Congressional Budget Perspective

Impact of the 2010 Election

2011 NDIA Ammo Summit
February 4, 2011

-- What we know

-- What I think we know

-- What I think

-- Questions/Discussion
What We Know: Election Consequences
(Feb ’11)

• Two party governance returns
  – Republican controlled House w/ new leadership
  – Same Senate leadership but new internal dynamics
  – Altered terrain for 2012 Presidential election
  – Election mandate?

• Deficit constraints/control as counter balance

Watching democracy in action
in a dynamic international economy !!
What We Know – House changes
(Feb ’11)

• Speaker: John Boehner
• Majority Leader: Eric Canter
  – $100B in FY11 “non-defense” spending reduction (~$55B)
  – Goal: reduce “non-defense” to FY08 level for FY12
• Budget Committee: Paul Ryan (WI)
  – Strategist: “Roadmap for America’s Future”
• HASC: Buck McKeon (CA) and Adam Smith (WA)
  – Tactical Air & Land Forces: Roscoe Bartlett (MD) and Silvestre Reyes (TX)
• Approps: Hal Rogers (KY) and Norm Dicks (WA)
  – HAC-D: Bill Young and Norm Dicks; smaller committee & staff

Deficit control and health care modifications
What We Know – Senate changes
(Feb ’11)

• 53-47 split with 16 new Senators – more friction!
• Senate Budget Committee:
  – Kent Conrad (ND) retiring in ‘12
  – Jeff Sessions (AL) vice Judd Gregg
• SASC: Carl Levin (MI) and John McCain (AZ)
  – Readiness: Daniel Akaka (HI) and ______________
• Approps: Dan Inouye (HI) and Thad Cochran (MS)
  – 7 new Republicans
  – SAC-D: Dan Inouye (HI) and Thad Cochran (MS)
    • 5 new SAC-D: Alexander, Collins, Murkowski, Graham, Kirk

Minority Leader McConnell pivotal person
What We Know -- 2011 Congressional FY12 Budget Schedule

• Before President’s Budget Feb 14th attempt:
  – Health care overhaul
  – FY11 “omnibus” w/ ~$55B domestic reductions
  – Raise deficit ceiling (by March 30); tied to spending cuts?
• March 4: Continuing Resolution expires; defense carries new CR
• Mar 15: House/Senate Budget markups
  – HBC “Roadmap”
• March 30: debt ceiling reached
• Apr 15: Congressional Budget Resolution due
  – Joint Resolution unlikely: will illustrate new House-Senate fault line

Basic fiscal structure and “tenor” set for next 2 years
Federal Outlays: CBO Current Policy Estimate

Deficit, Mandatory, Interest & Discretionary ($B) – Table 1-3

- Deficit
- Mandatory
- Interest
- Domestic
- Defense

Debt $20.6T
Debt $12.2T

Year: 2009-2019
### Federal Outlays: CBO Current Policy Estimate

**Deficit, Mandatory, Interest & Discretionary ($B) – Table 1-3**

<table>
<thead>
<tr>
<th>Year</th>
<th>Deficit</th>
<th>Mandatory</th>
<th>Interest</th>
<th>Domestic</th>
<th>Defense</th>
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<tbody>
<tr>
<td>2009</td>
<td>$12.2T</td>
<td>$14.3T</td>
<td>$20.6T</td>
<td>$22.0T</td>
<td>$20.6T</td>
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**Diagram:**
- **Deficit**
- **Mandatory**
- **Interest**
- **Domestic**
- **Defense**
What I Think We Know?
(Feb ’10)

• No one wants to be seen as weak on “defense”
  – BUT priority is elsewhere
• Responding to invigorated Al Qaeda **could** sustain elevated “OPTEMPO” and budgets
  – Persistent Conflict & OCO
  – Persistent budget volatility or “business risk”
  – Down turn is moving to the right!
• Future administrations **will be** constrained by DEBT
  – “Soft Landing” looking more like “Risk Management” and asset redeployment

Still fairly accurate -- BUT now Egypt!
What I Think We Know?
(Feb ’11)

• Issue: More government spending or wealth/value creation?
  – 18% or 21% of GDP to federal government
Total Revenues & Outlays
(as % of GDP)

Source: Congressional Budget Office.
What I Think We Know?

(Feb ’11)

• Issue: More government spending or wealth/value creation?
  – 18% or 21% of GDP to federal government
• Sec Gates adjusts DOD ’12-’17 POM:
  – Real “050” budget freeze at FY11 request level
  – $78B cut and returned to OMB:
    • $54B – Overhead reductions
    • $14B – Revised economic assumptions
    • $4B – JSF schedule changes
    • $6B – Outyear end strength cuts:
      – Army 20K (-$150M) -- USMC 15-20K (-$150)
• Some ammo weakness visible in FY11 OCO mark: estimating error
• Goal of 4% of GDP for defense appears unlikely: over structured

Will Congress support a Defense budget freeze?
<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<td>155</td>
<td>154</td>
<td>142</td>
<td>146</td>
<td>150</td>
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<tr>
<td>O&amp;M</td>
<td>256</td>
<td>272</td>
<td>277</td>
<td>317</td>
<td>212</td>
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<td>165</td>
<td>133</td>
<td>131</td>
<td>138</td>
<td>120</td>
<td>124</td>
<td>133</td>
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<tr>
<td></td>
<td>(5.4)</td>
<td>(5.1)</td>
<td>(5.1)</td>
<td>(5.0)</td>
<td>(3.8+)</td>
<td>(3.8+)</td>
<td>(4.1)</td>
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<tr>
<td>R&amp;D</td>
<td>80</td>
<td>81</td>
<td>79</td>
<td>77</td>
<td>76</td>
<td>73</td>
<td>70</td>
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<tr>
<td>Other</td>
<td>35</td>
<td>31</td>
<td>26</td>
<td>23</td>
<td>16</td>
<td>18</td>
<td>14</td>
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<tr>
<td>Total</td>
<td>675</td>
<td>664</td>
<td>668+33</td>
<td>708</td>
<td>616</td>
<td>632</td>
<td>648</td>
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<td>Supp / OCO</td>
<td>172</td>
<td>142</td>
<td>131</td>
<td>159</td>
<td>(50)</td>
<td>(50)</td>
<td>(50)</td>
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<tr>
<td></td>
<td>+16 MRAPS</td>
<td>+$33 Supp</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Base</td>
<td>490</td>
<td>522</td>
<td>537</td>
<td>549</td>
<td>566</td>
<td>582</td>
<td>598</td>
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Procurement/R&D ratios now 2.1:1 to 1.6:1 – NOT 4:1
## DoD (051) Budget Authority ($B)

*(w/supp/OCO – Table 5.1 PB’11) – Jan ‘11*

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<thead>
<tr>
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<tr>
<td>Pay</td>
<td>139</td>
<td>146</td>
<td>141</td>
<td>143/143</td>
<td>142</td>
<td>146</td>
<td>150</td>
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<td>O&amp;M</td>
<td>256</td>
<td>272</td>
<td>305</td>
<td>326/318</td>
<td>315</td>
<td>280</td>
<td>264</td>
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<td>Proc (Ammo)</td>
<td>165 (5.4)</td>
<td>133 (5.1)</td>
<td>132 (5.0)</td>
<td>133/128 (5.0)</td>
<td>125 (5.0)</td>
<td>124 (4.3+)</td>
<td>133 (3.6)</td>
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<tr>
<td>R&amp;D</td>
<td>80</td>
<td>81</td>
<td>81</td>
<td>77/79</td>
<td>76</td>
<td>73</td>
<td>70</td>
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<tr>
<td>Other</td>
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<td>31</td>
<td>26</td>
<td>21/21</td>
<td>16</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>675</td>
<td>664</td>
<td>685(30)</td>
<td>699/689</td>
<td>673</td>
<td>641</td>
<td>631</td>
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<tr>
<td>Supp / OCO</td>
<td>172 +16 MRAP</td>
<td>142</td>
<td>161 ($30 Supp)</td>
<td>158/158</td>
<td>(120)</td>
<td>(75)</td>
<td>(50)</td>
</tr>
<tr>
<td>Base</td>
<td>490</td>
<td>522</td>
<td>524</td>
<td>541/531</td>
<td>553</td>
<td>566</td>
<td>581</td>
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**Election**

**New Admin**

>$13B - $18B

**Most cuts in operating accounts – Ammo safe?**
## Supplementals ($B)

*(Feb ‘11)*

<table>
<thead>
<tr>
<th>Year</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10 (OCO + Supp)</th>
<th>FY11 (OCO) (12/10 Conf)</th>
<th>FY12 (OCO)</th>
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<tr>
<td>Pay</td>
<td>16.4</td>
<td>18.9</td>
<td>17.8</td>
<td>17.9</td>
<td>16.8</td>
<td>15.3</td>
<td>~15</td>
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<tr>
<td>O&amp;M</td>
<td>71.1</td>
<td>94.7</td>
<td>91.6</td>
<td>81.7</td>
<td>115.7</td>
<td>116.9</td>
<td>~80+</td>
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<tr>
<td>Proc (Ammo)</td>
<td>18.0</td>
<td>45.4</td>
<td>54.8 (1.3)</td>
<td>29.2 (0.8)</td>
<td>28.0 (1.3)</td>
<td>25.4 (1.2)</td>
<td>~15 (1.0)</td>
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<tr>
<td>Other</td>
<td>5.3</td>
<td>6.5</td>
<td>8.3</td>
<td>12.9</td>
<td>0.5</td>
<td>1.7</td>
<td>--</td>
</tr>
<tr>
<td>Total</td>
<td>115.8</td>
<td>165.5</td>
<td>172.5</td>
<td>141.7</td>
<td>161.0</td>
<td><strong>157.7</strong></td>
<td>~110+</td>
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What I Think
(Feb ’11)

• FY12 mark up and floor actions later than normal
• Process changes: -- 5 year discretionary $ freeze -- 2 year budget
• External actions can raise priorities for defense funding and passage
• $6-8B SAC reduction in Appropriations allocations continue
  – Puts every thing on the table for reduction
  – Takes FY12 ~1% real growth out
  – Could drive real decline into defense
  – Industry should argue to keep OCO $ for recapitalization/modernization
• Real “freeze” fiscal plan needs fully considered MIBTF support
  – Time to use industry wide planning tools! Soft Landing time
• Ammo down slightly; major action in POM 13-18 build
  – POM cuts could feed back to Congress as bill payers
  – Force structure/ES cuts will reduce requirements
  – Cut ammo deliveries to match force reductions: do not over buy
  – “Lazy $” will be harvested

Things get worse when and if Sec Gates leaves
QUESTIONS/DISCUSSION