

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 Cantor
 - \$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

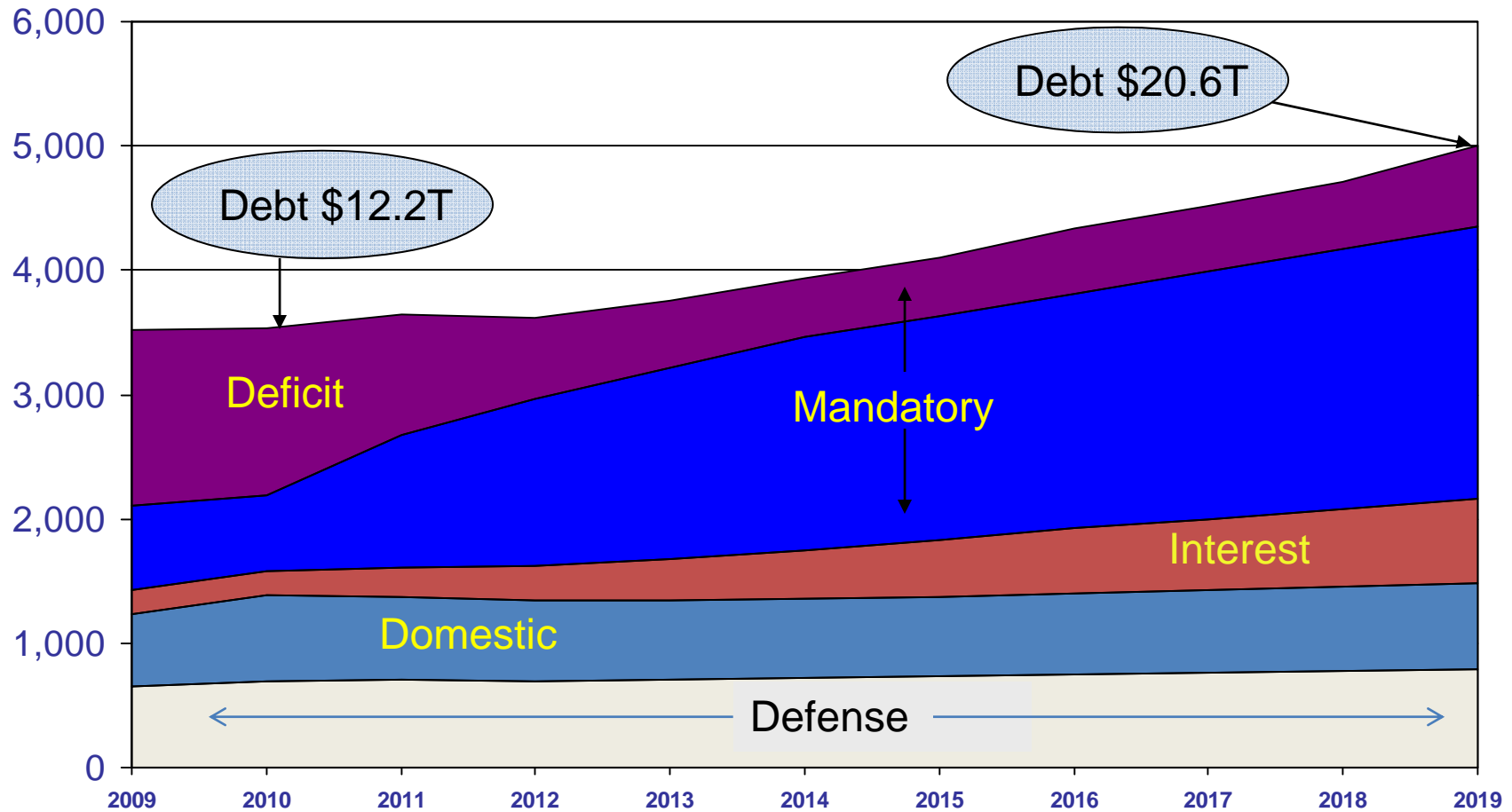
What We Know -- 2011 Congressional FY12 Budget Schedule

- 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
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Basic fiscal structure and “tenor” set for next 2 years

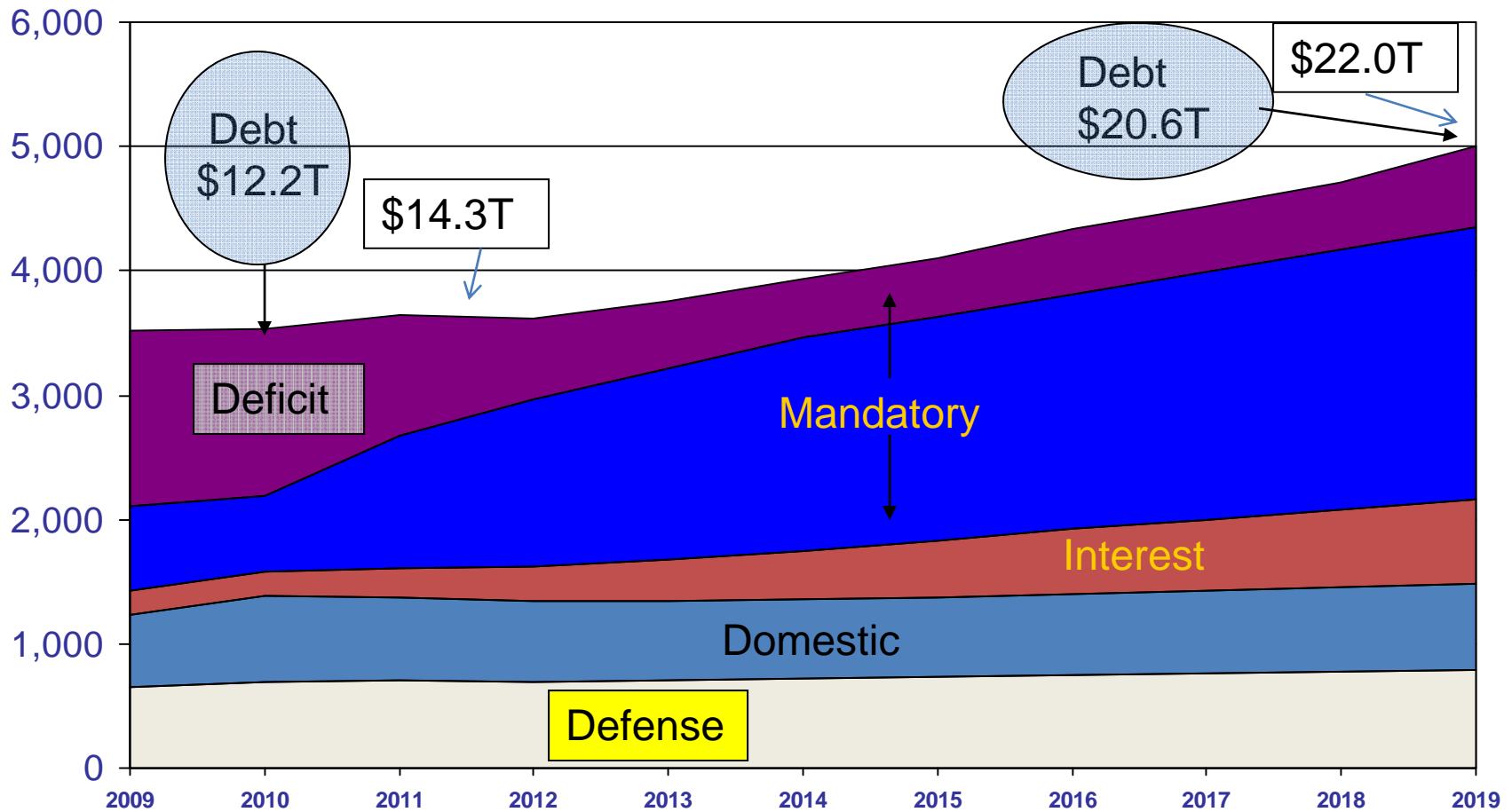
Federal Outlays: CBO Current Policy Estimate

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



Federal Outlays: CBO Current Policy Estimate

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



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!

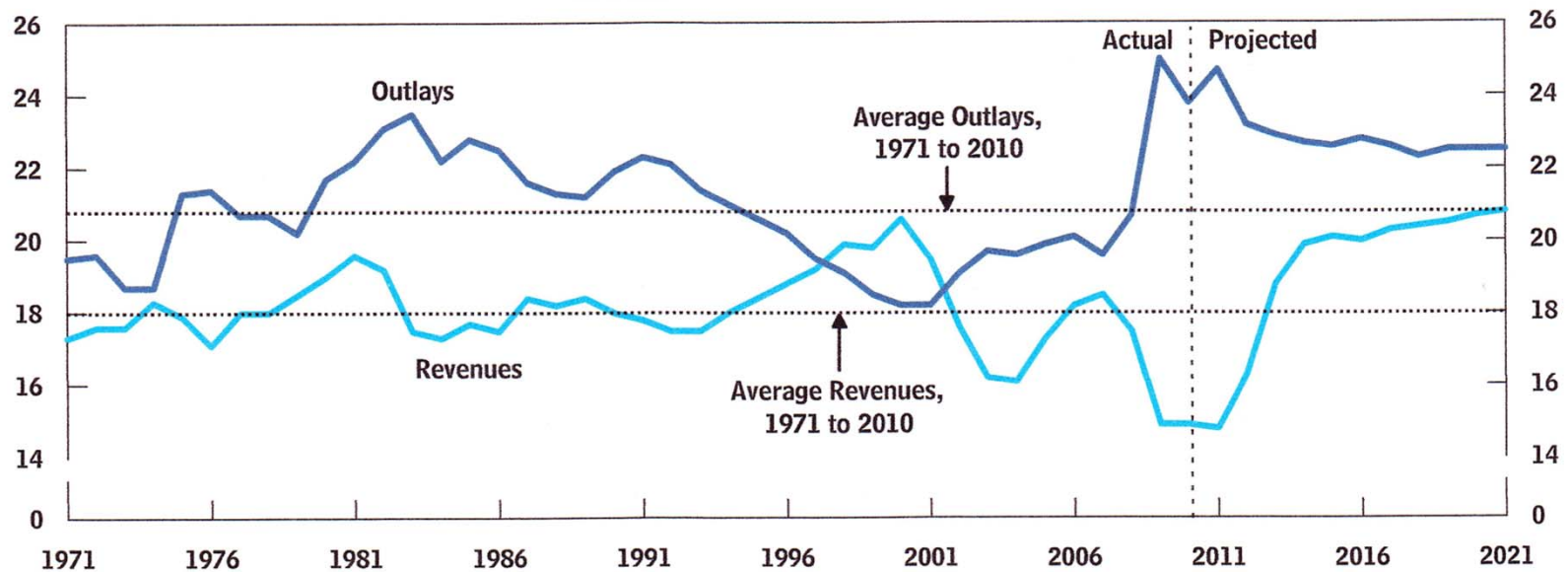
What I Think We Know?

(Feb '11)

- Issue: More government spending or wealth/value creation?
 - **18% or 21% of GDP to federal government**

Will Congress support a Defense budget freeze?

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?

DoD (051) Budget Authority (\$B)

(w/supp/OCO – Table 5.1 PB'11) – Feb '10

**LAST
YEAR**

	2008	2009	2010	2011	2012	2013	2014
Pay	139	146	155	154	142	146	150
O&M	256	272	277	317	212	221	231
Proc (Ammo)	165 (5.4)	133 (5.1)	131 (5.1)	138 (5.0)	120 (3.8+)	124 (3.8+)	133 (4.1)
R&D	80	81	79	77	76	73	70
Other	35	31	26	23	16	18	14
Total	675	664	668+33	708	616	632	648
Supp / OCO	172 +16 MRAPS	142	131 +\$33 Supp	159	(50)	(50)	(50)
Base	490	522	537	549	566	582	598

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

Election

New Admin

	2008	2009	2010	2011/Conf 12/10	2012	2013	2014
Pay	139	146	141	143/143	142	146	150
O&M	256	272	305	326/318	315	280	264
Proc (Ammo)	165 (5.4)	133 (5.1)	132 (5.0)	133/128 (5.0)	125 (5.0)	124 (4.3+)	133 (3.6)
R&D	80	81	81	77/79	76	73	70
Other	35	31	26	21/21	16	18	14
Total	675	664	685(30)	699/689	673	641	631
Supp / OCO	172 +16 MRAP	142	161 (\$30 Supp)	158/158	(120)	(75)	(50)
Base	490	522	524	541/531	553	566	581

-\$13B

-\$18B

-\$78 = -13 -16 -17 -16 -16

Most cuts in operating accounts – Ammo safe?

Supplementals (\$B)

(Feb '11)

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

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