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

Sequestration (total cut: as much as $41 billion)

Protect wartime operations

Continuing Resolution in wrong appropriations

Higher wartime operations costs

<table>
<thead>
<tr>
<th>Shortfall in active base operating budget ($B)</th>
<th>(compared to PB13 request)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OLD CR</td>
<td>Appropriation</td>
</tr>
<tr>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>14</td>
<td>--</td>
</tr>
<tr>
<td>67</td>
<td>6.8 – 10.1</td>
</tr>
</tbody>
</table>

23% of request, 7 months to go

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
  – Key initiatives designed to implement and deepen new strategy
  – Great uncertainty regarding topline and effects of FY 2013 Sequestration
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)

**President’s Budget Proposes More Deficit Reduction**
**Than Budget Control Act Requires**
Focus on FY 2014 Base Budget

(Dollars in Billions)

<table>
<thead>
<tr>
<th></th>
<th>FY 2013 Enacted w/Sequester</th>
<th>FY 2013 (PB Request)</th>
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<td>89.3</td>
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<td>99.3</td>
</tr>
<tr>
<td>Research, Development, Test and Evaluation</td>
<td>63.4</td>
<td>69.4</td>
<td>67.5</td>
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</tr>
<tr>
<td>Revolving Funds</td>
<td>2.0</td>
<td>2.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Total</td>
<td><strong>492.9</strong></td>
<td><strong>525.4</strong></td>
<td><strong>526.6</strong></td>
</tr>
</tbody>
</table>

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
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)*

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

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**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 Personnel, $137.1
Operation & Maintenance, $209.4
Procurement, $99.3
RDT&E, $67.5
Military Construction, Family Housing $11.0
Others, $2.3

Budget By Military Department

Navy $155.8
Air Force $144.4
Army $129.7
Defense Wide $96.7

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
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

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<tr>
<td>Army</td>
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<td>134.6</td>
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<td>Defense-Wide</td>
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<td>94.9</td>
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<td>+2%</td>
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