Congressional Budget Perspective

What Lies Ahead?

NDIA Munitions Executive Summit
February 5, 2009

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

- New Democratic President and Congress
  - “Left of center” Congress
  - Many operational budget decisions yet to be made
- Winds of change blowing – a “perfect storm”
  - Needs and expectations very high – even defense
    - Policy and “outlays”
    - Complex uncharted GLOBAL economic terrain
    - Out of Iraq into Afghanistan/Pakistan
- Stimulus bill very important! Game changer?
  - Out year impacts uncertain at best
  - Spending could be addictive, habit forming
  - NYT: “rewriting the social contract with the poor, the uninsured and the unemployed”
111th Congressional Leadership

• Speaker Pelosi and Majority Leader Reid yield leadership of Democratic agenda to President Obama
  – Traditional House and Senate differences remain
  – “Regular order” or not??.
• Generational change underway: “old bulls” giving way to 50’s-something crowd
• Most changes in Republican leadership ranks
111th Congress
Defense Committee “Ammo” Leadership

- HASC: Ike Skelton
  - Air-Land: Neil Abercrombie
  - John McHugh (Ft Drum)
  - Roscoe Bartlett

- HAC-D: Jack Murtha
  - Bill Young

- SASC: Carl Levin
  - Readiness: Dan Akaka
  - John McCain
  - John Thune (??)

- SAC-D: Dan Inouye
  - Thad Cochran

A few new, but experienced minority leaders
111th Congress
Defense Committee Key “Ammo” SDs/PSMs

- HASC: Jesse Tolleson, Doug Bush & John Wason
- HAC-D: Paul Juola & Tom McLemore
  - PSMs: Paul Terry (USA)
  - Tim Prince (USN)
  - Kris Mallard (USAF)
  - B G Wright (USMC)
- SASC: Bill Sutey & PSM assignments pending
- SAC-D: Charlie Houy & Stewart Holmes
  - PSMs: Nicole Diresta & Brian Wilson

PSMs largely unchanged from last year
% Discretionary / Mandatory Federal Outlays
(FY2009 Budget Historical Table 8.2 – FY 2000 $B)

1962 $592 B

$825B stimulus and $700B TARP substantially increase non-defense FY09/10 spending

2009 $2,451 B

Last year’s slide
## Today’s Political Battle
### The Stimulus Plan ($B) as of Feb 1st

<table>
<thead>
<tr>
<th></th>
<th>White House</th>
<th>House</th>
<th>Senate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>1/3</td>
<td>275</td>
<td>272+70=342</td>
</tr>
<tr>
<td>Mandatory</td>
<td>2/3</td>
<td>186</td>
<td>193</td>
</tr>
<tr>
<td>Discretionary</td>
<td></td>
<td>358</td>
<td>365</td>
</tr>
<tr>
<td>Total</td>
<td>≤850</td>
<td>819</td>
<td>900</td>
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</tbody>
</table>

- Supply-side Economics vs. Public Investment: @ tax rates
- Clinton: tried both public investment & balanced budget
  - Bush 41 = $121B/yr
  - Clinton = $143B/yr
- Stimulus has $280B/year in new public investment = Reagan tax cuts

Now see which economic/governance policy is better
% Discretionary / Mandatory Federal Outlays
(FY2009 Budget Historical Table 8.2 – FY 2000 $B)

FY09 impact of $550B outlays if 50% spends in ’09, defense share -1.6%

1962 $592 B

2009 $2,451 B
2009 Congressional Budget Process

• Stimulus Package in process
  – To WH by Feb 13th
• “DoD Budget Outline” to Congress Feb 2\textsuperscript{nd} – no detail
  – May include increase to FY10 column of FY09 submit
• Omnibus Approps/CR extension before March 6th
• “State of the Union” Feb XX:
  – “Top Lines” w/ spending themes and objectives
• Detailed Presidential Budget to Congress in late March/early April
• Congressional Budget Committees starting process
  – Deal w/ “process” for balancing Budget: “BRAC-like” commission
  – Stimulus Bill relieves pent up demand for more domestic funding
  – Deal with FY10 “reconciliation” issues not addressed in Stimulus: AMT, investment loss tax credits, etc
  – Outline of tax, discretionary spending and entitlements goals due about April 15th
DoD FY 2010 Budget View
(going into new Administration review)

• DoD proposed FY 2010 DoD “top line” increase to $581B
  – Proposed +$57B to $524B estimate in FY09 budget: +10.9%
    • Army: $17.1B (30%)
    • USN/USMC 13.7B (24%)
    • USAF 9.8B (17.2%)
    • SOCOM & OSD 16.4B (28.7%)
  – ~$30B of increase for “persistent presence”
    – Increase carried in base in FY11 and beyond (~$300B to POM)

• FY09 “Full” Supp expected before April budget submission
  – SECDEF “personal estimate” $69.7B
  – New Administration to review and submit
  – Brings FY09 supplemental funding to $135.6B; down $37B from ’08
  – Deferred $20B for reset
  – Historically, next year (FY10) bridge supps attached to “full supp” request

• Buying power continues to be squeezed
• Near term readiness vs. future modernization challenge

QDR starting to inform PB-10; drive POM 11-15 adjustments
AND probably set Administration ammo policy
## Supplementals ($B)

<table>
<thead>
<tr>
<th>Year</th>
<th>'05 Bridge</th>
<th>'05 Bridge</th>
<th>'06 Bridge</th>
<th>'06 Bridge</th>
<th>'07 Bridge</th>
<th>'07 Full</th>
<th>'08 Bridge</th>
<th>'08 Full</th>
<th>'09 Bridge/Full</th>
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<tbody>
<tr>
<td>Milpers</td>
<td>1.3</td>
<td>17.4</td>
<td>6.2</td>
<td>10.2</td>
<td>5.4</td>
<td>13.5</td>
<td>1.1</td>
<td>16.7</td>
<td>3.8/12.4</td>
</tr>
<tr>
<td>OPS</td>
<td>16.4</td>
<td>37.1</td>
<td>33.2</td>
<td>37.9</td>
<td>44.3</td>
<td>50.4</td>
<td>61.1</td>
<td>30.5</td>
<td>51.2/29.8</td>
</tr>
<tr>
<td>Proc.</td>
<td>1.4</td>
<td>17.4</td>
<td>8.0</td>
<td>15.0</td>
<td>19.8</td>
<td>25.6</td>
<td>6.1</td>
<td>48.7</td>
<td>8.5/20.4 (deferral)</td>
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<tr>
<td>Other</td>
<td>5.9</td>
<td>4.0</td>
<td>2.6</td>
<td>2.7</td>
<td>.5</td>
<td>6.0</td>
<td>1.8</td>
<td>6.5</td>
<td>2.2/7.1</td>
</tr>
<tr>
<td>Total</td>
<td>25.0</td>
<td>75.9</td>
<td>50.0</td>
<td>65.8</td>
<td>70.0</td>
<td>95.5</td>
<td>70.0</td>
<td>102.5</td>
<td>65.9/69.7**</td>
</tr>
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</table>

*FY 10 Bridge Supplemental expected

*$16.8B Appropriated separately for MRAP; ** SECDEF estimate
## Ammunition (FY08/09 PB)
### Procurement Funding ($M)

<table>
<thead>
<tr>
<th></th>
<th>FY 08</th>
<th>’08 GWOT</th>
<th>FY 09</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Bridge</td>
<td>Full</td>
</tr>
<tr>
<td>Army</td>
<td>2,235</td>
<td>154</td>
<td>345</td>
</tr>
<tr>
<td>Navy/USMC</td>
<td>1,057</td>
<td>305</td>
<td>305</td>
</tr>
<tr>
<td>Air Force</td>
<td>749</td>
<td>0</td>
<td>205</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$4,041</td>
<td>$459</td>
<td>$855</td>
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NO ammo $ in ‘09

$65.9B in bridge

Supp
What I think we know?

• Winds of change favoring domestic programs
  – Economic recovery higher priority than defense today
  – Public Investment may have priority over National Security
• Political environment: sunny becoming partly cloudy/discordant
  • All players have a lot at stake
• Obama Administration still working Departmental PB10 “top lines”
  – Proposed +$57B increase probably being scaled back
• Congress will continue supporting Service ammo requests
  – Ammo remains an acceptable bill payer account within DoD and Congress
• Allocation of FY09 Full Supp procurement funds not final
  – Not sure if ’09 supp ammo allocation is OK
  – Challenge is forecasting current operations requirement
• Policy to phase out use of supplementals
  – Will be difficult in near term
  – Afghanistan costs could slow phase out
  – Expect some migration to “base” of new essential capability

We’re on “long final” for the “soft landing” zone
DoD FY 2010 Budget View

(going into new Administration & OMB review)

• DOD proposed FY 2010 “top line” increase to $581B
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    • Army: $17.1B (30%)
    • USN/USMC 13.7B (24%)
    • USAF 9.8B (17.2%)
    • SOCOM & OSD 16.4B (28.7%)
  – +$31B of increase for “persistent presence”
  – +$14B Capitalization and acceleration (USN $8/USAF$4.7B)
  – +$12B Fact-of-life/inflation

• Anticipated “pass back”: Fact-of-life/inflation + some for “persistent presence”
  – Balance forms basis of FY 10 Supplemental

Starting to turn off the defense spending “spigot”
## POM 08-13 ($B)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tbody>
<tr>
<td>MILPERS</td>
<td>116</td>
<td>125</td>
<td>129</td>
<td>134</td>
<td>139</td>
<td>144</td>
</tr>
<tr>
<td>O &amp; M</td>
<td>164</td>
<td>180</td>
<td>181</td>
<td>187</td>
<td>190</td>
<td>197</td>
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<tr>
<td>PROC</td>
<td>98</td>
<td>104</td>
<td>113</td>
<td>118</td>
<td>122</td>
<td>125</td>
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<tr>
<td>R &amp; D</td>
<td>76</td>
<td>80</td>
<td>77</td>
<td>72</td>
<td>71</td>
<td>68</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$480</strong></td>
<td><strong>$515</strong></td>
<td><strong>$524</strong></td>
<td><strong>$530</strong></td>
<td><strong>$539</strong></td>
<td><strong>$548</strong></td>
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First major QDR-based POM adjustments in APOM 11-15; politically expect top line reduction; best case “no change”
Congressional Budget Schedule – CY 2009

- Stimulus Package through mid-February
- Omnibus Appropriations/CR extension late February
- April 15th Congressional Budget Resolution sets USG functional allocations, e.g. “050 Defense”
  - Indicator of Congressional support for Defense funding
  - Reflection of Defense Committee advocacy
- Agency authorization and appropriation hearings: Mar & April
- FY09 Full Supplemental possible by Memorial Day
- HASC and SASC marks May-June
- HAC and SAC marks July - September
- Late session but DoD could be done on time

Schedule driven by economic recovery considerations and time requirements
Random Thoughts/Gates Testimony

• Top line constraints – “Money Spigot” closing
  – SECDEF does not like “across the board adjustments”
  – Current acquisition program not affordable
  – Major systems not off the table: FCS, ARH, LCS, KCX
  – C-17 and F-22 on the table but not in budget
  – Balance “desired vs. true needs” – 75% vs. 90% solutions
  – Priority to current threat over potential future threats

• SECDEF/Deputy: Acquisition reform a priority
  – Clean up procurement system
  – Fix the requirements process

“CJCS say Defense budget cuts may target spending on Weapons”:
T. Capaccio, Bloomberg
“Turning final for a soft landing zone?”

• If USG revenue is 18.3% of GDP in 2027, flow will not cover mandatory outlays and interest

• In 2017, Social Security outlays exceed receipts – no Social Security Surplus, debt restructuring?

• Obama Administration has called for commission to reconcile entitlements, costs and revenues

• Many estimate DoD top line insufficient:
  – SECDEF >$57B/year
  – CBO $100B/year

• Next full POM (FY12-17 starting in 2010) may touch a new “fiscal reality”
What I think?

• OMB budget pressure yields near top line “freeze” and supplemental safety valve
  – Not clear Congress would over ride Presidential “top line”

• For ammo, little changed since last year:
  – PEO-MIBTF “surge model” worked and continues to work
    – the right stuff delivered on time
  – Ammo program remains robust by historic standards
  – “Soft Power” requirements will compete for funding
  – Total spend is tapering off
  – Supplemental funding dropping off
  – “Soft landing” policy & procedures still a “work in progress”

• Accelerated QDR guiding and informing PB10, POM build and Administration policy
  – Now is the time to make case for IB health issues
PS: “take a victory lap”

- The PEO-MIBTF “surge model” worked very well – the right ammo gets there at the right time
- If not so, what did not work? Why?
  - Do not confuse management processes squeaking and “blundering through” with being broken
  - The “consensus answers” here are what need to be worked on and addressed
  - New Administration doing top-to-bottom review: now is the time to be heard.
QUESTIONS