Field Activity (DHRA) for forward financing a portion of the FY 2002 program in FY 2001; and $24.0 million for a patriotic-themed media blitz.

The Base Operations Support (BOS) program provides the resources to operate the bases, installations, camps, posts, and stations of the Military Departments. These resources sustain mission capability, ensure quality-of-life, enhance work force productivity, and fund personnel and infrastructure support. The FY 2003 budget request of $18.2 billion includes program growth of $1.2 billion (+6.9 percent). As a result of the attacks on America's homeland on September 11, 2001, the Department's budget includes significant program growth in base support to address the challenges in antiterrorism/force protection ($+308.8 million). It also increases funding for critical quality of-life and essential installation support including utilities to reduce the risk of funds migrating from mission programs to finance "must fund" bills during execution. All of the Military Departments and the Defense Health Program (DHP) reflect increases: Army, $+590.0 million; Navy, $+100.9 million; Marine Corps, $+57.8 million; Air Force, $+411.5 million; and DHP, $+14.9 million.

The Command, Control, Communications, and Intelligence (C3) program finances base level and worldwide communication networks for voice, data, and imagery traffic to ensure responsive support to U.S. forces. The FY 2003 budget request of $4.2 billion includes a net program increase of $0.2 billion (6.1 percent) above the FY 2002 enacted level. The Air Force ($+177 million) accounts for most of the net program growth, which includes funding for Defense Information Systems Agency (DISA) Tier-One services that will be transferred in execution, defensive information operation improvements in base and service wide communications, and improvements to air traffic control systems. The Army ($+121 million) reflects a net program growth, which includes funding for DISA Tier-One services and enhanced Information Assurance initiatives. The Navy ($+91 million) also reflects a net program growth, which includes funding for DISA Tier-One services and for increased base communications and command and control efforts. Offsetting these increases are net program reductions mostly in Defense-wide activities ($-126 million), which is primarily due to anticipated transfer of funding for Tier-One services from the Components to DISA during execution.

The Facilities Sustainment, Restoration, and Modernization (SRM) and Demolition programs provide funds to support two distinct efforts. The SRM program (formerly called "Real Property Maintenance") provides funds to maintain facilities, to restore facilities whose age is excessive or have been damaged, and to improve facilities to accommodate new functions or mission. The demolition program provides funds to demolish and dispose of obsolete and excess structures. The FY 2003 amended budget request of $7.1 billion includes a net program growth of $0.6 billion (8.9 percent). This net program increase includes net increases of $158 million for facilities sustainment, $322 million for restoration and modernization efforts, and $100 million for demolition. The Air Force ($+272 million) reflects significant increases in both sustainment and restoration/modernization efforts. The Navy ($+174 million) and the Defense Health Program ($+28.6 million) account for the majority of net program increase in restoration and modernization of its facilities. The Marine Corps ($+65.6 million) also includes net program increases of which the majority is in facilities sustainment. The Army ($-84.6 million) reflects net program reductions -- primarily in facilities sustainment.

The Operation and Maintenance, Defense-Wide appropriation provides funding to support a wide range of essential programs that are critical to the accomplishment of the missions of the Military Departments. These functions have been consolidated to achieve maximum efficiency by avoiding overlap and duplication among the Military Departments. These programs include special operations forces, intelligence activities, audit and contract management activities, treaty implementation, nuclear weapons management and analysis, dependents' education, civilian and military personnel support, and management support to the Department. The FY 2003 budget request $14.5 billion for the O&M, Defense-Wide appropriation includes a net program increase of $1.0 billion (+7.9 percent). Much of this net program increase is for Classified Programs ($+0.8 billion), readiness/contingency operations ($+0.2 billion), command and control initiatives ($+0.1 billion), DoD education programs ($+0.1 billion), and business practices/security initiatives ($+0.1 billion). These increases are partially offset by net functional transfers ($-0.2 billion) and congressional increases and earmarks in FY 2002 that were not extended into FY 2003 ($-0.3 billion).

The Defense Health Program (DHP) appropriation supports worldwide medical and dental services to the active forces and other eligible beneficiaries, veterinary services, medical command headquarters, graduate medical education for the training of medical personnel, and occupational and industrial health care. The FY 2003 budget request of $14.4 billion for DHP includes program decrease of $4.9 billion (-25.6 percent) below the FY 2002 funding level. This program reduction is primarily due to funds transferred to the Medicare-eligible Retiree Health Care Fund for TRICARE for Life benefits and the level of effort currently serviced by military treatment facilities.

The Former Soviet Union (FSU) Threat Reduction appropriation provides resources to address the threat from, and potential proliferation of, the FSU arsenal of weapons of mass destruction (WMD) associated materials and expertise. The FY 2003 budget request of $0.4 billion for the FSU Threat Reduction appropriation reflects a net program increase of $10.5 million (+2.6 percent), which is primarily due to the transfer of the Elimination of Weapons Grade Plutonium Production and associated funding to the Department of Energy ($-41.7 million) and reduced requirements for nuclear weapons systems and infrastructure elimination ($-104.1 million). Offsetting these decreases are additional funds primarily for biological weapons and WMD proliferation prevention ($+77.7 million) and chemical weapons destruction in Russia ($+82.8 million).

The Defense Environmental Restoration Program consists of five transfer appropriations that the Congress established to provide for: the identification, investigation, and cleanup of past contamination from hazardous substances and wastes; correction of other environmental damage; detection of unexploded ordinances; and the demolition and removal of unsafe buildings, structures at active installations and Formerly Used Defense Sites (FUDS). The FY 2003 budget request of $1.3 billion includes a net program reduction of $9.9 million (-0.8 percent), which primarily consists of the discontinuance of a one-time congressional increase to the FUDS account in FY 2002 ($-30.4 million) and an increase in the Department's FY 2003 budget request for FUDS to meet emergent requirements related to unexploded ordnance ($+18.2 million).

The Overseas Contingency Transfer Fund (OCOTF) is a transfer appropriation that the Congress established to finances contingency operations since these operations are dynamic and unpredictable. As a transfer appropriation, the OCOTF provides the Department with the flexibility to provide funds in the year of execution to the Components for contingency operations costs. The FY 2003 budget request for OCOTF is $50 million and reflects a net program reduction of $131.1 million. Beginning in FY 2002, funds to finance the incremental cost of contingency operations in Bosnia, Kosovo, and Southwest Asia are included in the Services accounts vice the OCOTF. These operations had become stable enough to budget in the Component's baseline appropriations. Therefore, in FY 2002, $2.7 billion was transferred from the OCOTF to the Components budgets. The budget request for FY 2003 was adjusted similarly, while still providing funding to finance contingency requirements in excess of those budgeted in the Services accounts.

The DoD Counterdrug (CD) program supports the counterdrug objective directed in the President's National Security Strategy of the United States, "...to reduce the flow of illegal drugs into the United States by encouraging reduction in foreign production, combating international traffickers, and reducing demand at home." The CD program is funded in the Drug Interdiction and Counterdrug Activities, Defense appropriation, which is a central transfer account (CTA) that finances all DoD CD resources except for those resources required for the Active Components' military personnel, Service OPTEMPO, and CD military construction. The FY 2003 budget request of $0.8 billion for the CTA includes a net program decrease of $11.9 million (-1.4 percent), which is primarily attributable to one-time FY 2002 congressional increases for Regional Counterdrug Training Academy (RCTA, Multi-Jurisdictional Counterdrug Task Force (MJCTF), and the National Counternarcotics Training Center in Washington.

FUNCTIONAL TRANSFERS

The table on the following page summarizes the major functional realignments affecting the O&M Title, included in the preceding discussion on program changes.

Function/Activity	($ in Millions) In	Out
	+15.8	**-215.8**
Aviation Consumable Initiative. Transfer of Air Force and Navy O&M to the DLA Supply Management Activity Group within the Defense Working Capital Fund (DWCF) to procure aviation spare and repair parts to enhance operational readiness.		-133.1
Industrial Mobilization Capacity Transfer. Transfer to the Defense Working Capital Fund, Army to fully fund the Industrial Mobilization Capacity (IMC) program.		-41.1
Army Test Evaluation Center. Transfer to the Research, Development, Test & Evaluation, Army appropriation to properly fund ATEC personnel and HQ information management resources.		-26.2
Heavy Expanded Mobility Tactical Truck-Extended Service Program. Transfer to Other Procurement, Army for the HEMTT – ESP.		-8.6
A-76 Competitions. Net transfer from O&M, Air Force to Military Personnel Air Force to reflect a decision to reduce and or delay the number of military members affected by OMB Circular A-76 competitions.		-5.2
Classified Programs.		-1.6
Ultra-Lightweight Camouflage Net System. Transfer from the Research, Development, Test & Evaluation, Army appropriation for sustainment costs for ULCANS.	+5.0	
Program Transition. Net transfer from Research, Development, Test & Evaluation, Air Force appropriation reflects the proper funding in the O&M title of 1) Portal/Directory Services, 2) Space Long Range Planning Joint Tactical Radio System and 3) Air Traffic Control & Landing System.	+4.4	
Navy Installation Claimant Consolidation (ICC). Miscellaneous Realignments to the Navy Working Capital Fund.	+4.4	
Air Defense Battle Operations System. Transfer from the Research, Development, Test & Evaluation, Army appropriation for contract logistics support costs for Air Defense Battle Operations System (Big Crow).	+2.0	
	-200.0	