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The FY2015 Defense Budget and the QDR: Key Trends and Data Points

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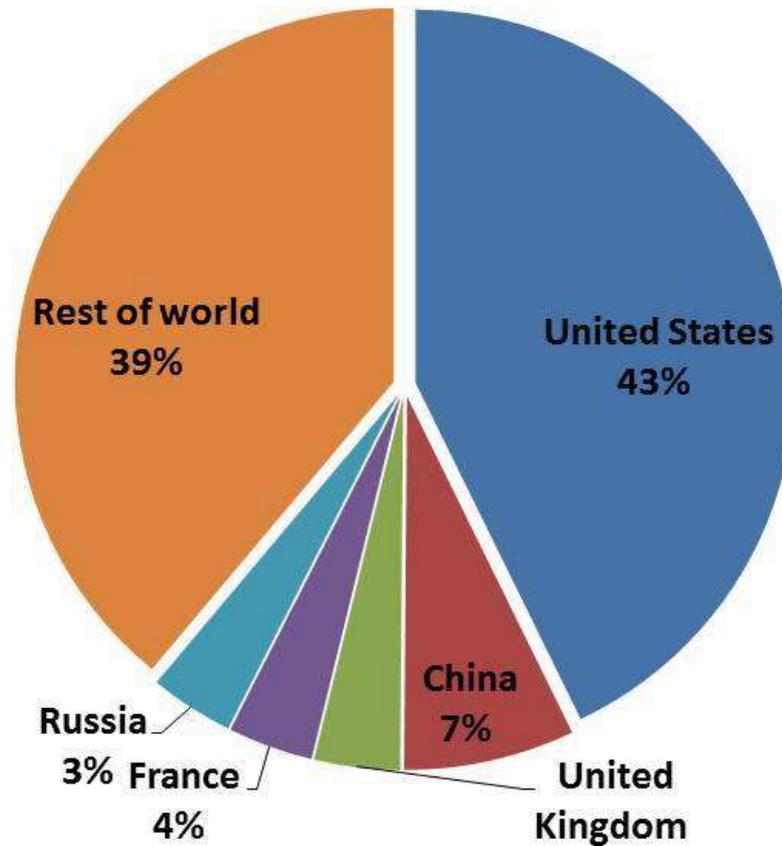
July 23, 2014 (revised)

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US Defense Spending as Share of World Total

US Defense Spending Compared to World: 2011?

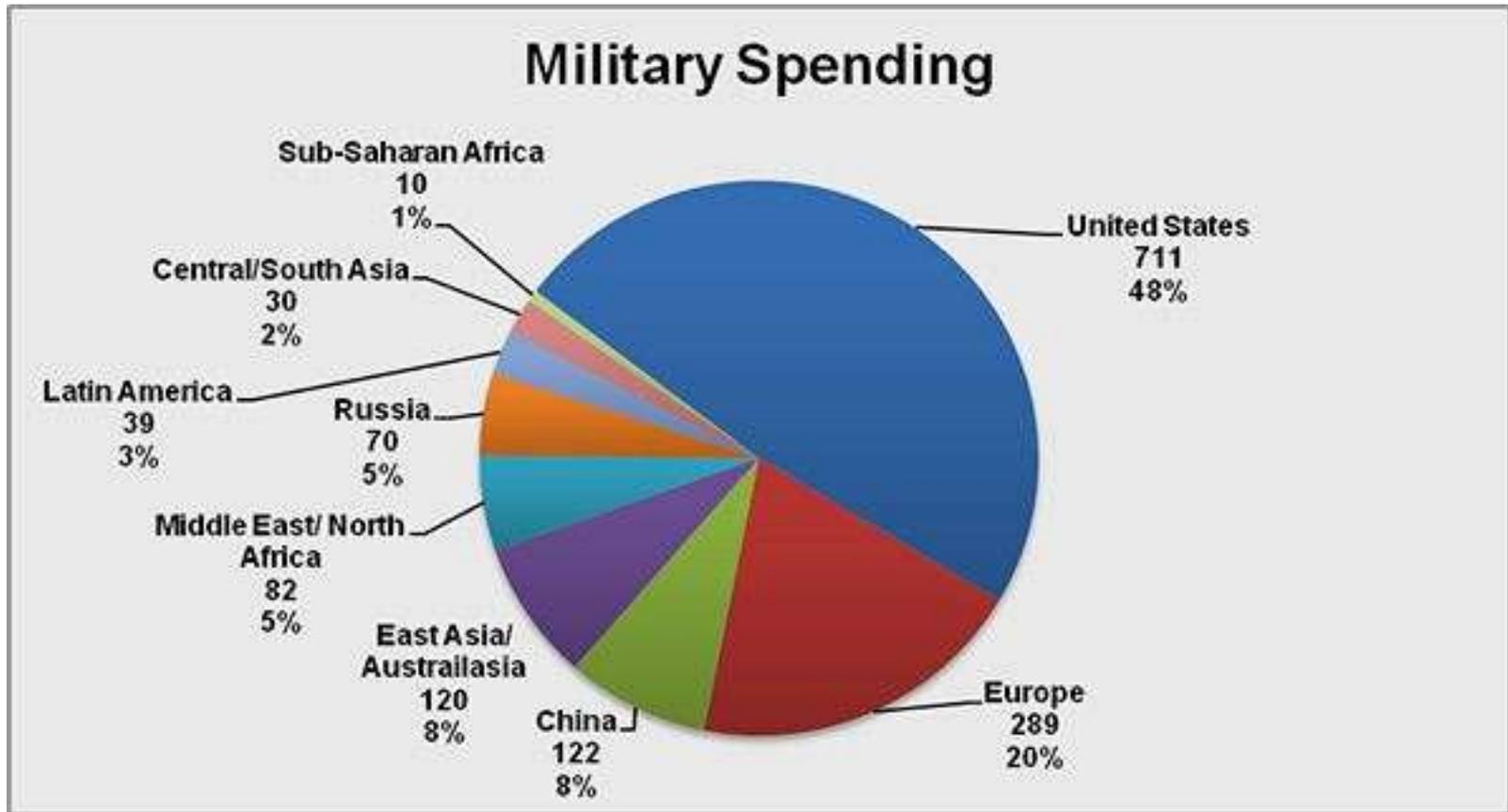
Percent of global military expenditure



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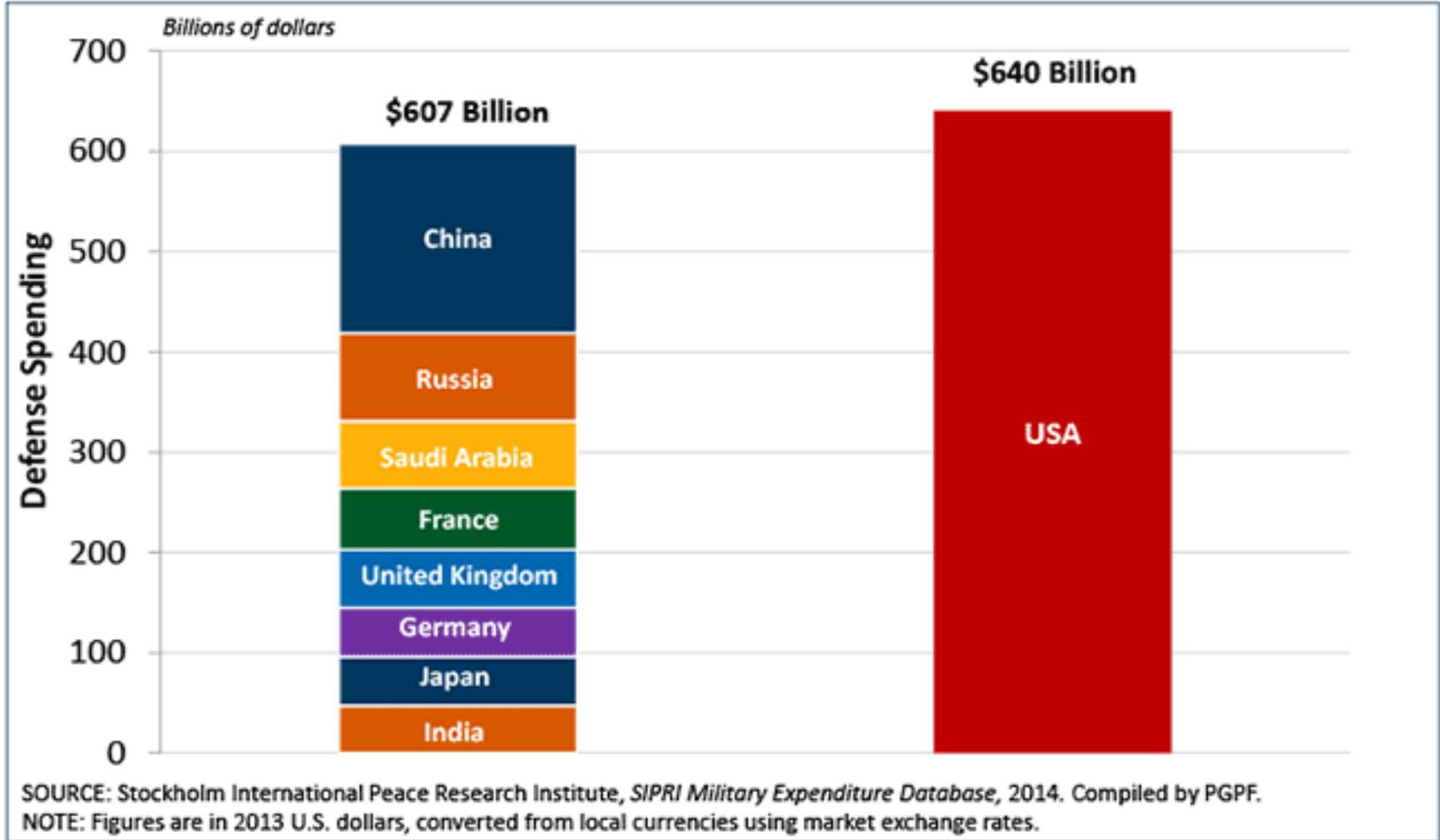
Howard Steven Friedman,, **5 Countries With the Highest Military Expenditure**, Hjuffington Post, Posted: 11/29/11 03:13 PM ET, http://www.huffingtonpost.com/howard-steven-friedman/military-spending-united-states_b_1118851.html, based on SIPRI data.

US Defense Spending Compared to World: 2014?



<http://nlsnewday.wordpress.com/2014/01/16/u-s-has-budget-unemployed-nothing/>

US Defense Spending Compared to Other Key Nations

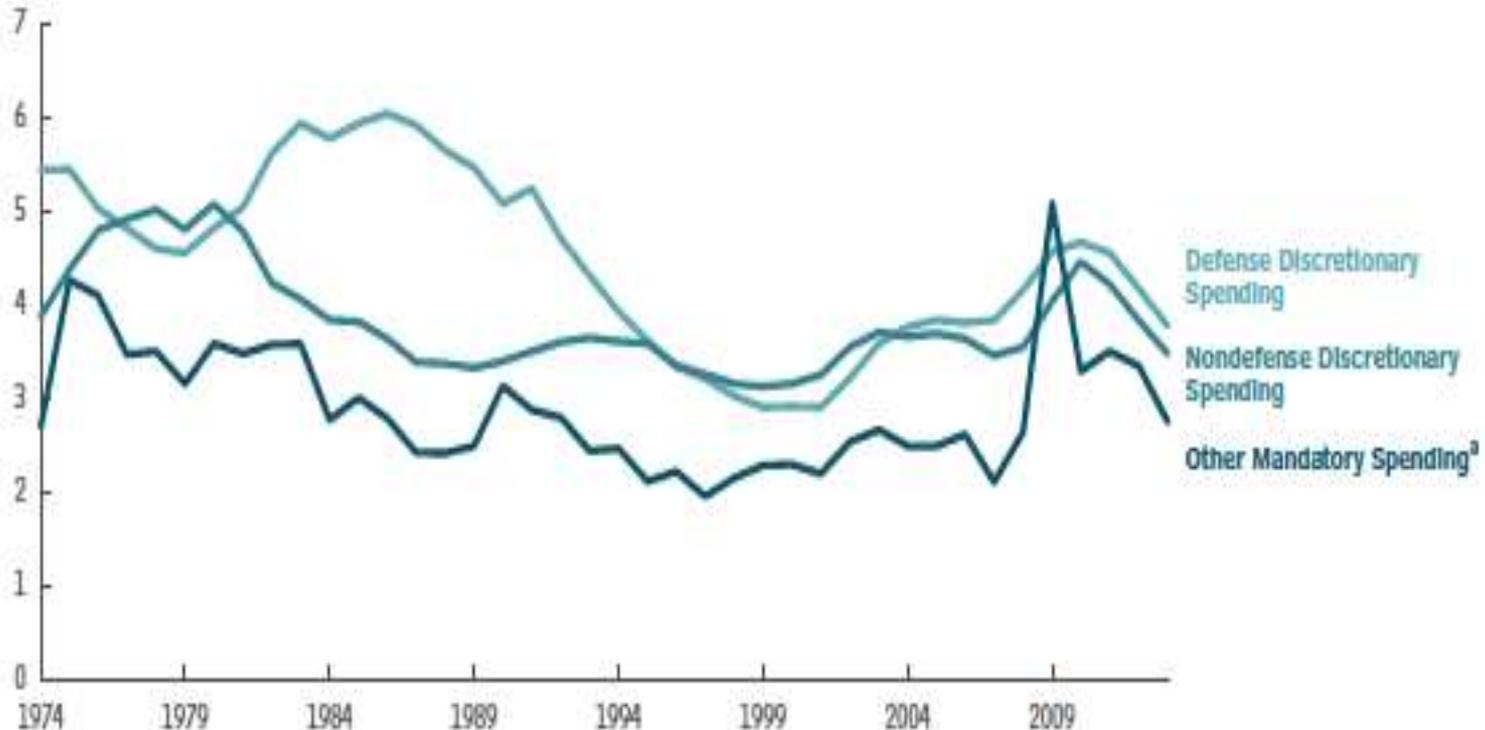


**Deficit, Interest and
Entitlement Pressures that
Affect US Defense Spending**

FY2015 Defense Spending Request Already Back to Minimum Post-Cold War Burden on the Economy

Other Federal Noninterest Spending, by Category, 1974 to 2013

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

- a. Other mandatory spending is all mandatory spending other than that for the major health care programs, Social Security, and net interest. It includes the refundable portions of the earned income and child tax credits and of the American Opportunity Tax Credit.

Rising Social Security and Medical Costs in Spite of Tax Increases and Cuts in Defense and Discretionary Spending

Spending and Revenues Under CBO's Extended Baseline, Compared With Past Averages

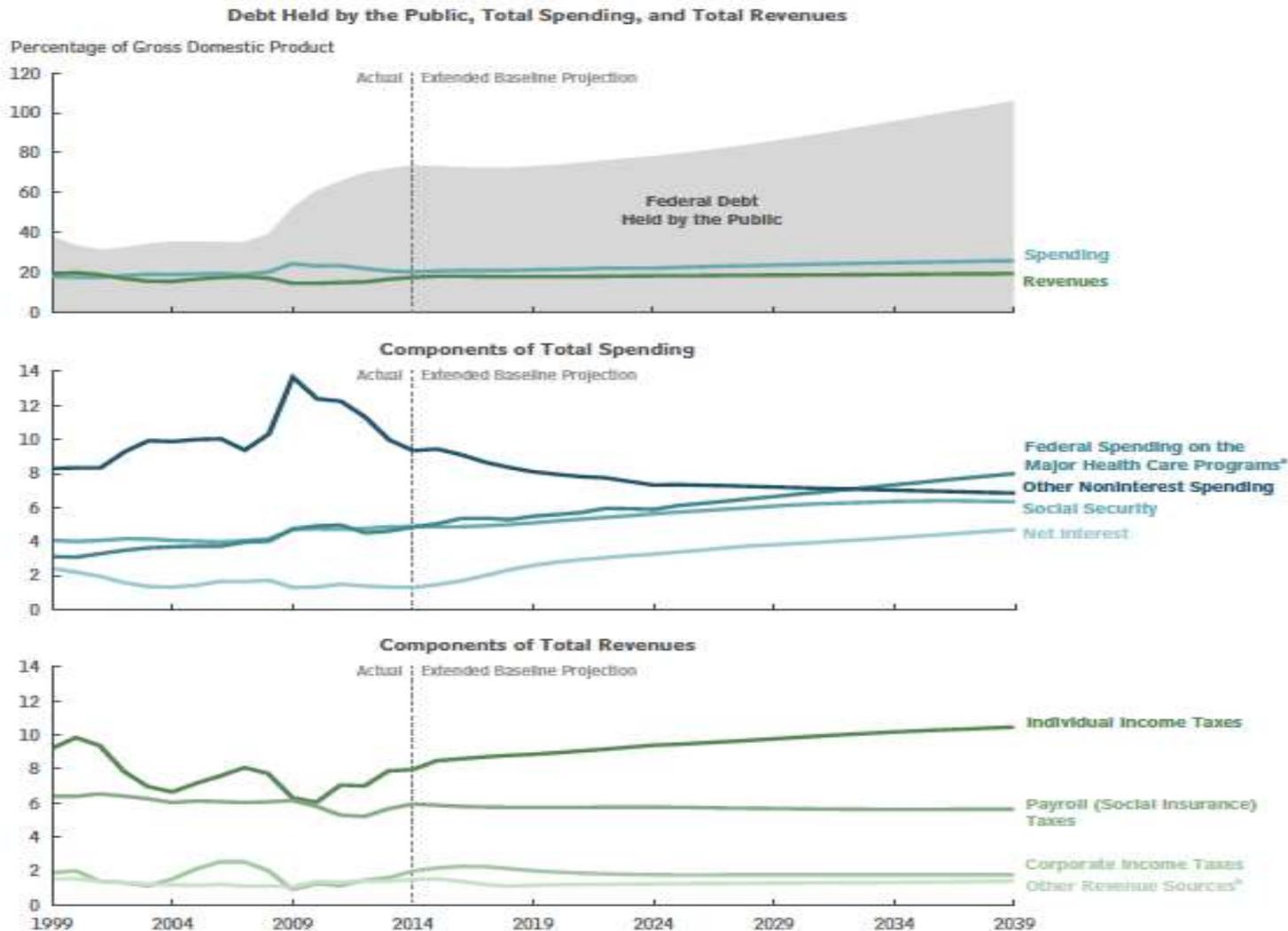
Percentage of Gross Domestic Product



Notes: The extended baseline generally reflects current law, following CBO's 10-year baseline budget projections through 2024 and then extending the baseline concept for the rest of the long-term projection period. The major health care programs consist of Medicare, Medicaid, the Children's Health Insurance Program, and subsidies offered through health insurance exchanges. (Medicare spending is net of offsetting receipts.) Other noninterest spending is all federal spending other than that for the major health care programs, Social Security, and net interest.

Other revenues are excise taxes, remittances to the U.S. Treasury from the Federal Reserve System, customs duties, estate and gift taxes, and miscellaneous fees and fines..

Debt, Social Security and Medical Costs Are The real Challenges America Must Face – and Debt is the Killer

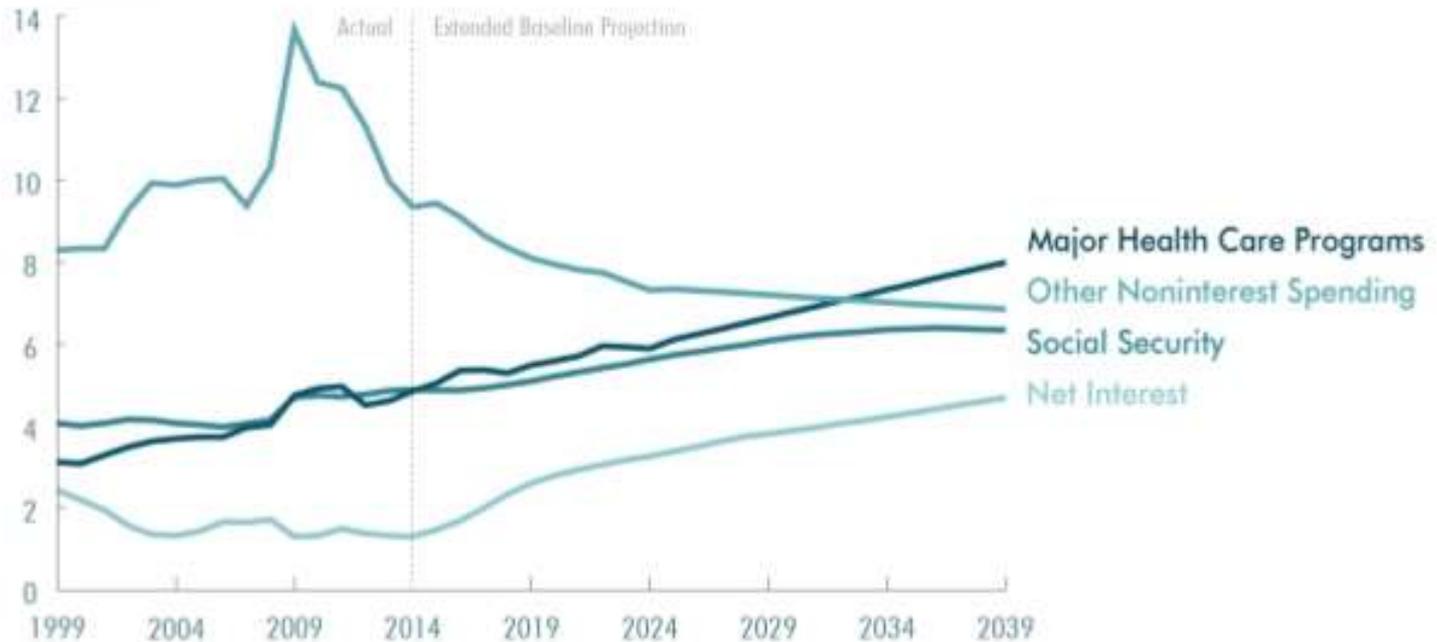


Entitlements and Interest Drive Future Federal Spending on

CBO

Components of Federal Spending

Percentage of GDP



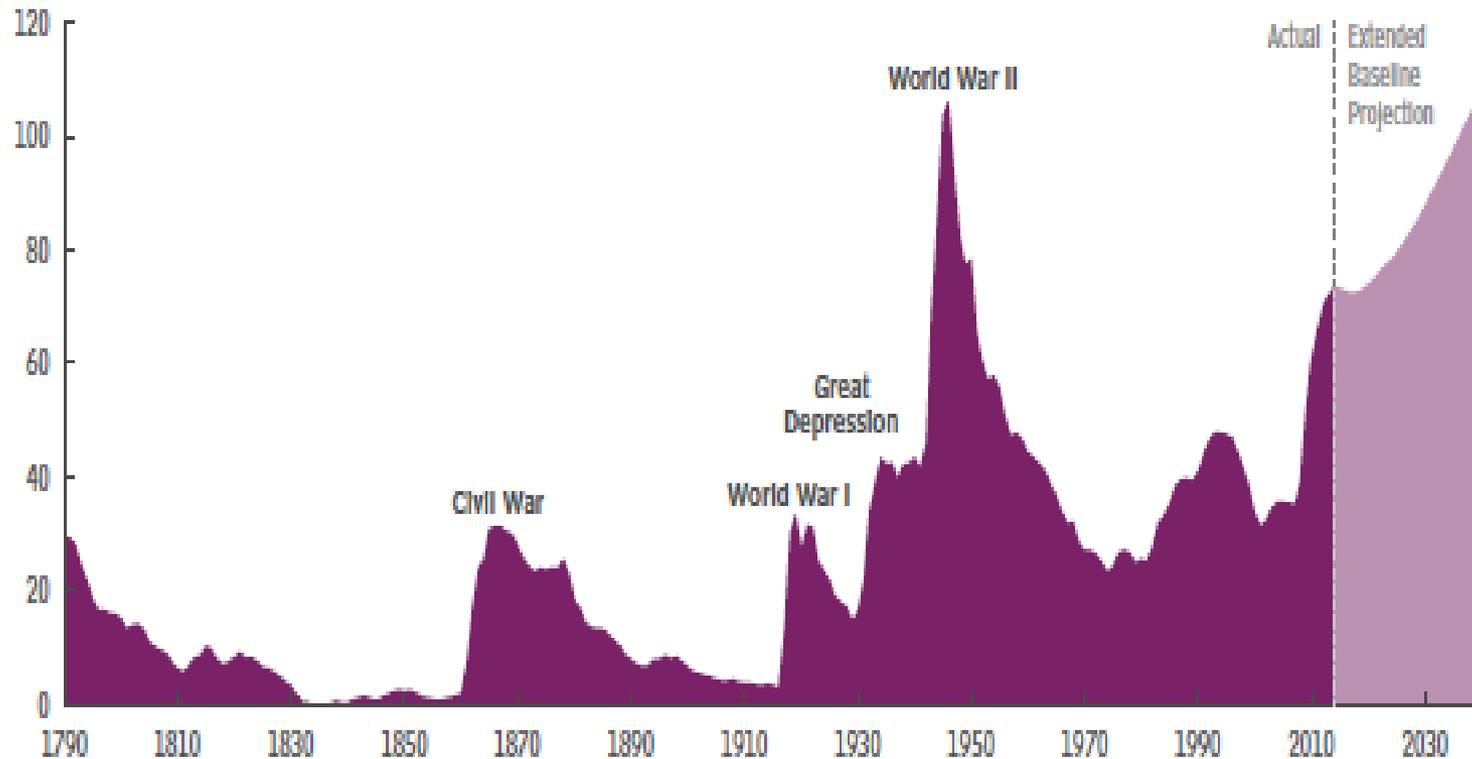
The federal government's spending for Social Security and major health care programs (Medicare, Medicaid, the Children's Health Insurance Program, and subsidies for health insurance purchased through the exchanges created under the Affordable Care Act) is expected to rise significantly over the next 25 years. The same is true for net interest payments because interest rates are expected to rebound from their unusually low levels and because federal debt would be much larger. Meanwhile, under current law, other noninterest spending is projected to decline to a smaller percentage of GDP than has been the case since the late 1930s.

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Key Driver: Federal Debt Rising to World War II Levels

Federal Debt Held by the Public

Percentage of Gross Domestic Product

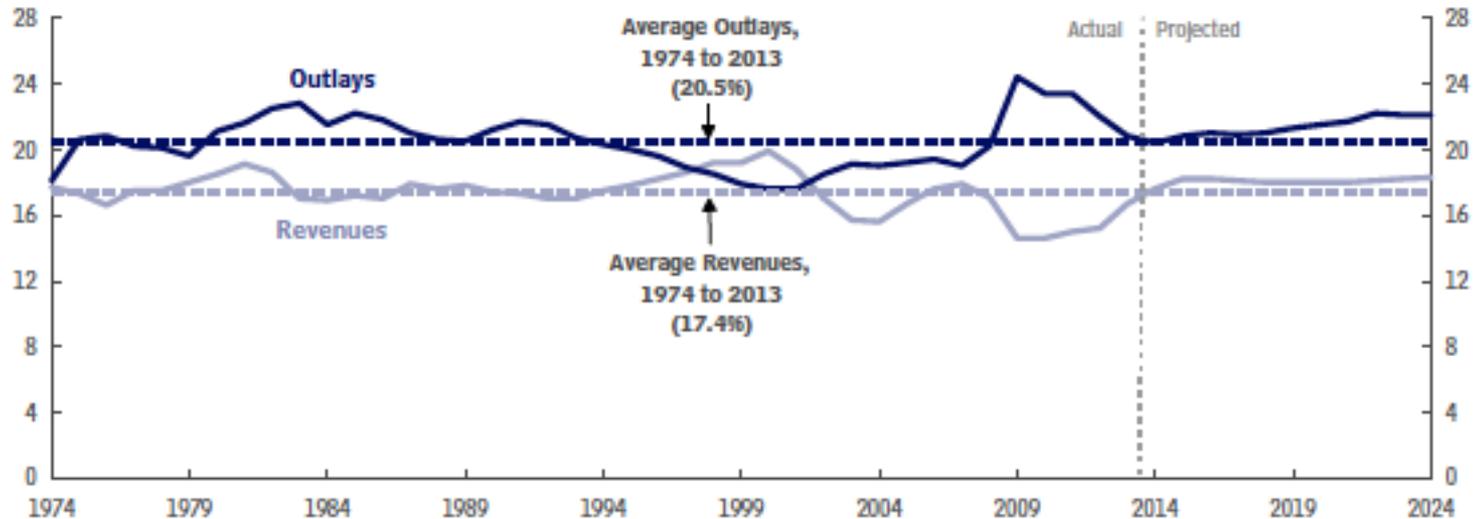


Source: Congressional Budget Office. For details about the sources of data used for past debt held by the public, see Congressional Budget Office, Historical Data on Federal Debt Held by the Public (July 2010), www.cbo.gov/publication/21728. Note: The extended baseline generally reflects current law, following CBO's 10-year baseline budget projections through 2024 and then extending the baseline concept for the rest of the long-term projection period. The long-term projections of debt do not reflect the economic effects of the policies underlying the extended baseline.

Revenues, Outlays, and Deficits

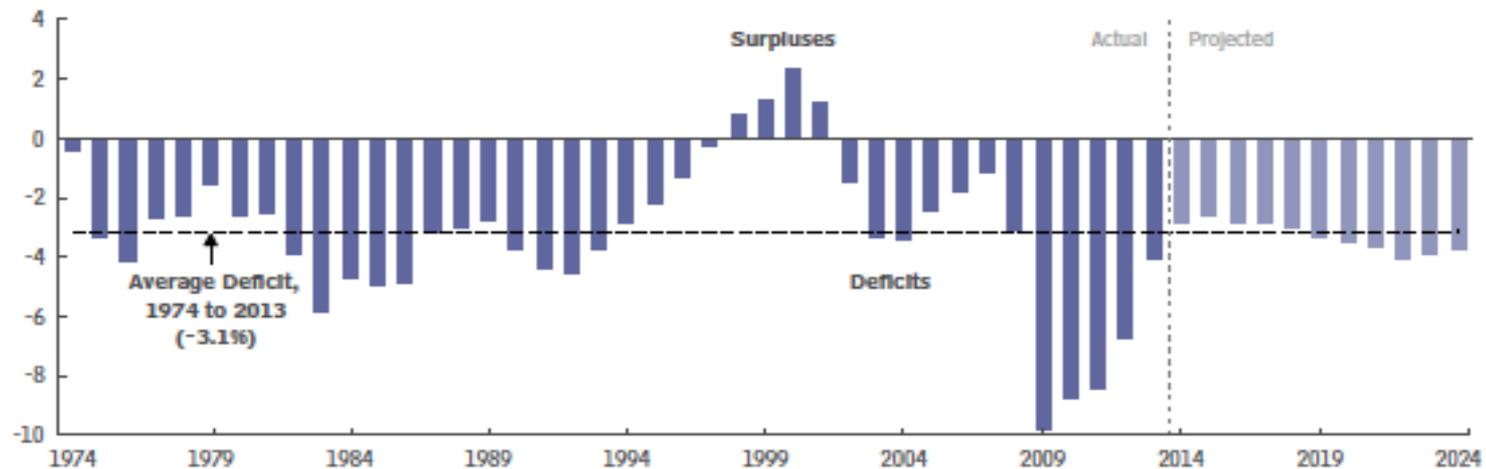
Total Revenues and Outlays

(Percentage of gross domestic product)



Total Deficits or Surpluses

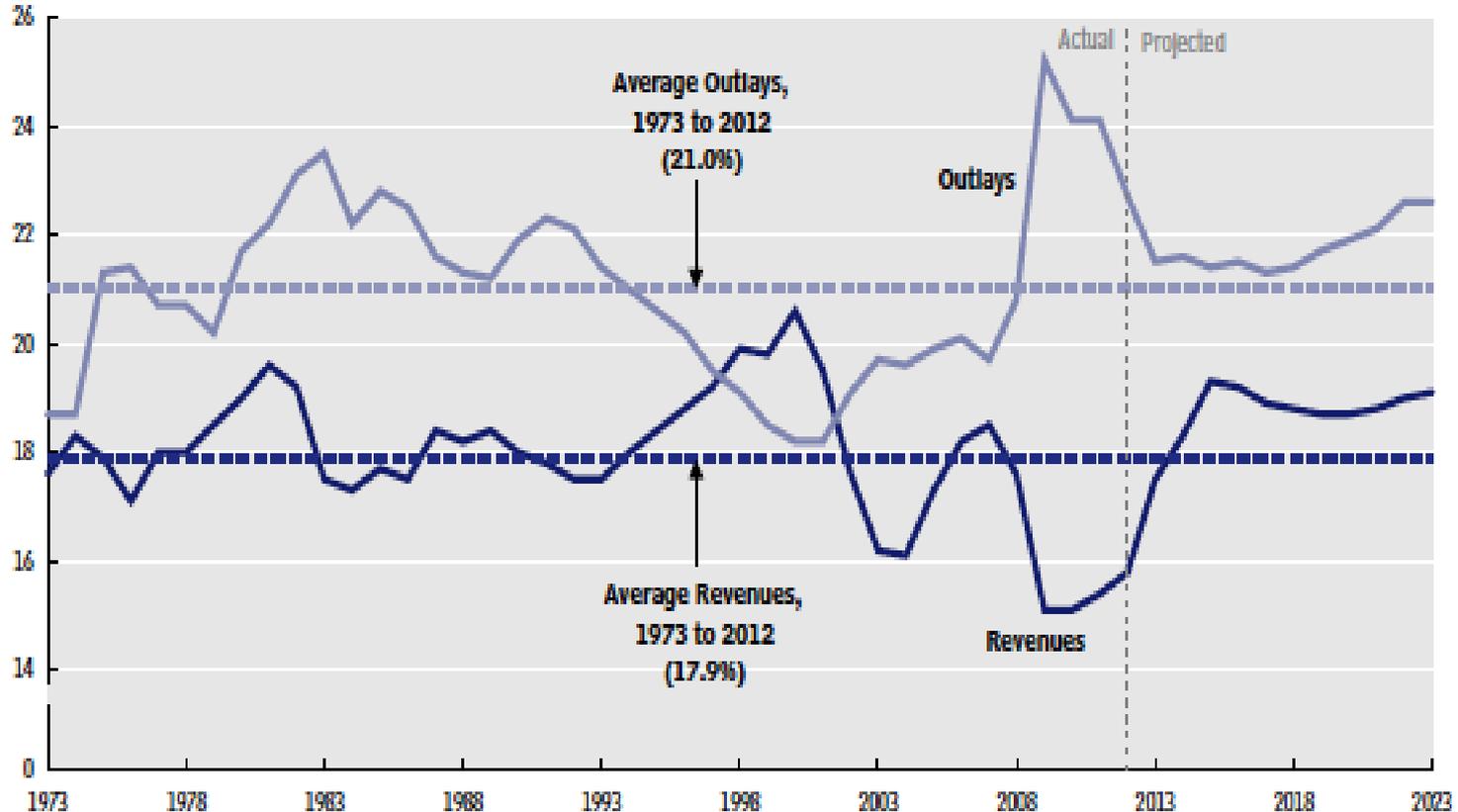
(Percentage of gross domestic product)



America's Revenues vs. Outlays and Debt

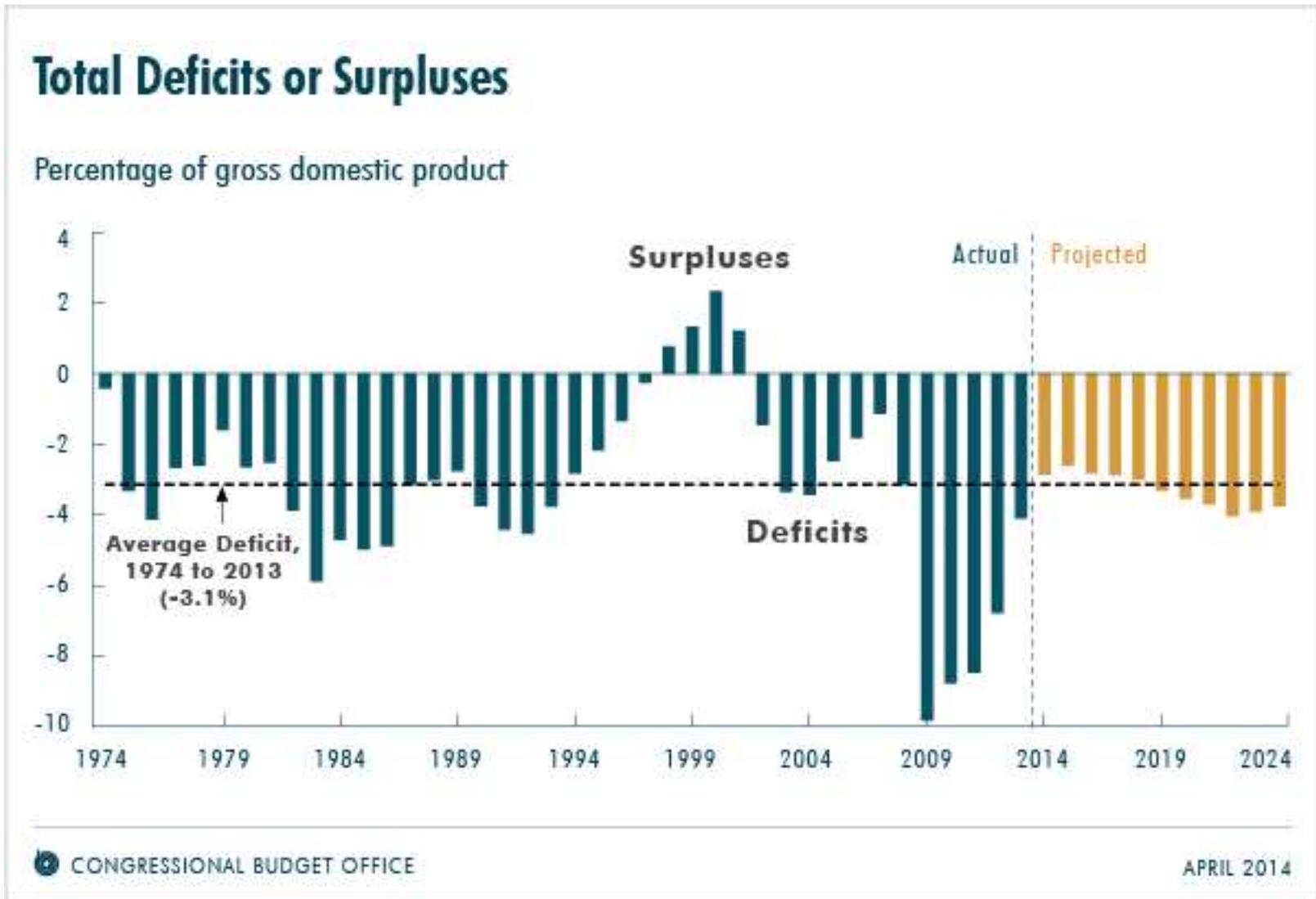
Total Revenues and Outlays

(Percentage of gross domestic product)



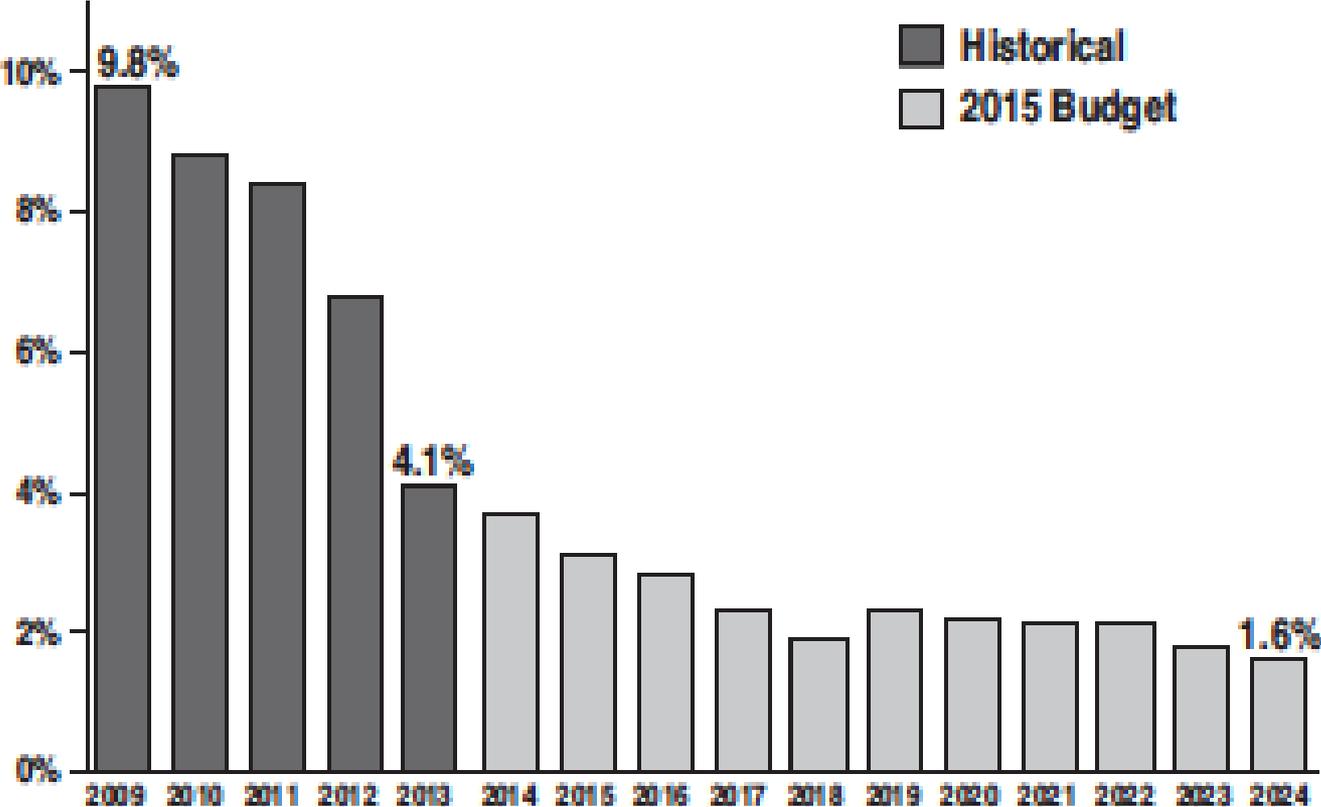
Source: Congressional Budget Office.

America's Short-Term Budget Deficit Trajectory



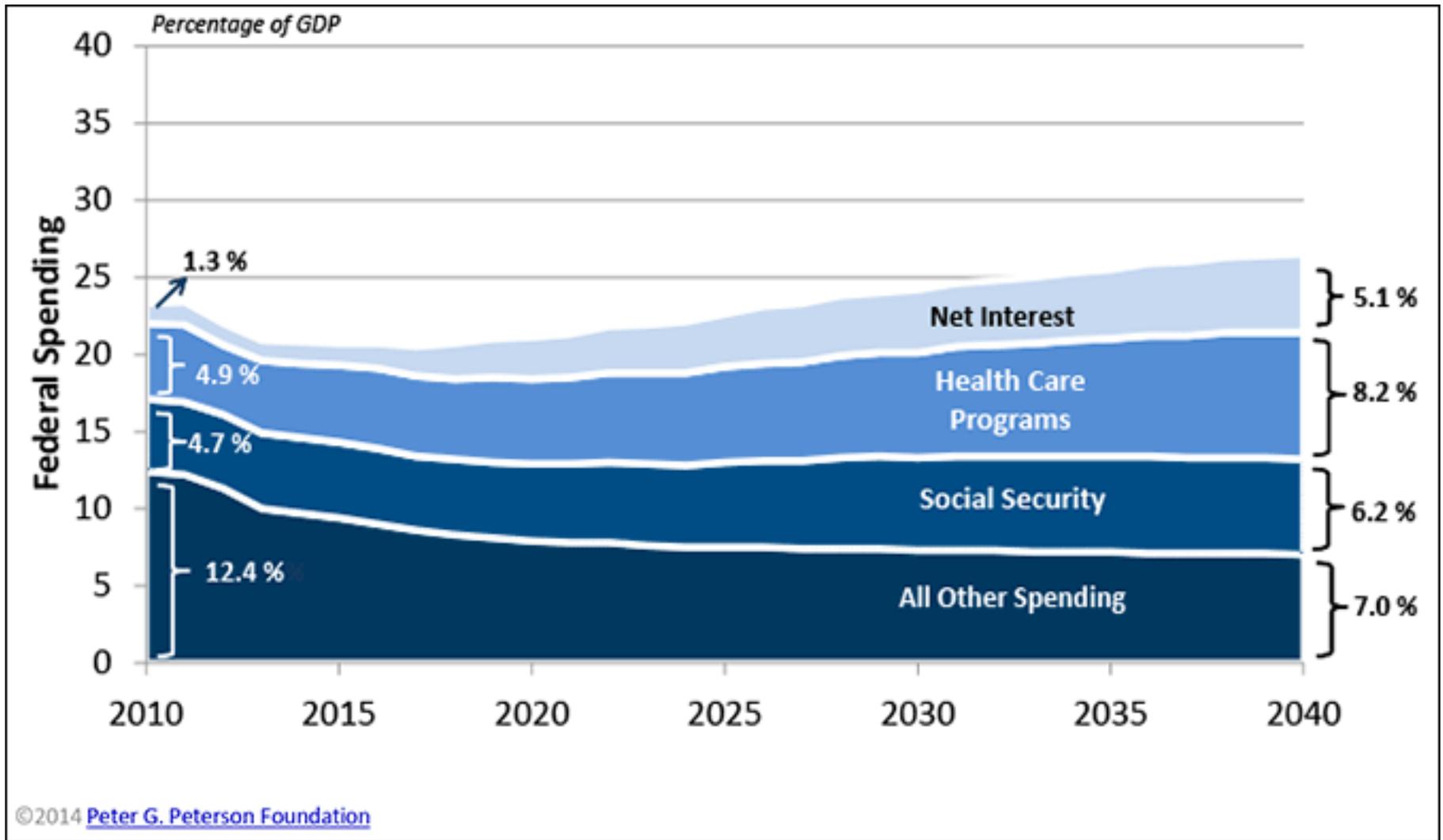
The President's FY2015 Goal for Deficit Burden on the Economy

Annual Deficits as a Percent of GDP



Source: <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/budget.pdf>, p. 8

US Growth in Budget Spending as % of GDP



Data: Congressional Budget Office, *The 2013 Long-Term Budget Outlook*, September 2013. Compiled by PGPF.

NOTE: Healthcare programs include Medicare, Medicaid, Children's Health Insurance Programs (CHIP), and the healthcare exchange subsidies. Outlays for Medicare are net of offsetting receipts, such as premium payments by Medicare beneficiaries. Source: *All of the projected future growth in the federal budget will come from entitlements and interest costs*, http://pgpf.org/Chart-Archive/0003_spending-growth-driver, February 4, 2014,

CBO Estimate of Underlying Causes of Projected Growth in Federal Spending for Health Care Programs and Social Security

Under its extended baseline, the Congressional Budget Office (CBO) projects that the growth of federal noninterest spending as a share of gross domestic product (GDP) results entirely from projected increases in spending for a few large programs: Social Security, Medicare, Medicaid, and the insurance subsidies provided through the health insurance exchanges established under the Affordable Care Act (ACA). The major health care programs, which currently account for about half of total spending for those large programs, are responsible for more than two-thirds of the projected increase in spending for those programs over the next 25 years. (By contrast, under the assumptions that govern the extended baseline, total federal spending on everything other than those programs and net interest is projected to fall significantly as a percentage of GDP over the next 25 years.)

Three factors underlie the projected increase in federal spending for the major health care programs and Social Security relative to the size of the economy:

- The aging of the U.S. population, which will increase the share of the population receiving benefits from those programs and also affect the average age (and thus the average health care costs) of beneficiaries;
- The effects of excess cost growth—that is, the extent to which health care costs per beneficiary, adjusted for demographic changes, grow faster than potential GDP per capita; and
- The continuing expansion of Medicaid under the ACA and the growth in subsidies for health insurance purchased through the exchanges created under that law.

CBO calculated the share of the projected growth in federal spending for the major health care programs and Social Security that could be attributed to each of those factors. (Aging is the only one that affects CBO's projections for Social Security.) The agency compared the outlays projected for those programs under the extended baseline with the outlays that would occur under three alternative paths: one that included aging of the population but no excess cost growth and no expansion of Medicaid or the exchange subsidies, one that included excess cost growth but no aging of the population and no expansion of Medicaid or the exchange subsidies, and one that included both aging and excess cost growth but no expansion of Medicaid or the exchange subsidies.

The ways in which aging of the population and excess cost growth interact accentuate those factors' individual effects. For example, as aging increases the number of Medicare beneficiaries and elderly Medicaid beneficiaries, rising health care spending per person has a greater impact on federal health care spending. Likewise, when per-person health care costs are rising, the increasing number of beneficiaries has greater budgetary consequences. That interaction effect can be identified separately—or, as in CBO's analysis, it can be allocated in proportion to the shares of projected growth that are attributable to the two factors: aging and excess cost growth. The aging of the population and excess cost growth also affect the budgetary impact of the expansion of Medicaid and the exchange subsidies, but in different directions: Excess cost growth increases the effect of that expansion on federal health care spending, but aging decreases the effect by reducing the share of the population that is under the age of 65 and therefore potentially eligible for the expanded federal benefits.

CBO Estimate of Causes of Rise in Health Costs and Social Security

	Percentage of Projected Growth Through	
	2024	2039
Major Health Care Programs and Social Security		
Aging	43	55
Excess Cost Growth	13	24
Expansion of Medicaid and Exchange Subsidies	44	21
Major Health Care Programs		
Aging	21	39
Excess Cost Growth	17	33
Expansion of Medicaid and Exchange Subsidies	62	28

According to CBO’s calculations, the aging of the population accounts for 55 percent of the projected growth in federal spending for the major health care programs and Social Security as a share of GDP through 2039. Excess cost growth accounts for 24 percent, and the expansion of Medicaid and exchange subsidies accounts for the remaining 21 percent.

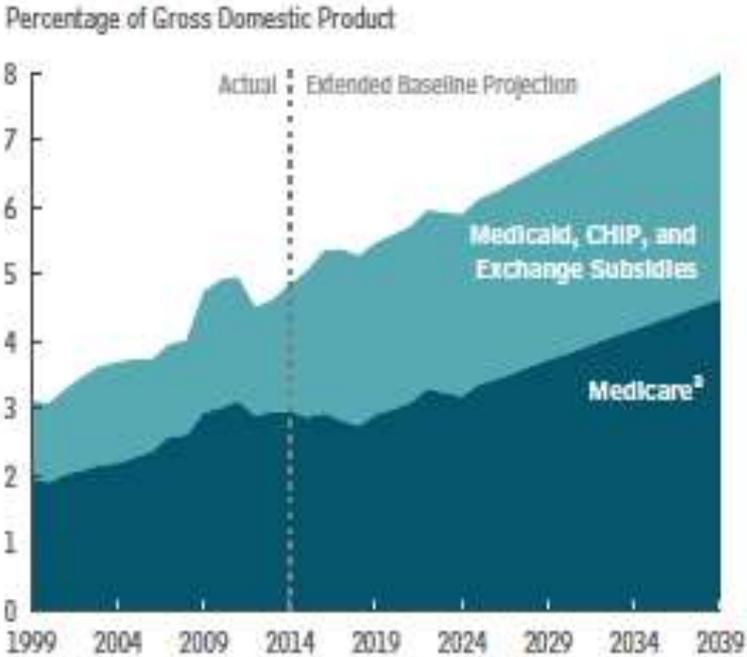
For the major health care programs alone, the relative impact of the population’s aging is smaller and the significance of factors related to health care is greater. Through 2039, aging accounts for 39 percent of projected growth in federal spending for those programs as a share of GDP, excess cost growth accounts for 33 percent, and the expansion of Medicaid and the exchange subsidies together account for 28 percent.

Total federal spending for those programs would increase from 4.8 percent of GDP in 2014 to 8.0 percent in 2039 under current law, CBO projects. Of that rise of 3.1 percentage points, aging would contribute 1.2 percentage points; excess cost growth, 1.0 percentage point; and the expansion of Medicaid and the exchange subsidies, 0.9 percentage points.

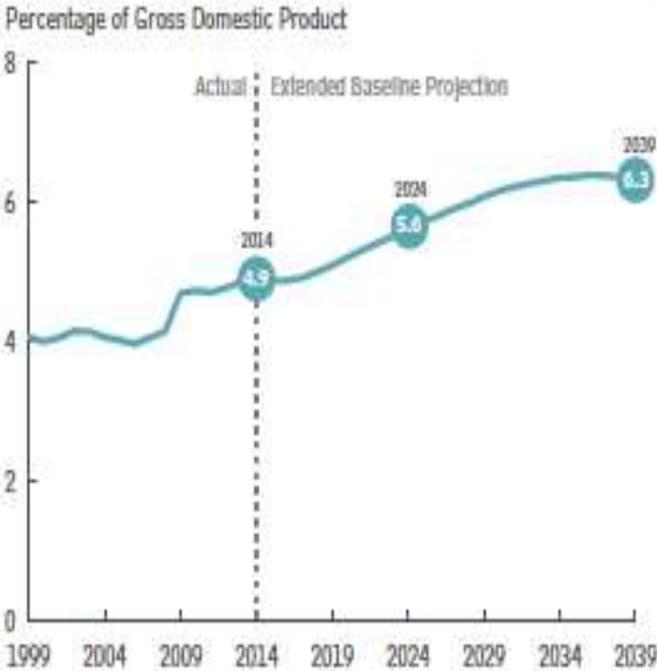
Under the assumptions of the extended baseline, the relative importance of those three factors would shift over the longer term. The age profile of the population is expected to change less rapidly after 2039, so aging would account for less of the growth in spending for federal programs. The expansion of Medicaid and the exchange subsidies also would account for less of the growth in spending once it took full effect. Thus, after 2039, excess cost growth in the major health care programs would be the primary driver of the total projected growth in spending for those programs and Social Security as a percentage of GDP.

Projected Impact on US GDP of Increase in Federal Health Spending and Social Security

Federal Spending on the Major Health Care Programs, by Category



Spending for Social Security

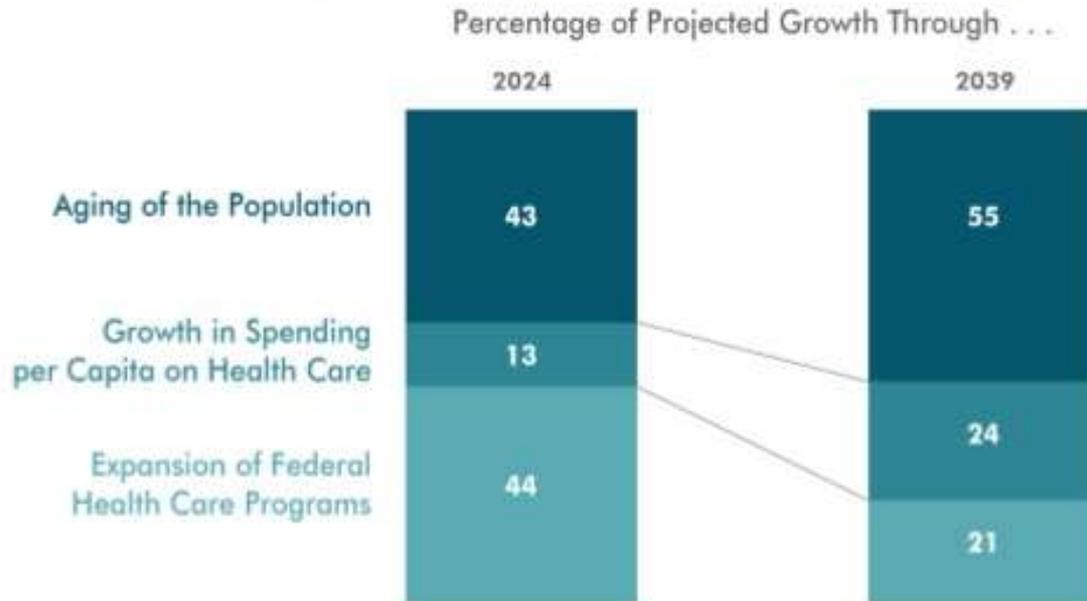


Source: Congressional Budget Office.

Aging is a Key Factor - I

CBO

Causes of Projected Growth in Federal Spending for Social Security and Major Health Care Programs



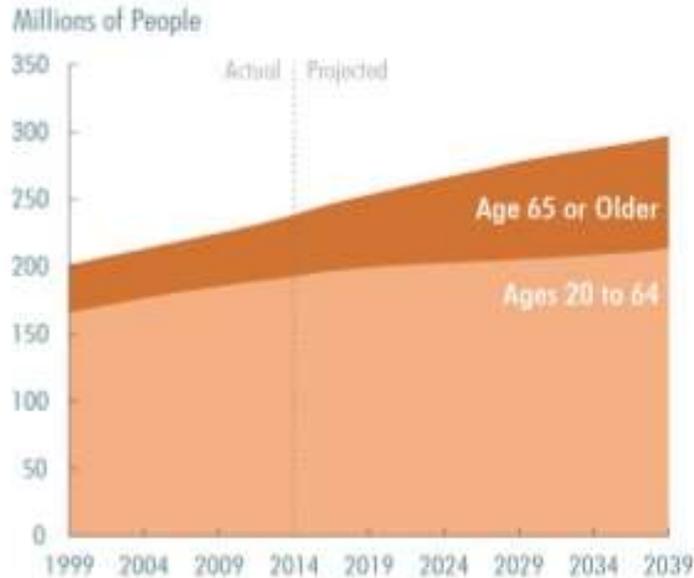
The aging of the U.S. population will increase the share of the population receiving benefits and also affect the average age (and thus the average health care costs) of beneficiaries. Health care costs per beneficiary, adjusted for demographic changes, will grow faster than economic output per capita, CBO projects, as they have historically. Medicaid will continue to expand under the Affordable Care Act and subsidies for health insurance purchased through the exchanges created under that law will grow, CBO estimates.

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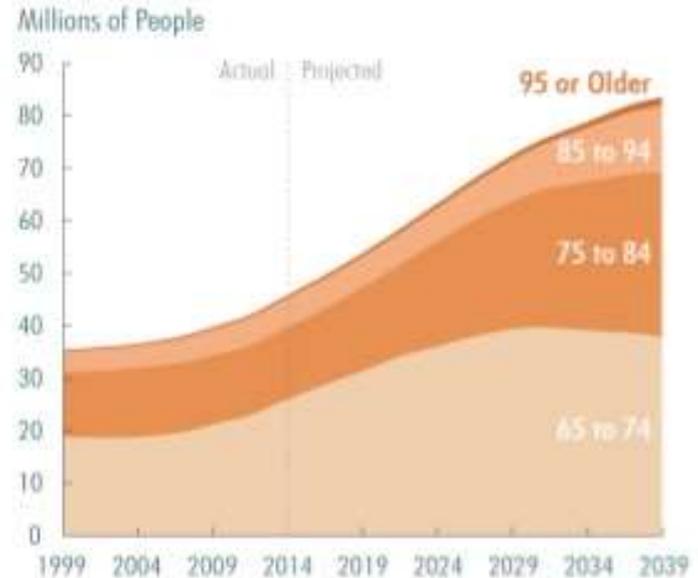
Aging is a Key Factor - II

Changes in Population, by Age Group

Population Age 65 or Older
Relative to the Population Ages 20 to 64



Number of People Age 65 or Older,
by Age Group



The number of people age 65 or older will increase by about 80 percent between now and 2039, CBO projects. As more members of the baby-boom generation reach retirement age and as longer life spans lead to longer retirements, a significantly larger share of the population will receive benefits from Social Security and Medicare. The aging of the population will cause the total amount of those benefits scheduled to be paid under current law to grow faster than the economy.

US Health Care Costs and Quality vs. Other Countries

	AUS	CAN	FRA	GER	NETH	NZ	NOR	SWE	SWIZ	UK	US
OVERALL RANKING (2013)	4	10	9	5	5	7	7	3	2	1	11
Quality Care	2	9	8	7	5	4	11	10	3	1	5
Effective Care	4	7	9	6	5	2	11	10	8	1	3
Safe Care	3	10	2	6	7	9	11	5	4	1	7
Coordinated Care	4	8	9	10	5	2	7	11	3	1	6
Patient-Centered Care	5	8	10	7	3	6	11	9	2	1	4
Access	8	9	11	2	4	7	6	4	2	1	9
Cost-Related Problem	9	5	10	4	8	6	3	1	7	1	11
Timeliness of Care	6	11	10	4	2	7	8	9	1	3	5
Efficiency	4	10	8	9	7	3	4	2	6	1	11
Equity	5	9	7	4	8	10	6	1	2	2	11
Healthy Lives	4	8	1	7	5	9	6	2	3	10	11
Health Expenditures/Capita, 2011**	\$3,800	\$4,522	\$4,118	\$4,495	\$5,099	\$3,182	\$5,669	\$3,925	\$5,643	\$3,405	\$8,508

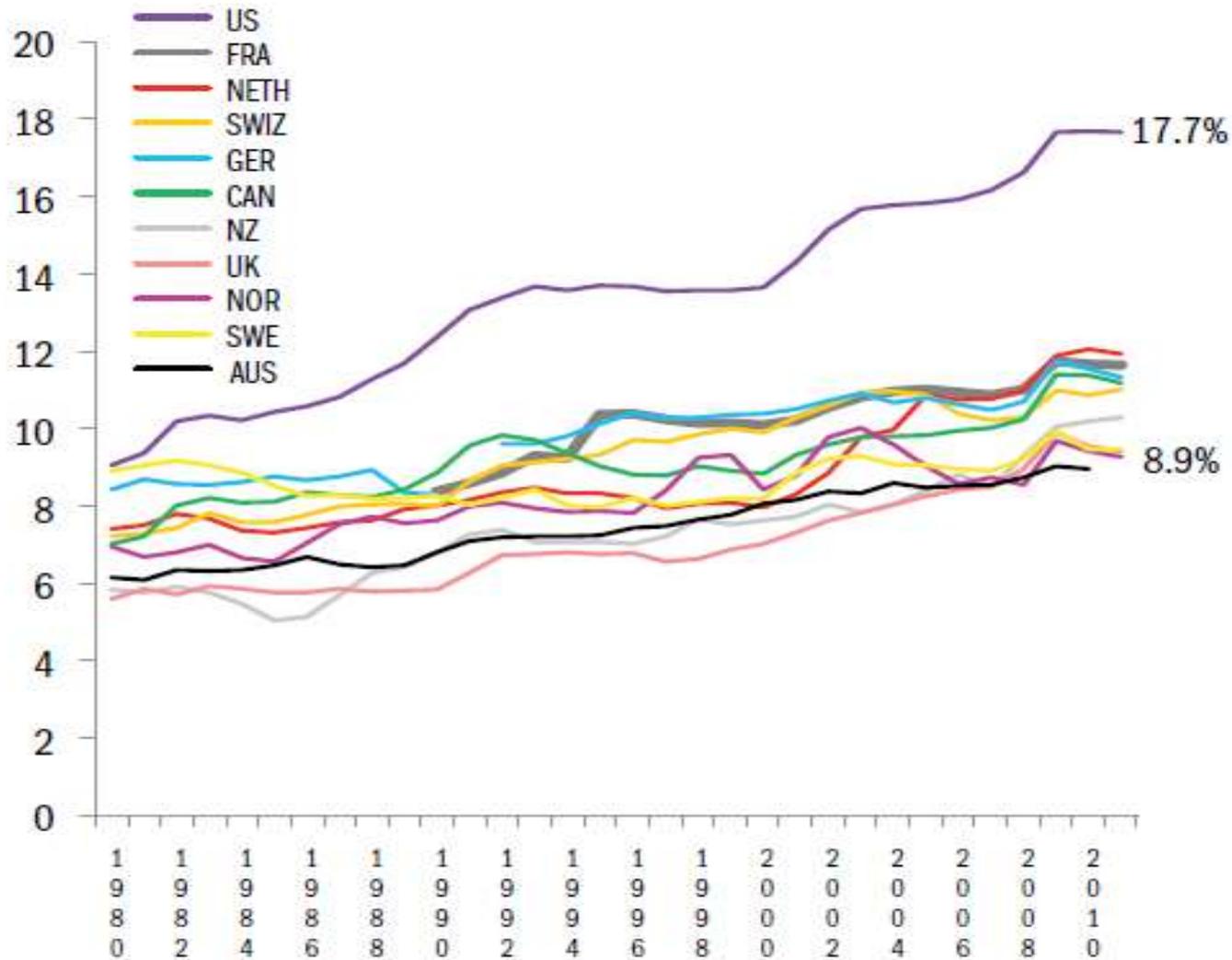
Notes: * Includes ties. ** Expenditures shown in \$US PPP (purchasing power parity); Australian \$ data are from 2010.

Source: Calculated by The Commonwealth Fund based on 2011 International Health Policy Survey of Sicker Adults; 2012 International Health Policy Survey of Primary Care Physicians; 2013 International Health Policy Survey; Commonwealth Fund *National Scorecard 2011*; World Health Organization; and Organization for Economic Cooperation and Development, *OECD Health Data, 2013* (Paris: OECD, Nov. 2013).

Adapted from: <http://www.washingtonpost.com/news/to-your-health/wp/2014/06/16/once-again-u-s-has-most-expensive-least-effective-health-care-system-in-survey/>

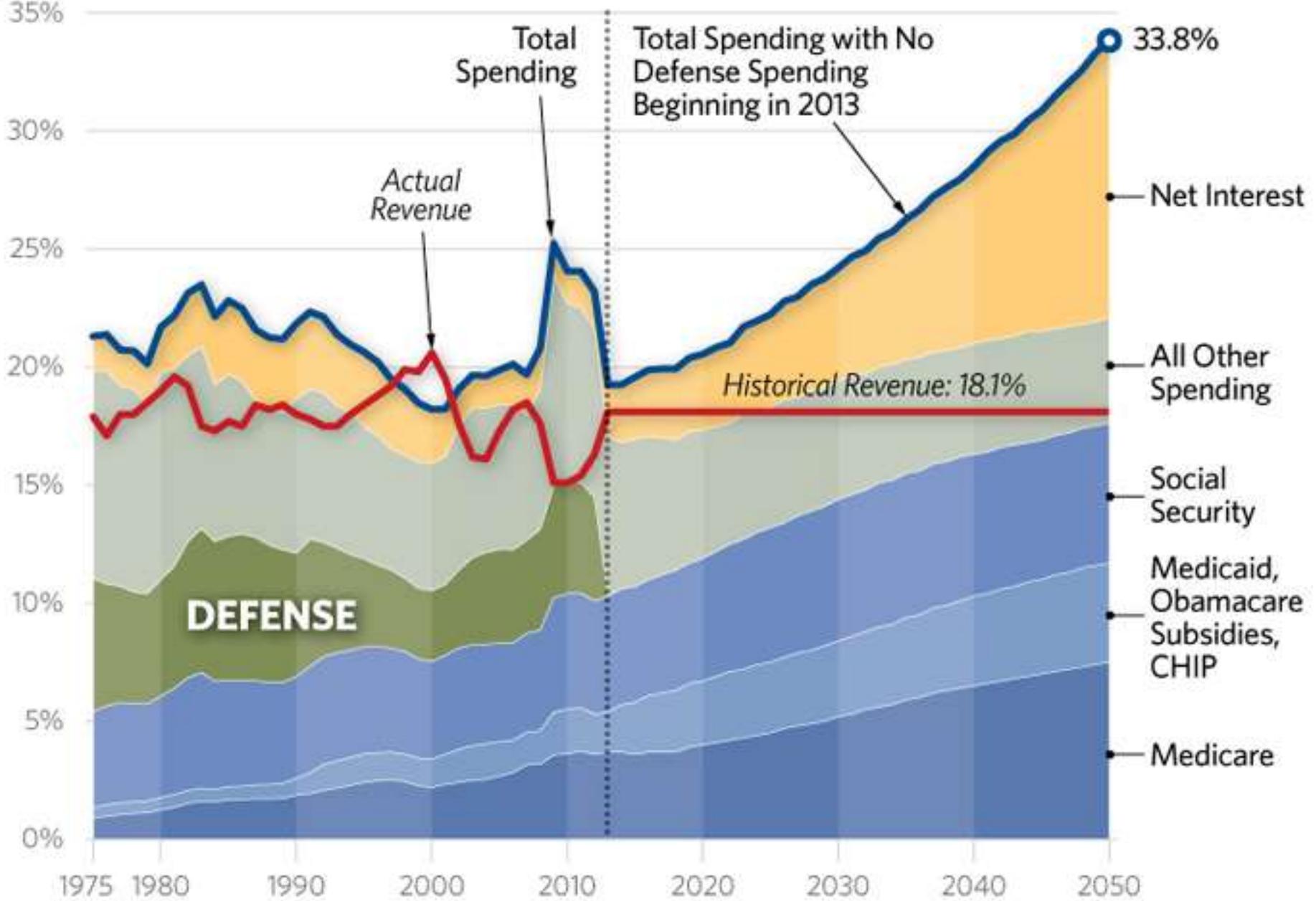
US Health Care as Percent of GDP vs. Other Countries

Total expenditures on health as percent of GDP

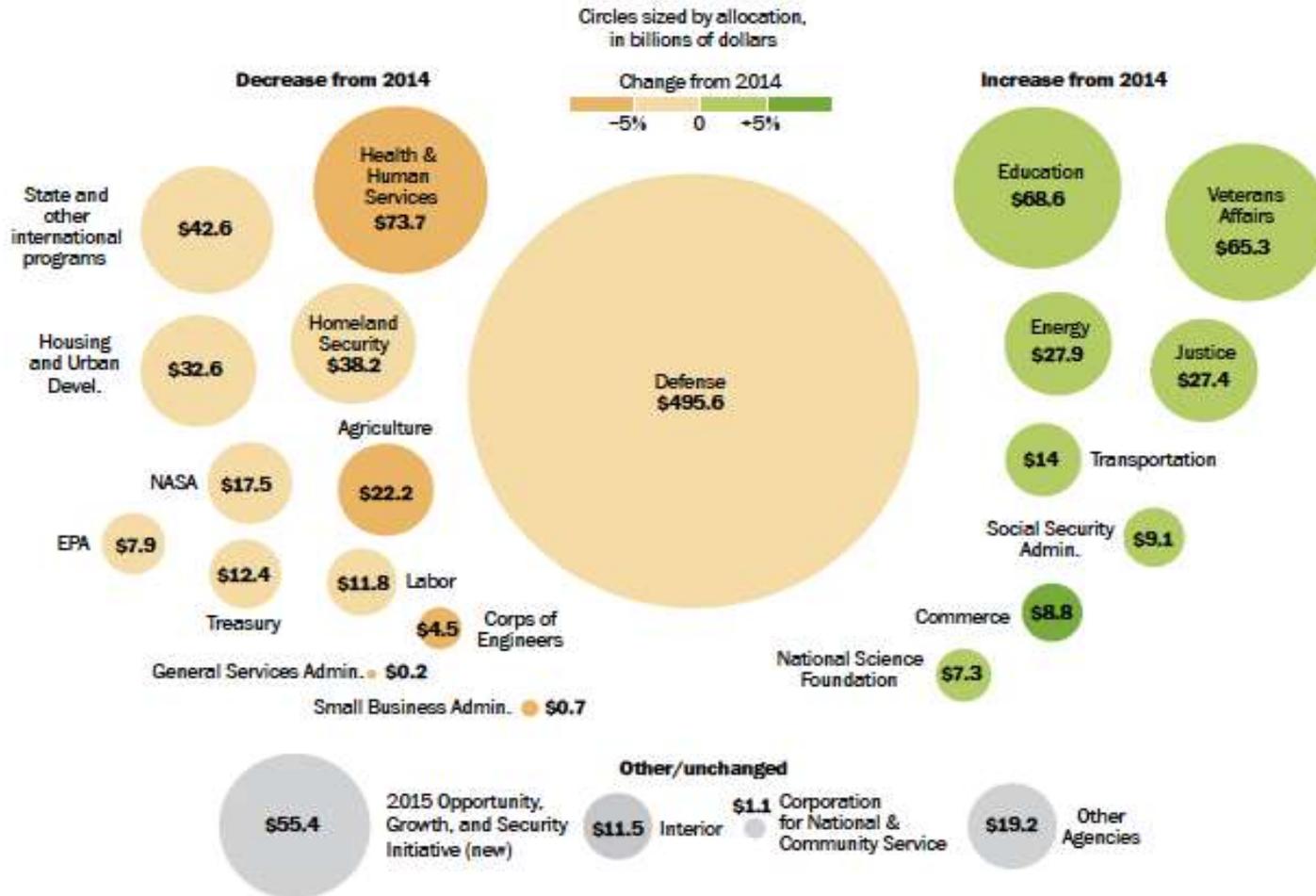


Adapted from: <http://www.washingtonpost.com/news/to-your-health/wp/2014/06/16/once-again-u-s-has-most-expensive-least-effective-health-care-system-in-survey/>

FY2015 Defense Spending Relative to Other Federal Spending



The Projected Defense Share of the FY2015 Federal Budget: Winners and Losers Relative to FY2014



Note: Agency breakdowns of discretionary spending sometimes vary from year-to-year comparisons because of adjustments for mandatory amounts.

OMB Projection of Total Federal Budget: 2013-2024

(In billions of dollars)

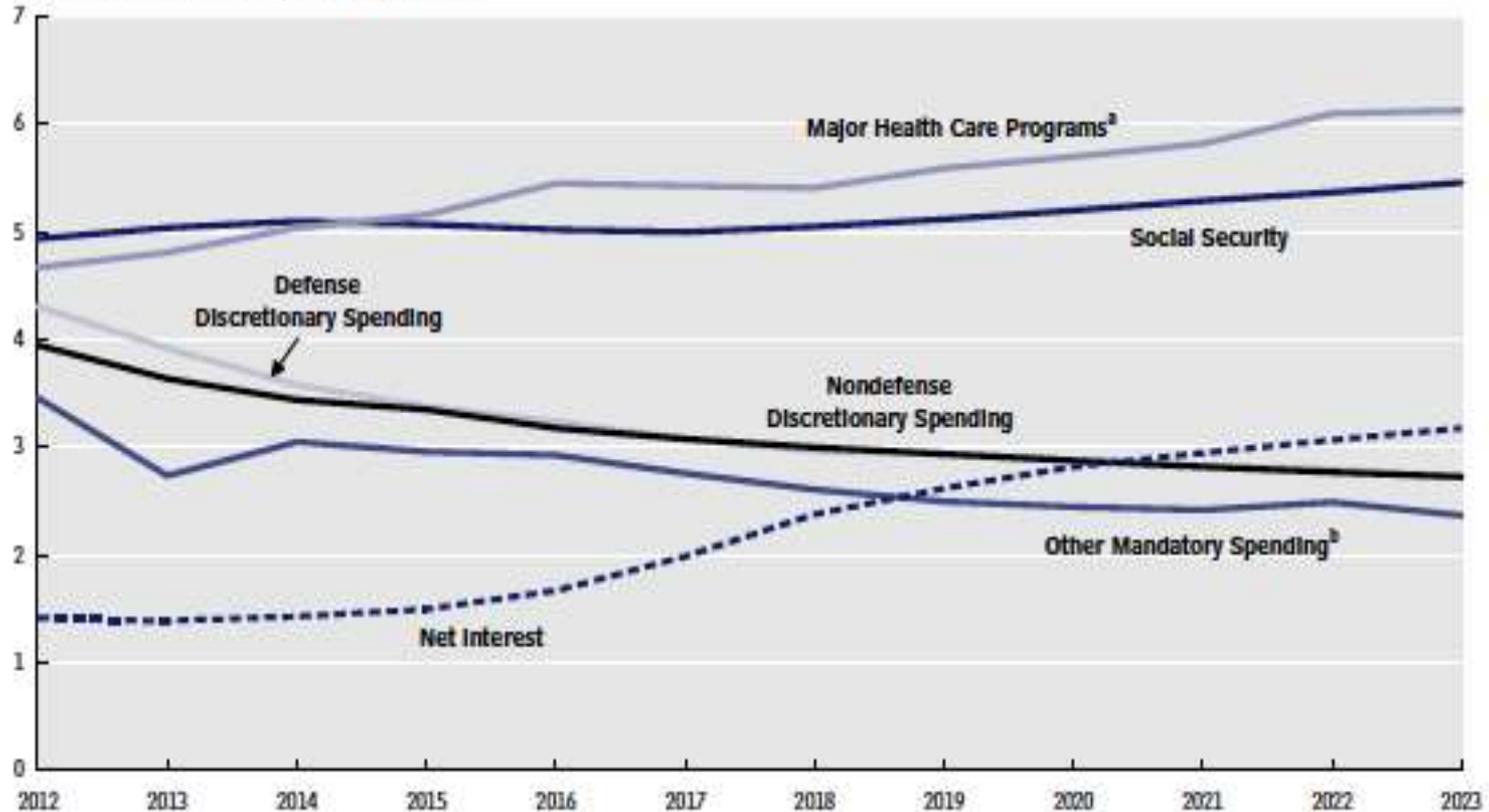
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Totals	
													2015-2019	2015-2024
Outlays:														
Appropriated ("discretionary") programs:														
Defense	626	612	606	653	675	687	700	711	728	745	763	781	3,321	7,060
Non-defense	522	562	543	542	552	559	569	581	592	605	618	632	2,766	5,795
Subtotal, appropriated programs	1,147	1,174	1,150	1,196	1,227	1,246	1,270	1,292	1,321	1,350	1,381	1,414	6,088	12,845
Mandatory programs:														
Social Security	808	852	896	947	1,003	1,063	1,127	1,196	1,264	1,337	1,415	1,499	5,037	11,748
Medicare	492	513	529	580	596	617	682	734	790	879	914	947	3,063	7,288
Medicaid	265	308	331	353	373	393	416	440	466	492	522	556	1,868	4,345
Other mandatory programs	521	560	559	607	712	704	752	778	807	847	852	868	3,524	7,566
Subtotal, mandatory programs	2,086	2,234	2,415	2,577	2,884	2,777	2,977	3,147	3,326	3,566	3,704	3,861	13,432	31,026
Net interest	221	223	251	318	393	480	563	635	697	761	827	886	2,006	5,812
Adjustments for disaster costs ²	---	2	6	8	8	9	9	10	10	10	10	10	40	90
Joint Committee enforcement ³	---	---	-10	-73	-96	-102	-105	-107	-107	-54	-38	-10	-387	-704
Total outlays	3,455	3,633	3,812	4,026	4,217	4,409	4,714	4,978	5,247	5,623	5,884	6,160	21,178	49,069
Receipts:														
Individual income taxes	1,316	1,389	1,498	1,606	1,727	1,854	1,971	2,094	2,223	2,363	2,487	2,622	8,656	20,435
Corporation income taxes	274	333	412	463	488	501	512	524	538	552	566	585	2,376	5,141
Social insurances and retirement receipts:														
Social Security payroll taxes	673	732	756	808	848	896	942	984	1,029	1,090	1,150	1,191	4,251	9,693
Medicare payroll taxes	209	219	231	248	261	276	291	304	320	336	352	368	1,307	2,987
Unemployment insurance	57	60	59	59	58	54	54	56	56	58	59	61	283	672
Other retirement	8	9	9	10	10	11	11	12	13	13	14	15	51	118
Excise taxes	84	94	99	100	105	108	114	118	123	129	135	143	526	1,174
Estate and gift taxes	19	16	18	19	20	22	23	24	26	27	29	31	102	240
Customs duties	32	35	38	41	44	48	51	54	58	61	65	70	222	529
Deposits of earnings, Federal Reserve System	76	90	88	58	34	20	25	34	43	47	54	58	225	462
Other miscellaneous receipts	27	27	43	46	61	62	63	66	67	68	70	74	274	620
Total receipts	2,775	3,006	3,251	3,457	3,666	3,851	4,057	4,271	4,505	4,736	4,970	5,218	18,273	41,973
Deficit	680	628	561	568	550	558	657	707	741	887	914	942	2,906	7,097
Net interest	221	223	251	318	393	480	563	635	697	761	827	886	2,006	5,812
Primary deficit	459	405	310	250	167	79	94	72	44	126	87	56	900	1,285
On-budget deficit	719	648	558	560	548	538	623	651	676	800	800	790	2,837	6,563
Off-budget deficit / surplus (-)	-39	-19	3	-1	12	20	34	56	66	87	114	143	68	534

Source: <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2015/assets/budget.pdf>, p. 168

Federal Spending by Budget Category

Projected Spending for Major Budget Categories

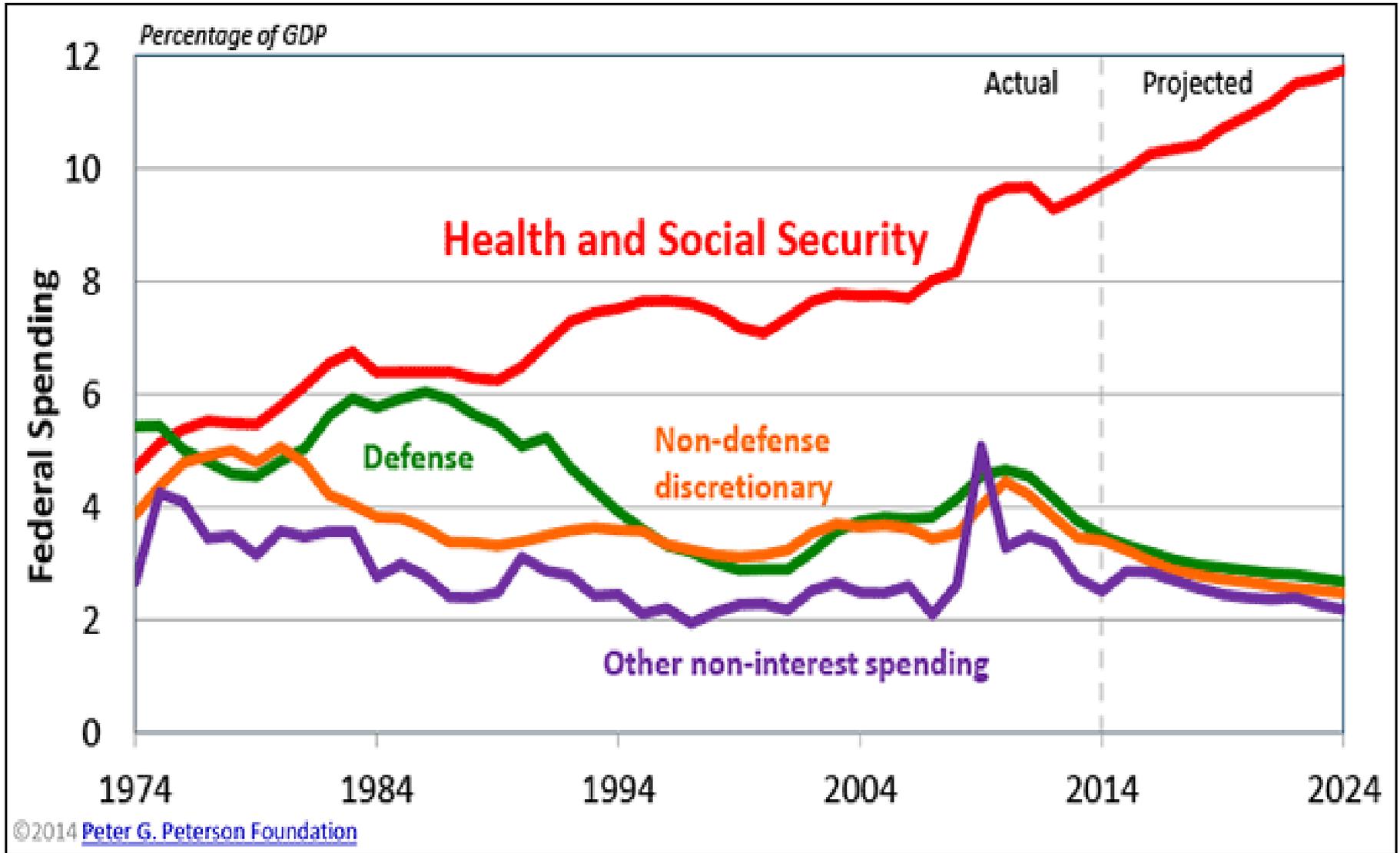
(Percentage of gross domestic product)



Source: Congressional Budget Office.

- a. Includes Medicare (net of receipts from premiums), Medicaid, the Children's Health Insurance Program, and subsidies offered through new health insurance exchanges and related spending.
- b. Other than mandatory spending for major health care programs and Social Security.

US Defense Spending Compared to Other US Programs



Data: Congressional Budget Office, *The Budget and Economic Outlook: 2014 to 2024*, February 2014; and Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2014*, April 2013; and Bureau of Economic Analysis, *National Income and Product Accounts Tables*, January 2014. Compiled by PGPF.

NOTE: Health programs include Medicare (net of offsetting receipts). Source: *Medicaid, Children's Health Insurance Program, and health insurance subsidies for the exchanges*,

http://pgpf.org/Chart-Archive/0182_health_ss_drivers, February 4, 2014,

Key Trends in FY2015 Defense Budget Request

National Budget Summary of FY2015 Defense Request

Provides \$495.6 billion in discretionary funding for the base budget of the Department of Defense to carry out our national defense strategy and protect national security. This includes:

- |Ending the war in Afghanistan and, pending the signing of a Bilateral Security Agreement maintaining a small force of Americans and international partners to train and assist Afghan forces and carry out limited counterterrorism operations in pursuit of any remnants of al Qaeda;
- Supporting Government-wide efforts to rebalance diplomatic, economic, and military resources to the Asia-Pacific region while also upholding responsibilities elsewhere;|
- Protecting the homeland and ensuring a safe, secure, and effective nuclear deterrent;|
- Sustaining our ability to project power and win decisively against both state adversaries and terrorist threats;
- Making progress toward restoring balance to the Joint Force by gradually raising readiness levels negatively impacted by sequestration while supporting the transition to a
- smaller military that is more agile and technologically superior;
- |Providing funds to recruit and retain the best-trained All-Volunteer Force; support military families; care for wounded, ill, and injured service members; make further, measurable progress toward eliminating sexual assault in the military; and help service members effectively transition to civilian life; and

Sustaining investments in science and technology programs, which drive innovation in military capabilities as well as in the civilian economy.

Opportunity, Growth, and Security Initiative:

Through the Opportunity, Growth, and Security Initiative, supports:

- |Accelerated modernization of key weapons systems, faster progress toward restoring readiness lost under sequestration, and improvements to the Department's facilities.

Reforms:

- Takes steps to slow the growth in military compensation and benefit costs to free up funds for training and modernization while ensuring we continue to honor and support our men and women in uniform.
- Retires aging aircraft and adjusts the planned acquisition and refurbishment of select naval assets, allowing for critical investments in new weapons systems and platforms.
- Aligns infrastructure with current needs and includes institutional reform efforts, such as a 20 percent cut in operating budgets for headquarters staff, which will consolidate duplicative efforts and streamline Department-wide management functions.

National Budget Summary of FY2015 National Intelligence Request

Provides \$45.6 billion in base discretionary funding for the National Intelligence Program to support national security goals and reflect a deliberative process to focus funding on the most critical capabilities. This includes:

- **Funding to continue integrating intelligence across the Government to help policy officials make decisions informed by the latest and most accurate intelligence available;**
- **| Countering the proliferation of weapons of mass destruction by strengthening collection capabilities;**
- **| Supporting military operations around the world by addressing both current and future needs;**
- **| Adapting to evolving cyberspace capabilities to help protect Federal networks, critical infrastructure, and America's economy, while improving the security of intelligence networks against intrusion and counterintelligence threats; and**
- **| Enhancing information sharing through expanded use of the IT cloud to facilitate greater efficiency and improved data security across the intelligence information environment.**

Reforms:

- **Supports the new presidential policy directive that governs signals intelligence collection and strengthens Executive Branch oversight of signals intelligence activities.**
- **Continues efforts to rightsize the workforce and to preserve critical current and future mission capabilities in the current fiscal environment.**
- **Reduces lower priority programs to enable investments in the most critical National Intelligence Program capabilities.**

National Budget Summary of FY2015 National Intelligence Request

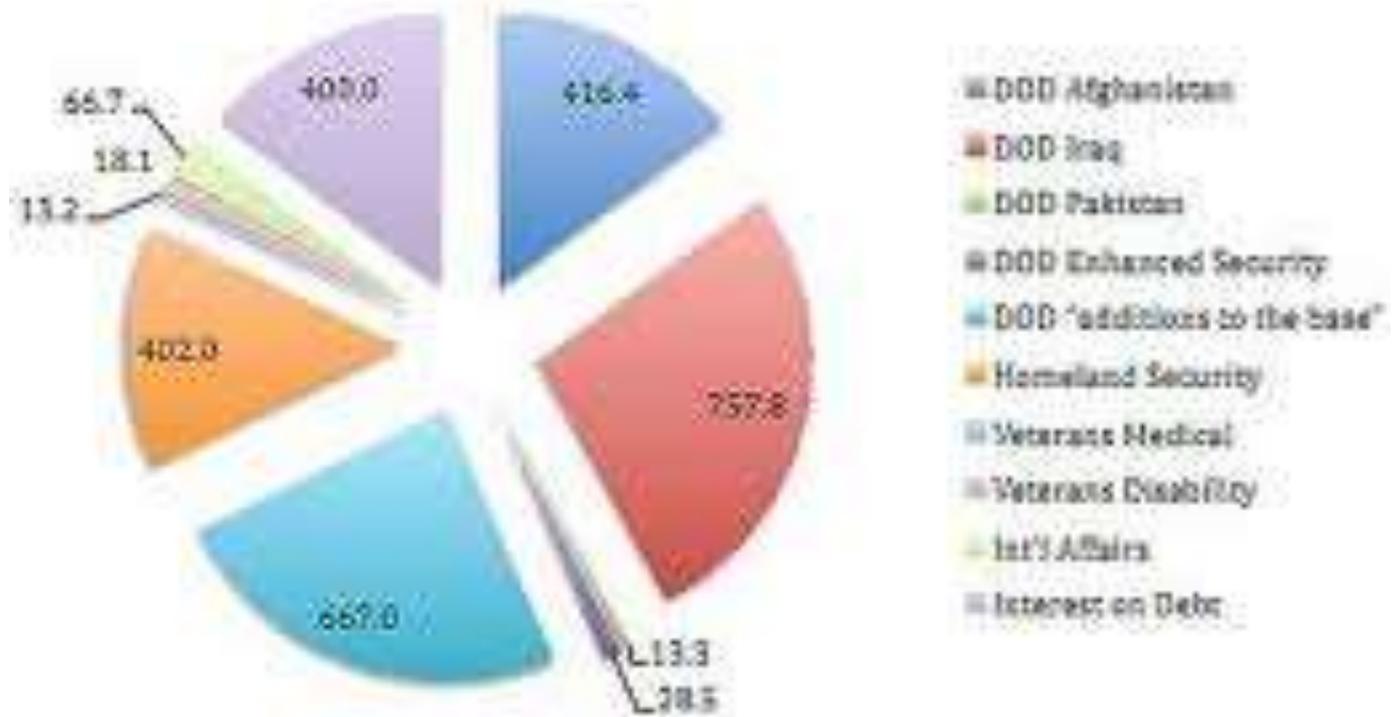
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Reforms:

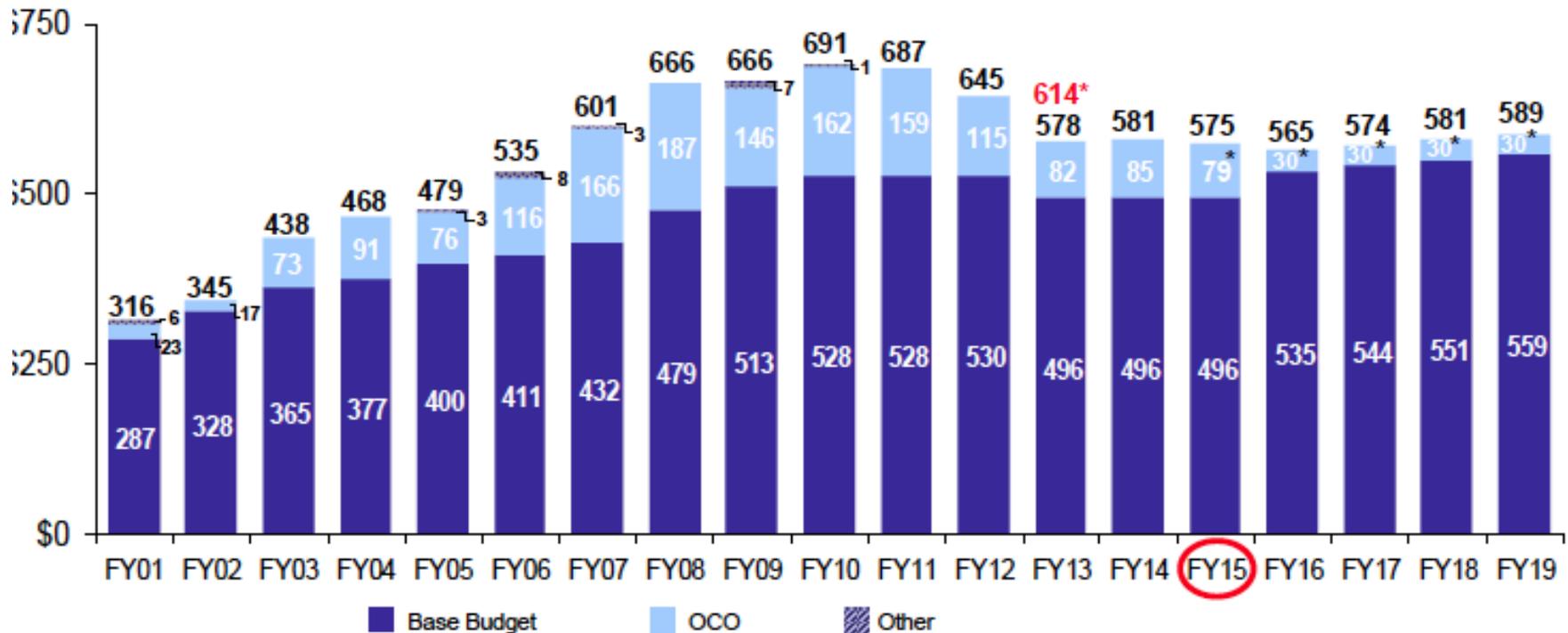
- **Supports the new presidential policy directive that governs signals intelligence collection and strengthens Executive Branch oversight of signals intelligence activities.**
- **Continues efforts to rightsize the workforce and to preserve critical current and future mission capabilities in the current fiscal environment.**
- **Reduces lower priority programs to enable investments in the most critical National Intelligence Program capabilities.**

Moderate Estimate of Cost of War, 2001-2011 \$2.8 Trillion



Budget Totals in President's FY 2015 Budget Request DoD Topline, FY 2001 – FY 2019

(Current Dollars in Billions)

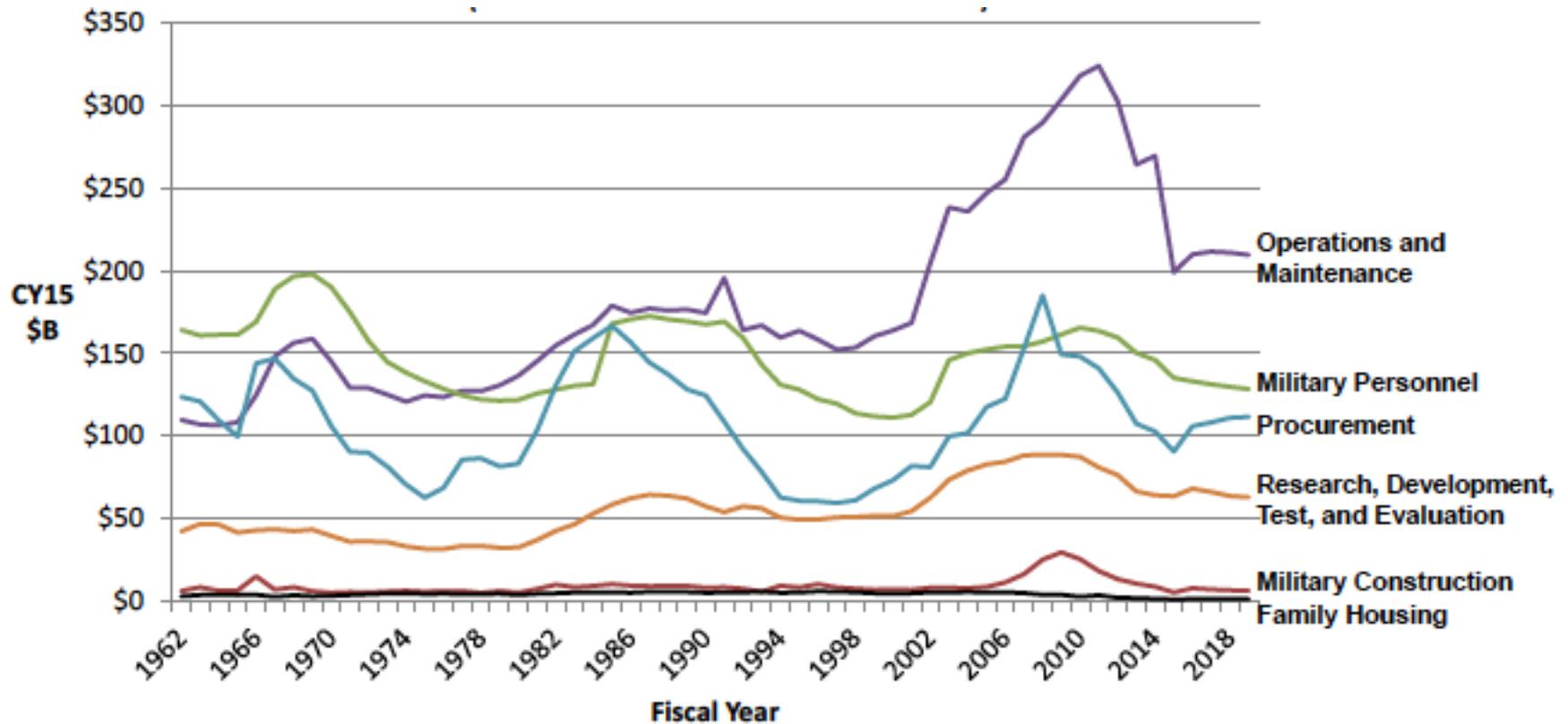


* Reflects FY13 Enacted level excluding Sequestration

* Placeholders only

**Focus Only On Base Budget For Remainder Of Briefing
No FY 2015 OCO Budget Yet**

Trends in Defense Budget Accounts: Historical and PB15 (FY1962–FY2019 in constant \$US FY2015)



NOTE: OCO is included in fiscal year budgets before FY2014 but not in the current fiscal year (2014) or in the FY2015 President’s Budget figures (FY 2015–2019). Budget amounts are adjusted for inflation and reported in billions of calendar year 2015 dollars (CY15\$B).

Source: *Performance of the Defense Acquisition System, 2014 Annual Report*. Washington, DC: Under Secretary of Defense, Acquisition, Technology, and Logistics (USD[AT&L]), June 13, 2014, www.acq.osd.mil, p. 3.

Uncertain Defense and OCO Spending

Discretionary Budget Authority Proposed by the President for 2015, Compared With Appropriations for 2014 and 2015

(Billions of dollars)

	Actual, 2013	Enacted, 2014 ^a	President's Budget, 2015 ^b	Percentage Change	
				2013-2014	2014-2015
Defense					
Overseas contingency operations ^c	82	85	79	3.7	-7.0
Emergency requirements	*	0	0	-100.0	0
Other	518	520	550	0.5	5.6
Subtotal	<u>600</u>	<u>606</u>	<u>629</u>	0.9	3.8
Nondefense					
Overseas contingency operations ^c	11	7	6	-39.9	-9.3
Emergency requirements	48	0	-1	-100.0	n.a.
Other	481	521	529	8.3	1.5
Subtotal	<u>540</u>	<u>528</u>	<u>533</u>	-2.3	1.1
Total	1,140	1,133	1,163	-0.6	2.6

Source: Congressional Budget Office.

Notes: The numbers shown here do not include obligation limitations for certain transportation programs.

* = between zero and \$500 million; n.a. = not applicable.

- The President does not propose any changes to appropriations for 2014.
- The President proposes to reduce budget authority by a total of \$19 billion for certain mandatory programs through the appropriation process. In keeping with long-standing procedures, those changes are credited against discretionary spending and therefore are included in the figures for 2015. (For 2013 and 2014, any such effects appear in their normal mandatory accounts and are not shown here.)
- Overseas contingency operations consist of military operations and related activities in Afghanistan and other countries.

President's Revised OCO Spending Request: June 26, 2014 - I

Submitted for your consideration are amendments to your Fiscal Year (FY) 2015 Overseas Contingency Operations (OCO) request for the Department of Defense (DOD) and the Department of State and Other International Programs (State/OIP). Military operations in Afghanistan, as well as activities that support Operation Enduring Freedom (OEF), related follow-on activities, and other critical missions in the region, constitute the majority of the DOD OCO request.

The request also includes funding for both DOD and State/OIP to implement the Counterterrorism Partnerships Fund (CTPF) and the European Reassurance Initiative (ERI), and additional funding for State/OIP peacekeeping costs in the Central African Republic (CAR).

Because final decisions about the number and activities of U.S. forces in Afghanistan after December 2014 had not yet been made when the FY 2015 Budget was submitted, the Budget included \$5.9 billion in OCO funding for State/OIP and a placeholder of \$79.4 billion for DOD. This package submits for your consideration the complete and updated FY 2015 request for DOD OCO funding, totaling \$58.6 billion, as well as an increase of \$1.4 billion for State/OIP OCO funding. Overall, these amendments decrease by \$19.5 billion the total amount of OCO funding requested for FY 2015.

The United States' goals in Afghanistan beyond 2014 are to continue to support the Afghan National Security Forces, support economic development and governance efforts, and pursue U.S. counterterrorism goals against al Qaeda and its affiliated groups. As you announced in May, the United States will conclude combat operations in Afghanistan by the end of this calendar year. The United States will draw down to approximately 9,800 U.S. service members in Afghanistan by early 2015, which, together with NATO allies and other partners, will allow the United States to continue advising key Afghan forces and to sustain counterterrorism operations. By the end of 2015 the United States will have reduced that presence by roughly half and consolidated its military and diplomatic presence to Kabul and Bagram Airfield. By the end of 2016, DOD will draw down to a more conventional embassy-based security assistance presence in Kabul.

In support of OEF and related follow-on activities, DOD OCO funding would support several key efforts, including:

- concluding the combat mission in Afghanistan at the end of 2014 and positioning U.S. military and intelligence forces in Afghanistan for their post-2014 mission;
- drawing down to approximately 9,800 U.S. service members in the country by early 2015 from an average of 38,000 in FY 2014; continuing to support the Afghan National Security Forces (ANSF) as they assume full responsibility for security in Afghanistan after December 2014;
- sustaining the fight against transnational terrorists who seek to undermine the United States and its allies;
- providing warfighters with the intelligence, surveillance, and reconnaissance (ISR)
- support that has proven essential for mission success in Afghanistan and around the region;
- providing support to Coalition allies in Afghanistan and the surrounding region;
- disposing of unexploded ordnance in Afghanistan and continuing to support Coalition and partner efforts to counter improvised explosive devices;

Source: Letter from Brian C. Deese, Acting Director, Office of Management and the Budget, Executive Office of the President, June 26, 2014.

President's Revised OCO Spending Request: June 26, 2014 - II

- returning thousands of cargo containers and pieces of equipment from Afghanistan to their home stations;
- replenishing or replacing expended munitions and ammunition as well as combat damaged equipment, including helicopters, ground vehicles, and unmanned aerial systems; and
- supporting a portion of temporary Army and Marine Corps end strength that currently supports OEF, but will not be required under the defense strategy articulated in the 2014 Quadrennial Defense Review.

Although the FY 2015 OCO request reflects a transition as the United States concludes combat operations in Afghanistan partway into the fiscal year, most costs will not decline precipitously. For example, DOD will still incur significant costs to transport personnel, supplies, and equipment back to their home stations. Funding to sustain the ANSF will continue to be needed to ensure that Afghan forces can provide sufficient security. There will be continued costs to repair and replace equipment and munitions as DOD resets the force over the next few years.

The OCO funding would also continue to support DOD's strong forward presence in the broader Middle East region. The overall U.S. military posture in the region enables DOD to support OEF and other important missions, such as assuring our regional partners, deterring aggression, and working with our partners to counter terrorism. It includes advanced fighter aircraft, ISR assets, missile defense capabilities, rotational ground forces, a robust naval presence, and building partners' capacity. As the United States continues its transition from over a decade of fighting in the broader region to preparing for future challenges, military capabilities in the region will continue to evolve to meet new threats.

The updated OCO request includes \$5 billion for CTPF, split among DOD, State/OIP, and the Intelligence Community, with dedicated transfer accounts in both DOD and State/OIP designed to provide the flexibility and resources required to respond to emerging needs as terrorist threats continue to evolve. The CTPF would support a more sustainable and effective approach to combating terrorism that focuses on empowering and enabling partners facing terrorist threats. The DOD request of \$4.0 billion would support a transitional effort to increase partner capacity-building, facilitate partner counterterrorism operations, enhance DOD's counterterrorism activities, and increase DOD's flexibility in responding to emergent crises. The State/OIP request of \$1.0 billion would enable the Department to increase counterterrorism and stabilization efforts in areas such as the Middle East, North Africa and the Sahel, the Horn of Africa, and South and Central Asia; address underlying conditions conducive to terrorism; and address the broader counterterrorism challenge of the crisis in Syria and its destabilizing impact on the region. Both funds build primarily on existing authorities, but would provide the Federal Government with expanded flexibility and resources to respond more nimbly to evolving terrorist threats and further develop and invest in partnerships from South Asia to the Sahel.

The OCO request also includes \$1 billion for the ERI to provide temporary support to bolster the security of our NATO allies and partner states in Europe. These funds would enable the United States to increase military exercises, training, and presence in Europe, especially in Central and Eastern Europe, increase U.S. naval force deployments to the Black and Baltic Seas, enhance our preparedness to reinforce NATO allies through the prepositioning of equipment,

Source: Letter from Brian C. Deese, Acting Director, Office of Management and the Budget, Executive Office of the President, June 26, 2014.

President's Revised OCO Spending Request: June 26, 2014 - III

improve infrastructure at training and logistics facilities, especially in Central and Eastern Europe, and strengthen the capacity of partner states in Europe to operate alongside the United States and NATO and to defend their security. Of the \$1 billion requested, \$925 million is for DOD and \$75 million is for State/OIP's Foreign Military Financing account.

The updated request includes an additional \$278 million in State/OIP's Peacekeeping Response Mechanism account to fully fund the additional estimated costs resulting from the April 2014 decision by United Nations (UN) Security Council to authorize a new UN peacekeeping mission to deploy in the CAR. This decision was made after the Administration submitted its FY 2015 Budget.

General provisions included in this request would provide necessary authorities to support military operations in the U.S. Central Command area of responsibility. As in each of the past five years, these include a request for \$4 billion in OCO-specific transfer authority.

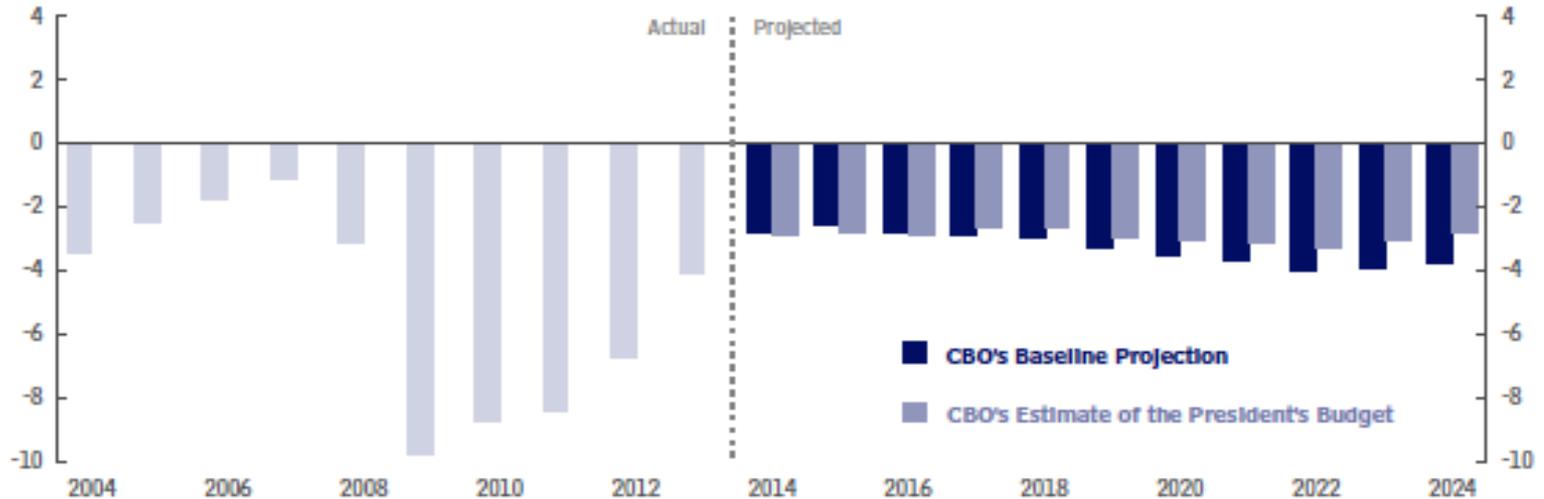
Your FY 2015 Budget submitted in March 2014 estimated \$47.1 billion in FY 2015 outlays from the FY 2015 DOD OCO placeholder. Based on the updated request submitted in this package, FY 2015 DOD OCO outlays from new budget authority would be \$33.8 billion. In addition, the updated request increases estimated FY 2015 State/OIP OCO outlays by \$472 million.

The FY 2015 Budget also repropose a \$450 billion multi-year cap on Government-wide OCO funding over the FY 2013 to FY 2021 period. In FY 2014, enacted funding designated as OCO is \$91.9 billion across DOD, State/OIP, and the Department of Homeland Security. With this update, the FY 2015 Budget proposes a total of \$65.8 billion in OCO funding for DOD and State/OIP, leaving a total of \$199.2 billion remaining under the proposed cap for the year FY 2016 to FY 2021 or an average of \$33.2 billion per year.

Cutting the War and Medicare Cuts the Deficit

Deficits Projected in CBO's Baseline and Under the President's Budget

(Percentage of gross domestic product)



Source: Congressional Budget Office.

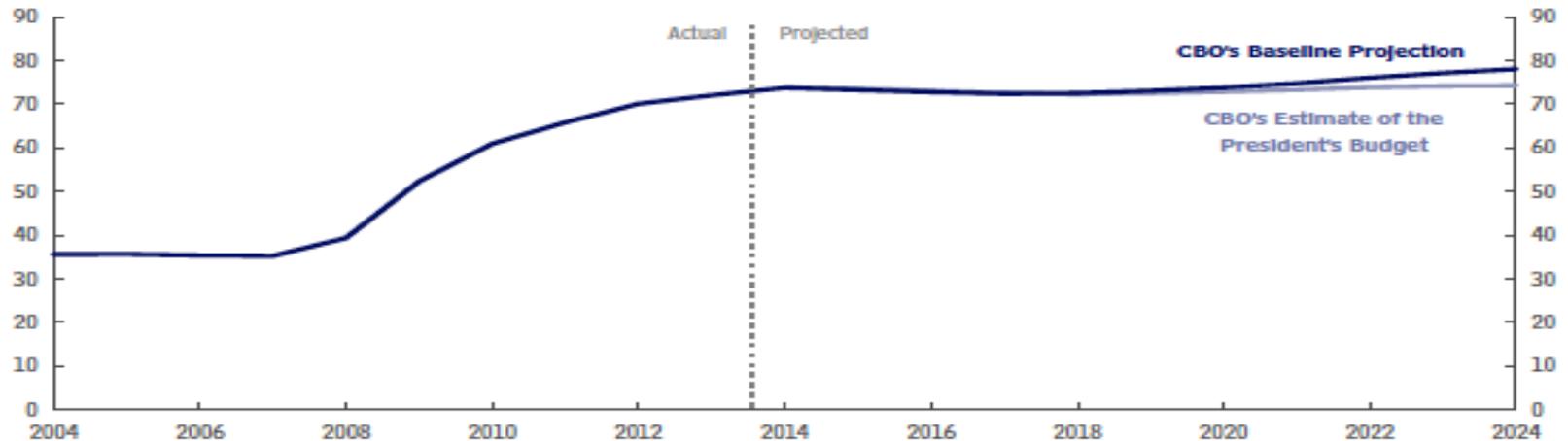
Less funding (relative to the amounts projected in CBO's baseline) for military operations in Afghanistan and for similar activities—known as overseas contingency operations. Following the rules specified in law, CBO's baseline incorporates the assumption that funding for such operations and activities each year through 2024 will equal the amount provided in 2014—\$92 billion—with increases in funding to keep pace with inflation. By comparison, the President's budget includes a request for \$85 billion for those operations and activities in 2015, a “placeholder” amount of \$30 billion in each year from 2016 through 2021, and nothing thereafter. Consequently, estimated outlays for overseas contingency operations under the President's proposal are \$659 billion less over the 2015–2024 period than CBO's baseline.

Net reductions in spending for Medicare. All together, proposed changes to Medicare would decrease federal spending by \$250 billion over the 10-year projection period. The President's proposal to freeze payment rates for physicians (rather than allowing the rates to be reduced in 2015, as would be required under current law) would boost outlays by \$124 billion. Other proposals affecting Medicare (excluding the cancellation of the automatic spending reductions) would reduce outlays by \$373 billion, CBO estimates.

And Slightly Cuts the Debt

Federal Debt Held by the Public Projected in CBO's Baseline and Under the President's Budget

(Percentage of gross domestic product)



Source: Congressional Budget Office.

An increase in discretionary spending for all activities other than overseas contingency operations and surface transportation programs (which the President proposes to reclassify to the mandatory side of the budget). In total, projected outlays for those activities under the President's budget are \$433 billion (or 4 percent) more over the 10-year projection period than those in CBO's baseline.

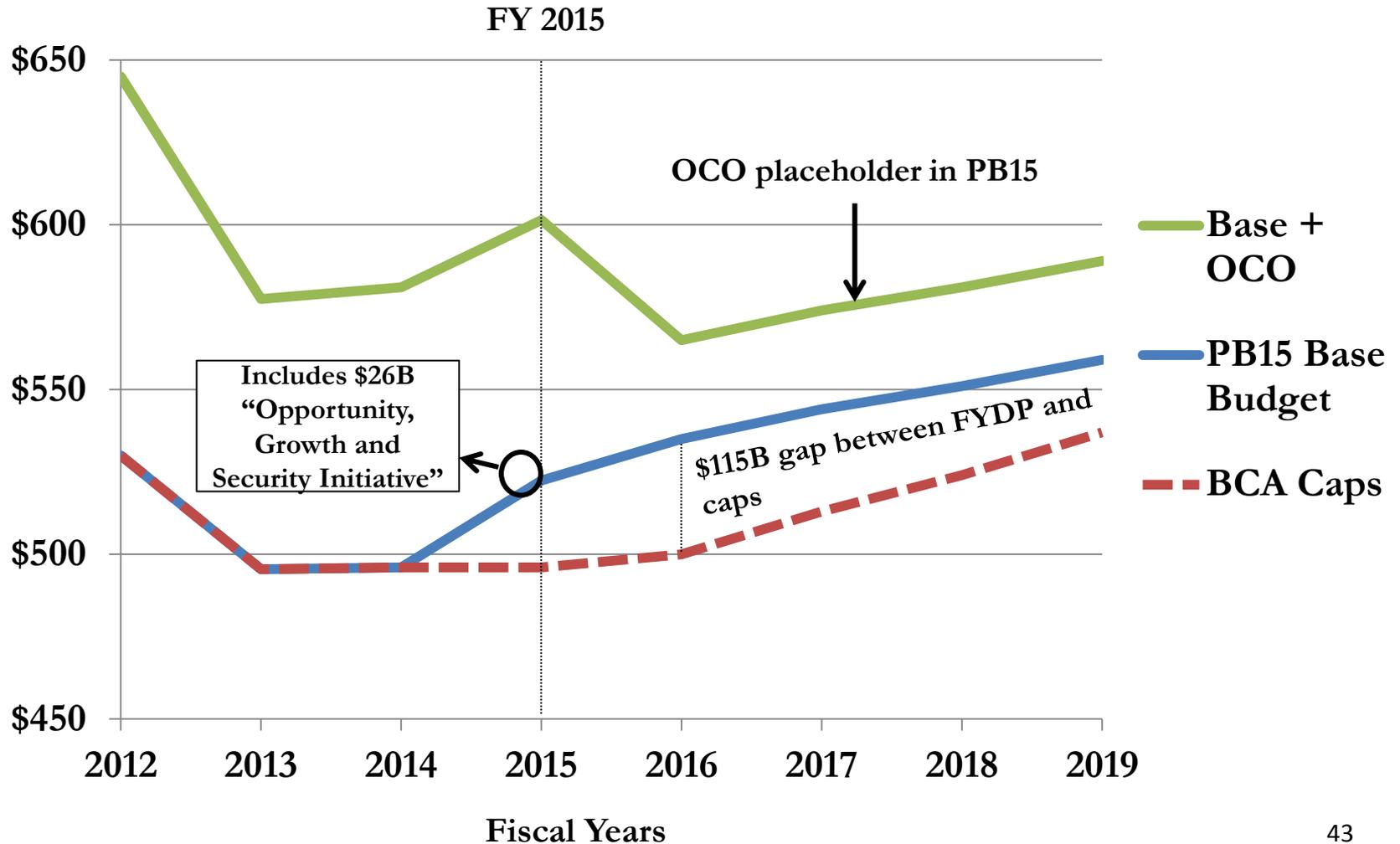
A cap on the extent to which certain deductions and exclusions can reduce a taxpayer's income tax liability. The President's budget would limit the amount to no more than 28 percent of those deductions and exclusions; that change would increase revenues by \$498 billion over the next decade, JCT estimates.

Comprehensive immigration reform similar to the legislation that was passed by the Senate in 2013— S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act. In July 2013, CBO and JCT estimated that, under the legislation, the number of legal residents and the size of the laborforce would increase, boosting tax receipts and direct spending for federal benefit programs; the legislation

Comprehensive immigration reform similar to the legislation that was passed by the Senate in 2013— S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act. In July 2013, CBO and JCT estimated that, under the legislation, the number of legal residents and the size of the labor force would increase, boosting tax receipts and direct spending for federal benefit programs; the legislation would have various other economic and budgetary effects as well. CBO and JCT estimated that enacting S. 744 in 2013 would have, over the 2014–2023 period, increased revenues by \$456 billion and raised direct spending by \$298 billion, for a net reduction of \$158 billion in the cumulative deficit

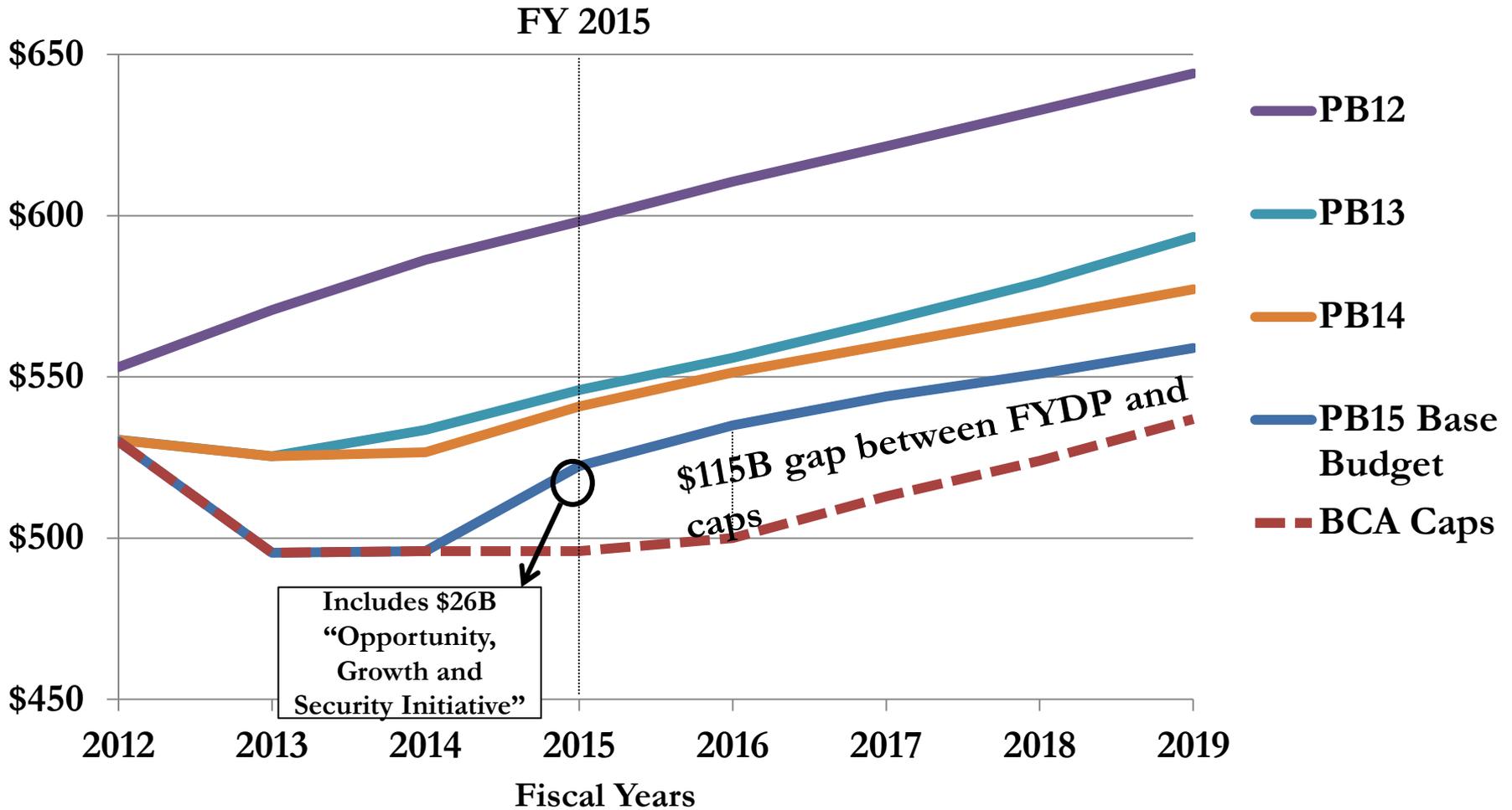
President's FY 2015 Budget Request Showing Baseline, \$26B Add-on, and OCO versus Budget Act FY 2001 – FY 2019

(Current \$US Billions)



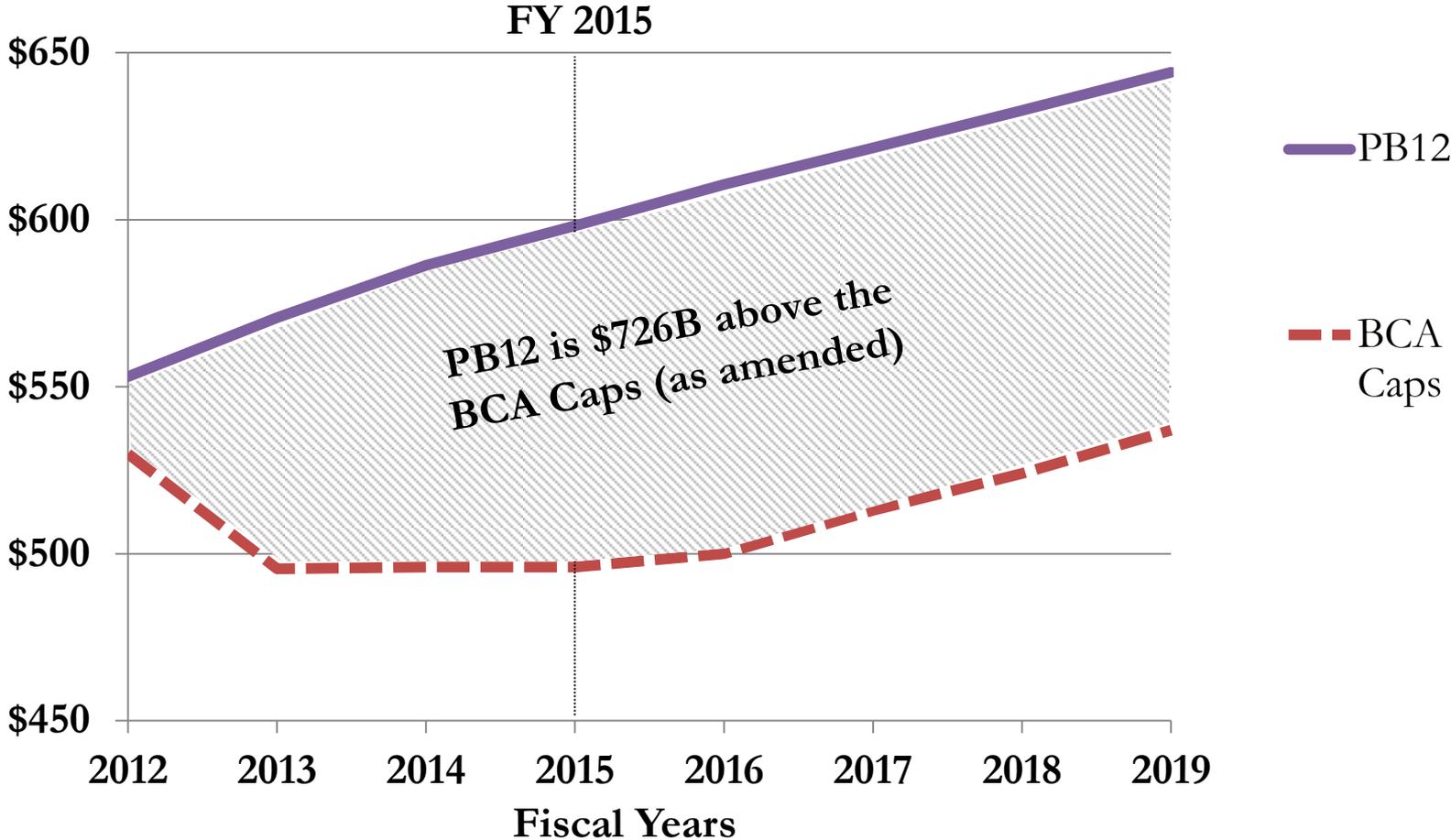
The Declining Defense Baseline: President's Request: FY2012 to FY2015

(Current \$US Billions)



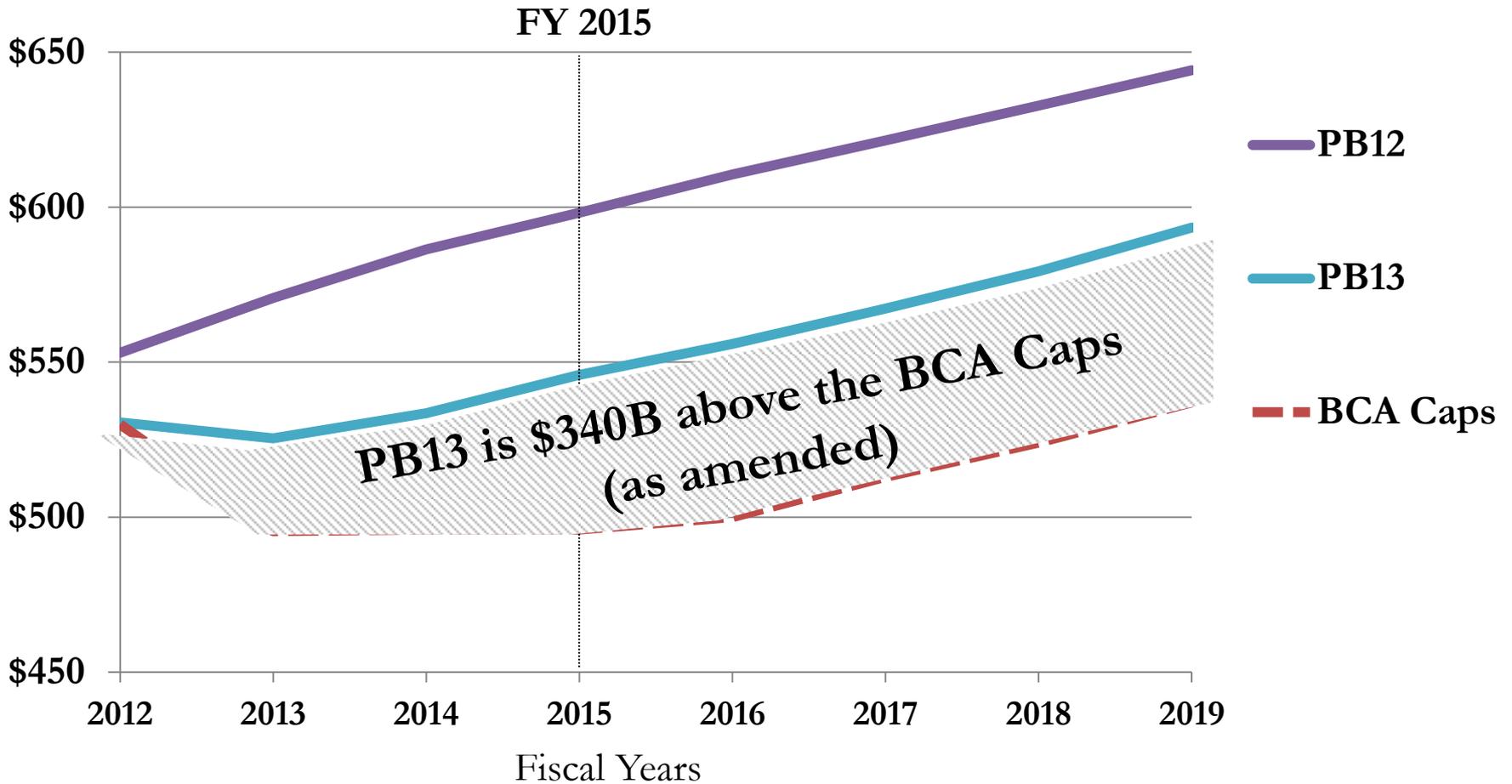
The President's Request in FY2012 versus the Impact of the BCA

(Current \$US Billions)



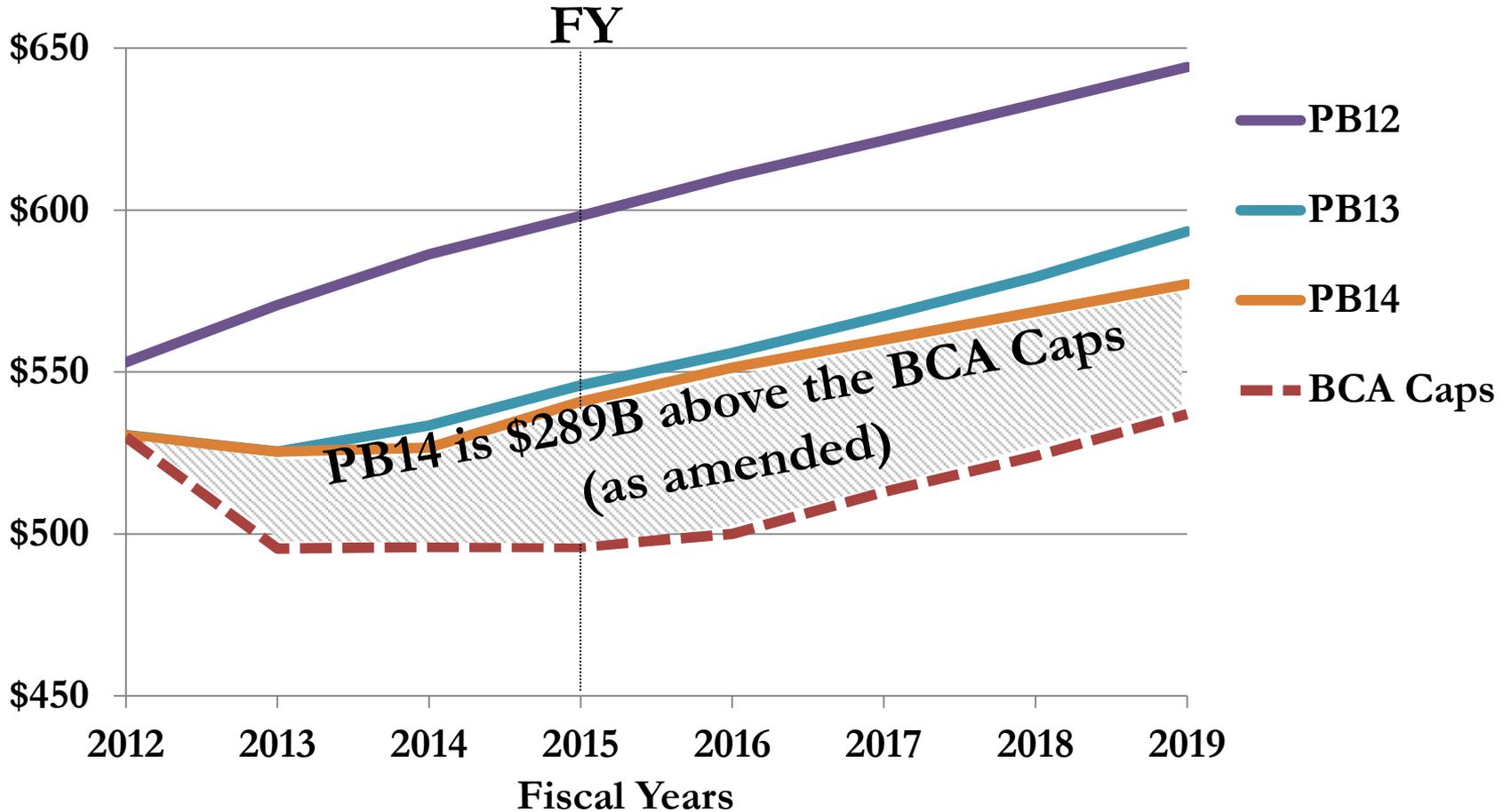
The President's Request in FY2013 versus the Impact of the BCA

(Current \$US Billions)



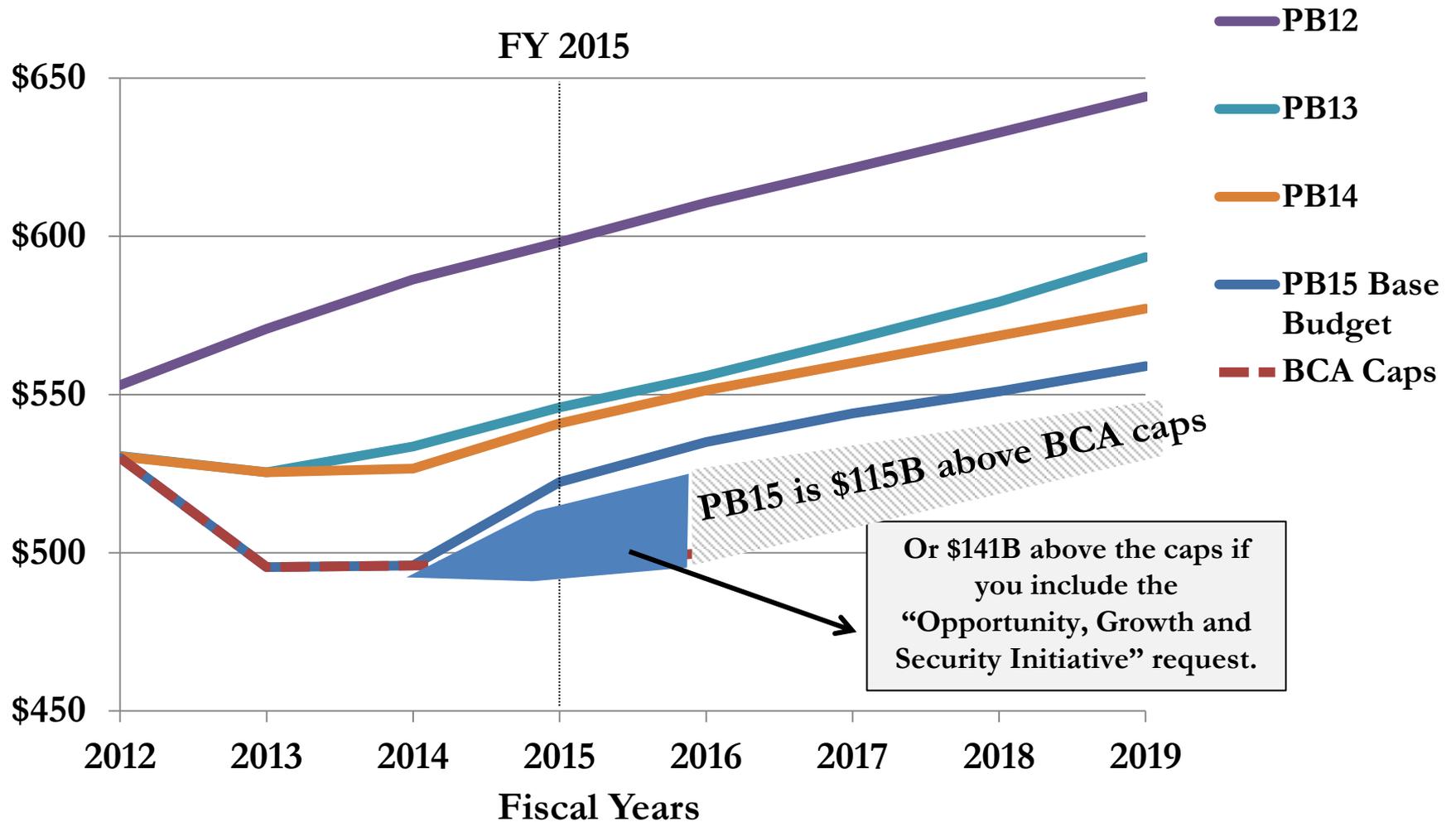
The President's Request in FY2014 versus the Impact of the BCA

(Current \$US Billions)



The President's Request in FY2015 versus the Impact of the BCA

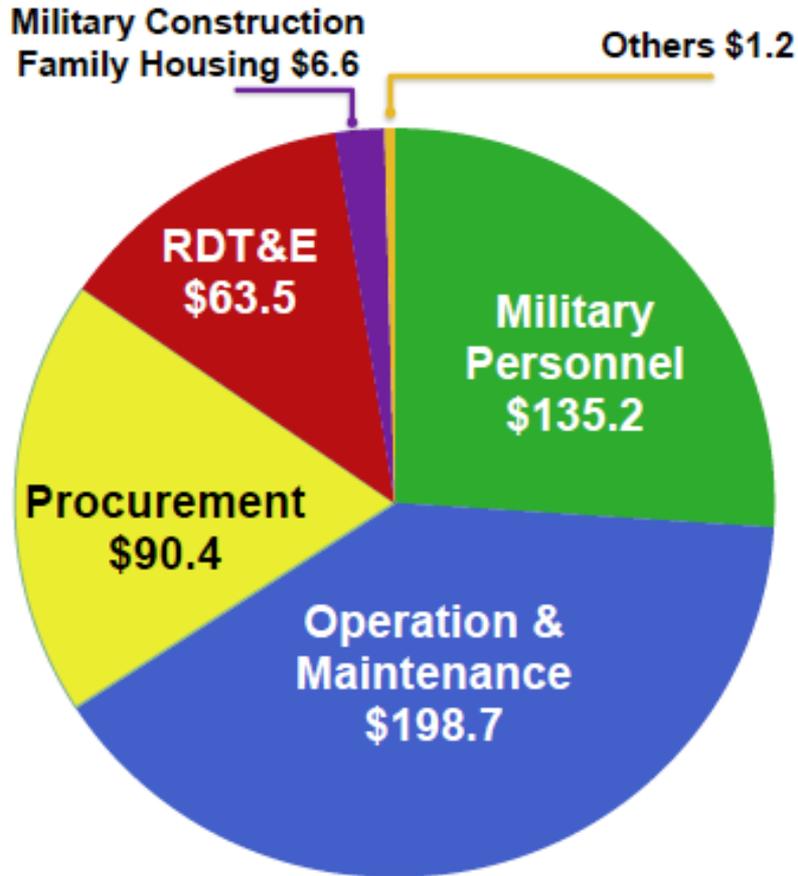
(Current \$US Billions)



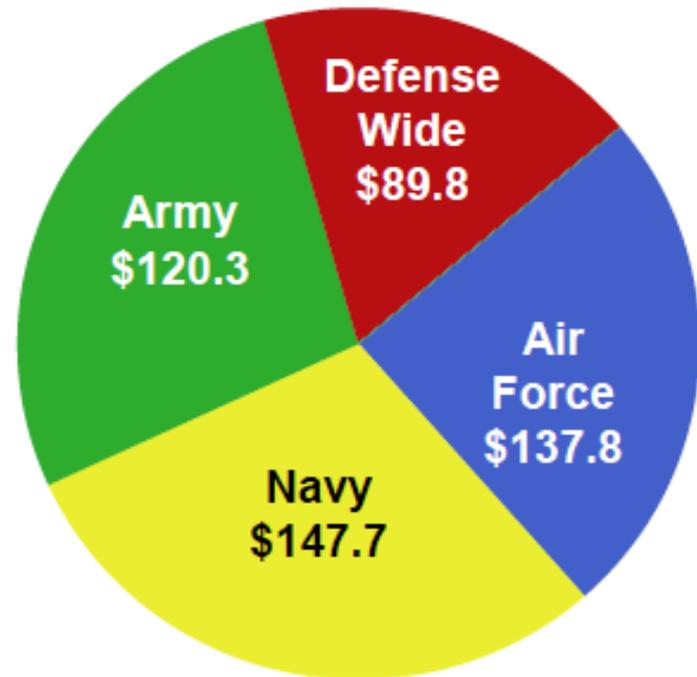
FY2015 Spending by Category and Service

(Dollars in Billions)

Base Budget



Budget By Military Department



Budget Request: \$495.6 Billion

FY2015 versus FY2014 Baseline

BY COMPONENT	FY 2014 Enacted	FY 2015 PB Request	$\Delta\%$ FY15/FY14 Req
Army	121.7	120.3	-1%
Navy	147.3	147.7	--
Air Force	134.7	137.8	+2%
Defense-Wide	92.3	89.8	-3%
Total	496.0	495.6	--

BY TITLE	FY 2014 Enacted	FY 2015 PB Request	$\Delta\%$ FY15/FY14 Req
Military Personnel	135.9	135.2	--
Operation and Maintenance	192.8	198.7	+3%
Procurement	92.4	90.4	-2%
Research, Development, Test and Evaluation	62.8	63.5	+1%
Military Construction	8.4	5.4	-36%
Family Housing	1.4	1.2	-16%
Revolving Funds	2.2	1.2	-44%
Total	496.0	495.6	--

Numbers may not add due to rounding

FY2015 versus FY2014 Baseline FYDP

<i>Current \$ in billions</i>	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY15 – FY19 TOTAL
FY 2014 PB	540.8	551.4	560.0	568.6	577.1	2,797.9
FY 2015 PB	495.6	535.1	543.7	551.4	559.0	2,684.9
Delta	-45.2	-16.2	-16.2	-17.2	-18.1	-113.0
Real Growth		+6.3%	-0.1%	-0.5%	-0.6%	+1.3%*

Numbers may not add due to rounding

**Average annual real growth of the FY 2015 President's Budget for FY 2015 – FY 2019.*

Force Level Changes

Key Force Goals in the FY2015 Request and 2014 QDR -I

- **Sustaining a world-class Army, capable of conducting the full range of operations on land, including prompt and sustained land combat, by maintaining a force structure that it can train, equip, and keep ready. To sustain this force, the Department will rebalance within the Army, across the Active, Guard, and Reserve components. The active Army will reduce its end strength from a war-time high of 570,000 to 440,000 to 450,000 personnel. The Army National Guard will continue its downsizing from a war-time high of 358,000 to 335,000 Soldiers, and the U.S. Army Reserve will reduce from 205,000 to 195,000 Soldiers. If sequestration-level cuts are imposed in FY 2016 and beyond, all components of the Army would be further reduced.**
- **• Preserving the Navy’s capacity to build security globally and respond to crises. While prioritizing day-to-day presence demands, the Navy will decommission some assets and modernize its fleets of surface ships, aircraft, and submarines to meet 21st Century threats. Current Littoral Combat Ship (LCS) production plans will either transition to a future LCS Flight or new-design small surface combatant with capabilities tailored to the emerging security situation.**
- **• Maintaining the role of the Marine Corps as a vital crisis response force, protecting its most important modernization priorities and ensuring readiness, but planning for an end strength of 182,000 active Marines. This end strength includes an increase of about 900 Marines for the Embassy Security Guard program, which will protect U.S. interests and installations abroad. If sequester-level cuts return, the Marines would be further reduced.**
- **Maintaining an Air Force with global power projection capabilities crucial for this updated defense strategy. Modernizing next generation Air Force combat equipment – to include fighters and bombers – particularly against advancing modern air defense systems. To free resources for these programs as well as to preserve investments in critical capabilities, the Air Force will reduce or eliminate capacity in some single-mission aviation platforms**

Key Force Goals in the FY2015 Request and 2014 QDR -II

- ***Cyber.*** We will invest in new and expanded cyber capabilities and forces to enhance our ability to conduct cyberspace operations, and support military operations worldwide; to support Combatant Commanders as they plan and execute military missions; and to counter cyber-attacks against the United States.
- ***Missile Defense.*** We are increasing the number of Ground-Based Interceptors and deploying a second radar in Japan to provide early warning and tracking. DoD will make targeted investments in defensive interceptors, discrimination capabilities, and sensors; and is studying the best location for an additional missile defense interceptor site in the Eastern United States if additional interceptors are needed.
- ***Nuclear Deterrence.*** We will continue to invest in modernizing our essential nuclear delivery systems, warning, command and control, and, in collaboration with the Department of Energy, nuclear weapons and supporting infrastructure.
- ***Space.*** We will move toward less complex, more affordable, more resilient systems and system architectures and pursue a multi-layered approach to deter attacks on space systems, while retaining the capabilities to respond should deterrence fail.
- ***Precision Strike.*** We will procure advanced air-to-surface missiles that will allow fighters and bombers to engage a wide range of targets and a long-range anti-ship cruise missile that will improve the Joint ability of U.S. aircraft to engage surface combatants in defended airspace.
- ***Intelligence, Surveillance, and Reconnaissance (ISR).*** We will rebalance investments toward systems that are operationally responsive and effective in highly contested environments while sustaining persistent capabilities appropriate for more permissive environments in order to support global situational awareness, counter-terrorism, and other operations.
- ***Counter Terrorism and Special Operations.*** We will maintain overall Special Operations Forces end strength at more than 69,700 personnel, protecting our ability to sustain persistent, networked, distributed operations to defeat Al Qaeda, counter other emerging transnational threats, counter weapons of mass destruction, build the capacity of our partners, and support conventional operations.

Further Force and Military Personnel Cuts (without Sequester)

- Air Force aircraft at 4,814 in FY 2019 (5,194 in FY 2014)
 - Retire A-10s
 - Retire U-2s
- Predators/Reapers levels at 55 CAPs in FY 2019
- Navy ships at 309 in FY 2019 (288 in FY 2014) 11 cruisers in long-term phased modernization
- Army BCTs and aviation brigades reduced

	Planned End FY 2014	Planned End FY 2015	Goals w/o Sequester End FY 2019	Δ% FY19/FY14
Active end strength	1,345K	1,309K	1,264K	-6%
Guard/Reserve end strength	831K	821K	798K	-4%
Civilian full-time equivalents	791K	782K	751K	-5%

Manpower Levels: FY2014 vs. FY2015

Active Component End Strength – Base Budget (in Thousands)

Service	FY 2014 Estimate ^{1/}	FY 2015	Delta FY14 - FY15
Army	490.0	490.0	–
Navy	323.9	323.6	-0.3
Marine Corps	182.1	182.7	+0.6
Air Force	322.2	310.9	-11.3
TOTAL	1,318.2	1,307.2	-11.0

Active Component End Strength – OCO Budget (in Thousands)

Service	FY 2014 Estimate ^{1/}	FY 2015	Delta FY14 - FY15
Army	20.4	–	-20.4
Marine Corps	6.7	1.4 ^{2/}	-5.3
TOTAL	27.1	1.4	-25.7

Active Component End Strength – Base + OCO Budget (in Thousands)

Service	FY 2014 Estimate ^{1/}	FY 2015	Delta FY14 - FY15
Army ^{3/}	510.4	490.0	-20.4
Navy	323.9	323.6	-0.3
Marine Corps	188.8	184.1	-4.7
Air Force	322.2	310.9	-11.3
TOTAL^{4/}	1,345.3	1,308.6	-36.7

Reserve Forces: FY2014 vs. FY2015

(End Strength in Thousands)

Selected Reserve	FY 2014 Enacted	FY 2015 Request
Army Reserve	202.0	202.0
Navy Reserve	59.1	57.3
Marine Corps Reserve	39.6	39.2
Air Force Reserve	70.4	67.1
Army National Guard	354.2	350.2
Air National Guard	105.4	105.4
Total	830.7	820.8

(\$ in Billions)

Program (Base Budget)	FY 2014 Enacted	FY 2015 Request
Army Reserve	8.2	8.0
Navy Reserve	3.4	3.2
Marine Corps Reserve	1.1	1.1
Air Force Reserve	5.7	5.2
Army National Guard	18.0	16.4
Air National Guard	10.1	10.0
<i>Subtotal Reserve</i>	<i>18.4</i>	<i>17.4</i>
<i>Subtotal National Guard</i>	<i>28.1</i>	<i>26.4</i>
Total	46.5	43.9

Civilian FTE Personnel Cuts (without Sequester)

FTEs in Thousands	FY 2014 Estimate	FY 2015 Request	Percent Change
Army	249.5	245.1	-2%
Department of Navy	201.3	203.5	+1%
Air Force	168.4	167.5	-1%
Defense-wide	136.1	133.0	-2%
Total DoD	755.4	749.1	-1%
U.S. Direct Hires	742.3	733.8	-1%
Foreign Direct Hires	13.0	15.3	+18%

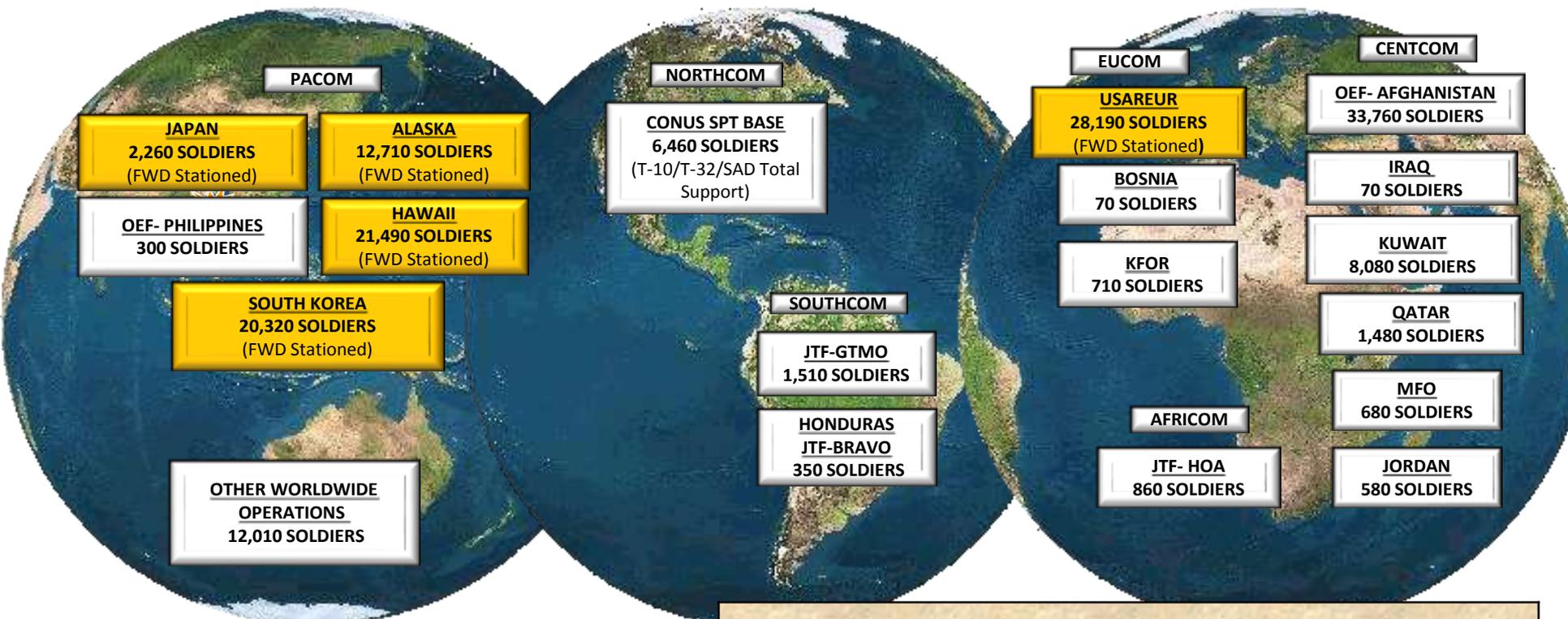
Numbers may not add due to rounding

^v *Excludes 35,517 of Foreign National Indirect Hire (FNIH) FTEs in FY 2014 and 32,419 in FY 2015.*

Force Levels: FY2014 vs. FY2015

Service	FY 2014	FY 2015	Delta FY14 - FY15
Army Active			
Brigade Combat Teams (BCTs)	38	32	-6
Combat Aviation Brigades (CABs)	13	11	-2
Army National Guard			
BCTs	28	28	-
CABs/Aviation Restructure Initiative	8	8	-
Navy			
Number of Ships	288	283	-5
Carrier Strike Groups	10	10	-
Marine Corps Active			
Marine Expeditionary Forces	3	3	-
Infantry Battalions	25	23	-2
Marine Corps Reserve			
Marine Expeditionary Forces	-	-	-
Infantry Battalions	9	8	-1
Air Force Active			
Combat Coded Squadrons	40	36	-4
Aircraft Inventory (TAI)	3,746	3,563	-183
Air Force Reserve			
Combat Coded Squadrons	3	3	-
Aircraft Inventory (TAI)	357	337	-20
Air National Guard			
Combat Coded Squadrons	21	20	-1
Aircraft Inventory (TAI)	1,091	1,056	-35

Source: FY2015 Budget Request Overview, OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) / CFO
 March 2014, p. 8-11.



SOLDIERS DEPLOYED	66,920
SOLDIERS FWD STATIONED	84,970
TOTAL SOLDIERS	151,890

IN NEARLY 150 LOCATIONS WORLDWIDE

ARMY PERSONNEL STRENGTH

Component		RC AUTHORIZED FOR MOBILIZATION / ON CURRENT
ACTIVE (AC)	523,000	N/A
RESERVE (RC)		
USAR	196,730	13,250
ARNG	355,270	14,240
	1,075,000	27,490

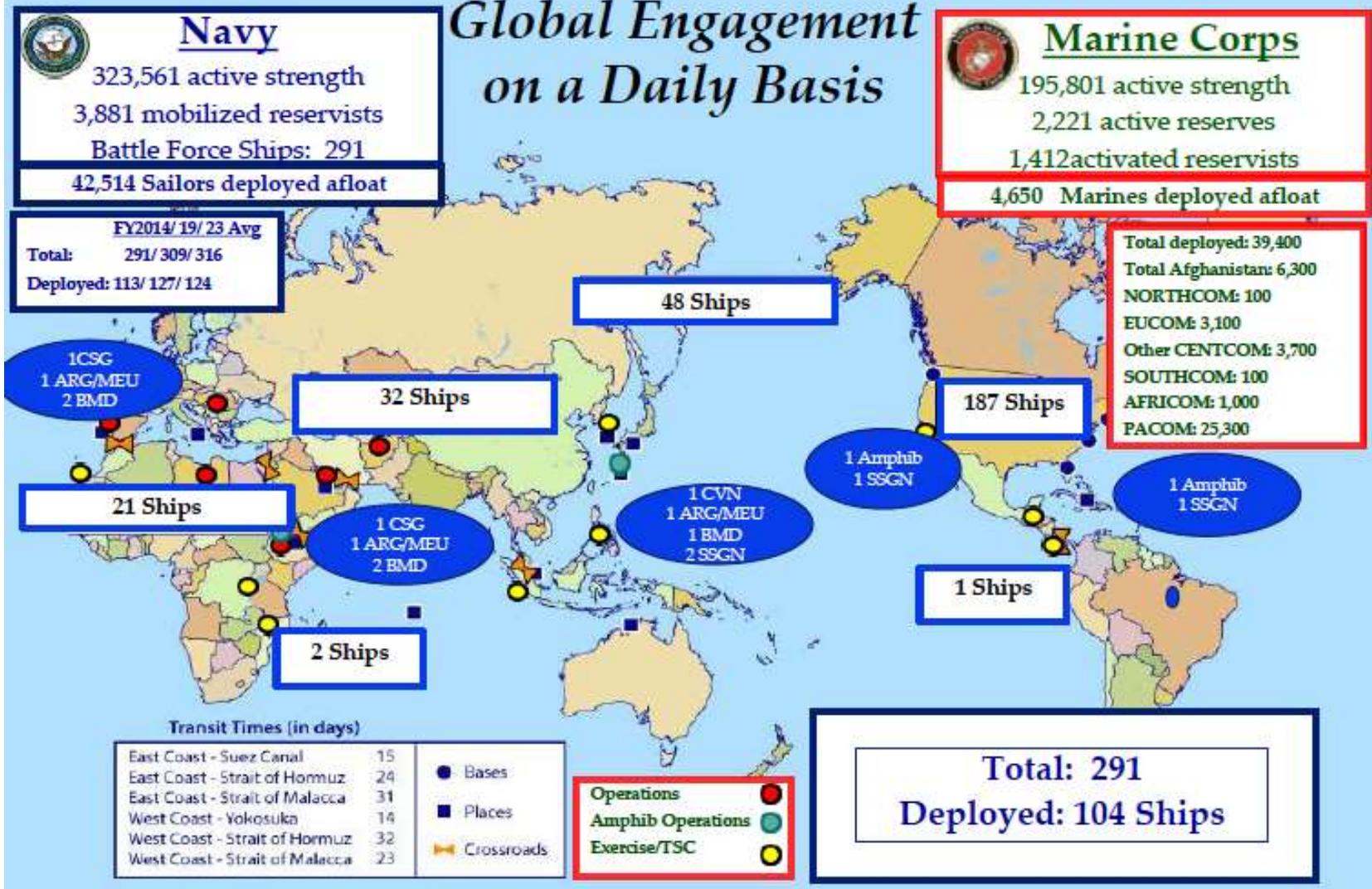
US Army FY2014 vs. FY2019

Item	Current (starting point)	Future (per QDR '14)
Divisions	10 Regular, 8 Guard	10 regular Army, 8 National Guard
Aviation Brigades	13 Regular, 11 Guard, 1 Reserve (with lots of cats and dogs in the USAR which will be organized into an Avn Bde)	10 Regular Army, 2 U.S. Army Reserve, 10 National Guard
Patriot and Missile Defense Battalions	15 Regular	15 Regular Army
Terminal High-Altitude Area Defense (THAAD) missile defense batteries	6 Regular (approved), but only 2 fielded and 1 in the process of being fielded	7 Regular Army
Military Personnel	As of 14 Mar 14, Army component end strengths are 523K Regular, 197K Reserve, and 355K Guard. The previously approved size, was 490K Regular, 205K Reserve, and 350K Guard (2012 defense strategic guidance) to be achieved by the end of FY 15 (previously to be achieved by the end of FY 17, but accelerated 2 years to garner savings more quickly)	440,000-450,000 Regular Army, 195,000 Reserve, 335,000 National Guard (this is in the President's FY 15 budget request, but will not be achieved until the end of FY 17).

Current US Navy Deployed Forces - I

Where it Matters, When it Matters

*Global Engagement
on a Daily Basis*

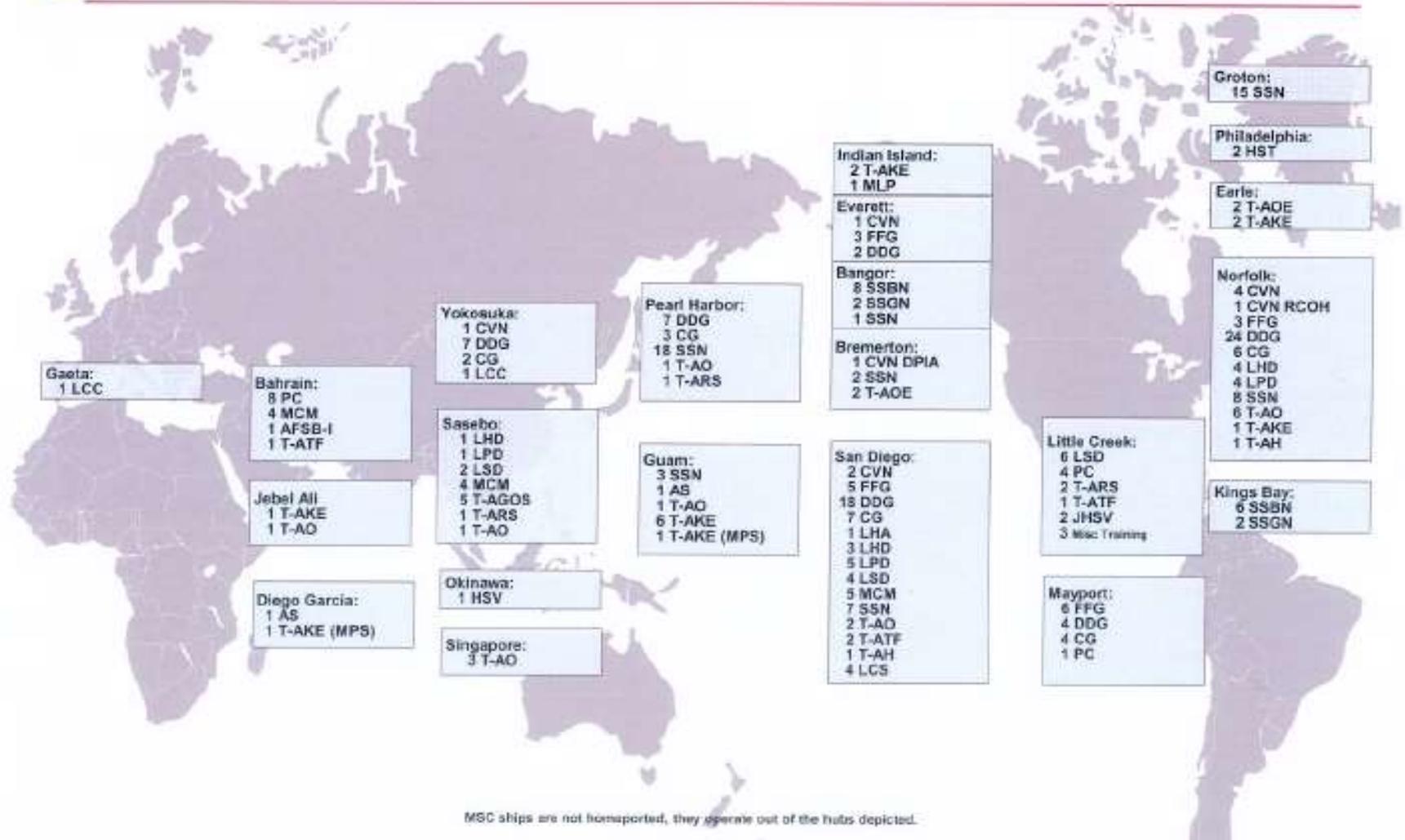


Current US Navy Deployed Forces - II



2013 Strategic Laydown

(CVNs, Surface Combatants, Submarines, and CLF & Fleet Support)



Current USAF Deployed Forces



Current USAF Air Strength

ACFT	PAI					
A10	243	Fighter Aircraft	A10	243	HC130J	9
AC130	34	F15C	F15C	174	HC130N	6
B1	53	F15D	F15D	32	HC130P	14
B2	16	F15E	F15E	192	HH60	79
B52	63	F16C	F16C	662	KC10	54
C12	27	F16D	F16D	60	KC135	352
C130H	227	F22	F22	166	KC46	0
C130J	95	F35	F35	17	LC130	10
C17	188			1546	MC12	37
C20	11				MC130	39
C21	17	Heavy Bomber Squadrons			MD1	131
C32	6	B52	B52	63	MQ1	129
C37	10	B1	B1	53	MQ9	186
C38	2	B2	B2	16	RC135	17
C40	11			132	RQ4	31
C5	54				U2	24
CV22	41				UH1	42
E3	27				VC25	2
E4	3				WC130H	19
E8	13					
E9	2				Aerial Refueling Aircraft	
EC130	13				KC135	352
F15C	174				KC46	0
F15D	32				KC10	54
F15E	192					406
F16C	662				Strategic Airlift Aircraft	
F16D	60				C5	54
F22	166				C17	188
F35	17					242
					Tactical Airlift Aircraft	
					C130H	227
					C130J	95
					HC130J	9
					HC130N	6
					HC130P	14
					LC130	10
						361
					ISR Aircraft	
					MQ1	129
					MQ9	186
					RC135	17
					RQ4	31
					U2	24
						387
					Command and Control Aircraft	
					E3	27
					E4	3
					E8	13
						43

The Broad Goals in the QDR

Protecting and advancing these interests, consistent with the National Security Strategy, the 2014 QDR embodies the 21st century defense priorities outlined in the 2012 Defense Strategic Guidance. These priorities include rebalancing to the Asia-Pacific region to preserve peace and stability in the region; maintaining a strong commitment to security and stability in Europe and the Middle East; sustaining a global approach to countering violent extremists and terrorist threats, with an emphasis on the Middle East and Africa; continuing to protect and prioritize key investments in technology while our forces overall grow smaller and leaner; and invigorating efforts to build innovative partnerships and strengthen key alliances and partnerships.

The 2014 QDR builds on these priorities and incorporates them into a broader strategic framework. The Department's defense strategy emphasizes three pillars:

- ***Protect the homeland***, to deter and defeat attacks on the United States and to support civil authorities in mitigating the effects of potential attacks and natural disasters.
- ***Build security globally***, in order to preserve regional stability, deter adversaries, support allies and partners, and cooperate with others to address common security challenges.
- ***Project power and win decisively***, to defeat aggression, disrupt and destroy terrorist networks, and provide humanitarian assistance and disaster relief.

Rebalancing for the 21st Century

Rebalancing for a broad spectrum of conflict. Future conflicts could range from hybrid contingencies against proxy groups using asymmetric approaches, to a high-end conflict against a state power armed with WMD or technologically advanced anti-access and area-denial (A2/AD) capabilities. Reflecting this diverse range of challenges, the U.S. military will shift focus in terms of what kinds of conflicts it prepares for in the future, moving toward greater emphasis on the full spectrum of possible operations. Although our forces will no longer be sized to conduct large-scale prolonged stability operations, we will preserve the expertise gained during the past ten years of counterinsurgency and stability operations in Iraq and Afghanistan.

We will also protect the ability to regenerate capabilities that might be needed to meet future demands. The Joint Force must also be prepared to battle increasingly sophisticated adversaries who could employ advanced warfighting capabilities while simultaneously attempting to deny U.S. forces the advantages they currently enjoy in space and cyberspace. We will sustain priority investments in science, technology, research, and development both within the defense sector and beyond.

The Department is taking steps to ensure that progress continues in areas most critical to meeting future challenges such as full-spectrum cyberspace capabilities and where the potential for game-changing breakthroughs appears most promising. We will actively seek innovative approaches to how we fight, how we posture our force, and how we leverage our asymmetric strengths and technological advantages. Innovation is paramount given the increasingly complex warfighting environment we expect to encounter.

QDR Force Level Goals: FY2019 - I

Department of the Army*

18 divisions (10 Regular Army; 8 Army National Guard)

22 aviation brigades (10 Regular Army, 2 U.S. Army Reserve, and 10 Army National Guard)

15 Patriot air and missile defense battalions, 7 Terminal High-Altitude Area Defense (THAAD) missile defense batteries (all Regular Army)

Department of the Navy

11 aircraft carriers (CVNs) and 10 carrier air wings (CVWs)

92 large surface combatants (68 DDG-51s, 3 DDG-1000s, and 21 CG-47s with 10-11 cruisers in temporary lay-up for modernization)

43 small surface combatants (25 LCS, 8 MCMs, and 10 PCs)

33 amphibious warfare ships (10 LHAs/LHDs, 11 LPDs, and 12 LSDs, with 1 LSD in temporary lay-up for modernization)

51 attack submarines (SSNs) and 4 guided missile submarines (SSGNs)

Personnel end strength: 323,200 Active Component (AC); 58,800 Naval Reserve

QDR Force Level Goals: FY2019 -II

Marine Corps

2 Marine Expeditionary Forces organized in 3 AC and 1 Reserve Component (RC)

Division/Wing/Logistics Group teams

3 Marine Expeditionary Brigade Command Elements

7 Marine Expeditionary Unit Command Elements

Personnel end strength: 182,000 AC; 39,000 RC

*Department of the Air Force**

48 fighter squadrons (26 AC; 22 RC) (971 aircraft)

9 heavy bomber squadrons (96 aircraft: 44 B-52, 36 B-1B, 16 B-2)

443 aerial refueling aircraft (335 KC-135, 54 KC-46, 54 KC-10)

211 strategic airlift aircraft (39 C-5, 172 C-17)

300 tactical airlift aircraft (C-130)

280 ISR aircraft (231 MQ-9, 17 RC-135, 32 RQ-4)

27 Command and Control Aircraft (18 E-3, 3 E-4, 6 E-8)

6 operational satellite constellations (missile warning, navigation and timing, wideband &

protected SATCOM, environmental monitoring, multi-mission)

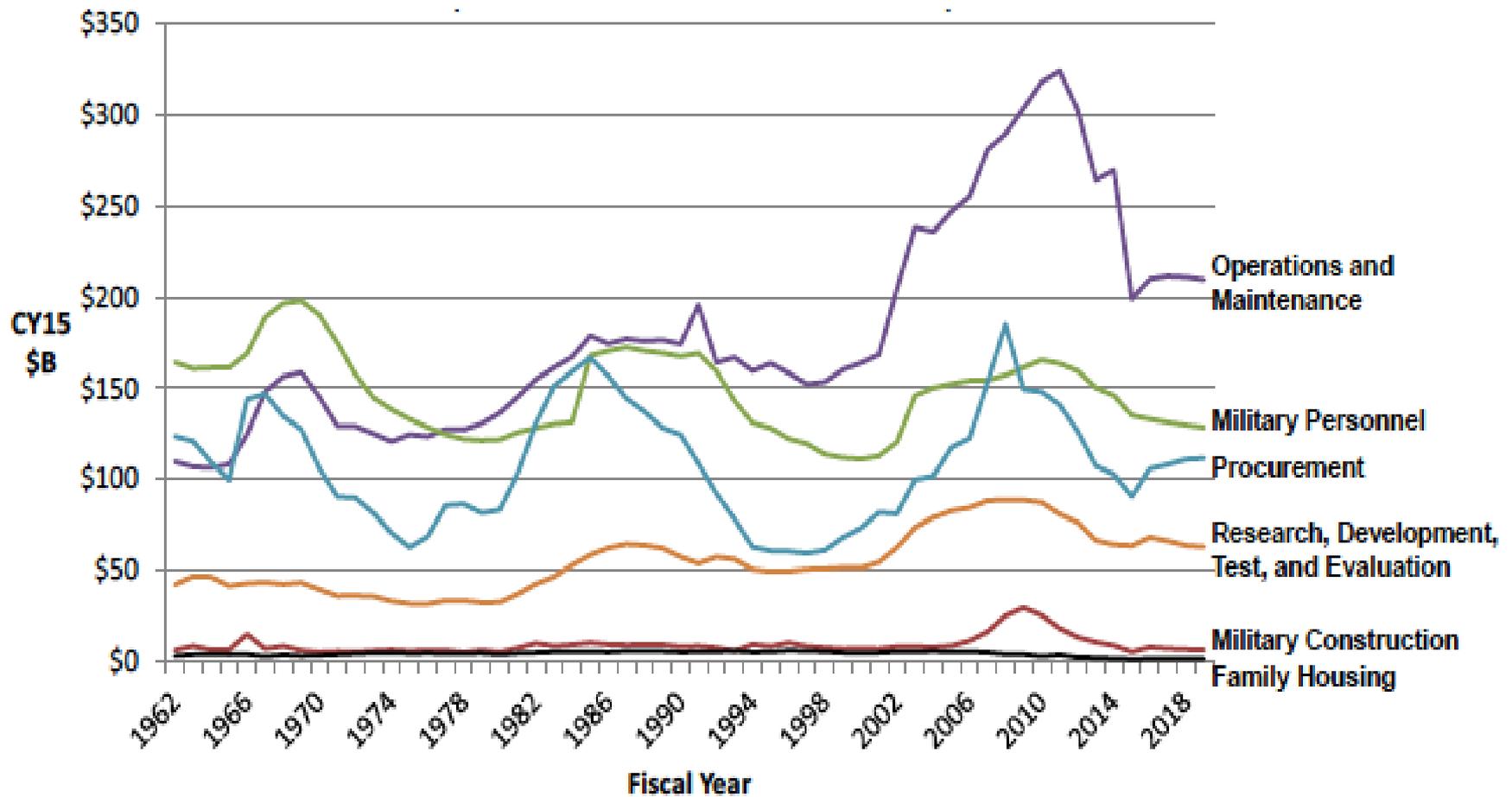
Personnel end strength: 308,800 AC; 66,500 Air Force Reserve; 103,600 Air National Guard

Modernization and Investment

Modernization Goals for FY2015

- **Cyber fully funded (\$5.1B)**
- **34 JSF and continued RDT&E (\$8B) 343 in FY15 – FY19**
- **7 Ships (\$14.4B) including 2 subs, 2 destroyers, 3 LCS 44 ships in FY15 – FY19**
- **8 P-8 Aircraft (\$2.1B) 56 P-8s in FY15 – FY19**
- **Ballistic Missile Defense development (\$8.5B)**
- **Long Range Strike Bomber (\$0.9B) / Ohio replacement submarine development (\$1.1B)**
- **Investment in Helicopters (\$8.4B) / Mobility Aircraft (\$2.4B for KC-46) / New Aircraft Engine Cancel Ground Combat Vehicle (new plan by year's end)**
- **Delay Combat Rescue Helicopter**
- **Consider alternatives to Littoral Combat Ship (LCS) program**

Decline in Peak Procurement & RDT&E Spending



NOTE: OCO is included in fiscal year budgets before FY2014 but not in the current fiscal year (2014) or in the FY2015 President's Budget figures (FY 2015–2019). Budget amounts are adjusted for inflation and reported in billions of calendar year 2015 dollars (CY15\$B).

Continuing Cost Escalation, Fewer Programs

Cost Performance Observations

1. The estimated cost of DOD's 2011 portfolio stands at about \$1.58 trillion and has grown by over \$74 billion or 5 percent in the past year.
2. About \$30 billion of this growth can be attributed to quantity changes within major defense acquisition programs; the other \$45 billion is due to research and development cost growth and production inefficiencies.
3. Many of the programs in the portfolio with the greatest growth in estimated research and development costs in the last year are already in production and either experienced growth because of lingering development issues or added funding for upgrades or modernization efforts.
4. The cost of the portfolio is driven by the 10 highest-cost programs, which account for 55 percent of its total cost.
5. The Joint Strike Fighter accounts for 21 percent of the total cost of the portfolio and 52 percent, or about \$39 billion, of the cost growth in the past year.
6. Ninety-one percent of the funding needed to complete the programs in the portfolio is for procurement, with most of that for a few large programs.
7. Over 60 percent of programs have lost buying power in the last year—as measured by an increase in program acquisition unit cost—depriving DOD of funding that could have been used for additional quantities or other priorities.
8. About 40 percent of the programs have experienced cost increases in the past year that exceed cost growth targets discussed by DOD, the Office of Management and Budget (OMB), and GAO; and over 50 percent exceeded the targets for growth in the past 5 years and since the first full estimate.
9. Looking forward, the number of programs in DOD's 2012 portfolio is projected to be the smallest since 2004 as more programs continue to leave the portfolio than enter it—a positive sign that DOD is adjusting its number of programs to meet resources.

DoD Bottom Line in Cost Escalation and Delivery Delays

Current Cost Estimates and First Full Cost Estimates for DOD's 2011 Portfolio of Major Defense Acquisition Programs

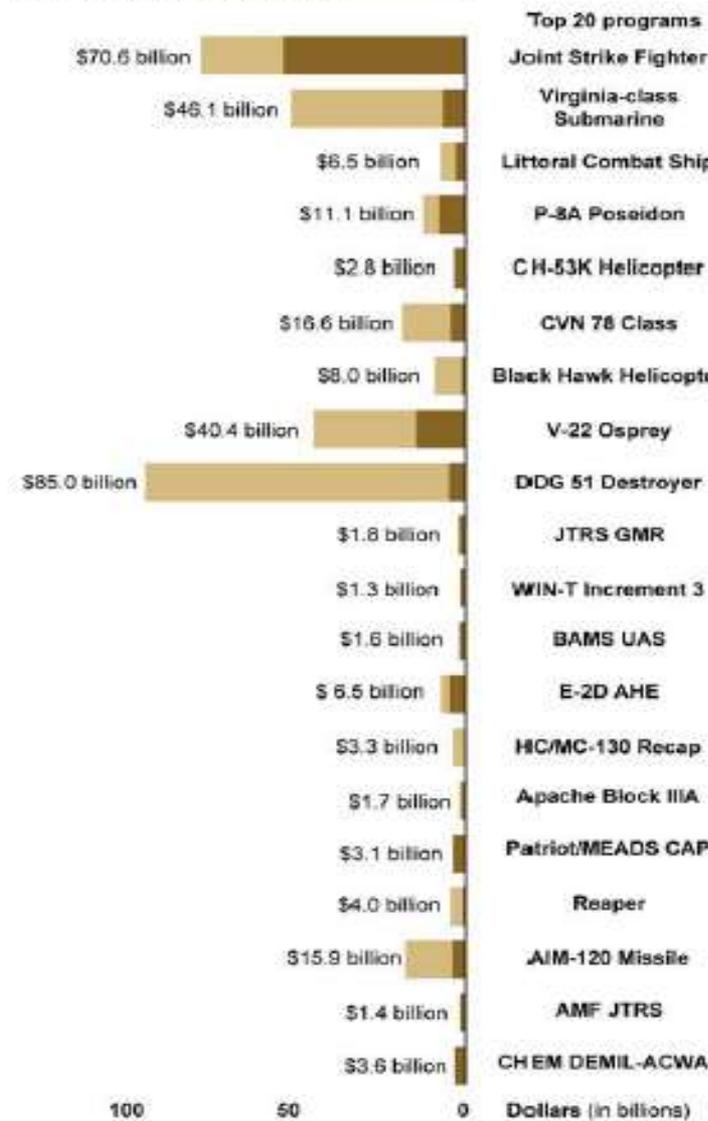
Fiscal year 2012 dollars in billions			
	1 year comparison (2010 to 2011)	5 year comparison (2006 to 2011)	Since first full estimate (baseline to 2011)
Increase in total research and development cost	\$14 billion 4 percent	\$39 billion 14 percent	\$113 billion 54 percent
Increase in total procurement cost	\$61 billion 5 percent	\$192 billion 19 percent	\$321 billion 36 percent
Increase in total acquisition cost	\$74 billion 5 percent	\$233 billion 17 percent	\$447 billion 40 percent
Average delay in delivering initial capabilities	1 month 2 percent	9 months 11 percent	23 months 32 percent

Source: GAO analysis of DOD data.

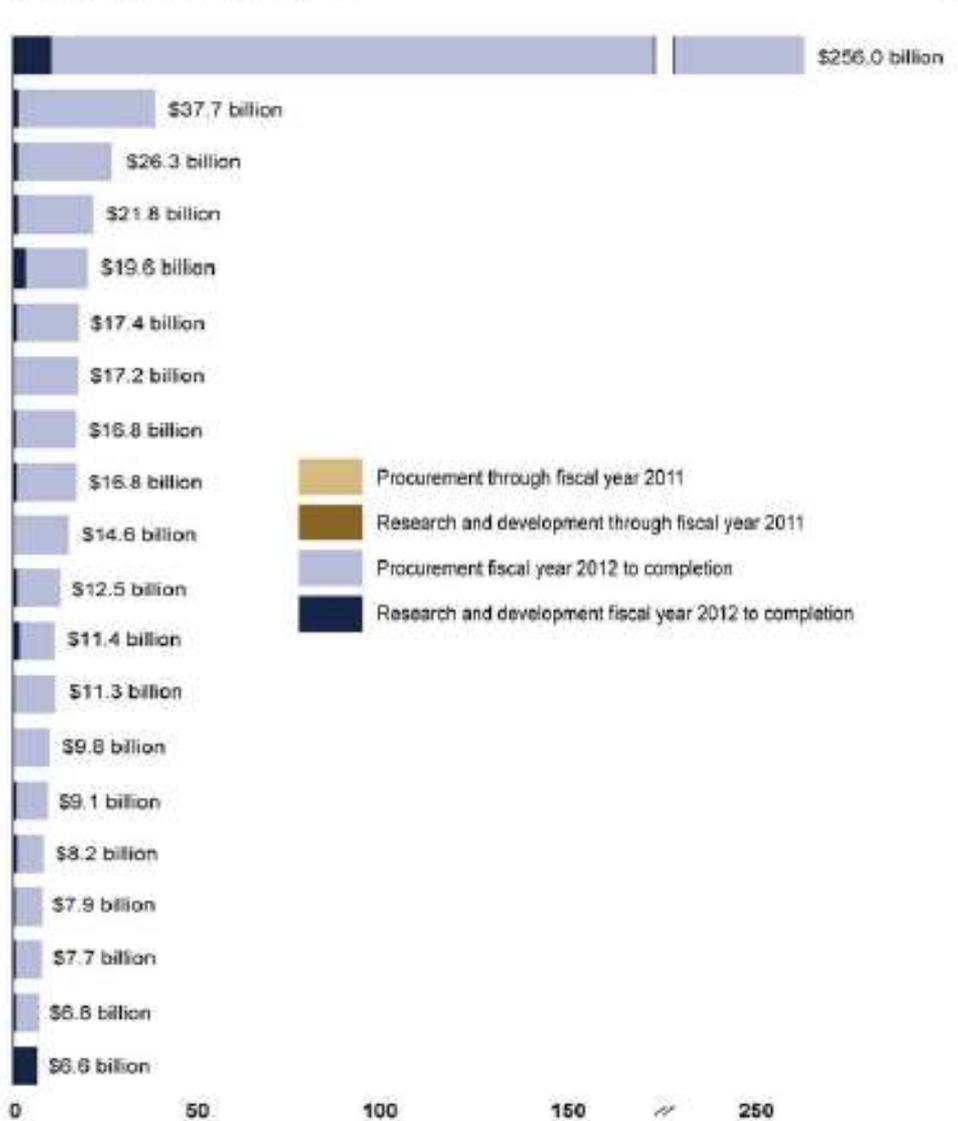
Notes: Data were obtained from DOD's Selected Acquisition Reports. In a few cases data were obtained directly from program offices. Not all programs had comparable cost and schedule data and these programs were excluded from the analysis where appropriate. Portfolio performance data do not include costs of developing Missile Defense Agency elements. Total acquisition cost includes research and development, procurement, acquisition operation and maintenance, and system-specific military construction costs.

Key Cost Drivers

Total sunk cost through 2011



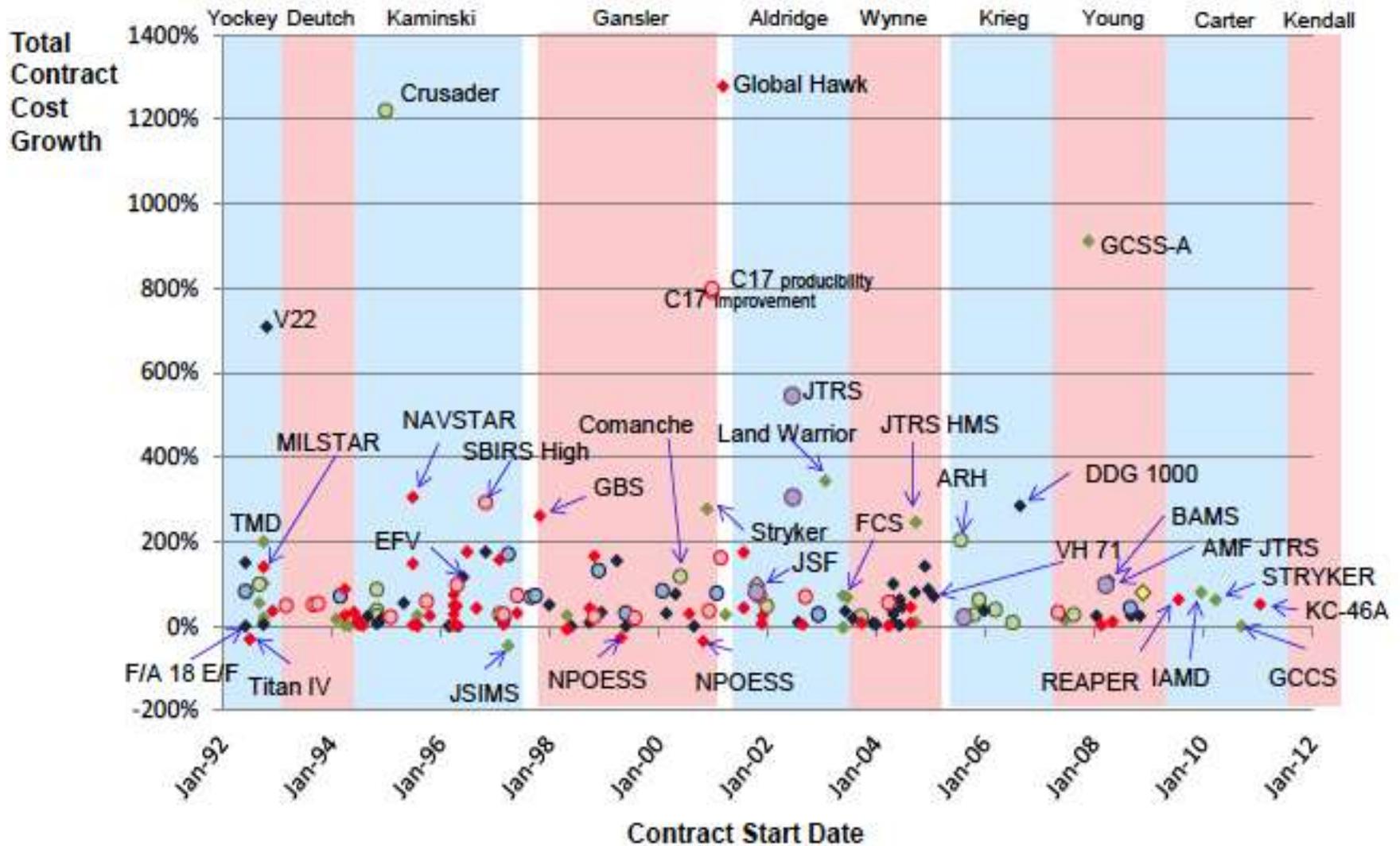
Funding needed to complete



Procurement through fiscal year 2011
 Research and development through fiscal year 2011
 Procurement fiscal year 2012 to completion
 Research and development fiscal year 2012 to completion

The Continuing Cost-Escalation Crisis: Peak Levels:

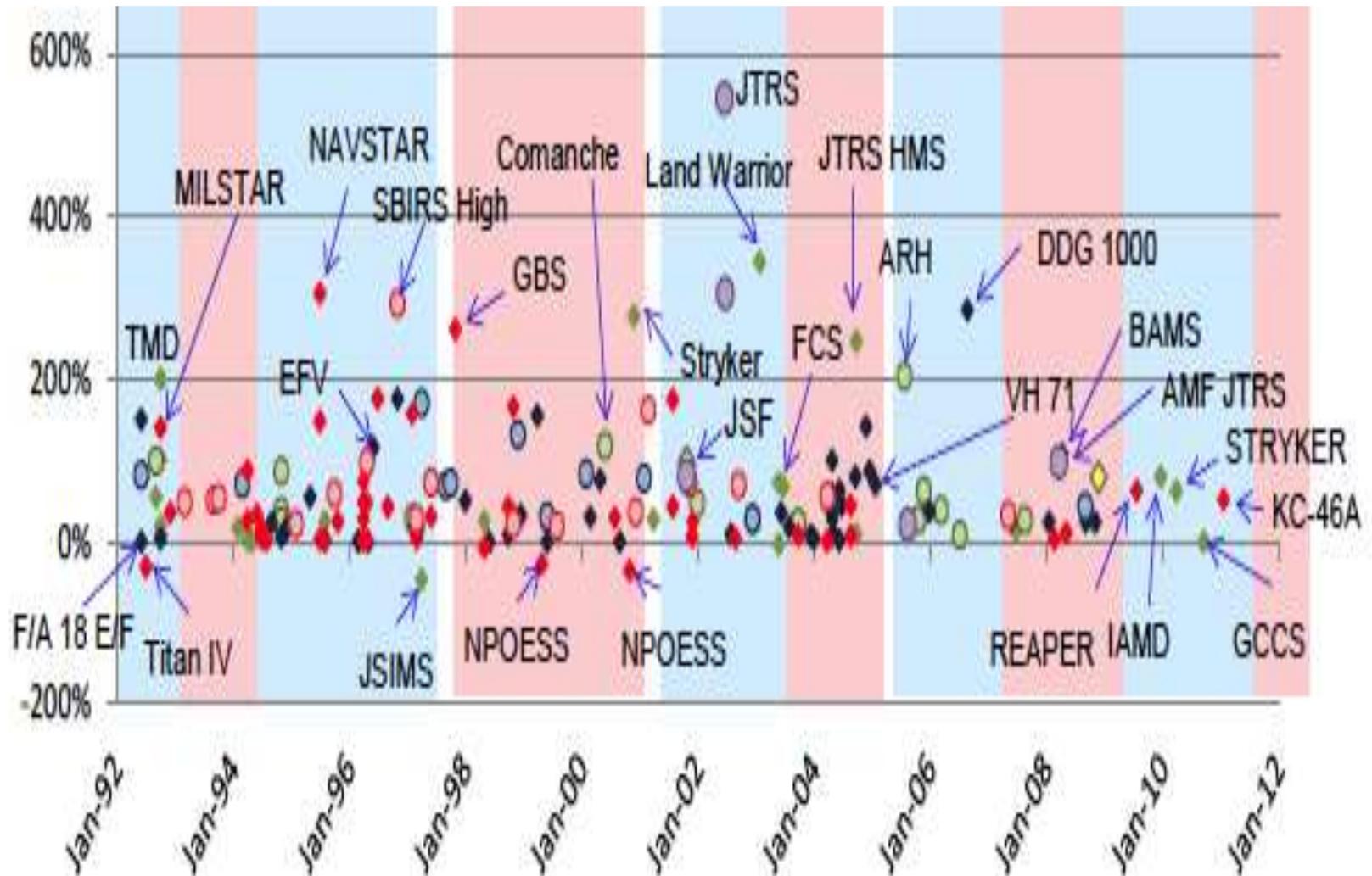
(DoD-Wide Development Contract Total Cost Growth and USD(AT&L) Tenures (1992–2014))



Source: FY2015 Budget Request, OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) / CFO March 2014, p. 13.

The Continuing Cost-Escalation Crisis: Average Levels:

(DoD-Wide Development Contract Total Cost Growth and USD(AT&L) Tenures (1992–2014))



The F-35 as a Case Study:

70% Rise in Program Cost, with 15% Drop in Total Numbers. Unit Cost Rises from \$81 Million to \$161 Million

	October 2001 (system development start)	December 2003 (approved baseline)	March 2007 (approved baseline)	June 2010 (Nunn- McCurdy)	March 2012 (approved baseline)
Expected quantities					
Development quantities	14	14	15	14	14
Procurement quantities (U.S. only)	2,852	2,443	2,443	2,443	2,443
Total quantities	2,866	2,457	2,458	2,457	2,457
Cost estimates (then-year dollars in billions)					
Development	\$34.4	\$44.8	\$44.8	\$51.8	\$55.2
Procurement	196.6	199.8	231.7	325.1	335.7
Military construction	2.0	0.2	2.0	5.6	4.8
Total program acquisition	\$233.0	\$244.8	\$278.5	\$382.5	\$395.7
Unit cost estimates (then-year dollars in millions)					
Program acquisition	\$81	\$100	\$113	\$156	\$161
Average procurement	69	82	95	133	137
Estimated delivery and production dates					
First production aircraft delivery	2008	2009	2010	2010	2011
Initial operational capability	2010-2012	2012-2013	2012-2015	TBD	TBD
Full-rate production	2012	2013	2013	2016	2019

Source: GAO, F-35 JOINT STRIKE FIGHTER. Restructuring Has Improved the Program, but Affordability Challenges and Other Risks Remain, GAO-13- 690T, June 19, 2014, p. 13.

Investment Spending FY2014 vs. FY2015

\$ in billions

Weapons Category	FY 2014 Enacted	FY 2015 PB Request	Change
Aircraft and Related Systems	42.4	40.0	-2.4
C4I Systems	6.2	6.6	0.4
Ground Systems	7.4	6.3	-1.1
Missile Defense Programs	8.7	8.2	-0.5
Missiles and Munitions	9.5	9.0	-0.5
Mission Support	48.5	44.4	-4.1
Science & Technology (S&T)	12.0	11.5	-0.5
Shipbuilding and Maritime Systems	23.0	22.0	-1.0
Space-Based Systems	6.2	6.2	--
Sub-Total	163.9	154.2	-9.7
Rescissions	-8.7	-0.3	8.4
Total	155.2	153.9	-1.3

Source: FY2015 Budget Request Overview, OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) / CFO
 March 2014, p. 6-1.

Major Acquisition Programs: FY2014 vs. FY2015 - I

\$ in Billions; Includes RDT&E and Procurement funding; includes OCO funds in FY 2014

		FY 2014		FY 2015	
		Qty	\$	Qty	\$
Aircraft					
MQ-9	Reaper UAS	20	0.5	12	0.6
C-130J	Hercules	17	1.8	14	1.4
F-35	Joint Strike Fighter	29	7.5	34	8.3
V-22	Osprey	23	1.8	19	1.6
AH-64E	Apache Helicopter	46	1.0	25	0.8
CH-47	Chinook Helicopter	38	1.3	32	1.1
UH-60	Black Hawk Helicopter	70	1.3	79	1.4
MH-60R	Multi-Mission Helicopter	19	0.8	29	1.1
MH-60S	Fleet Combat Helicopter	18	0.4	8	0.2
P-8A	Poseidon	16	3.7	8	2.4
E-2D	Advanced Hawkeye	5	1.3	4	1.2
Bombers	Strategic Bombers	--	0.6	--	0.7
F-22	Raptor	--	0.6	--	0.5
KC-46A	Tanker	--	1.6	7	2.4
Missile Defense					
AEGIS	AEGIS BMD System	52	1.5	30	1.4
THAAD	THAAD BMD System	33	0.8	31	0.8
GMD	GBI Midcourse Defense	1	0.9	--	1.0

Source: FY2015 Budget Request Overview, OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) / CFO
March 2014, p. 6-2.

Major Acquisition Programs: FY2014 vs. FY2015 - II

Missiles and Munitions					
AMRAAM	AMRAAM Missile	227	0.5	200	0.5
SM-6	Standard Missile	81	0.5	110	0.5
Trident II	Trident II Missile Mods	--	1.5	--	1.5
Ships					
CVN 78	FORD Aircraft Carrier	--	1.7	--	2.1
DDG 51	AEGIS Destroyer	1	2.3	2	3.1
LCS	Littoral Combat Ship	4	2.4	3	2.1
SSN 774	VIRGINIA Submarine	2	6.7	2	6.3
OR	SSBN	--	1.1	--	1.3
Space					
AEHF	AEHF Satellite	--	0.6	--	0.6
EELV	EELV Launch Vehicle	5	1.4	3	1.4
GPS	Global Positioning System	2	1.2	1	1.0
SBIRS	SBIRS Satellite	--	0.8	--	0.8

Decline in Science and Technology: FY2014 vs. FY2015

(\$ in billions)

Program	FY 2014 Enacted	FY 2015 Request	FY14 – FY15 Change
Basic Research (6.1)	2.2	2.0	-0.2
Applied Research (6.2)	4.6	4.5	-0.1
Adv Tech Dev (6.3)	5.2	5.0	-0.2
Total S&T	12.0	11.5	-0.5

The FY 2015 President's Budget includes:

- Maintaining a robust Basic Research program at \$2 billion
- A modest increase to the Defense Advanced Research Projects Agency budget, now \$2.9 billion (FY 2014 enacted, \$2.8 billion), to develop technologies for revolutionary, high-payoff military capabilities.
- Additional funding for the President's National Advanced Manufacturing Initiative at five centers to support the President's National Network for Manufacturing Innovation plan and the National Economic Council's manufacturing goals.

Overall S&T funding for the Army, Navy and Air Force are each approximately \$2 billion.

This strategy will emphasize several missions with strong technology dimensions, including:

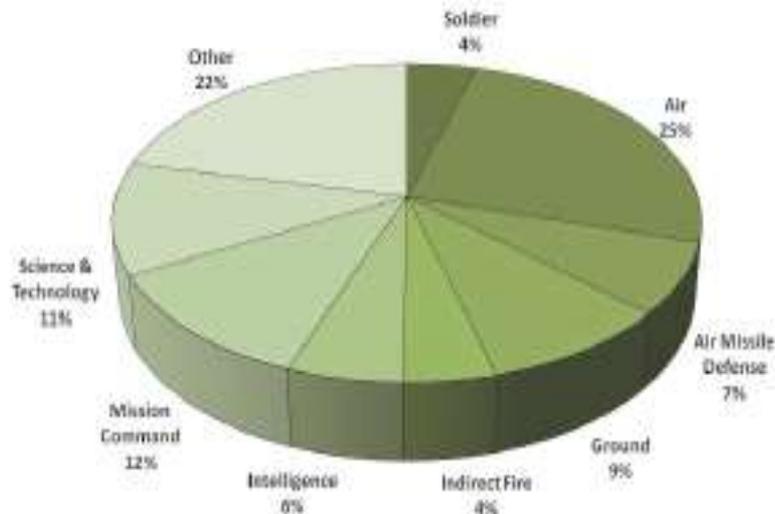
- Project Power Despite Anti-access/Area-denial Challenges (\$2.0 billion)
- Counter Weapons of Mass Destruction (\$1.0 billion)
- Operate Effectively in Cyberspace and Space (\$0.9 billion)
- Electronic Warfare (\$0.5 billion)
- High-speed Kinetic Strike (\$0.3 billion)

US Army Modernization Plans - I

Major Portfolios:

- Soldier
- Air (Aviation)
- Air Missile Defense
- Ground (Mobility)
- Indirect Fire
- Intelligence
- Mission Command
- Science & Technology

Appropriation Title (SB)	FY13 Base		FY 14 Base		FY 15
	Enacted	Sequester	Request	Enacted	Request
Aircraft (ACFT)	6	5.7	5.0	4.8	5.1
Ammunition (AMMO)	1.6	1.6	1.5	1.4	1.0
Missile (MSLS)	1.5	1.4	1.3	1.5	1.0
Other Procurement (OPA)	5.7	5.7	6.5	4.9	4.9
Weapons and Tracked Combat Vehicles (WTCV)	1.9	1.8	1.6	1.6	1.5
Procurement Totals :	16.8	16.3	15.9	14.3	13.5
Research, Development, Test & Evaluation	8.7	8.0	8.0	7.1	6.6
RDA Totals:	25.5	24.3	23.9	21.4	20.1



Warrior



Apache



Paladin (PIM)



Warrior



Patriot MSE

US Army Modernization Plans - I

Soldier

❖ **Specific Investments in this portfolio include:**

- **Enhanced Night Vision Devices:** \$160.9M (OPA) procures 9,700 for SOF and Brigade Combat Teams (BCT)
- **TOW/JAVELIN:** \$168M (MSLS) procures Soldier carried missiles
- **Nett Warrior:** \$84.8M (OPA) procures Soldier worn communications set for Capability Set 15 fielding
- **M4A1 Carbine:** \$32.8M (WTCV) retrofits and procures 38,234

❖ **Science & Technology (RDTE)**

- **Soldier lethality (\$36M)** to include lighter, cheaper and precision munitions components (Javelin multi purpose warhead, improved TOW/Javelin propulsion)
- **Adaptable, next generation lightweight Soldier Protection (\$48M)** enabling mobility while addressing multiple threats
- **Research the diagnosis and treatment (\$32M)** of Traumatic Brain Injuries and Post-Traumatic Stress Disorder
- **Investigate promising candidate medical technologies (\$24M)** in drug prophylaxis, treatments, and vaccines

Aviation

❖ **Specific Investments in this portfolio include:**

- **Black Hawk:** \$1.5B (\$104.5M RDTE /\$1.44B ACFT) procures 55 UH-60M, 24 HH-60M; funds Improved Turbine Engine Program and UH-60 Digital L RDTE efforts; purchases mission equipment packages
- **Chinook:** \$1.1B (\$35.4M RDTE/\$1.03B ACFT) procures 26 remanufactured, 6 New Build CH-47F aircraft and associated modifications to the Chinook fleet
- **Apache:** \$957.3M (\$124.1M RDTE/\$833.2M ACFT) procures 25 remanufactured AH-64E (Apache Block III) aircraft and associated modifications to existing AH-64D fleet
- **Lakota:** \$416.6M procures 55 UH-72A Lakota aircraft for the Initial Entry Rotary Wing training fleet

❖ **Science & Technology (RDTE)**

- **Next-generation Joint Multi-Role vertical lift aircraft (\$52M)**
- **Technologies to provide the ability to operate in all degraded visual environments (\$20M)**

US Army Modernization Plans - III

Air & Missile Defense

❖ **Specific investments in this portfolio include:**

- **Patriot Missile:** \$420M (\$35M RDTE / \$385M MSLS) for procurement of 70 Patriot MSE missiles
- **Patriot Software:** \$400M (\$232M RDTE / \$168M MSLS) supports ongoing development, modeling, simulation and tests required to defeat emerging threats and ground system improvements
- **Army Integrated Air & Missile Defense System:** \$143M (RDTE) continues development which will provide an integrated software architecture that will enable weapons capabilities to function interdependently.
- **Joint Aerostat Project Demonstration:** \$54M (RDTE) continues NORTHCOM test

- ❖ **Science & Technology (RDTE)** Develop advanced technology (\$60M) for gun, missile and high energy lasers to defeat Rockets, Artillery, Mortars, Unmanned Aerial Systems and Cruise Missiles.

Ground Mobility

❖ **Specific investments in this portfolio include:**

- **Armor Multi-Purpose Vehicle (AMPV):** \$92M (RDTE); a \$64M increase from FY2014, funding provides one Engineering, Manufacturing and Development (EMD) contract and Program Management Support
- **Abrams / Bradley:** \$549M (\$205M RDTE / \$345M WTCV); Engineering Change Package (ECP) development and fleet modernization
- **Stryker:** \$515M (\$90M RDTE / \$425M WTCV) ; ECP development and 3d Double V-Hull (DVH) BDE set
- **Paladin Integrated Management (PIM):** \$331M (\$83M RDTE / \$247M WTCV); procures Low Rate Initial Production (LRIP) of 18 PIM Systems; 18 Self-Propelled Howitzers (SPH) and 18 Carrier, Ammunition, Tracked (CAT)
- **Joint Light Tactical Vehicle family of vehicles (JLTV):** \$210M (46M RDTE / \$165M OPA); completes Limited User Testing (LUT) and procures 176 variants through low-rate initial production

The request reflects the decision to conclude the Ground Combat Vehicle program

- ❖ **Science & Technology (RDTE)** Develop technologies (\$131M) for survivability, mobility, lethality, improved fuel economy and vehicle power

US Army Modernization Plans - III

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US Army Modernization Plans - IV

Indirect Fire

❖ **Specific investments in this portfolio include:**

- **AN/TPQ-53 Radar:** \$247M (\$38M RDTE / \$209M OPA) procures 13 systems
- **Guided Multiple Launch Rocket System (GMLRS):** \$173M (\$128M MSLS / \$45M RDTE) continues procurement of 534 GLMRS Unitary rockets and development of new munitions
- **M119A2 Howitzer:** \$73M (WTCV) procures Digital Fire Control modifications and redesigned M119A2 Howitzer recoil systems to enhance system survivability and lethality
- **Army Tactical Missile System (ATACMS SLEP):** \$49M (RDTE) Funds the service life extension program to provide compliant warheads in the Pacific Theater

- ❖ **Science & Technology (RDTE) Research and develop (\$56M) long range precision rocket and gun technologies and disruptive energetics to regain overmatch of adversaries in a GPS denied environment**

Intelligence

❖ **Specific investments in this portfolio include:**

- **MQ-1 Gray Eagle:** \$237M (\$47M RDTE / \$191M ACFT) Conducts Full Operational Test and procures 19 MQ-1C aircraft and associated ground support equipment
- **Aerial Common Sensor (ACS):** \$203M (\$18M RDTE/\$185M ACFT) for ACS/Enhanced Medium Altitude Reconnaissance and Surveillance System (EMARSS) aircraft supporting development of sensor enhancements and modification of 16 systems
- **Distributed Common Ground System:** \$148M (\$20.1M RDTE/\$128M OPA) continues development and testing of Inc 1 software releases to include integration into the Command Post Computing Environment (CPCE)
- **RQ-7 Shadow UAS:** \$142M (\$16M RDTE / \$125M ACFT) procures 7 retrofit kits and launchers

- ❖ **Science & Technology (RDTE) Research and develop technologies (\$9M) to enable operations & intelligence convergence; automated intelligence support team tools; and sensor exploitation at lower echelons**

US Army Modernization Plans - V

Mission Command

❖ **Specific investments in this portfolio include:**

- **WIN-T:** \$789M (\$117M RDTE/\$672M OPA) – Increment 1 – (31) Brigade Upgrades; Increment 2 – (1) Division HQs, (1) BCT HQs, (11) Battalion sets; Increment 3 – development of integrated network operations capabilities
- **Networked Tactical Radios:** \$212M (\$26M RDTE/\$185M OPA) continues development and limited procurement of Mid-tier Networking Vehicular Radio (MNVR) systems, Manpack and Rifleman radios
- **Command Post Common Operating Environment (CPCE):** \$141M (\$45M RDTE/\$96M OPA) development and fielding of the CPCE for all COMPOs
- **Network Integration Evaluation (NIE):** \$105M (RDTE) resources two NIEs
- **Joint Battle Command Platform:** \$98M (OPA) procures Joint Battle Command-Platform (JBC-P) for BCTs and BDEs to include replacement of Enhanced Position Location and Reporting System in BCTs

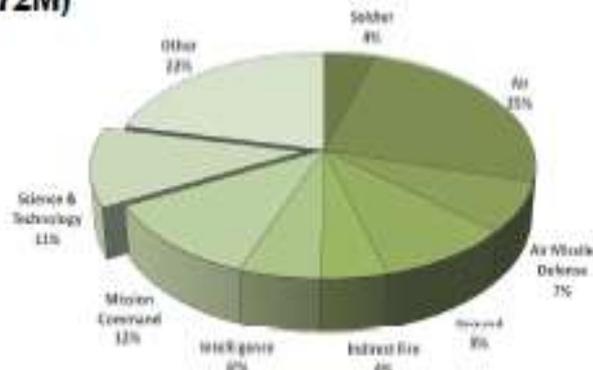
❖ **Science & Technology (RDTE)**

- Position, navigation and timing technologies (\$24M) to enable assured position, navigation and timing in a GPS denied environment
- Develop potential convergence (\$3M) of communications, networking and electronic warfare devices into one common plug and play architecture for command posts and vehicular applications

US Army RDT&E Plans

❖ Maintains overall investment in Science and Technology at FY 2014 requested levels with focused investments in:

- **Cyber Security/Science (\$40M)**
- **Combat Vehicle Prototyping & Active Protection, Survivability, Mobility, Lethality, fuel economy and Power & Data Architecture technologies for improved military vehicles (\$131M)**
- **Long range precision rocket and gun technologies, disruptive energetics and Assured Position, Navigation and Timing to regain overmatch and fight in a GPS denied environment (\$56M)**
- **Survivable & adaptable next generation lightweight Soldier technologies integration using innovative human performance & training science (\$43M)**
- **Demonstrate technologies for the next-generation Joint Multi-Role vertical lift aircraft and technologies to support Degraded Visual Environment Mitigation for rotorcraft (\$72M)**
- **Research to enable Operations/Intelligence convergence to provide tactical information overmatch (\$9M)**
- **Vulnerability assessments of technology/red teaming to ensure our systems remain effective (\$19M)**
- **Research and demonstrate gun, missile and High Energy Laser technologies to defeat Rockets, Artillery, Mortars, Unmanned Aerial Systems and Cruise Missiles (\$60M)**
- **Basic research in:**
 - **Materials Centric science (\$170M)**—materials, chemistry, physics, environmental, survivability, lethality and mobility;
 - **Information Centric science (\$83M)**—quantum information science;
 - **Human Centric science (\$78M)**—life sciences, medical, training and cultural/behavioral dynamics;
 - **Platform Centric science (\$54M)**—air and ground vehicles, intelligent autonomous systems.



APPN (\$M)	Science & Technology	
	FY14 Enacted	FY15 Request
OPA	63	65
RDTE	2,455	2,205
Total	2,518	2,270

US Navy Ship Procurement Plans

	FY14	FY15	FY16	FY17	FY18	FY19	FYDP
CVN-21	0	0	0	0	1	0	1
SSN-774	2	2	2	2	2	2	10
DDG 51	1	2	2	2	2	2	10
LCS	4	3	3	3	3	2**	14
LHA(R)	0	0	0	1	0	0	1
T-ATF	0	0	0	2	1	1	4
MLP/AFSB	1	0	0	1	0	0	1
T-AOO	0	0	1	0	1	1	3
New Construction Total QTY	8	7	8	11	10	8	44
LCAC SLEP	4	2	4	4	4	0	14
Ship-to-Shore Connector	0	2	5	5	8	11	31
SCOX (R) (LCU Replacement)	0	0	0	0	1	2	3
Moored Training Ships	0	1	0	1	0	0	2
CVN RCOH*	0	0	0	0	0	0	0
Total Shipbuilding QTY	12	12	17	21	23	21	94

Total Shipbuilding includes all new construction, RCOH, SLEP or conversion in SCN, R&D and FY14 NDSF, as well as other related line items including Service Craft, Outfitting and Post Delivery.

**Pending FY16 Decision*

***To be updated in POM16*

US Navy Air Procurement Plans

	FY14	FY15	FY16	FY17	FY18	FY19	FYDP
Fixed Wing							
F-35B (STOVL JSF)	6	6	9	14	20	20	69
F-35C (CV JSF)	4	2	2	6	10	16	36
F/A-18E/F	0	0	0	0	0	0	0
EA-18G	21	0	0	0	0	0	0
E-2D AHE	5	4	5	6	5	5	25
P-8A (MMA)	16	8	15	13	13	7	56
C-40A (USMC)	0	0	1	0	0	0	1
KC-130J (USMC)	1	1	1	2	1	1	6
UC-12W	1	0	0	0	0	0	0
Rotary Wing							
AH-1Z/UH-1Y	21	26	28	26	26	27	133
VXX	0	0	0	0	0	6	6
CH-53K (HLR)	0	0	0	2	4	7	13
MV-22B	19	19	19	18	4	4	64
MH-60R	19	29	0	0	0	0	29
MH-60S	18	8	0	0	0	0	8
UAV							
MQ-8 (VTUAV)	2	0	0	0	0	0	0
MQ-4 Triton UAS	0	0	4	4	4	4	16
STUAS (NAVY)	0	0	0	1	2	5	8
Training							
T-6A/B (JPATS)	29	0	0	0	0	0	0
TOTAL	162	103	84	92	89	102	470

Source: US Navy, DEPARTMENT OF THE NAVY FY 2015 PRESIDENT'S BUDGET, Rear Admiral William K. Lescher, USN, Deputy Assistant Secretary of the Navy for Budget, March 4, 2014, p. 10.

US Navy Weapons Procurement Plans

	FY14	FY15	FY16	FY17	FY18	FY19	FYDP
Ship Weapons							
TACTOM	196	100	0	0	0	0	100
SM6	81	110	125	125	125	125	610
RAM	66	90	90	90	116	116	502
ESSM	53	104	89	89	73	94	449
MK 48 HWT	0	0	8	19	31	47	105
MK 48 HWT MODS	108	44	40	44	52	51	231
MK 54 LWT MODS	215	150	216	216	216	216	1,014
LCS SSMM	0	0	0	0	200	200	400
Aircraft Weapons							
AIM-9X	225	167	215	212	201	200	995
AMRAAM	44	0	138	154	233	274	799
JSOW C	212	200	200	0	0	0	400
AARGM	108	116	138	296	356	358	1,264
HELLFIRE*	616	0	0	0	0	0	0
SOPGM*	59	14	3	3	3	3	26
Maverick*	500	0	0	0	0	0	0
JAGM	0	0	0	0	0	189	189
OASUW	0	0	0	30	40	40	110
SDB II	0	0	0	90	750	750	1,590

*FY14 OCO included: 270 Hellfire, 500 Laser Maverick and 9 SOPGM

US Marine Corps Procurement Plans

Major Combat Systems (\$M)	FY13	FY14	FY15
Weapons and Combat Vehicles			
AAV PIP	16	32	17
Mod Kits (Armor/Weapons)	34	38	22
Weapons and Combat Vehicles	17	20	7
LAV PIP	26	6	78
Guided Missiles & Equipment			
Ground Base Air Defense (GBAD)	13	16	31
AAWS-Medium	29	66	0
MOD Kits (Missiles)	42	42	5
G/ATOR	0	0	89
RQ-21	14	67	71
Communications & Electrical Equipment			
Combat Support System	23	3	2
Common Computer Resources	212	109	34
Command Post Systems	33	84	38
Radio Systems	126	64	65
Radar Systems	135	102	20
Intelligence Support Equipment	51	71	44
Support Vehicles			
Commerical Cargo Vehicles	14	31	11
HMMWV	6	1	57
Family of Tactical Trailers	28	23	10
CAC2S	0	0	12
JLTV	0	0	8
Engineers & Other Equipment			
Tactical Fuel Systems	71	22	4
Power Equipment Assorted	69	63	9
Material Handling Equipment	36	37	9
BOD Systems	264	83	7

Source: US Navy, DEPARTMENT OF THE NAVY FY 2015 PRESIDENT'S BUDGET, Rear Admiral William K. Lescher, USN, Deputy Assistant Secretary of the Navy for Budget, March 4, 2014, p. 12.

US Air Force Procurement Plans I




	FY14	FY15	
(\$B)	Enacted	PB	Delta
Aircraft Procurement	10.3	11.5	1.2
Missile Procurement	3.8	3.8	0.0
Ammunition Procurement	0.7	0.7	0.0
Other Procurement	1.9	2.6	0.7
Total *Numbers do not add due to rounding	\$16.8	\$18.5	\$1.9

Funds top procurement programs, sustains space capabilities & maintains munition inventories

	FY14	FY15
Aircraft	\$ Millions	
F-35A	\$3,319	\$4,269
KC-46A	-	\$1,582
C-130J MYP	\$1,732	\$1,283
Space		
SELC	\$559	\$750
EELV	\$808	\$631
SBIRS	\$525	\$451
AEHF	\$328	\$299
Munitions		
JASSM	\$271	\$337
JDAM	\$179	\$101
AIM-9X	\$108	\$140

Aircraft:

- Funds first production lot of 7 KC-46 Tanker aircraft
- Maintains stable production ramp for F-35As (26 a/c); will increase to 60 a/c by 2018
- Preserves C-130J Multi Year Procurement; procures 13 a/c supporting SOF & mobility

Space:

- Space Expendable Launch Capability (SELC): Reflects funding required to support launch and acquisition of National Security Space launch vehicles
- Reflects Evolved Expendable Launch Vehicle (EELV) newly negotiated contract savings
- Sustains Efficient Space Procurement strategy for AEHF & Space Based Infrared System

Munitions:

- Increases quantity of Joint Air to Surface Standoff Missiles with extended range (JASSM-ER)
- Maintains min sustainment rates for Advanced Medium-Range Air-to-Air Missile & AIM-9X

Other:

- Funds C2 capability for network infrastructure, communication for STRATCOM HQ and replaces end of life distributed common ground systems

US Air Force Procurement Plans - II

Major Procurement Quantities ³					
	FY14	FY15		FY14	FY15
Aircraft	58	58	Space	7	4
F-35A Lightning II	19	26	EELV	5	3
KC-46 Tanker	-	7	GPS III	2	1
MC-130 Recapitalization	4	2	Weapons	8,688	4,229
MQ-9A Reaper	20	12	JDAM	7,536	2,973
CV-22B Osprey	3	-	AGM -114 Hellfire	413	283
HC-130 Recapitalization	1	4	AIM-9X Sidewinder	225	303
C-130J Super Hercules	6	7	AIM-120D AMRAAM	183	200
AC-130 Recapitalization	5	-	AGM-158 JASSM	187	224
			Small Diameter Bomb II	144	246
Procurement TOA (\$M)			FY14 Enacted		FY15 PB
Aircraft			10,303		11,473
Missiles			3,787		3,803
Ammunition			730		677
Other Procurement			1,948		2,590
Blue Total			16,768		18,544
Non-Blue			15,236		14,933
Air Force Procurement TOA Total			32,005		33,476

Source: US Air Force, FY2015 Budget Overview, SAF/MFB, March 2014, pp. 4 & 16.

US Air Force Procurement Activity - I

The FY 2015 budget request grows over the FY 2014 enacted level, primarily due to the initial procurement of the KC-46 (7) aircraft and an increase of quantity of the F-35 (26). To defend against a potential high-end threat in 2023 we shifted our priority from legacy modernization to recapitalizing capabilities.

The FY 2015 budget request supports vital systems across multiple Air Force core missions. Key air superiority initiatives include procurement of 26 F-35s, modifications of the F-22 Raptor sustainability and structural upgrades, and radar upgrades on the F-15 Eagle fleet. Global Integrated ISR is supported with procurement of 12 MQ-9 Reapers and continuation of the RQ-4 Block 30.

Rapid Global Mobility investment funds the tanker fleet recapitalization effort by purchasing the first seven KC-46 Tankers in FY 2015 which will provide multi-point refueling capability, and supports replacement of the C-5 Galaxy Core Mission Computer (CMC) and weather radar. The Air Force will leverage resources across services with funding committed to the C-130 multi-year procurement (MYP) strategy. This supports the acquisition of seven C-130J Super Hercules in support of Global Mobility, four HC-130 in support of Personnel Recovery, and two MC-130s in support of Special Operations. Global Strike initiatives include fleet-wide upgrades to B-52 communication capabilities. Finally, the Air Force will invest in Command and Control (C2) which includes mission systems modifications to the E-3 Airborne Warning and Control System (AWACS).

The Missile Procurement appropriation funds acquisition and modification of missiles, spacecraft, launch vehicles, spare parts, and support equipment. In FY 2015 the Air Force will continue the Evolutionary Acquisition for Space Efficiency/Efficient Space Procurement approach for a fixed price block buy of Advanced Extremely High Frequency (AEHF) satellite vehicles 5 and 6 and Space-based Infrared System (SBIRS) Geosynchronous Earth Orbit (GEO) 5 and 6. The FY 2015 budget request includes a cost-saving acquisition approach for Air Force funded medium and intermediate classes of EELV. In addition, the Air Force plans to procure one GPS III satellite and continue funding key modernization efforts within the Minuteman III program, continuing to deliver safe and secure nuclear capabilities.

A key part of the contested environment solution for future conflicts is the procurement of modern munitions for air superiority and preferred air-to-ground missiles. The Air Force plans to procure 303 AIM-9X Sidewinder Air-to-Air missiles; 200 AIM-120D Advanced Medium-Range Air-to-Air Missiles (AMRAAM); 104 Joint Air-to-Surface Standoff Missile-Extended Range (JASSM-ER) missiles; 283 Hellfire missiles; and 246 Small Diameter Bomb (SDB) II which sustains the Air Force's capability to provide air dominance and global precision attack capabilities.

US Air Force Procurement Activity - II

The Ammunition Procurement appropriation funds procurement, production, and modification of ammunition. The portfolio primarily supports the Global Precision Attack core function and includes ammunition, bombs, flares, fuses, cartridges, and related training devices. The Air Force will procure munitions to maintain War Reserve Materiel (WRM) quantities and test and training stockpiles which include 2,973 Joint Direct Attack Munitions (JDAM); general purpose bombs; practice bombs; and rockets.

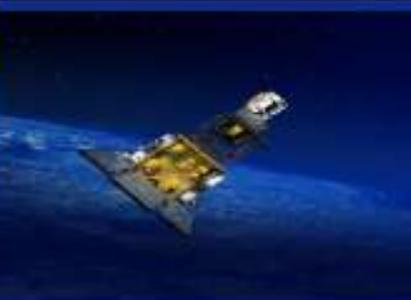
Readiness is supported through the acceleration of funding for advanced Airfield Damage Repair capabilities to Pacific Air Force airfields in Guam and Japan, which address runway denial threats from possible adversaries. The FY 2015 budget request supports our major installations by funding critical vehicle shortfalls in heavy construction equipment. The space superiority core function is supported through the modernization and recapitalization of the Air Force Network of Systems. This effort includes network systems and sub-system hardware and software that respond to obsolescence issues and evolving cyber threats.

The key to Global Integrated ISR is modernization of end-of-life Distributed Common Ground Systems, which provide a network backbone for time-critical intelligence data. C2 is supported by the fit-out requirements for the new United States Strategic Command (USSTRATCOM) Headquarters facility. USSTRATCOM is tasked to provide strategic deterrence, space operations, and cyberspace operations in our nation's defense. The new headquarters facility is integral in USSTRATCOM accomplishing their mission objectives, which requires significant command and control capabilities. The FY 2015 request funds a secure infrastructure to provide a High-Altitude Electromagnetic Pulse Shielded Command and Control Center; mainframe computer data centers; storage and maintenance areas; multiple 24/7 mission operations centers; and the necessary infrastructure to provide reliable secure and non-secure voice, data, and video to the command.

US Air Force RDT&E Plans - I



	FY14 Enacted	FY15 PB	Delta
(\$B)			
Basic Research	0.5	0.5	0.0
Applied Research	1.1	1.1	0.0
Adv Technology Dev	0.6	0.6	0.0
Demonstration/Validation	0.8	1.4	0.6
Engineering Manufacturing Dev	4.5	3.3	(1.2)
RDT&E Management Support	1.1	1.2	0.1
Operational System Dev	7.2	7.9	0.7
Total	\$16.0	\$16.0	\$0.0



Prioritized new capabilities over upgrading legacy platforms

Program Highlights (\$ in millions)		
	FY14	FY15
LRS-B	\$359	\$914
KC-46A	\$1,559	\$777
T&E	\$852	\$853
F-35A EMD	\$629	\$563
SBIRS EMD	\$322	\$320
S&T	\$2,308	\$2,129
AEHF	\$266	\$314
GPS III-OCS	\$373	\$300
F-15E Sq	\$234	\$262
RQ-4 UAV	\$120	\$245

Preserves top three recapitalization programs:

- Sustains design/development of LRS-B
- Maintains developmental & operational testing for F-35A's Blk 2B & Blk 3F mods
- Continues KC-46A development and test supporting 1st flight

Invests in future technology & capabilities:

- Minimizes reductions to Science & Technology and Test & Evaluation activities
- Begins next generation JSTARS; re-enforces commitment to joint and global C2
- Funds RQ-4 viability, reliability, and sensor improvements
- Starts T-X, Primary Fighter Trainer, program to recapitalize T-38C

Made affordability tradeoffs across the FYDP:

- Delays delivery of B-2 Defensive Management System Modification
- Extends delivery of Space Based Space Surveillance follow-on by a year

US Air Force RDT&E Plans - II

RDT&E Largest Programs (\$M)	FY14 Enacted	FY15 PB
Long Range Strike - Bomber	359	914
KC-46	1,559	777
Test and Evaluation Support	723	690
F-35	628	563
SBIRS High Engineering and Manufacturing Development	322	320
Defense Research Sciences	373	314
AEHF Military Satellite Communications (MILSATCOM)	266	314
GPS III - Operational Control Segment	373	300
F-15E Squadrons	234	262
RQ-4	120	245
Totals	4,958	4,698

The FY 2015 request protects RDT&E efforts of our Top 3 programs (KC-46A, F-35 and Long Range Strike-Bomber) while reducing or deferring investments in other areas. Each of our Top 3 programs is approaching important events critical to meeting its milestone criteria. Our strategic budgetary approach re-enforces our senior leaders' direction to focus investment on recapitalization over modernization in the near-term, and provide Air & Space Superiority, Global Reach and Global Strike by 2023. The FY 2015 budget request funds KC-46A development and testing. This development effort, supporting Rapid Global Mobility, will convert commercial 767 aircraft into airframes with military capability. Funding also maintains development and operational testing for F-35 Block 2B, which includes initial warfighting capabilities, and Block 3F, which provides full warfighting capabilities. To ensure we maintain and exploit our technological advantage, we kept our investments in Science & Technology and Test & Evaluation activities level. Additionally, this budget also begins efforts to explore replacement options for the Joint Surveillance Target Attack Radar System (JSTARS) aircraft. We expect the replacement to provide improved capabilities with more advanced sensors at substantially reduced costs in the future.

In addition, we have allocated funds to replace our aging T-38C fleet and ground based training systems. Our choices to invest in the aforementioned programs required us to take some calculated risk by delaying delivery of B-2 Defensive Management Systems-Modernization (DMS-M) and delaying delivery of Space-Based Surveillance System (SBSS) follow-on by one year.

RDT&E funding also supports such programs as Space Fence, GPS, as well as Minuteman III ICBM modernization projects ensuring future viability of the nation's nuclear deterrence operations. The table below summarizes the major developments funded in this request.

Example of a Procurement Option: Replace the Joint Strike Fighter Program With F-16s and F/A-18s

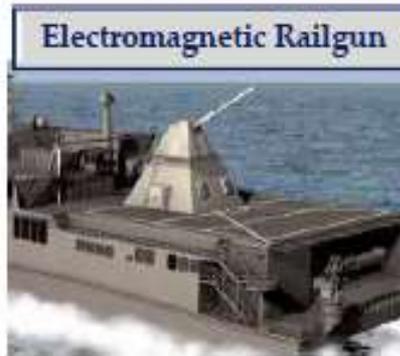
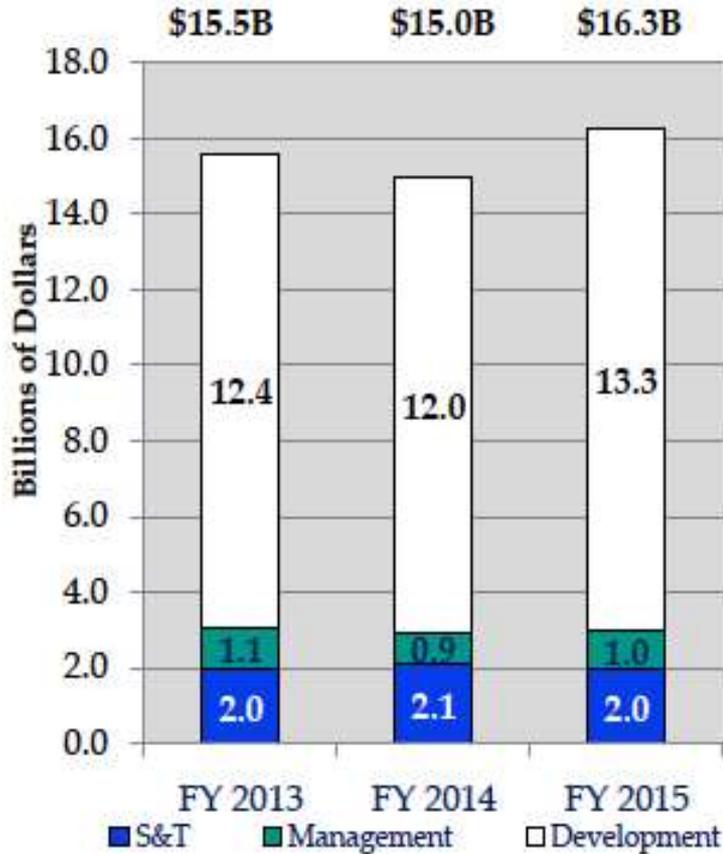
(Billions of dollars)

	Total	
	2014–2018	2014–2023
Change in Spending		
Budget authority	-23.3	-48.5
Outlays	-11.9	-37.1

Note: Savings are measured relative to CBO’s extension of DoD’s 2014 FYDP.

- *An argument for:* New F-16s and F/A-18s would be sufficiently advanced to meet anticipated threats.
- *An argument against:* F-16s and F/A-18s lack the stealth design features found on the F-35s.

US Navy R&D and Investment Plans



Major Systems (\$M)	FY13	FY14	FY15
Aviation			
Joint Strike Fighter (F-35)	1,281	856	1,029
CH-53K	536	462	573
Executive Helo Development	46	94	388
Shipbuilding			
Ohio Replacement Program	506	1,081	1,219
Virginia Class SSN	81	122	205
AMDR	194	125	145
CVN 78	158	148	123
Surface Ship Torpedo Defense	84	86	53
Unmanned			
MQ-4C Triton	613	375	498
UCLASS	99	122	403
NUCAS - D	128	21	36
USMC			
Amphibious Combat Vehicle	83	123	106
C/ATOR	70	78	99

- JSF: Maintains STOVL IOC in FY 2015 and CV IOC in FY 2019.
- Ohio Replacement: Supports start of construction in 2021.
- UCLASS: Supports operational capability in 2021.
- Executive Helo: Supports start of SDD with Milestone C scheduled for FY 19.

Readiness vs. Going Hollow

Gradually Restore Ready Force: O&M Grows 3.1%/yr

- **Recover from sequestration impact and the past decade of high deployment**
- **Work to establish new readiness posture for the post-Afghanistan period**
- **Army: Contingency Response Force regionally aligned, forward deployed, trained for decisive action**
- **USMC: Crisis response, forward deployed, full spectrum combat capability, reconstitute in stride**
- **Navy: Operate forward, maintain global at-sea presence**
- **Air Force: Begin to restore full range of operations**
- **USSOCOM: Maintain full spectrum, global capabilities and regional expertise**
- **Cyber Operations: Continue to grow and train cyber mission force**

Going Hollow Through FY2014

- **The Army produced just 2 of 43 active duty brigade combat teams fully ready and available to execute a major combat operation. During FY 2013, the Army was forced to cancel full-spectrum training for seven brigade combat teams. It takes 1 year to build full readiness for unified land operations.**
- **The Navy's average global presence was down about 10 percent from normal levels with fewer ships patrolling the waters.**
- **Only 50 percent of non-deployed Marine units were at acceptable readiness levels.**
- **Air Force was forced to stand-down 13 combat units for several months due to the FY 2013 sequester. In addition to standing down combat units, the Air Force cancelled Red Flag training events, ultimately affecting 20 U.S. and coalition squadrons. It will take at least 3 to 6 months to recover to already low readiness levels and will inflict lasting institutional impacts.**
- **Because Special Operations Forces (SOF) depend on conventional forces to provide enabling and logistics support for training and operational force packaging, degraded readiness across the Services began to directly impact SOF training and readiness.**

Gradually Restore Ready Force: O&M Grows 3.1%/yr

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- **Army: Contingency Response Force regionally aligned, forward deployed, trained for decisive action**
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**Fighting Sequestration, but
Well Below FY2014
Challenge**

Impact of Cutting FY2015 Request to Sequestration Level

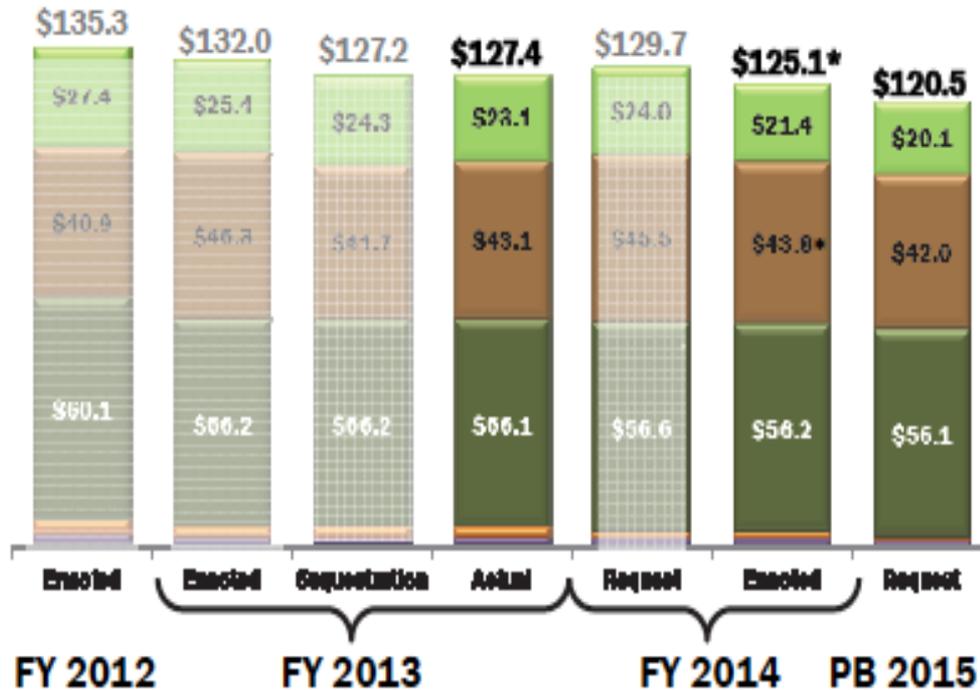
- ***Topline down \$115B in FY 2015 – FY 2019***
- **End-strength cuts deeper than pre-sequester goals**
- **Carriers and wings reduced below pre-sequester goals**
- **Same proposed changes in military compensation**
- **More force cuts (e.g., KC-10, Global Hawk Block 40, Predators/Reapers)**
- **Less recovery in readiness (O&M up 1.9%/yr, 3.1%/yr in budget)**
- **Less growth in procurement**
 - **326 JSF (343 in PB15 FYDP)**
 - **36 Ships (44 in PB15 FYDP)**
- **RDT&E declines -1.3%/yr (grows 1.6% in PB15 FYDP)**
- **No recovery in facilities funding**

Impact of Cutting FY2015 Request to Sequestration Level on Military Manpower and Carriers

	Planned End FY 2014	Planned End FY 2015	Goals w/o Sequester End FY 2019	$\Delta\%$ FY19/FY14
Active end strength	1,345K	1,309K	1,264K	-6%
Guard/Reserve end strength	831K	821K	798K	-4%
Civilian full-time equivalents	791K	782K	751K	-5%

	End FY 2014	Goal w/o Sequester FY 2019	Sequester FY 2019
Army active end strength	510K	440-450K	420K*
Army Guard end strength	354K	335K	315K*
Army Reserve end strength	202K	195K	185K*
Marines active end strength	189K	182K	175K*
Carriers	10	11	10*

Pressure on Army Without Cuts to Sequestration Level



FY13:

- ❖ Budget reductions cut \$7.6B from enacted levels
 - Overcame OCO shortfall late in year through reprogramming actions
 - Cancelled CTC rotations and prioritized training resources
 - Civilian furlough and hiring freeze
 - Deferred maintenance and facility sustainment
 - Every investment program impacted

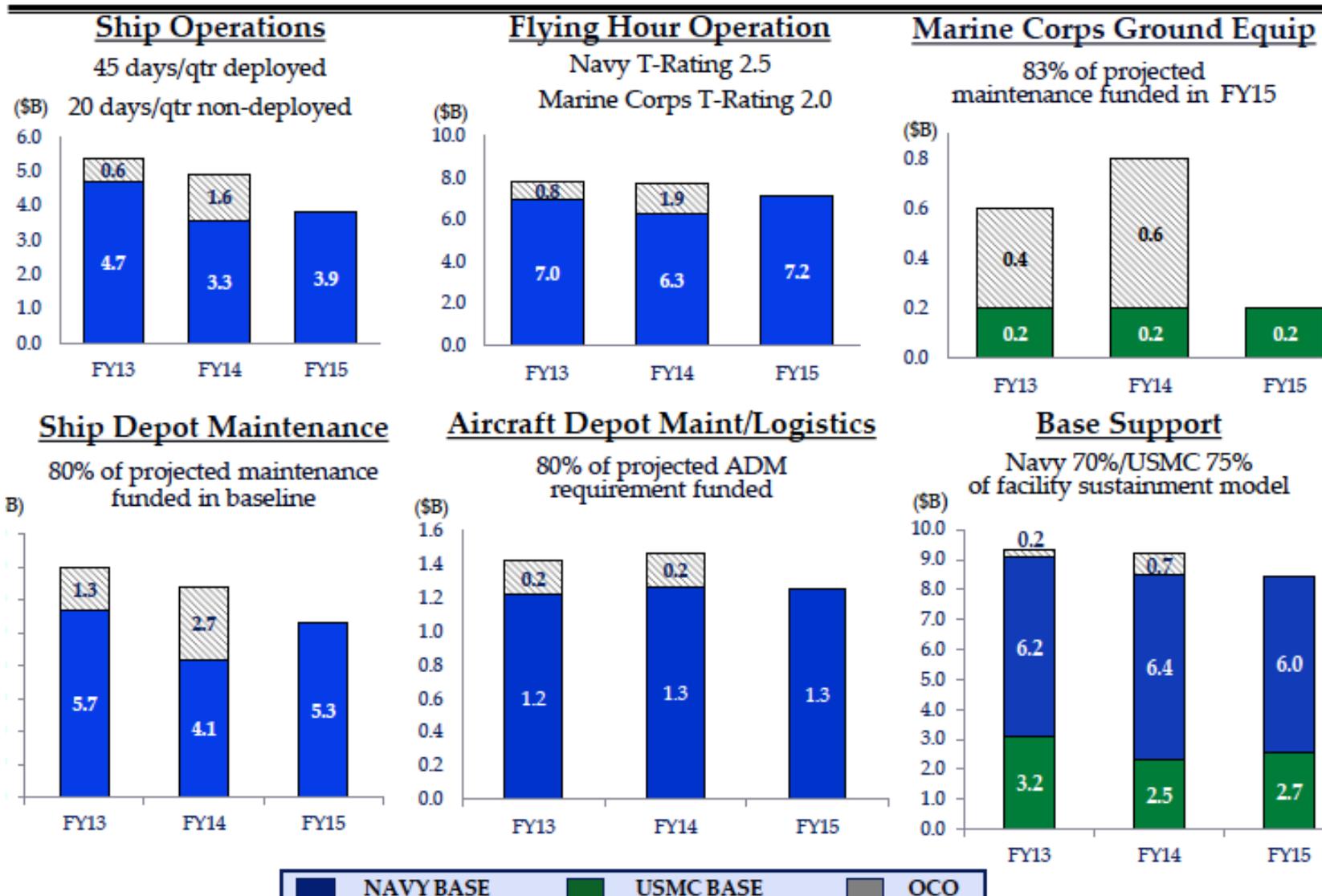
FY14:

- ❖ Budget reductions cuts \$7.7B from the PB request
 - Beginning to build back lost readiness – CTC Rotations
 - Risk incurred in modernization and construction

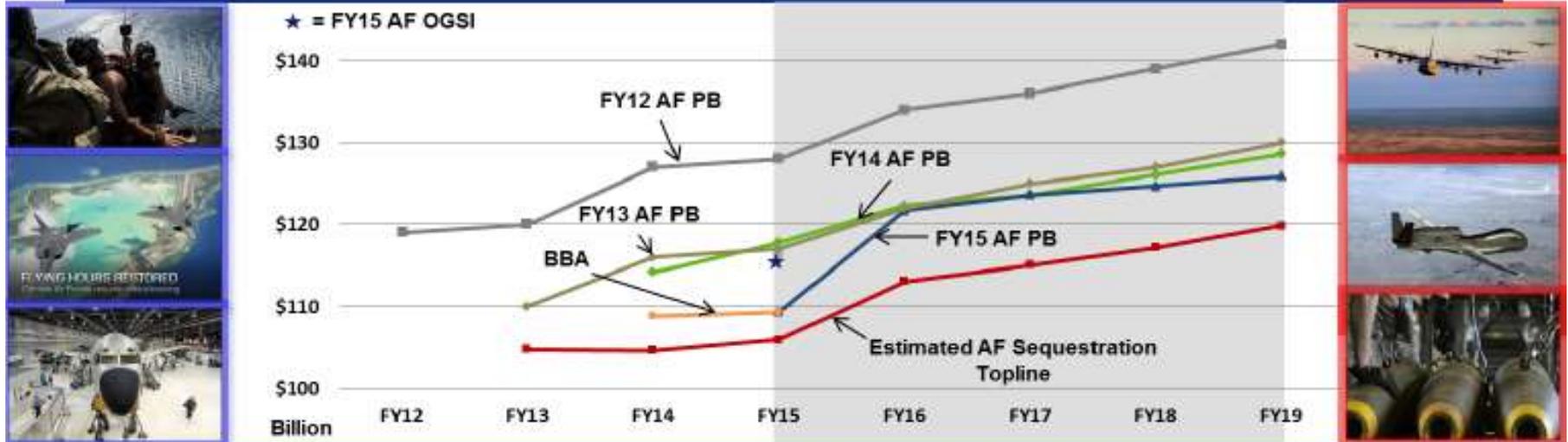


Limits to Navy Readiness Without Cuts to Sequestration Level

FY15 Baseline Readiness Metrics



Impact of Cutting FY2015 Request to Sequestration Level on the US Air Force



At FY15 PB Levels:

- Still required to make strategic choices
 - Fleet divestitures (e.g. A-10)
 - Force Management Programs
- Maintains Flying Hours and WSS funding to continue on gradual path to recovery of full-spectrum readiness
- Supports readiness components: ranges, simulators, exercises (Red Flag), training pipeline (weapons school)
- Protects investments in Primary Fighter Trainer (T-X) and the next generation of Space Based Systems (e.g., AEHF, SBIRs, Space Fence, Weather System Follow-on)
- Preserve top recapitalization programs (KC-46A, F-35A, LRS-B)
- Accelerates munitions inventory recovery

At Sequestration Levels:

- Reduces tanker and ISR capacity
 - Divests KC-10A and RQ-4 Block 40 fleets
 - Reduces steady state ISR orbits (to 45)
- Reduces investment in new capability:
 - KC-46A, F-35As & MC-130J
 - Cuts S&T funding and investment in new jet engine tech
 - Halts radar, ISR sensor, comm modernization programs
- Slows readiness recovery due to cuts in WSS/ranges
- Compounds existing facility erosion
- Defers even more legacy fighter modification
- Stalls munitions stockpile recovery, reducing ability to meet national defense requirements

Sacrifices capacity to meet minimum capability requirements

Less ready, less capable, less viable... unable to fully execute defense strategy

Impact of Going Back to Sequestration Levels

Key Fiscal Trends and Sequestration Impact

The automatic reductions required by the BCA would impose significant cuts to Department resources that would significantly increase risks both in the short- and long-term. These cuts would be in addition to several reductions in planned funding that the Department has already absorbed. Over the past several years, planned DoD spending has been significantly reduced by the following actions:

☐ To comply with the original discretionary spending caps in the BCA, FY 2012 enacted appropriations and the FY 2013 President's Budget reduced DoD funding by \$487 billion compared with the ten-year plan in the FY 2012 President's Budget.

☐ The March 2013 sequestration reduced base budget FY 2013 DoD funding by an additional \$32 billion.

☐ Consistent with the revised caps in the BBA, FY 2014 enacted appropriations reduced DoD funding by \$31 billion compared with the President's Budget request, and the FY 2015 President's Budget requested \$45 billion less than was planned in the FY 2014 budget.

Together, these cuts total almost \$600 billion. Accordingly, the Department's planned budgets across the FYDP have been substantially reduced. The Services have already reduced force structure and planned modernizations prior to any additional cuts discussed here.

Additionally, compensation savings have been assumed at both funding levels. If these proposed compensation reforms are not enacted, the Department will have no choice but to make further cuts elsewhere in the budget that will deprive our troops of the training and equipment they need to succeed in battle.

With the addition of projected sequestration-level cuts for FY 2016 through 2021, reductions to planned defense spending for the ten-year period from FY 2012 to 2021 will exceed \$1 trillion.

If sequestration-level cuts persist, our forces will assume substantial additional risks in certain missions and will continue to face significant readiness and modernization challenges. These impacts would leave our military unbalanced and eventually too small to meet the needs of our strategy fully.

Force and Readiness Impact of Fully Implementing Sequestration

Major reductions from the FY 2015-2019 President's Budget request would include:

- ☒ Reducing one squadron of F-35 aircraft (cutting acquisition of 15 aircraft would prevent fielding the squadron)
- ☒ Eliminating the fleet of KC-10 tankers
- ☒ Cutting operational surface combatant ships by 7 in FY 2019
- ☒ Cutting procurement of 8 ships across the FYDP
- ☒ Divesting the Global Hawk Block 40 fleet
- ☒ Divesting the Predator fleet beginning in FY 2016
- ☒ Eliminating planned purchases of Reaper aircraft in FY 2018 and FY 2019
- ☒ Reducing Service readiness funding by \$16 billion over the FYDP to include approximately \$9 billion in depot/ship maintenance, which would further increase Service maintenance backlogs

With respect to readiness, sequestration-level funding cuts would intensify existing shortfalls and delay timelines for building joint readiness for full-spectrum operations.

Furthermore, if Congress acts to support FYDP funding at the PB15 level, the Department will not have to cut:

- ☒ Army forces to a total force of 420K Active, 315K National Guard, and 185K Reserve
- ☒ Marine Corps forces to a total active force of 175K
- ☒ An aircraft carrier (CVN-73) to a total inventory of ten aircraft carriers

Appropriations Impact: Presidents Request (PB) vs, Budget Control Act (BBA/BCA)

\$B	PB15					
	FY2015	FY2016	FY2017	FY2018	FY2019	FYDP
Army	120.3	127.2	128.9	130.2	130.8	637.4
Navy	147.7	159.5	161.2	163.7	165.9	798.0
Air Force	137.8	152.4	155.1	156.8	158.5	760.6
Defensewide	89.8	96.0	98.5	100.7	103.8	488.9
Total	495.6	535.1	543.7	551.4	559.0	2,684.8

\$B	BBA/BCA					
	FY2015	FY2016	FY2017	FY2018	FY2019	FYDP
Army	120.3	119.2	121.2	124.0	126.3	611.0
Navy	147.7	147.4	152.1	156.1	160.0	763.4
Air Force	137.8	142.0	145.1	148.0	151.4	724.3
Defensewide	89.8	91.2	93.8	96.6	99.4	470.8
Total	495.6	499.8	512.3	524.7	537.1	2,569.6

\$B	BBA/BCA-PB15					
	FY2015	FY2016	FY2017	FY2018	FY2019	FYDP
Army	0.0	(8.0)	(7.6)	(6.2)	(4.5)	(26.4)
Navy	0.0	(12.1)	(9.1)	(7.5)	(5.9)	(34.6)
Air Force	0.0	(10.3)	(10.1)	(8.8)	(7.0)	(36.2)
Defensewide	0.0	(4.8)	(4.6)	(4.1)	(4.4)	(18.0)
Total	0.0	(35.3)	(31.4)	(26.6)	(21.9)	(115.2)

As of 21-FEB-2014; reflects Discretionary Budget Authority

Appropriations Impact: Reinforcing Emphasis on Personnel and O&M over Procurement and RDT&E

\$B	PB15					
	FY2015	FY2016	FY2017	FY2018	FY2019	FYDP
MILITARY PERSONNEL	135.2	135.0	135.1	135.7	136.9	678.0
OPERATION AND MAINTENANCE	198.7	213.0	218.3	221.9	224.8	1,076.6
PROCUREMENT	90.4	108.1	112.7	117.8	120.9	549.9
RESEARCH, DEV, TEST & EVAL	63.5	69.4	68.6	67.4	67.9	336.9
MILITARY CONSTRUCTION	5.4	8.0	7.4	7.0	6.9	34.8
FAMILY HOUSING	1.2	1.4	1.4	1.4	1.4	6.8
REVOLVING AND MGMT FUNDS	1.2	0.2	0.2	0.1	0.1	1.8
Total	495.6	535.1	543.7	551.4	559.0	2,684.8

\$B	BBA/BCA					
	FY2015	FY2016	FY2017	FY2018	FY2019	FYDP
MILITARY PERSONNEL	135.2	134.5	134.4	135.0	136.1	675.3
OPERATION AND MAINTENANCE	198.7	200.9	207.0	212.5	217.4	1,036.5
PROCUREMENT	90.4	91.4	99.3	107.2	113.2	501.5
RESEARCH, DEV, TEST & EVAL	63.5	65.6	64.2	62.7	63.0	319.0
MILITARY CONSTRUCTION	5.4	6.0	5.8	5.9	6.0	29.1
FAMILY HOUSING	1.2	1.2	1.3	1.3	1.3	6.4
REVOLVING AND MGMT FUNDS	1.2	0.2	0.2	0.1	0.1	1.8
Total	495.6	499.8	512.3	524.7	537.1	2,569.6

\$B	BBA/BCA-PB15					
	FY2015	FY2016	FY2017	FY2018	FY2019	FYDP
MILITARY PERSONNEL	0.0	(0.5)	(0.7)	(0.8)	(0.8)	(2.7)
OPERATION AND MAINTENANCE	0.0	(12.1)	(11.3)	(9.4)	(7.4)	(40.1)
PROCUREMENT	0.0	(16.7)	(13.3)	(10.6)	(7.7)	(48.3)
RESEARCH, DEV, TEST & EVAL	0.0	(3.8)	(4.4)	(4.7)	(5.0)	(17.9)
MILITARY CONSTRUCTION	0.0	(2.0)	(1.6)	(1.1)	(0.9)	(5.7)
FAMILY HOUSING	0.0	(0.2)	(0.1)	(0.1)	(0.1)	(0.5)
REVOLVING AND MGMT FUNDS	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.0	(35.3)	(31.4)	(26.6)	(21.9)	(115.2)

Force Structure Impact: Army

Item	Position	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Active end strength (K)	PB15	490	470	*450	*430	*420
	BBA/BCA	490	470	450	430	420
Active BCTs	PB15	32	29	*28	*25	*24
	BBA/BCA	32	29	28	25	24
National Guard end strength (K)	PB15	350	336	*329	*322	*315
	BBA/BCA	350	336	329	322	315
National Guard BCTs	PB15	28	26	*25	*22	*22
	BBA/BCA	28	26	25	22	22
Reserve end strength (K)	PB15	202	195	*190	*186	*185
	BBA/BCA	202	195	190	186	185
Civilian Personnel (K)	PB15	258	249	244	238	238
	BBA/BCA	258	249	244	238	238

** PB15 Army end strength for FY 2017-2019 will be reviewed further in subsequent budget cycles. If Congress acts to support the outyear PB15 topline, the Department would maintain the Army at a force of 970-980K (440-450K Active, 335K National Guard and 195K Reserve).*

Force Structure Impact: Marine Corps

Item	Position	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Active end strength (K)	PB15	184	*179	*175	*175	*175
	BBA/BCA	184	179	175	175	175
Active infantry battalions	PB15	23	*21	*21	*21	*21
	BBA/BCA	23	21	21	21	21
Reserve end strength (K)	PB15	39	39	39	39	39
	BBA/BCA	39	39	39	39	39
Reserve infantry battalions	PB15	8	8	8	8	8
	BBA/BCA	8	8	8	8	8
Active TACAIR squadrons	PB15	18	*18	*18	*18	*18
	BBA/BCA	18	18	18	18	18
Reserve TACAIR squadrons	PB15	1	1	1	1	1
	BBA/BCA	1	1	1	1	1
Civilian Personnel (K)	PB15	21	21	20	20	20
	BBA/BCA	21	21	20	20	20

** PB15 Marine Corps end strength for FY 2016-2019 will be reviewed further in subsequent budget cycles. If Congress acts to support the outyear PB15 topline, the Department would maintain the Active Marine Corps at a force of 182K.*

Force Structure Impact: Navy

Item	Position	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Carriers	PB15	10	*10	*10	*10	*10
	BBA/BCA	10	10	10	10	10
Cruisers/destroyers	PB15	85	89	90	91	92
	BBA/BCA	85	89	90	91	92
Operational	PB15	74	78	79	80	82
	BBA/BCA	74	72	73	73	75
In lay-up	PB15	11	11	11	11	10
	BBA/BCA	11	17	17	18	17
Amphibious ships	PB15	30	31	32	33	33
	BBA/BCA	30	31	32	33	33
Operational	PB15	30	30	31	32	32
	BBA/BCA	30	30	31	32	32
In lay-up	PB15	-	1	1	1	1
	BBA/BCA	-	1	1	1	1
Attack submarines	PB15	54	52	49	51	51
	BBA/BCA	54	52	49	51	51
Active TACAIR squadrons	PB15	35	34	34	34	34
	BBA/BCA	35	34	34	34	34
Reserve TACAIR squadrons	PB15	1	1	1	1	1
	BBA/BCA	1	1	1	1	1
Civilian Personnel (K)	PB15	194	194	192	190	189
	BBA/BCA	194	194	192	190	189

** PB15 carrier inventory and associated air wings for FY 2016-2019 will be reviewed further in subsequent budget cycles. If Congress acts to support the outyear PB15 topline, the Department would maintain a force of 11 carriers.*

Force Structure Impact: Air Force

Item	Position	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Active TACAIR sqdns	PB15	27	26	26	26	27
	BBA/BCA	27	26	26	26	26
National Guard TACAIR squadrons	PB15	20	20	19	18	18
	BBA/BCA	20	20	19	18	18
Reserve TACAIR squadrons	PB15	3	3	3	3	4
	BBA/BCA	3	3	3	3	4
Tankers	PB15	455	466	478	480	485
	BBA/BCA	455	460	463	468	468
U2	PB15	32	32	-	-	-
	BBA/BCA	32	32	-	-	-
Global Hawk 30	PB15	18	18	21	21	21
	BBA/BCA	18	18	21	21	21
Global Hawk 40	PB15	11	11	11	11	11
	BBA/BCA	11	-	-	-	-
Predator/Reaper CAPs	PB15	50	50	50	52	55
	BBA/BCA	42	35	38	41	45
Civilian Personnel (K)	PB15	177	180	182	181	181
	BBA/BCA	177	180	182	181	181

Readiness Impacts - I

ARMY

▣ PB15 begins to restore Army core mission readiness for combat units and requisite enablers and to balance readiness with planned force structure.

▣ A return to the BCA funding levels would impede this recovery, require the Army to assume risk to unit readiness, and decrease its ability to achieve proficiency goals by FY19.

▣ As a further complication, low levels of Decisive Action training in recent years – due to reduced funding levels and training focused on contingency operations – have created a cohort of less trained soldiers and overall leadership development challenges.

Decreased readiness funds would exacerbate this condition.

▣ PB15 funds Army ground and aviation readiness at 87 percent of requirements over the FYDP. BCA levels for FY 2016-19 would decrease funding to 81 percent of the requirement.

▣ At the BCA levels in FY 2016-19, ground depot maintenance would be funded at 65 percent of the requirement versus 74 percent in PB15, thus increasing the backlog of ground vehicle and aviation maintenance.

NAVY

▣ Under both the PB15 and BCA funding limits, the Navy would balance readiness funding with force structure changes to deliver a ready fleet and meet presence requirements.

▣ Even so, a return to BCA funding levels in FY 2016-19 would limit the Navy's ability to reduce the backlog of surface ship maintenance and respond to unforeseen contingencies.

▣ Under BCA funding limits, the FY 2016-19 post-deployment phase of the Fleet Response Plan (FRP) would not be fully funded, limiting Navy capacity to meet contingency requirements.

▣ PB15 funds ship and aviation depot maintenance at 80 percent of requirements in FY 2016-19. A return to BCA levels would underfund ship and aviation depot maintenance to only ~70 percent of requirement and add to the backlog of maintenance projects.

▣ Navy and Marine Corps flying hours would decrease to T2.6/2.1 under BCA funding levels versus the PB15 funded level of T2.5/2.0, lowering Navy and Marine Corps pilot readiness levels.

Readiness Impacts - II

AIR FORCE

- ☐ **The Air Force would prioritize readiness, funding flying hours under the BCA to the maximum executable level for the BCA force structure. Additional flying hours in PB15 are associated with the restoration of KC-10 and F-35 force structure.**
- ☐ **Even so, the Air Force might not be able to fully execute the flying hours if other readiness levers (such as Weapons Systems Sustainment, Training Resources Availability) were underfunded.**
- ☐ **Under BCA funding limits, Weapons Systems Sustainment (WSS) would be significantly underfunded – roughly 67 percent of requirements funded from FY 2016-19. In contrast, the PB15 funds WSS at 78 percent on average.**
- ☐ **In addition to WSS shortfalls, BCA funding levels would leave critical readiness accounts underfunded, including exercises, simulators, training ranges, threat emitters, and Modeling and Simulation.**

MARINE CORPS

- ☐ **Marine Corps would protect unit readiness (Training and Ground Equipment Maintenance) at the expense of sustaining infrastructure and increasing modernization programs under PB15 and at BCA funding limits. However, under the BCA funding limits, Marine Corps would lose unit- and service-level support and decrease proficiency within units.**
- ☐ **The FY 2015 Budget funds depot maintenance to 80 percent of requirements through the FYDP. At BCA funding levels, Marine Corps depot maintenance requirements would be funded to an average of 57 percent in FY 2016-19, impairing the Marine Corps' ability to maintain ground equipment**

Efficiency vs. Cost Escalation:

**More than Equal to the
Impact of Sequestration**

Six Fiscal Years of Cuts & Good(?) Intentions

The FY 2015 budget continues the reform agenda advanced in the previous five budgets, but with greater emphasis on contracting and other efficiencies:

- **FY 2010 budget:** Focused on weapons programs, e.g., terminating F-22 fighter production and the VH-71 Presidential helicopter.
- **FY 2011 budget:** Again focused on weapons programs, e.g., ended C-17 production and stopped pursuit of a second engine for the Joint Strike Fighter.
- **FY 2012 budget:** Much more focus on DoD business operations, but plans included some changes in weapons programs. Also proposed military health care changes.
- **FY 2013 budget:** Continued focus on DoD business operations, overhead activities and support functions.
- **FY 2014 budget:** Continued focus on more effective use of resources, with greater emphasis on weapons programs and Military Construction.
- **FY 2015 plan:** More focus on contracting efficiencies, controlling health care costs and reducing management headquarters.

Many of these efficiencies have been reinvested into higher priority military programs. Others have been used to accommodate lower defense budgets.

DoD's ~~Dream~~ *Fantasy* of Major New Efficiency Savings = \$94B

\$94B during FY2015 to FY 2019

Cumulative total of \$339 Billion in Efficiency savings in FY2012 to FY2015 budget proposals

PB15 five-year efficiency savings total about \$94B

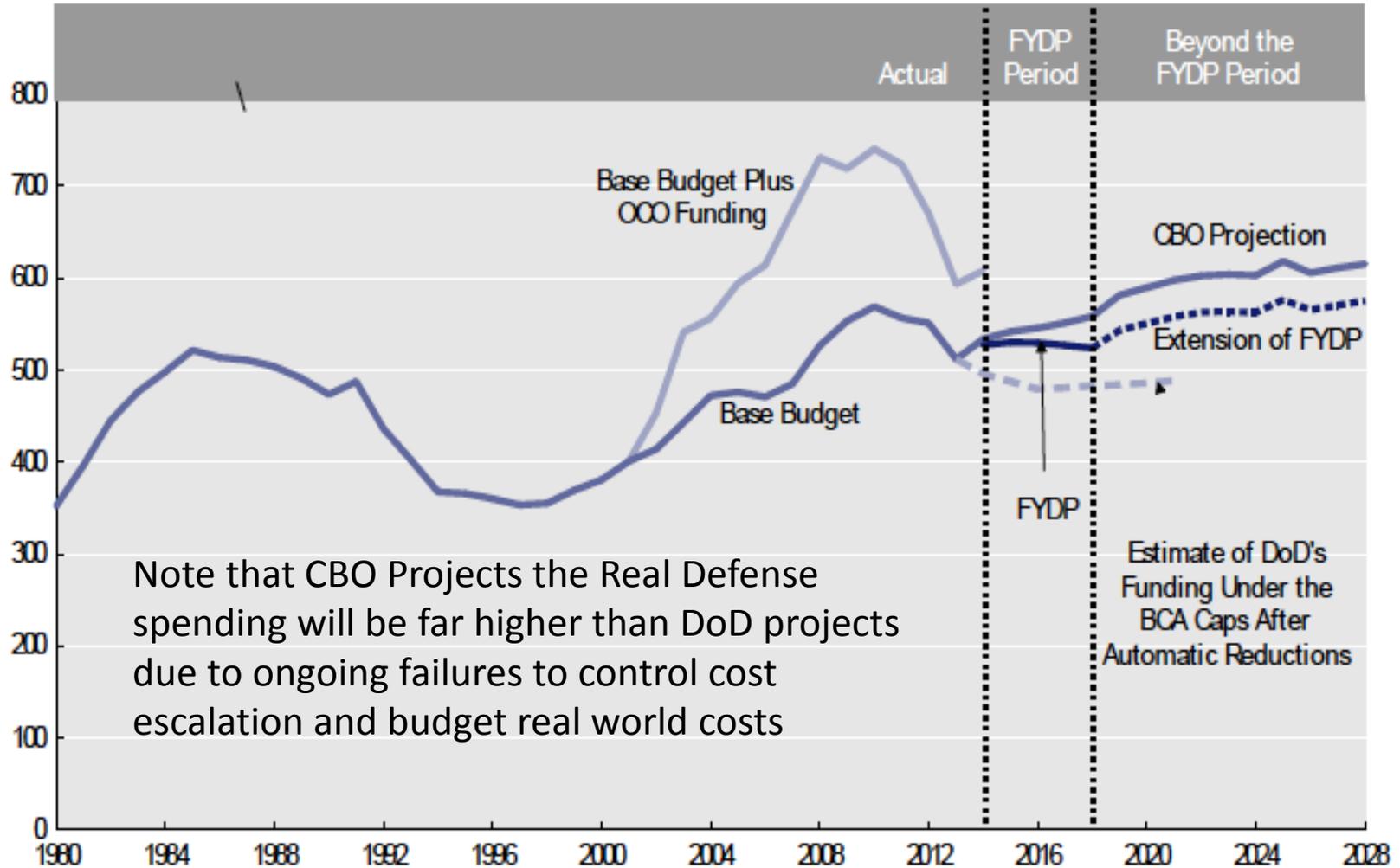
- **Key initiatives 20% cut in headquarters operating budgets**
 - **Reduction in contractor funding**
 - **Civilian manpower restructuring**
 - **Health care cost savings**
 - **Terminating/deferring weapons programs and military construction projects**
 - **BRAC round in 2017 (long-term savings)**
 - **Better Buying Power**
 - **Auditable financial statements**

These are in addition to past plans that are being implemented

- **FY 2012: \$150B in FY12 – FY16**
- **FY 2013: \$ 60B in FY13 – FY17**
- **FY 2014: \$ 35B in FY14 – FY18**

CBO Projection of Real Defense Spending Based on FY2014 Budget

(Billions of 2014 dollars)



FYDP = Future Years Defense Program OCO = Overseas Contingency Operations BCA = Budget Control Act

Impact of DoD Cost Escalation and Gap Between DoD Underestimates and Historical Reality

	Real Growth for 2013–2021 (Percent)		Increase in Costs Between 2013 and 2021 (Billions of 2013 dollars)	
	Under CBO's Cost Projection ^a	Under FYDP-Based Cost Projection ^b	Under CBO's Cost Projection ^a	Under FYDP-Based Cost Projection ^b
Military Compensation				
Cash compensation	12	5	11.9	5.4
Housing and other	8	1	2.2	0.3
Health care	68	26	26.4	10.0
Total	24	9	40.5	15.7
Acquisition				
Science and technology	24	23	2.8	2.7
Major weapon systems	34	16	36.0	17.5
Other acquisition	-5	-5	-2.8	-3.1
Total	20	10	36.0	17.1
Operations				
General operations	3	2	3.9	2.9
Civilian compensation	13	6	7.9	3.3
Total	7	4	11.8	6.2

Source: Congressional Budget Office.

Notes: Shaded subcategories together account for 90 percent of cost growth from 2013 through 2021.

DoD = Department of Defense; FYDP = Future Years Defense Program.

a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.

b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.

...more than 90 percent of the estimated growth in costs arises in four particular areas: military cash compensation, military health care benefits, the acquisition of major weapon systems, and civilian compensation (see Table 2-2). Efforts to limit cost growth could have the most impact in those areas.

Cost Escalation Could Double the Impact of Sequestration - II

(Billions of dollars)

	DoD's Estimated Funding Under the BCA After Automatic Reductions ^a Annual Average	Costs Under CBO's Cost Projection ^b		Costs Under the FYDP-Based Cost Projection ^c	
		Annual Average	Reduction to Satisfy the BCA (Percent)	Annual Average	Reduction to Satisfy the BCA (Percent)
Nominal Dollars					
2013 to 2017	491	567	13	545	10
2018 to 2021	544	669	19	617	12
2013 to 2021	514	612	16	577	11
2013 Dollars^d					
2013 to 2017	476	550	13	529	10
2018 to 2021	487	598	19	552	12
2013 to 2021	481	572	16	539	11

Note: DoD = Department of Defense; BCA = Budget Control Act of 2011 as amended by the American Taxpayer Relief Act of 2012; FYDP = Future Years Defense Program.

a. This estimate is based on the assumption that DoD would receive 95.5 percent of funding made available for national defense. (That figure is based on DoD's average share of that funding from 2002 to 2011.)

b. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.

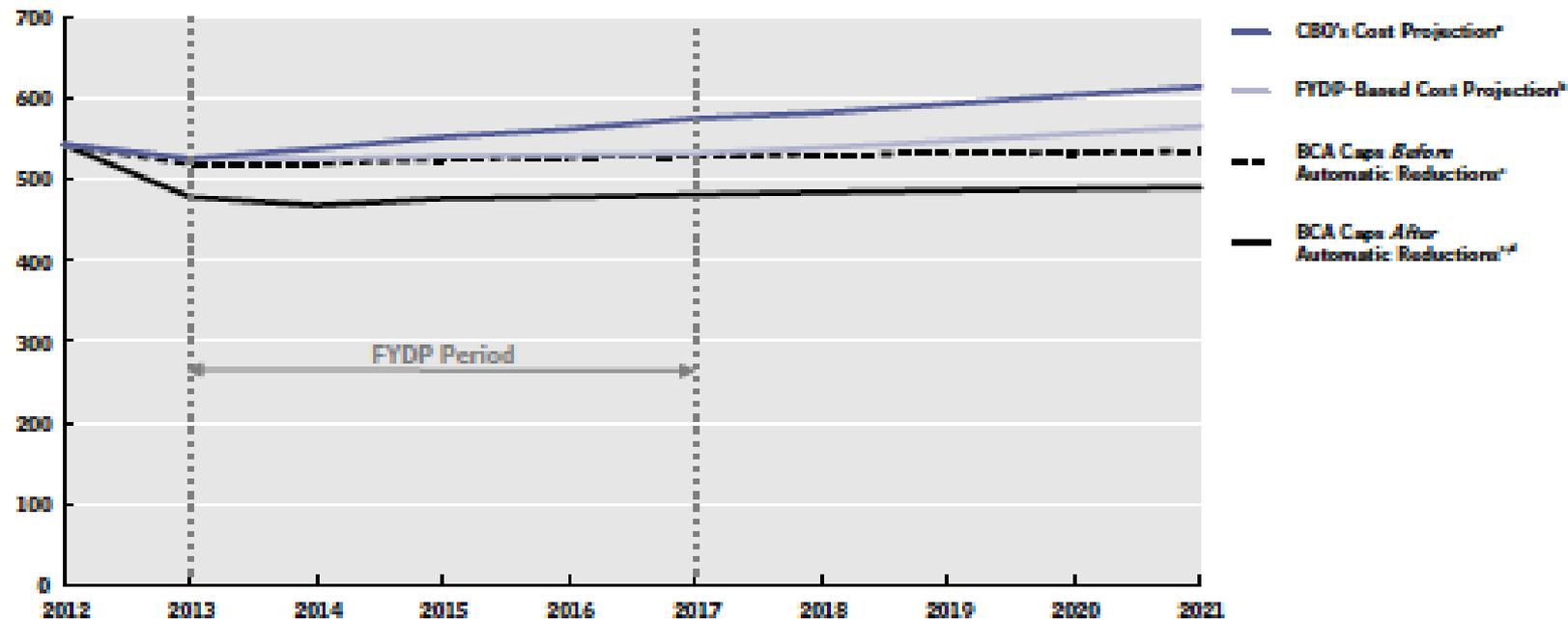
c. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP (issued in March 2012) and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.

d. Nominal dollars were converted to 2013 dollars using CBO's projection of the gross domestic product price index.

Cost Escalation Could Double the Impact of Sequestration - I

Projected Costs of DoD's Plans Compared with the BCA Caps

(Billions of 2013 dollars)



Note: DoD = Department of Defense; BCA = Budget Control Act of 2011 as amended by the American Taxpayer Relief Act of 2012; FYDP = Future Years Defense Program.

a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.

b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP (issued in March 2012) and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.

c. This estimate is based on the assumption that DoD would receive 95.5 percent of funding made available for national defense. (That figure is based on DoD's average share of that funding from 2002 to 2011.)

d. The automatic enforcement provisions do not establish a lower cap in 2013; instead, spending is reduced by sequestering (canceling) funding that has already been appropriated for that fiscal year. The amount shown for 2013 is CBO's estimate of the funding available in DoD's base budget after sequestration.

Impact of DoD Cost Escalation and Gap Between DoD Underestimates and Historical Reality

	Real Growth for 2013–2021 (Percent)		Increase in Costs Between 2013 and 2021 (Billions of 2013 dollars)	
	Under CBO's Cost Projection ^a	Under FYDP-Based Cost Projection ^b	Under CBO's Cost Projection ^a	Under FYDP-Based Cost Projection ^b
Military Compensation				
Cash compensation	12	5	11.9	5.4
Housing and other	8	1	2.2	0.3
Health care	68	26	26.4	10.0
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Other acquisition	-5	-5	-2.8	-3.1
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Operations				
General operations	3	2	3.9	2.9
Civilian compensation	13	6	7.9	3.3
Total	7	4	11.8	6.2

Source: Congressional Budget Office.

Notes: Shaded subcategories together account for 90 percent of cost growth from 2013 through 2021.

DoD = Department of Defense; FYDP = Future Years Defense Program.

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...more than 90 percent of the estimated growth in costs arises in four particular areas: military cash compensation, military health care benefits, the acquisition of major weapon systems, and civilian compensation (see Table 2-2). Efforts to limit cost growth could have the most impact in those areas.

Soldier Benefits vs. Enough Soldiers

Trying to Bring Military Compensation Under Control

Principles followed:

- **No one's pay and allowances are cut**
- **Fully support All-Volunteer Force • Compensation sufficient to recruit and retain needed personnel**
- **Use savings to pay for training and maintenance**
 - **Major initiatives –Basic pay raise limited to 1% in FY 2015, also limits beyond**
 - **Exception: General Officer/Flag Officer pay frozen in FY 2015**
- **Slow growth in Basic Allowance for Housing until out of pocket averages 5%**
 - **Eliminate renters insurance from Basic Allowance for Housing rates**
- **Reduce commissary subsidy by \$1 billion over three years •No direction to close commissaries**
- **Consolidate TRICARE healthcare plans with altered deductible/co-pays**
- **Resubmit previous TRICARE-For-Life and pharmacy proposals •But not previous TRICARE Prime fee increases**

FY2015 PB Military Compensation Proposals

(Dollars in billions)

Proposal	FY 2015 Savings	FY15 – FY19 Savings
Modest Military Pay Raises through FY 2019	0.0	3.8
FY 2015 General Officer/Flag Officer Pay Freeze	<0.01	<0.01
Slow BAH Growth	0.4	5.0
Reduce Commissary Subsidy	0.2	3.9
Consolidated TRICARE Health Plan ¹²	0.8	9.3
Total Compensation Proposal Savings	1.5	22.1
Travel Efficiencies	0.1	0.7
Total Reform Savings	1.6	22.8
Less PB14 TRICARE Proposal Savings	-1.7	-10.9
Net Savings¹¹	-0.1	11.9

Numbers may not add due to rounding

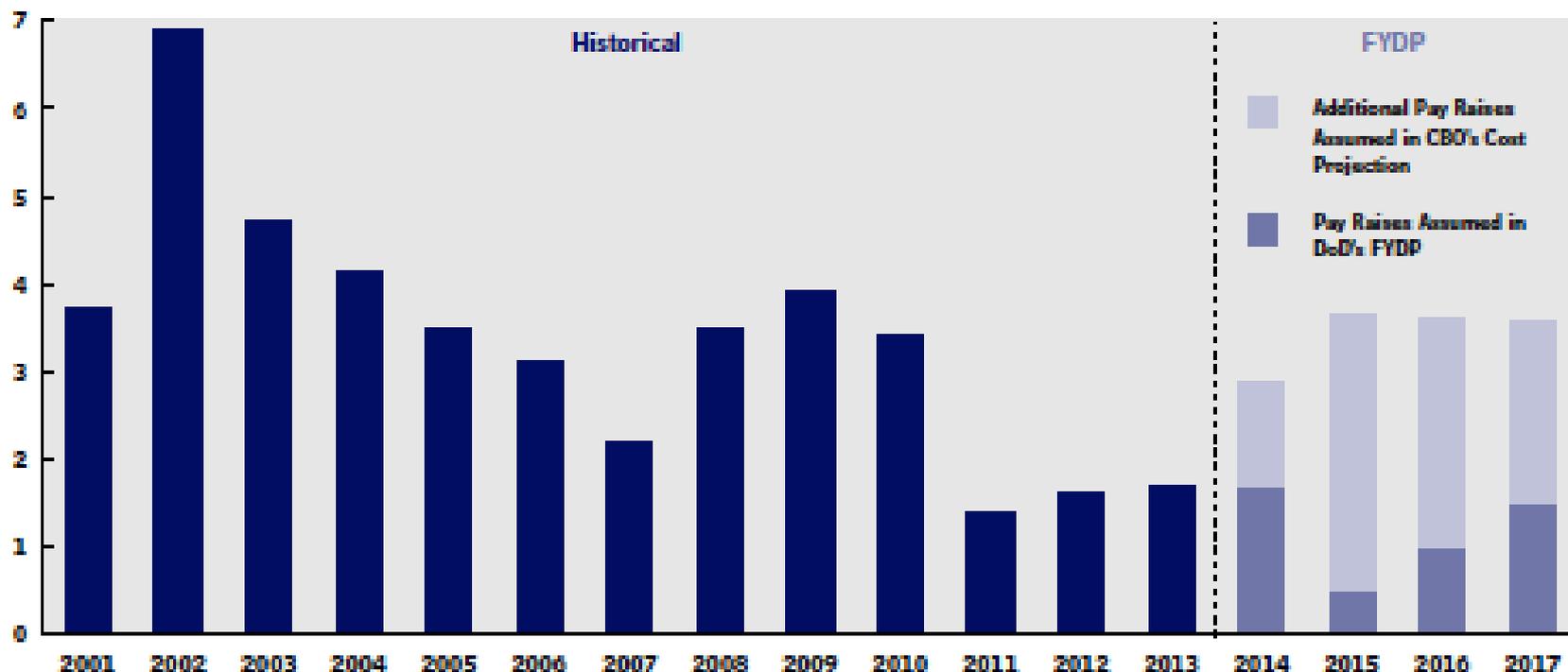
¹¹ *Savings compared to PB14 program estimates*

¹² *Includes previously submitted pharmacy co-pay and TRICARE-for-Life (TFL) enrollment fee proposals. Savings compared to current plan costs.*

CBO Projection of Annual Increases in Military Basic Pay: 2001-2017

Annual Percentage Increases in Military Basic Pay

(Percent)

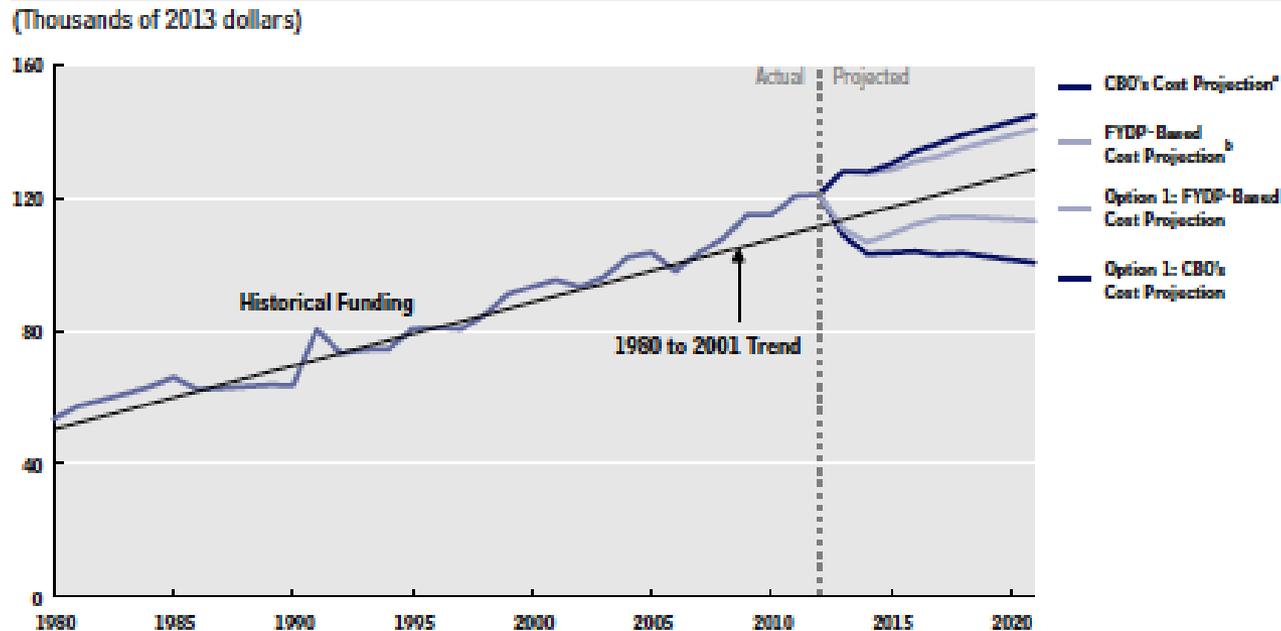


Source: Department of Defense.

Notes: Basic pay is the main (and typically the largest) component of military pay. All service members receive basic pay, the amount of which depends on the member's pay grade—based on military rank—and on the number of years that he or she has served.

DoD = Department of Defense; FYDP = Future Years Defense Program.

CBO Projection of Real Rise in Operations Costs per Active Duty Service Member in Base Budget: 1980-2022



Source: Congressional Budget Office.

Note: DoD = Department of Defense; FYDP = Future Years Defense Program; n.a. = not applicable (because the option does not affect that category).

a. CBO's cost projection of DoD's base budget is based on cost factors and growth rates that reflect the department's actual experience and Congressional action in recent years.

b. The FYDP-based cost projection is based on cost assumptions underlying DoD's 2013 FYDP and on CBO's extrapolation of those figures from 2018 through 2021. From 2013 to 2017, the projection equals the FYDP totals.

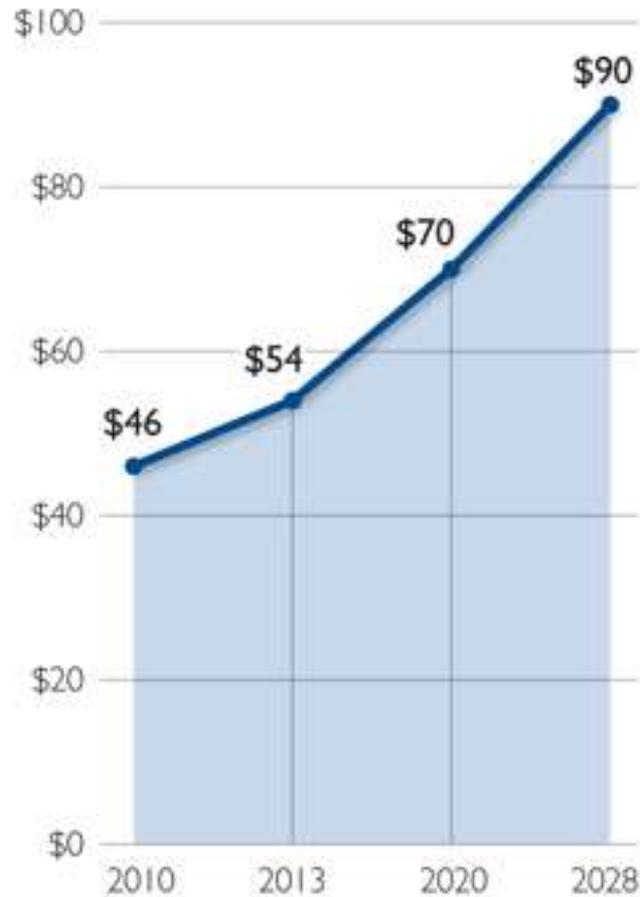
From 1980 to 2001, the last year before the beginning of the conflicts in Afghanistan and Iraq, funding in the operations category of DoD's base budget increased at a roughly constant rate of about \$2,000 per active-duty service member per year (after adjusting for inflation). Since 2001, however, operations costs per capita in the base budget have increased by an average of about \$2,300 per year. (The large operations costs associated with the wars should be reflected in OCO budgets, not in the base budget.)

Singling Out the Cost of Military Health Care

Projected Military Medical Costs

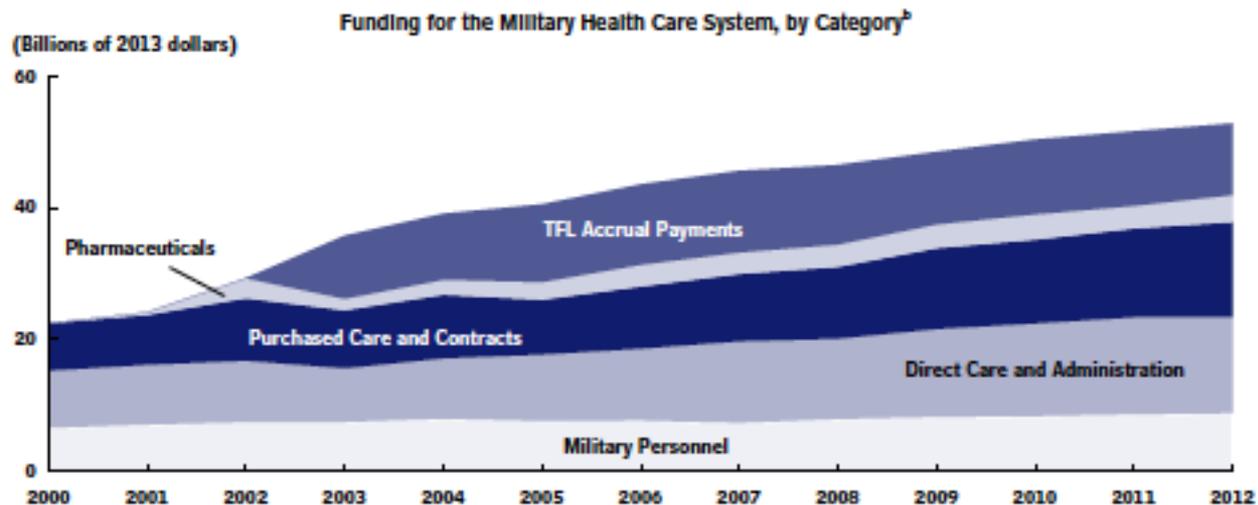
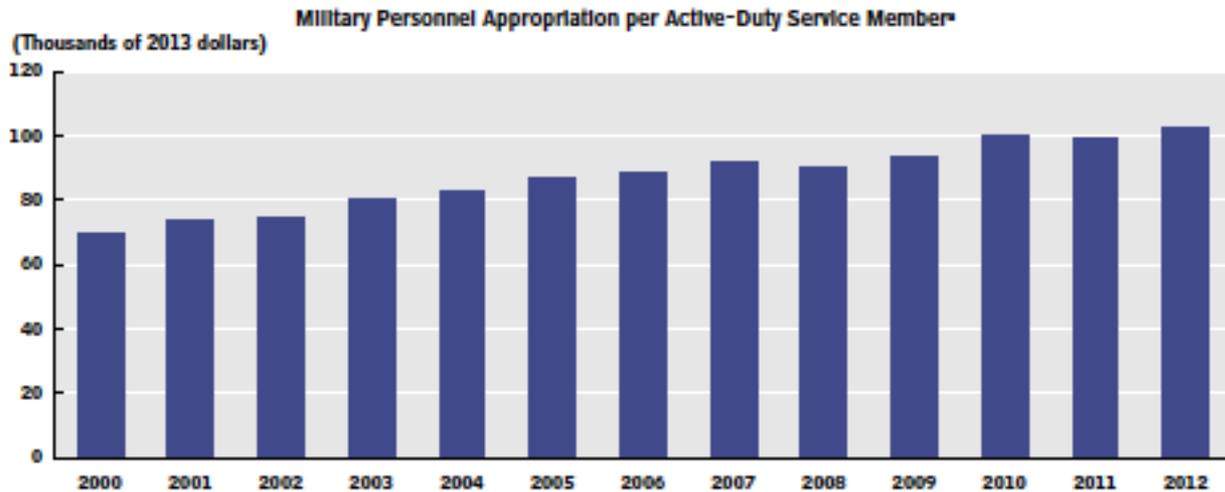
In Billions of 2010 Dollars, Adjusted for Inflation

Source: Congressional Budget Office, "Long-Term Implications of the Fiscal Year 2010 Defense Budget," January 2010, at <http://www.cbo.gov/ftpdocs/108xx/doc10852/01-25-FYDP.pdf> (March 17, 2010).



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CBO Estimate of rising cost of Military Health Compensation: 2000-2012

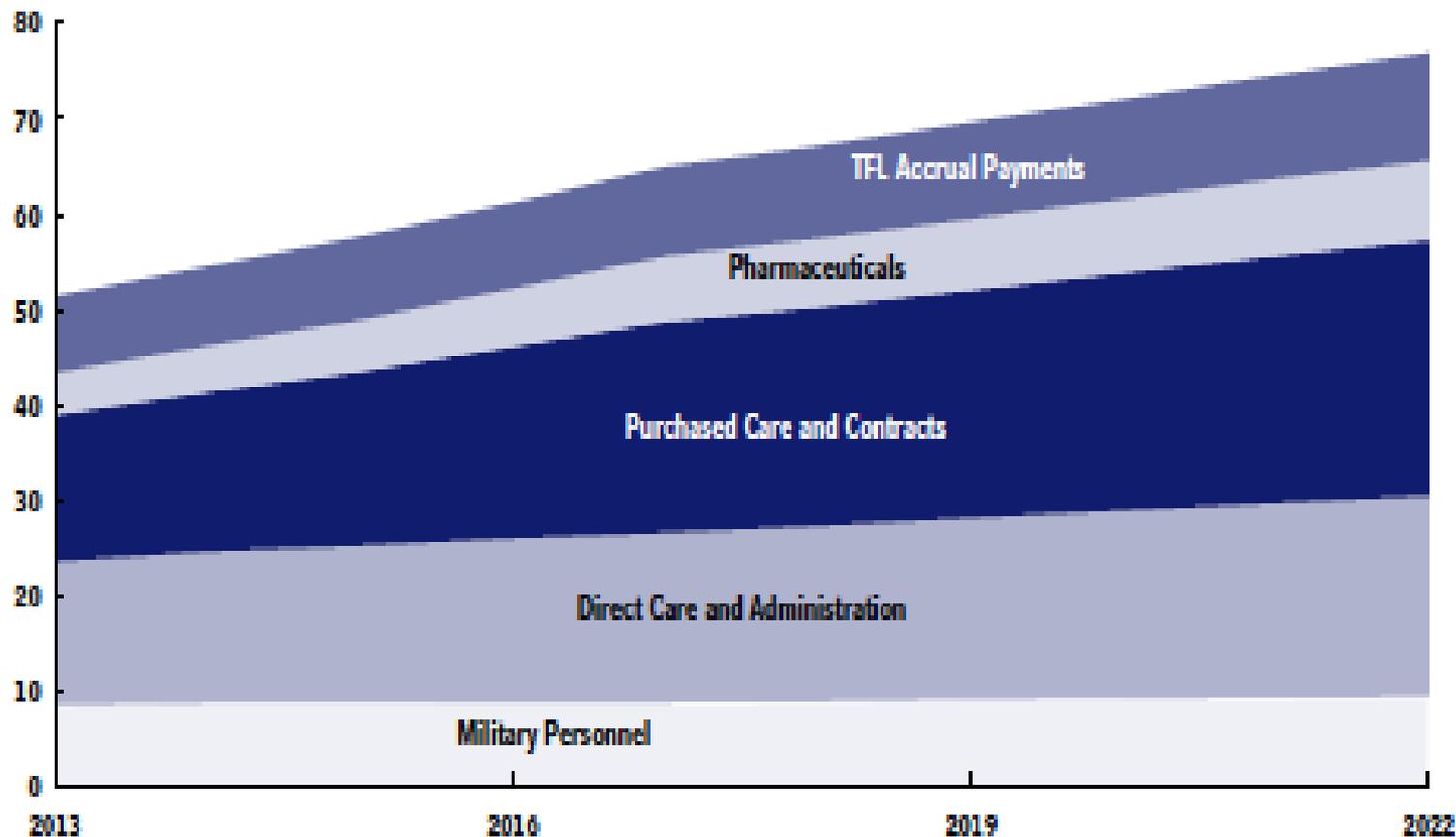


Source: "Coasts of Military Pay and Benefits in the Defense Budget," November 2012, "p. 2

CBO Projection of of Long-Term Cost of Military Health Spending Without Reform & Cost Controls: 2013-2022

Projected Costs of the Military Health System

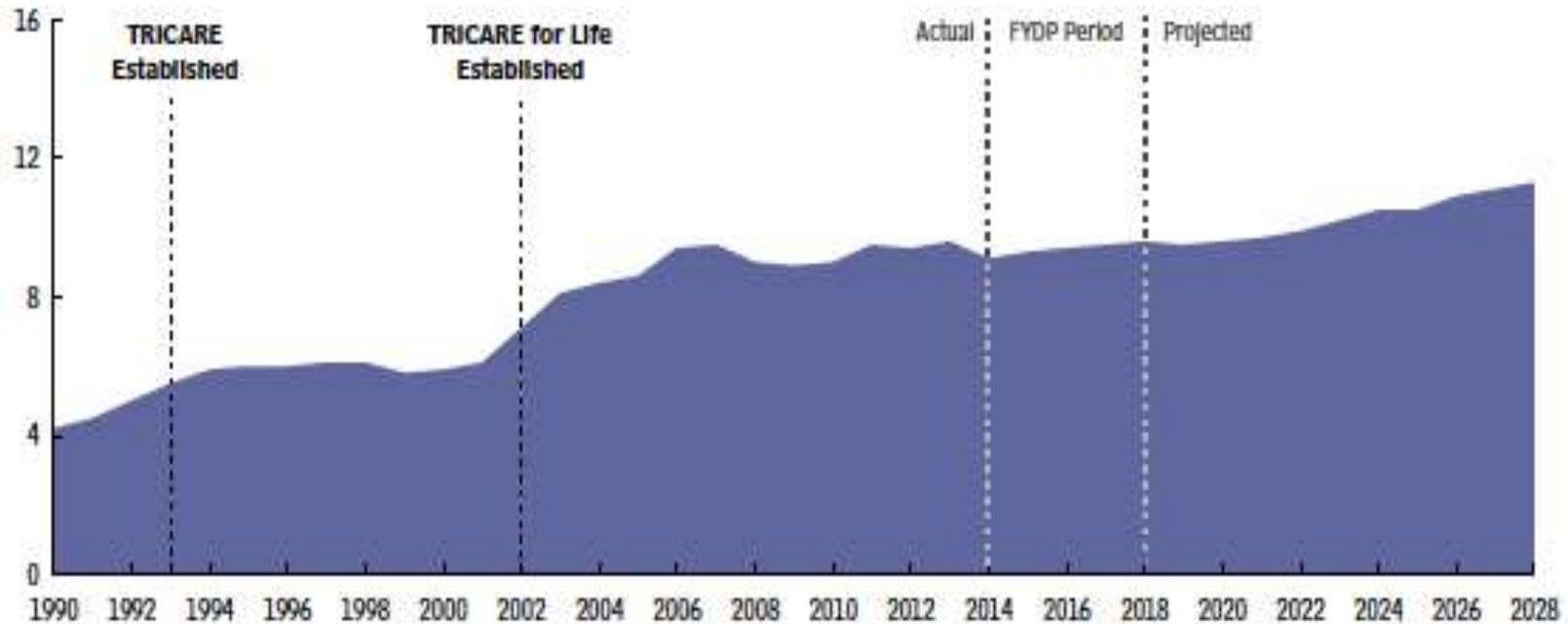
(Billions of 2013 dollars)



Source: "Costs of Military Pay and Benefits in the Defense Budget," November 2012, p. 34

Actual and Projected Costs for Military Health Care as a Share of DoD's Base Budget, 1990 to 2028

(Percent)

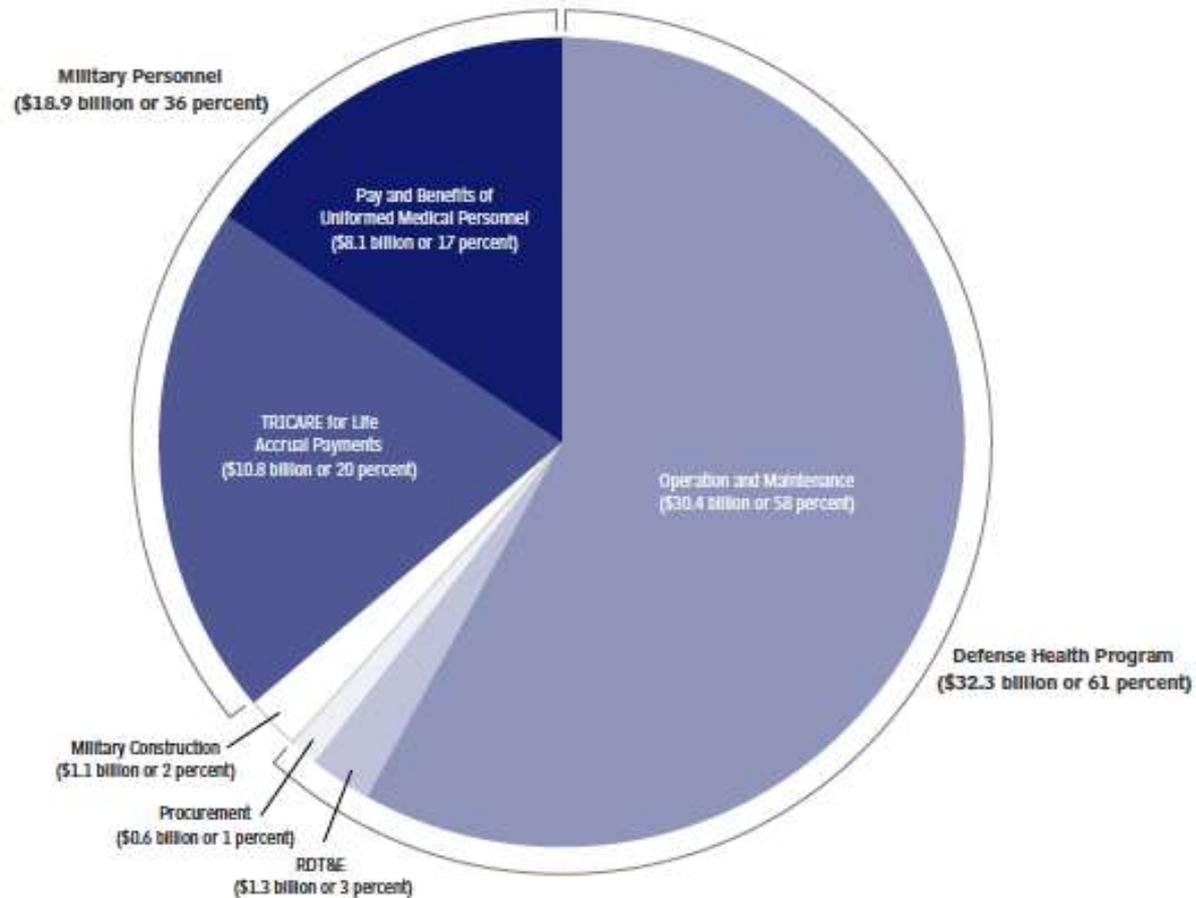


Source: Congressional Budget Office, *Long-Term Implications of the Fiscal Year 2014 Future Years Defense Program* (November 2013), www.cbo.gov/publication/44683.

Notes: In this figure, the FYDP projection spans the five-year period from 2014 through 2018. CBO's projection spans the years 2019 through 2028.

The historical data for military health care include supplemental and emergency funding for overseas contingency operations through 2013, but those funds are not included in CBO's projections.

DoD = Department of Defense; FYDP = Future Years Defense Program.



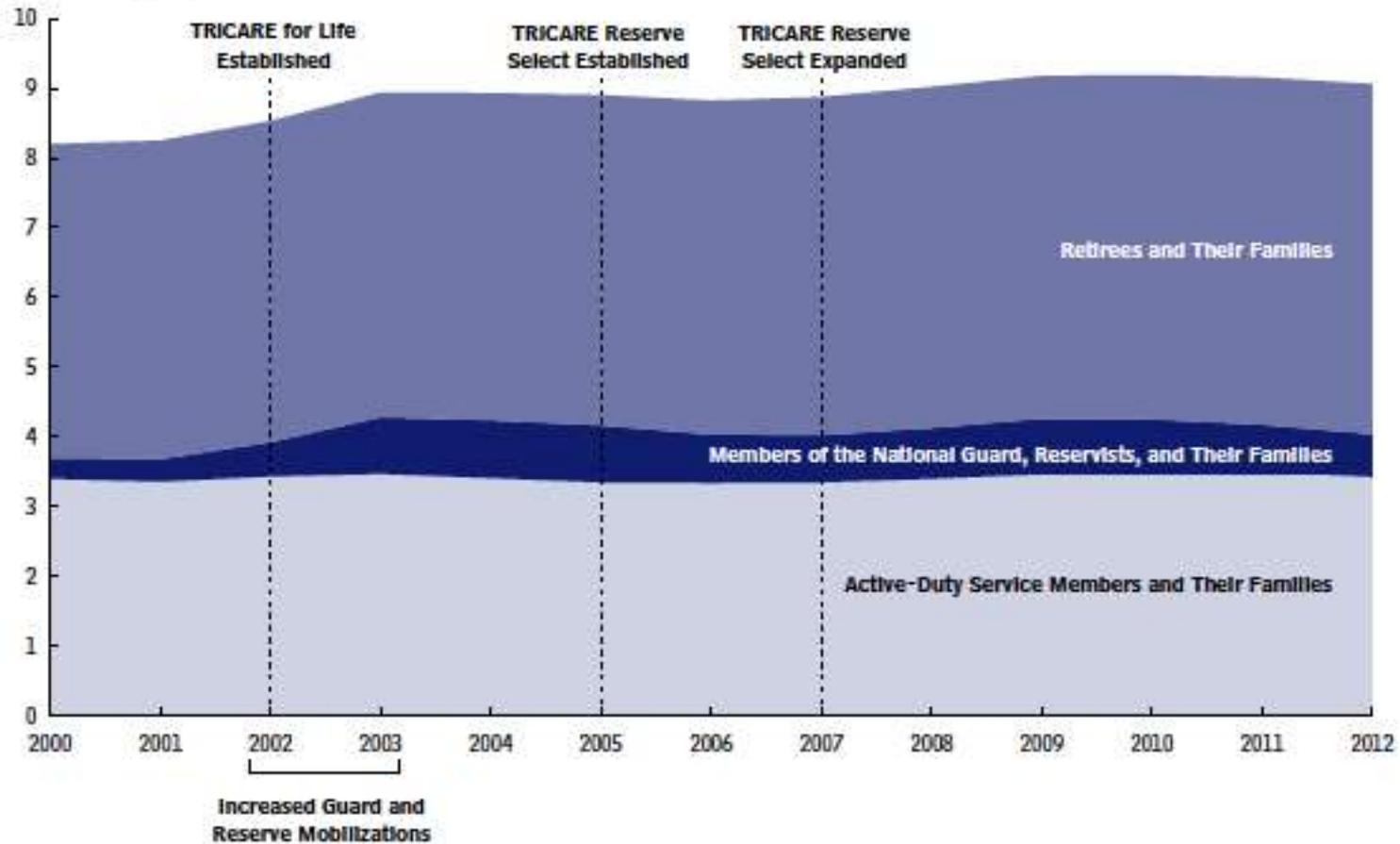
Source: Congressional Budget Office.

Notes: Annual funding for military health care can be divided into two major components. The first, called the Defense Health Program, includes funding for health-related operation and maintenance; procurement; and RDT&E. The second component, Military Personnel, includes funding for the pay and benefits of uniformed personnel who work in the health care system and for accrual payments made on behalf of all military personnel to the Medicare-Eligible Retiree Health Care Fund (which finances the TRICARE for Life benefit for those qualified personnel who retire and become eligible for Medicare). In addition to those two major categories, funding for the construction or replacement of military hospitals, clinics, or other facilities is provided under the "Department of Defense" section of the annual appropriation act for military construction and veterans affairs and related agencies.

RDT&E = research, development, test, and evaluation.

Number of DoD Beneficiaries Eligible for TRICARE, 2000 to 2012

(Millions of people)



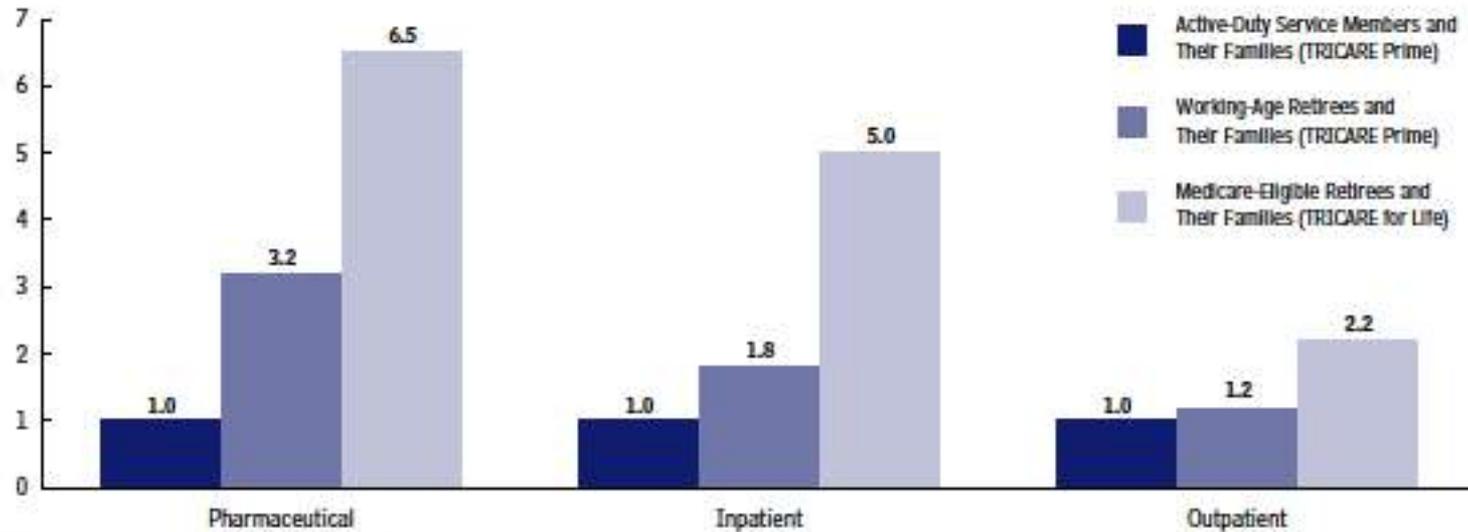
Source: Congressional Budget Office.

Notes: Excludes eligible members of the Coast Guard and the commissioned corps of the Public Health Service and of the National Oceanic and Atmospheric Administration (and their families).

DoD = Department of Defense.

Per Capita Use of TRICARE by Retirees and Their Families Relative to Use by Active-Duty Service Members and Their Families, 2010

(Index)



Source: Congressional Budget Office.

Notes: Use of pharmaceutical, inpatient, and outpatient services by active-duty service members and their families has been normalized to 1 to serve as a benchmark against which to compare use by working-age and Medicare-eligible retirees and their families.

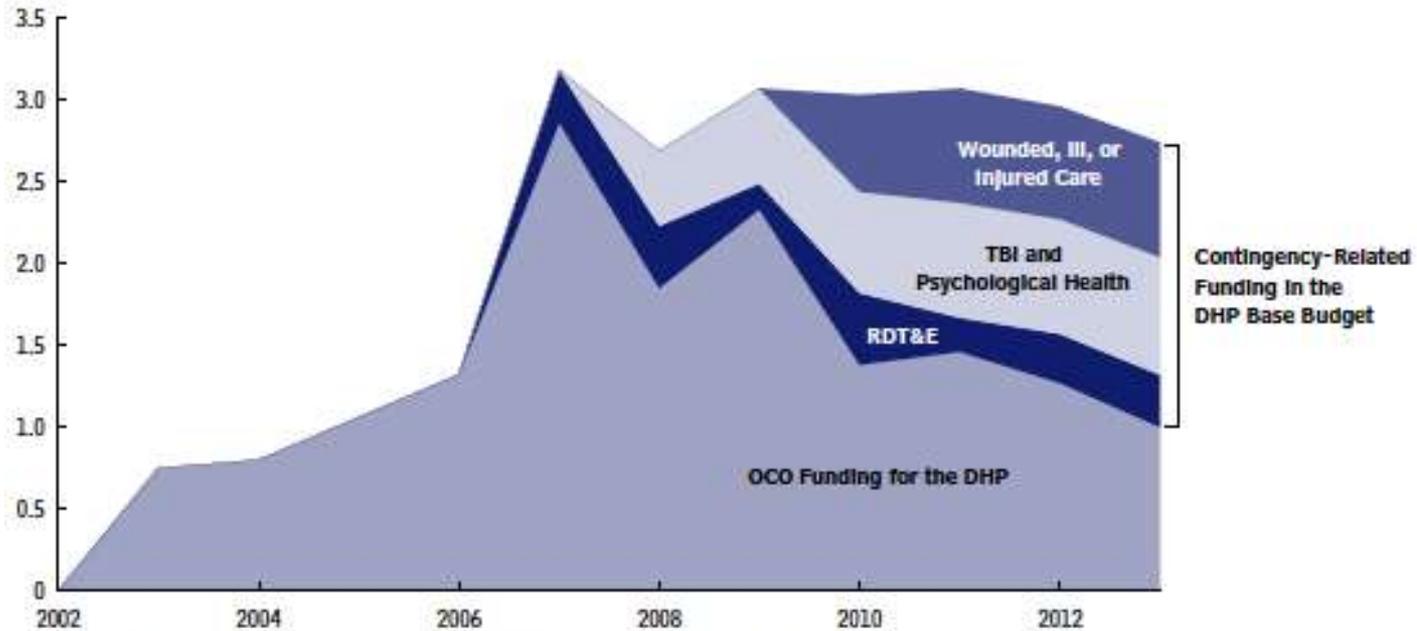
Pharmaceutical use is measured as the number of 30-day equivalent prescriptions per member per year.

Inpatient utilization (that is, treatment requiring admittance to a hospital or other acute care facility) is measured as the relative weighted products (RWPs) per 1,000 people. An RWP ranks the resources used to provide acute care on a common scale by weighting the average cost per inpatient stay by the complexity of the patient's condition. RWPs more accurately reflect differences across beneficiary groups than discharges per capita because they adjust for the intensity of care required.

Outpatient usage (that is, visits for treatments or procedures not requiring hospitalization) is measured by relative value units (RVUs) per person per year. RVUs rank the resources used to provide a service on a common scale. An outpatient visit for primary care has an average RVU value of about 1.5.

Contingency-Related Funding for the Defense Health Program

(Billions of 2014 dollars)



Source: Congressional Budget Office based on data from the Department of Defense.

Notes: The base budget for the DHP includes funding for DoD's routine health-related activities, excluding funding for operations in Iraq and Afghanistan. The DHP has received additional appropriations to support health care costs associated with overseas contingency operations, including operations in Iraq and Afghanistan.

Care for the wounded, ill, or injured was included in OCO funding from 2007 to 2009 and identified separately in regular budget requests beginning in 2010.

Funding for the treatment of traumatic brain injuries and psychological health reported by DoD in 2008 also includes funding for those programs in 2006 and 2007.

These data do not include the costs of care provided in combat areas by the military departments directly because those costs are not part of the DHP.

Data for 2013 are preliminary.

TBI = traumatic brain injury; DHP = Defense Health Program; RDT&E = research, development, test, and evaluation; OCO = overseas contingency operations; DoD = Department of Defense.

Average Annual Costs of Family Coverage Incurred by Military Retirees and Their Civilian Counterparts With Employment-Based Insurance, 2012

(Dollars)

Plan	Premium or Enrollment Fee	Deductibles and Copayments	Total Annual Costs per Family
TRICARE Prime	520	445	965
Civilian HMO	5,080	1,000	6,080
TRICARE as a percentage of civilian plan			16
TRICARE Standard or Extra	0	1,035	1,035
Civilian PPO	4,270	1,295	5,565
TRICARE as a percentage of civilian plan			19

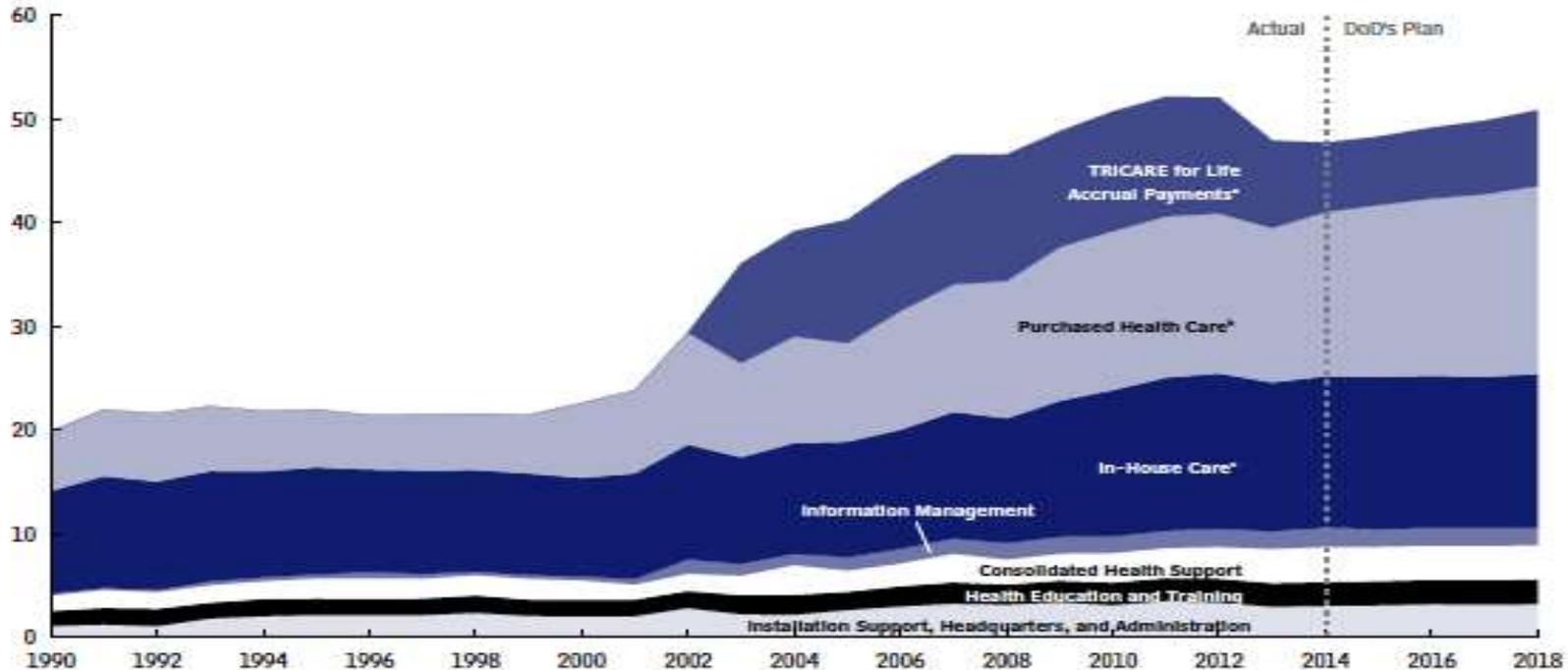
Source: Department of Defense, *Evaluation of the TRICARE Program—Access, Cost, and Quality: Fiscal Year 2013 Report to Congress* (February 2013), pp. 83 and 85.

Notes: The Department of Defense adjusted the civilian data to match the age-and-sex distribution and the average family size of the TRICARE population.

HMO = health maintenance organization; PPO = preferred provider organization.

Funding for Defense Health Care From DoD's O&M and Military Personnel Appropriations, by Function, 1990 to 2018

(Billions of 2014 dollars)



Source: Congressional Budget Office.

Notes: The projection period reflects DoD's plans for the five-year period from 2014 through 2018, as outlined in the 2014 FYDP. Data for 2013 are preliminary.

Supplemental and emergency funding for overseas contingency operations is included for 2013 and preceding years but not for later years. That funding averaged about \$1 billion per year from 2002 through 2006 and less than \$3 billion per year from 2007 through 2013.

DoD = Department of Defense; O&M = operation and maintenance; FYDP = Future Years Defense Program.

- a. TRICARE for Life accrual payments are made on behalf of all military personnel, not just those who are medical personnel.
- b. Contracted health care provided by the private sector.
- c. Direct health care provided at military facilities.

Cumulative Budgetary Effects of Policy Options That Would Raise Military Retirees' Cost Sharing, 2015 to 2023

(Billions of dollars)

	Change in the Federal Budget			Change in DoD's Budget Authority
	Discretionary Outlays	Mandatory Outlays	Revenues	
Option 1: Increase Medical Cost Sharing for Military Retirees Who Are Not Yet Eligible for Medicare	-19.7	-0.3	-1.6	-24.1
Option 2: Make Military Retirees Ineligible for TRICARE Prime; Allow Continued Use of Standard and Extra With an Annual Fee	-71.0	0.5	-10.5	-89.6
Option 3: Introduce Minimum Out-of-Pocket Requirements for TRICARE for Life	0	-30.7	0	-18.4

Source: Congressional Budget Office.

Notes: The potential spending reductions from these policy options may not be additive; implementing one option could affect the spending in another. These estimates reflect the assumption that each change would go into effect at the beginning of fiscal year 2015.

Budget authority is authority provided by law to enter into obligations that will result in outlays of federal funds. Outlays are payments made to liquidate obligations.

Negative numbers represent reductions in outlays or budget authority or a loss of revenues.

DoD = Department of Defense.

Enrollment in TRICARE Prime by Type of Beneficiary, 2003 and 2012

	Total Number of People Eligible to Enroll in TRICARE Prime (Millions)	Number of Eligible Beneficiaries Enrolled in TRICARE Prime (Millions)	Percentage of Eligible Beneficiaries Enrolled in TRICARE Prime
2003			
Active-Duty Service Members	1.8	1.8	100
Families of Active-Duty Service Members	2.4	1.9	79
Working-Age Retirees and Their Families	3.1	1.2	39
Total	7.3	4.9	67
2012			
Active-Duty Service Members	1.7	1.7	100
Families of Active-Duty Service Members	2.4	2.0	83
Working-Age Retirees and Their Families	3.5	1.6	46
Total	7.6	5.3	70

Source: Department of Defense, *Evaluation of the TRICARE Program—Access, Cost, and Quality: Fiscal Year 2013 Report to Congress* (February 2013), p. 16, and *Evaluation of the TRICARE Program, Fiscal Year 2005 Report to Congress* (March 2005), p. 20.

Notes: Data for people who are not eligible to enroll in TRICARE Prime—particularly members of the National Guard, reservists, and Medicare-eligible beneficiaries, and their respective families—are not included in this table.

Data reflect the average number of people in each year to account for beneficiaries who were eligible or enrolled for only a part of a year.

**Hoping for \$26 Billion More
in FY2015?**

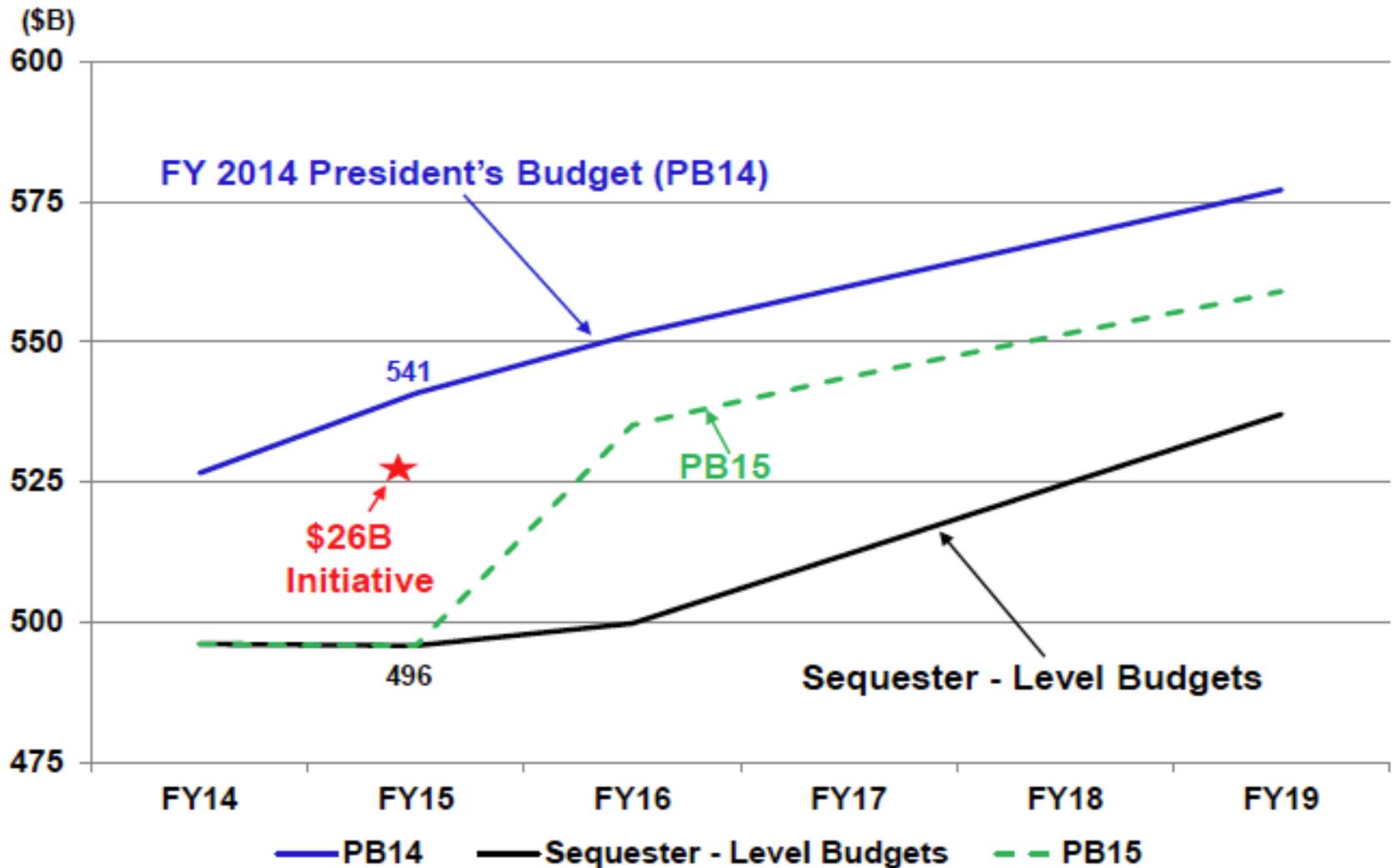
\$26 Billion Bet on the FY 2015 Opportunity, Growth, and Security Initiative

Total \$26 billion for DoD

- **Readiness enhancements Training adds in Army**
 - **Spares and logistics in Navy**
 - **Unit training in USMC**
 - **Training in Air Force**
- **Investment increases Army Helicopters (56)**
 - **Navy P-8 (8), E-2D Aircraft (1)**
 - **USMC Light Armored Vehicle**
 - **Air Force F-35 (2), C-130J (10), MQ-9 Aircraft (12)**
 - **Science and Technology (\$335M)**
- **Installation support increases All Services increase base sustainment**

All Services add MilCon funding

Potential Impact of Opportunity, Growth, and Security Initiative on PB15 DoD Base-Budget Topline



OGS Goals for FY2015 - I

For FY 2015, the President's Budget includes a separate, fully paid-for Opportunity, Growth, and Security (OGS) Initiative. The OGS Initiative, which is split evenly between defense and non-defense funding, shows how additional discretionary investments in 2015 can spur economic progress, promote opportunity, and strengthen national security. For the Department of Defense, the OGS Initiative proposes additional funding of \$26.4 billion in FY 2015.

Sequestration degraded readiness throughout the Joint Force by requiring sharp cuts to training, maintenance, and support. More than a decade of war contributed to readiness problems. Although the base budget provides the resources needed to gradually restore readiness and balance, it does not provide funds to accelerate readiness improvements in FY 2015.

Making Faster Progress toward Restoring Readiness

The OGS Initiative provides the resources needed in FY 2015 to make faster progress by supporting increased activity at depot maintenance facilities around the country; greater training support; and increases in funding for fuel, spare parts, and transportation costs. Some specific examples include increased readiness and training range support for the Air Force; increased training and base support for the Army; increased aviation depot maintenance funding for the Navy; and increased training and Intelligence, Surveillance, and Reconnaissance operations for U.S. Special Operations Command.

Accelerating Modernization of Key Weapons Systems:

...The OGS Initiative would allow DoD to accelerate the schedules for developing and buying new or upgraded systems in order to ensure that the United States maintains technological superiority over any potential adversaries. For example, the OGS Initiative provides enhanced resources for procurement of manned and unmanned aircraft, helicopters, ground vehicles, and communication systems.

OGS Goals for FY2015 - II

Some specific examples include the procurement of eight P-8, one E-2D, and three C-40 aircraft for the Navy; procurement of two H-1, one KC-130, and one C-12 aircraft for the Marine Corps; two F-35 aircraft, 10 C-130s, and 12 MQ-9 Reapers for the Air Force; and modernization of the Army's helicopter and the Air Force's C-130 programs.

Improving DoD Facilities Around the Country

Sequestration required significant cuts to funding for DoD facilities, forcing the Department to defer some sustainment, restoration, and modernization (SRM) costs as well as some military construction projects. The base budget provides the funds necessary to keep DoD bases, housing, and other facilities safe, secure, and operational in the near term but not enough to keep up with long-term deterioration. The OGS Initiative adds additional resources for SRM and construction at DoD installations across the country that will generate jobs and avoid some larger than necessary future costs to replace buildings, roads, runways, and other facilities

OGS Goals for FY2015 - III

- **Army**

- Increase OPTEMPO, training, and Training Support System operations and services (\$1.8 billion)
- Increase base support and facility sustainment (\$1.6 billion)
- Procure 26 AH-64 Apache helicopters (\$0.6 billion)
- Procure 28 UH-60 Blackhawk helicopters (\$0.5 billion)
- Increase depot maintenance capabilities (\$0.4 billion)
- Procure 2 CH-47 Chinook helicopters (\$0.1 billion)

- **Navy**

- Increase demolition and facility sustainment, recapitalization and modernization (\$2.3 billion)
- Procure 8 P-8A Poseidon aircraft (\$1.1 billion)
- Increase Military Construction (\$1.2 billion)
- Increase aviation logistics and maintenance (\$0.3 billion)
- Increase Permanent Change of Station (PCS) funding (\$0.2 billion)

- **Marine Corps**

- Increase Military Construction (\$0.3 billion)
- Improve infrastructure readiness (\$0.1 billion)
- Increase field logistics support (\$0.1 billion)

OGS Goals for FY2015 - IV

- **Air Force**
 - Increase facilities sustainment, maintenance, and repair (\$1.6 billion)
 - Increase Military Construction (\$1.4 billion)
 - Procure 10 C-130J series aircraft (\$1.1 billion)
 - Increase readiness and training range support (\$0.4 billion)
 - Procure 2 F-35 aircraft and associated modernization (\$0.3 billion)
 - Procure 12 MQ-9 Reaper unmanned air systems (\$0.2 billion)
- **United States Special Operations Command (USSOCOM)**
 - Increase training, readiness and Intelligence, Surveillance and Reconnaissance (ISR) operations (\$0.3 billion)
 - Recapitalize Command, Control, Communications, Computers and Intelligence (C4I) (\$0.1 billion)
- **Missile Defense Agency**
 - Procure additional radar spares (\$0.2 billion)