

# What Lays Ahead?

## NDIA Munitions Executive Summit

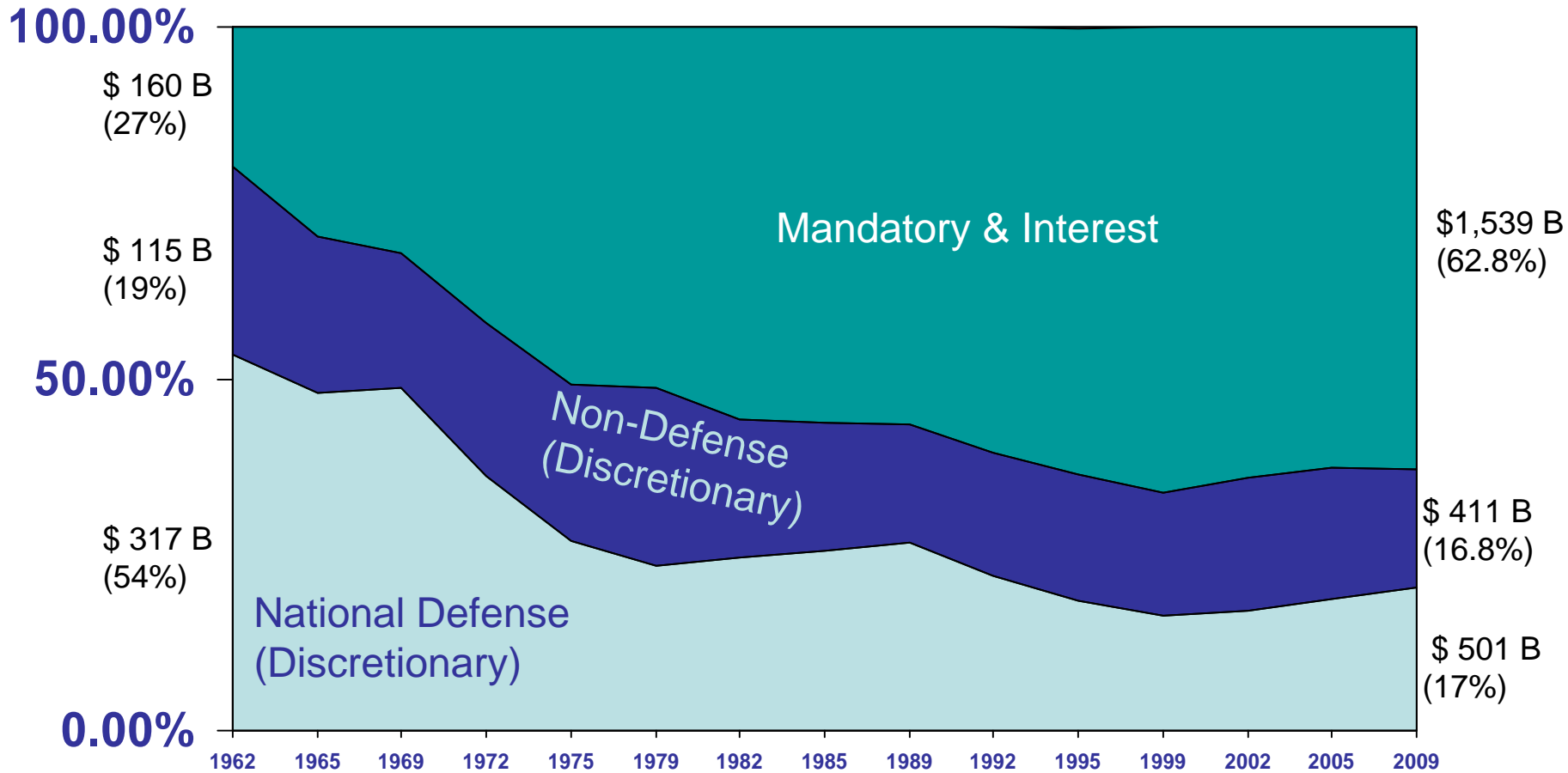
February 20, 2008

- What we know***
- What I think we know***
- What I think***
- Questions***

# What we know

# % Discretionary / Mandatory Federal Outlays

(FY2009 Budget Historical Table 8.2 – FY 2000 \$B)



**1962**

**\$592 B**

“If tax revenue as a share of GDP remains at current level (19%), additional spending for Medicaid, Medicare and Social Security will eventually cause future budget deficits to become unsustainable.” CBO 1/23/07

**2009**

**\$2,451 B**

# POLITICAL WASHINGTON

## FY08 FEDERAL BUDGET (Table S-3) (\$ 2.9 Trillion)

$\$871B + \$46B + \$13B = \$930B$   
 ~~$\$871B + \$44B + \$36B = 953B$~~   
+11% +3%  
~~+10% +8%~~

**Discretionary**  
**(\$ 930Billion)**

$\$435B + \$46B = \$481B$

**Defense**  
**(\$ 481 Billion)**

**Ammo**  
**(\$ 3.9B + \$1.2B Supp)**

**2008 Election Year Positioning**

**Presidential "veto threat" held line on spending**

# POLITICAL WASHINGTON

## FY09 FEDERAL BUDGET (Table S-3) (\$ 3.1 Trillion in BA)

$$\$941\text{B} + \$36\text{B} + \$10\text{B} = \$988\text{B}$$

$$+7.5\% \quad +2.2\%$$

**Discretionary**  
**(\$ 988 Billion)**

$$\$480\text{B} + \$36\text{B} = \$515\text{B}$$

**Defense**  
**(\$ 515 Billion)**

**Ammo**  
**(\$4.3 B + \$??B Supp)**

**2008 Election Year Positioning**

May have seen this movie before: will standoff continue?

# FY 2009 Budget Cycle DoD View

- FY 2009 DoD budget \$515M
  - ~4.5% real growth
  - ***Real ~2.2% procurement increase***
    - ***Slight decrease from '09 column in '08 PB***
  - FY09 GWOT Supplemental (~\$140B) after FY08 GWOT supp enacted (~April-ish)
    - \$70B Bridged in PB09
    - ~\$170B estimated FY09 GWOT funding
- Buying power continues to be squeezed
- Near term readiness vs. future modernization

# Ammunition (FY08/09 PB)

## Procurement Funding (\$M)

	FY 08	'08 GWOT		FY 09	'09 GWOT
		Approved	Pending		
Army	2,2223	154	360	2,276	??
Navy/ USMC	1,064	305	305	1,123	??
Air Force	754	0	104	895	??
<b>Total</b>	<b>4,041</b>	<b>459</b>	<b>769</b>	<b>4,294</b>	<b>??</b>

# FY 06/08 DoD-Military Appropriations FY 09-13 Budget/POM (\$B)

<b>Year</b>	<b>'06</b>	<b>'07</b>	<b>'08</b>	<b>'09</b>	<b>'10</b>	<b>'11</b>	<b>'12</b>	<b>'13</b>
<b>Total</b>	410.7	435.5	479.5	515.4	527.0	533.1	542.4	552.7
Procurement <i>(Ammo)</i>	77.7	81.3	99.0 <i>(3.9)</i>	104.2 <i>(4.3)</i>	114.8	117.7	123.8	125.2
R & D	72.0	75.1	76.5	79.62	77.1	72.6	70.7	68.1
Milpers	109.1	110.9	116.5	125.2				
O & M/Other	151.9	168.0	187.5	206.4				

**Probably as good as it is going to get**



# Supplementals (\$B)

Year	'05 Bridge	'05	'06 Bridge	'06	'07 Bridge	'07 Full	'08* Bridge	'08** Full	'09*** Full
Milpers	1.3	17.4	6.2	10.2	5.4	13.5	1.1	16.7	17.0
OPS	16.4	37.1	33.2	37.9	44.3	50.4	61.1	30.5	86.0
Proc.	1.4	17.4	8.0	15.0	19.8	25.6	6.1	48.7	60.0
Other	5.9	4.0	2.6	2.7	.5	6.0	1.8	6.5	7.0
Total	25.0	75.9	50.0	65.8	70.0	95.5	70.0	102.5	~170

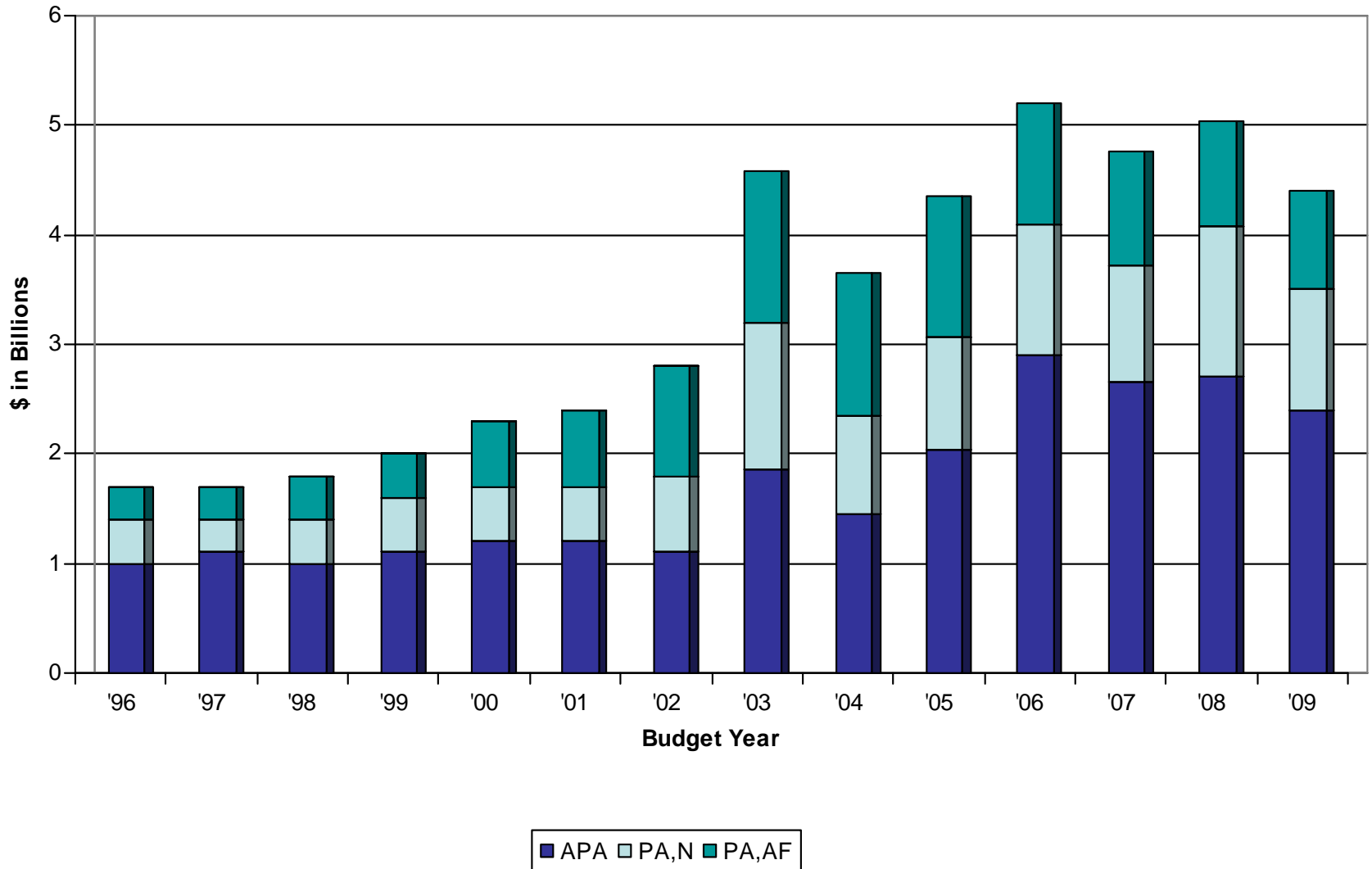
\*\$16.8B Appropriated separately for MRAP

\*\* FY 2008 Full GWOT Supplemental yet to enacted

\*\*\* Split \$70B Bridge + \$70B Full

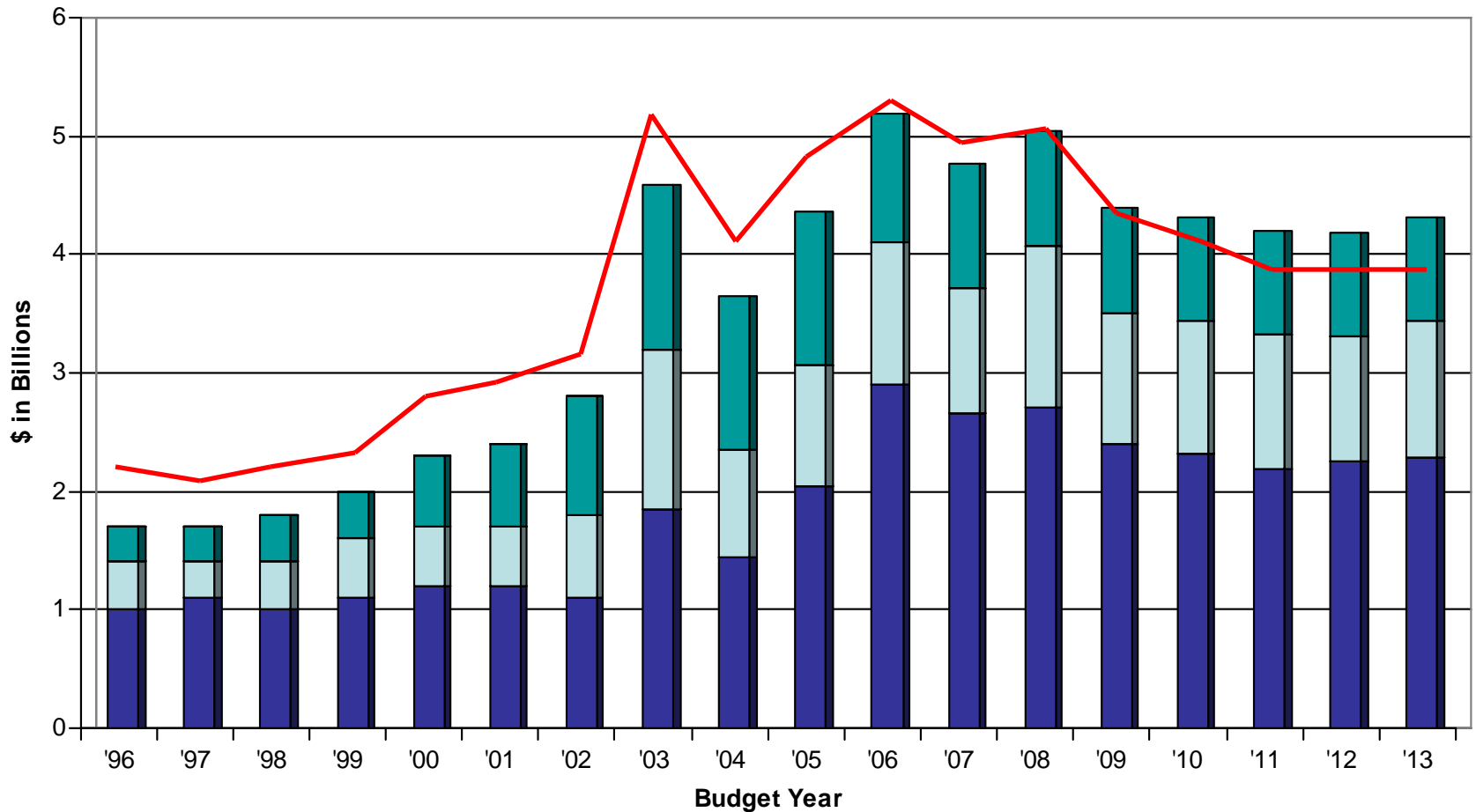
# Ammo Funding (\$B)

(no '09 supp\$ included)



# Ammo Funding (\$B)

(no supp\$ shown after '08)



■ APA □ PA,N ■ PA,AF

— Total '08 (\$B)

What I think we know?

# Washington Political Environment

- Shaped by 2008 election tactics and media coverage
  - Little White House-Congressional negotiations except stimulus package
- FY09 Domestic Funding – a “wedge issue”
- NCLB, Health, Farm, Energy, AMT and Immigration Policy
- Middle East/Iraq Strategy and Strategic direction
  - FY08 Iraq/GWOT Supplemental
  - FY09 Supplemental: CY 2008 or 2009?
- Tax adjustments for deficit control, fairness and “pay/go” policy
  - **\$50+T USG “fiscal exposure”**
- FY09 Appropriations Bills
  - Initially, one at a time (trial balloons)
  - Then big CR or “omnibus”

# Congressional Budget Schedule – CY 2008 (up to Memorial Day Recess)

- After February recess
  - Second stimulus bill??
  - Hearings on FY09 President's Budget
  - Start FY08 GWOT Supp
    - General Petraeus updates Congress in March
    - House moves first: Senate after mid-March Easter recess
    - Probable completion: late April/early May
    - Veto resolution by Memorial Day, if necessary
- ~April 15 Congressional Budget resolution done
  - HASC/SASC start authorization bills

Time to deal under “emergency funding” rules

# Congressional Budget Schedule – CY 2008 (After Memorial Day)

- May 15th – FY09 Appropriations process starts
  - Defense early start & finished/signed before election break
    - “mini bridge maybe”
    - ’09 GWOT Supplemental “later” (Bridge in CR)
- Party Conventions in August
- Fall full of “election theatrics”
- “Lame duck” to finish work in “post election political environment”
  - Domestic agency CR w/ real bills from 111<sup>th</sup> Congress or omnibus appropriations bill
  - GWOT Bridge
  - Full GWOT from 111<sup>th</sup> Congress

Congress anticipating a more hospitable environment

# FY 2009 Congressional Budget Results

- Fewer “earmarks” -- AMT fix – not pretty
- Democratic Congress expected to try to increase domestic funding (~\$25B or more)
- Congress likely to reduce FY09 Defense (051) top line slightly (~\$2B)
  - Likely to alter funding priorities/allocations
  - Could fund some items in GWOT
  - Possible hot button issues:
    - Over cost/behind schedule programs
    - Shipbuilding
    - More C-17s/F-22s
    - JSF Alternate Fighter Engine
    - National Guard equipment/readiness/reset
- FY09 GWOT adjusted based on FY08 Iraq performance/situation & other needs



# FY08 Procurement Plus-ups

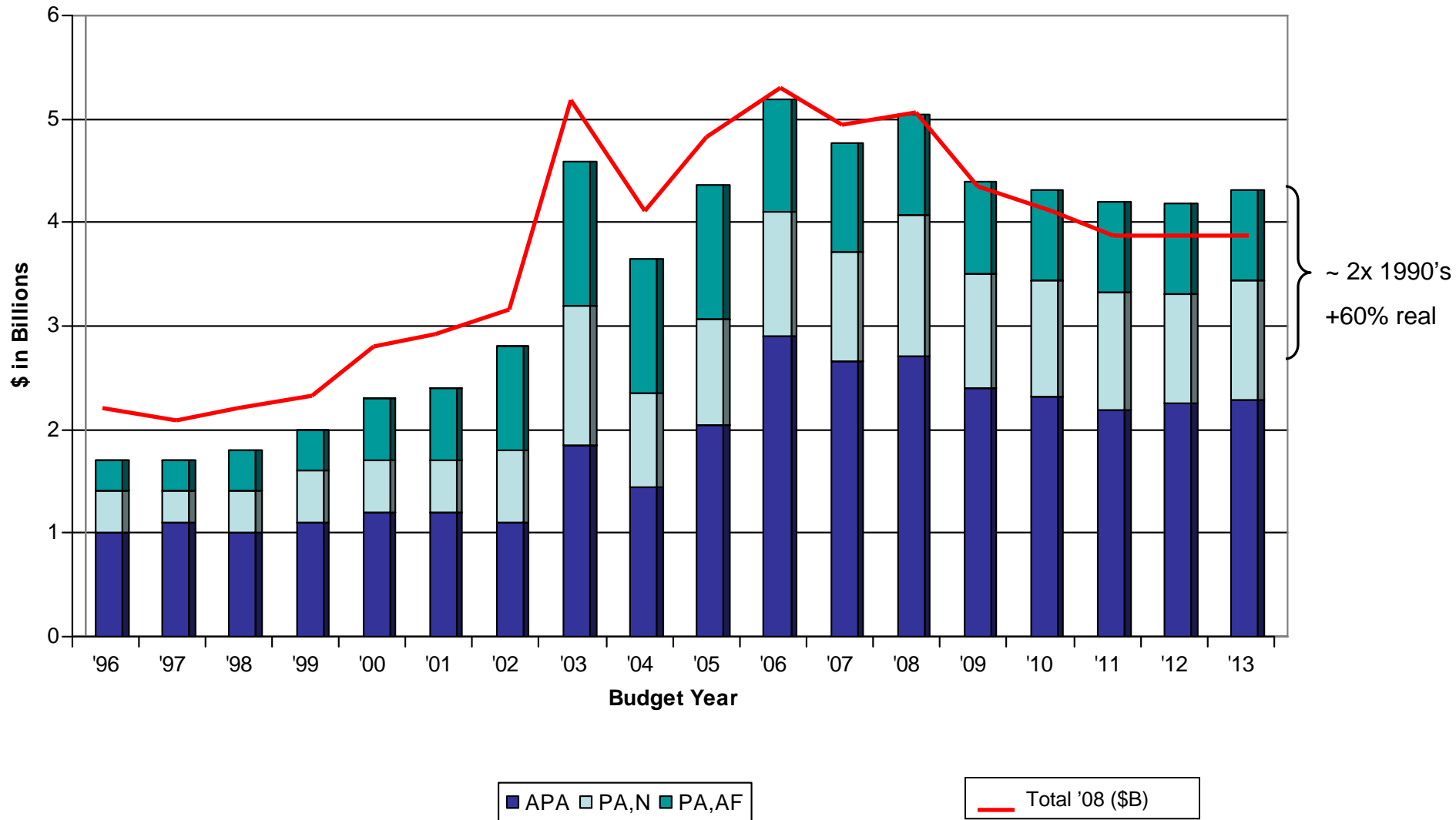
	ARMY		NAVY/MC		AIRFORCE	
<\$1M	7	9%	5	7%	3	7%
\$1M - \$5M	63	80%	57	80%	33	80%
\$5M - \$10M	6	7%	6	8%	5	8%
\$10 M+	3	4%	4	9%	9	5%
Total # of Requests	79		72		50	
Total \$ Amount	\$374.5M		\$912M		\$401.6M	

.... And President wants this cut in half

What I think?

# Ammo Funding (\$B)

(no supp\$ shown after '08)



# Observations

- New era of “persistent surveillance and conflict”
  - Fleeting targets within urban populated areas
  - Co-lateral damage avoidance essential
  - Precision fires becoming more important
  - Requirements/demand realignments probable
- Additional money for ammo unlikely
- Today’s problems get worse with less money
  - Address issue and impacts with PM/PEO
  - Get budget/POM/contractual help
  - Get issue on Service UFR list, as needed
  - Vet issue and options with Congress, as needed

# Industrial Base Problems Today? (Name your top 3!)

- Inadequate small caliber capacity
  - Off-shore sourcing
  - Difficulty in training up “skilled work forces”
- Insufficient plant modernization/investment
  - Having to accept “risk”
- Unused (under used) private “assets” tend to be converted to profitable applications
  - Capacity moved off-shore or lost

# Final thoughts

- Absent “terrorist event” defense will come under pressure
  - No “current” political rhetoric for “peace dividend”, yet
- Looming adjustment back to “peace” or next GWOT phase
  - FY10 and beyond funding strong but real decline
  - Supplemental funding is the biggest uncertainty
  - FY10-13 POM ~2x pre-OIF levels (+60% real growth)
  - Platform modernization will put ammo funding at “risk”
  - Sense is “hard work” will be needed to preserve funding levels beyond 110<sup>th</sup> Congress
  - “Soft Landing” (as last year) should be on agenda!

Fact free analysis: “heading for procurement down turn in ammo”

# Soft Landing Policy Options

(We've been here before -- \$ are only part of the answer)

- Continue consolidating industry in to larger organizations with shared overhead
- Move to more flexible manufacturing – facilities and personnel
- Move to “stop and start/batch production”
- Recognize criticality of “artful” work force
- Adopt “Best of World” production models for variable “run” sizes
- Stockpiling components
- Layaway
- Design out low density obsolescent parts/components
- Recognize industry globalization
- Enforce Section 806
- Recognize “Wall Street” factor: stock prices, earnings, ROI, ...
- Balance capacity – requirements – demand – MSR – Surge – available \$ - risk

**Need “consensus building” Service-PEO-industry concept talks to prepare for competition for Congressional support**

# Industrial Policy Initiatives

- Public-Private Partnerships
  - Architecture/plan for “affordable” 21<sup>st</sup> century ammunition supply chain
    - *Sizing construct: WWII or GWOT?*
  - Risk allocation/distribution
- Supply Chain Management
  - Allowable cost for “idle” investments
  - Skill preservations through simulator based training programs
  - Exploit business tax incentives in 2008 stimulus package(s) (HR 5140, Sec 102-103)



# Munitions Industrial Base Current Study Summaries

- Ammunition Sourcing Study pending

Should we be talking about a managed or controlled “build down”?

# QUESTIONS