NDIA 16th Annual Expeditionary Warfare Conference

Captain Dietrich Kuhlmann
United States Navy

Director, Operations Division ASN (FM&C)
Where We Are Going

• Context

• Outlook

• Options
Sailing Directions

Enduring responsibilities …

• Remain ready to meet current challenges, today
• Build a relevant and capable future force
• Take care of our Sailors, Navy Civilians and their Families

Tenants

• Warfighting First
• Operate Forward
• Be Ready
CNO Guiding Principles

The starting point for developing and executing our plans

..Our primary mission is warfighting. All our efforts to improve capabilities, develop people, and structure our organizations should be grounded in this fundamental responsibility.

..People are the Navy’s foundation. We have a professional and moral obligation to uphold a covenant with Sailors, Civilians and their families – to ably lead, equip, train and motivate.

..Our approach should be Joint and combined when possible. However, we own the sea, and must also be able to operate independently when necessary.

..Our primary Joint partner is the U.S. Marine Corps. We must continue to evolve how we will operate and fight as expeditionary warfare partners.

..At sea and ashore, we must be ready to part with Navy roles, programs and traditions if they are not integral to our future vision or a core element of our mission.

..We must ensure today’s force is ready for its assigned missions. Maintaining ships and aircraft to their expected service lives is an essential contribution to fleet capacity.

..Our Navy Ethos defines us and describes the standard for character and behavior.

..We must clearly and directly communicate our intent and expectations both within and outside the Navy.

..I believe in the “Charge of Command.” We will train and empower our leaders with authorities commensurate with their responsibilities.
Mounting deficits, interest payments & entitlement spending will result in downward pressure to defense budgets.
PB12 Defense Spending Outlook

*Data is discretionary budget authority. FY01 through FY10 are actual levels. FY 11 is appropriated amount. FY 12 is budget request.
*Data is from OSD FY12 Green book and H.R. 1473 Full year CR with DoD appropriations
## Current DoD Fiscal Environment

<table>
<thead>
<tr>
<th>The Budget Control Act 2011</th>
<th>OMB FY13 Budget Guidance</th>
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<tbody>
<tr>
<td>- 2 August 2011-</td>
<td>- 18 August 2011-</td>
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<tr>
<td>- Establish caps on discretionary funding through 2021 and proposes further reductions to at least $1.5T in budgetary savings over next 10 years</td>
<td>- Prepare FY2013 Budgets under two options: 5% below the FY2011 enacted level and 10% below the FY2011 enacted level</td>
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</table>

### Impacts to DoD Budget

- Pro-rata distribution leaves DoD funding at $529B/$526B/$528B FY 11-13
- If Congress fails to act on the committee's recommendations by the law's deadline of Dec 23rd, then a worse case "Sequestration" could result
  - An automatic across-government spending cut of $1.2T – 1.5T over 10 years, with one half of the sequestration to be assigned to Defense funds resulting in an additional $600B or more reduction

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"...additional cuts caused by sequestration would hollow out the force, reduce the effectiveness of US alliances worldwide, and break faith with the troops and their families."

SECDEF 4 August 2011
PB12 Defense Spending Outlook

FY 2010 - FY 2015
Base Growth

Nominal Growth: 2.5%
Real Growth: 0.5%

Impact of Fiscal Legislation

*Data is discretionary budget authority. FY01 through FY10 are actual levels. FY 11 is appropriated amount. FY 12 is budget request.
*Data is from OSD FY12 Green book and H.R. 1473 Full year CR with DoD appropriations.
DoD Historical Topline

Source: 2011 President’s Budget Historical Tables

History suggests a downturn is inevitable

63-year average (1948-2010): $452B

38% Reduction

30% Reduction

30% Reduction

32% Reduction

> $200B Decline?
Comparing President Budget PB90-93

<table>
<thead>
<tr>
<th></th>
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<tr>
<td>PB90</td>
<td>93.6</td>
<td>96.6</td>
<td>103.4</td>
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</table>
PB-92 Looking Forward … 
…PB-98 Looking Back

Navy TOA and Force Structure (‘92 – ’97)

<table>
<thead>
<tr>
<th>Active Forces</th>
<th>FY92</th>
<th>FY93</th>
<th>FY94</th>
<th>FY95</th>
<th>FY96</th>
<th>FY97</th>
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<tbody>
<tr>
<td>End strength</td>
<td>571,294</td>
<td>541,921</td>
<td>509,950</td>
<td>468,662</td>
<td>434,617</td>
<td>416,735</td>
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<tr>
<td>Ships</td>
<td>466</td>
<td>435</td>
<td>391</td>
<td>353</td>
<td>356</td>
<td>354</td>
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</table>

25% Force Structure Reduction
PB-11 Looking Forward … PB-17 Looking Back??

$Billion

<table>
<thead>
<tr>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
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<td>161</td>
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<td>169</td>
<td>171</td>
<td>177</td>
<td>180</td>
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<td>157</td>
<td>150</td>
<td>159</td>
<td>159</td>
<td>162</td>
<td>161</td>
<td>164</td>
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</table>

PB11  Notional PB at end of Drawdown
### Summary by Appropriation Title

**FY 2012 Base Budget**

#### MILPERS: $46.6B

<table>
<thead>
<tr>
<th>Category</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Pays</td>
<td>$18.5</td>
</tr>
<tr>
<td>Housing Allowance</td>
<td>$7.3</td>
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<tr>
<td>Retired Pay Accrual</td>
<td>$6.4</td>
</tr>
<tr>
<td>Health Accrual</td>
<td>$3.3</td>
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<tr>
<td>Reserve Personnel</td>
<td>$2.6</td>
</tr>
<tr>
<td>Subsistence</td>
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<tr>
<td>Allowances</td>
<td>$1.8</td>
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<tr>
<td>Special Pays</td>
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<tr>
<td>Other</td>
<td>$3.4</td>
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</table>

Navy Strength 325,700  
Marine Corps 202,100

#### Procurement: $45.8B

- **Aircraft** $18.6B  
- **Ships** $15.5B  
- **Weapons Procurement** $3.4B  
- **Marine Corps Procurement** $1.4B  
- **Ammunition Procurement** $0.7B  
- **OPN** $6.2B

#### O&M: $47.9B

- **Ship Ops** $12.1B  
- **Aviation Ops** $8.4B  
- **Base Ops** $7.5B  
- **Marine Corps O&M** $6.0B  
- **Combat/Weapons Support** $5.4B  
- **Service Wide Support** $4.7B  
- **Training and Education** $1.8B  
- **Reserve O&M** $1.6B  
- **Environmental Restoration** $0.3B

Ship Ops $12.1  
Aviation Ops $8.4  
Base Ops $7.5  
Marine Corps O&M $6.0  
Combat/Weapons Support $5.4  
Service Wide Support $4.7  
Training and Education $1.8  
Reserve O&M $1.6  
Environmental Restoration $0.3

#### R&D: $18.0B

- **Basic Research** $0.6B  
- **Applied Research** $0.8B  
- **Advance Tech Dev** $0.7B  
- **Adv Component Dev** $4.4B  
- **System Dev & Demo** $6.5B  
- **Management Support** $0.9B  
- **Ops Systems Dev** $4.1B

Basic Research $0.6  
Applied Research $0.8  
Advance Tech Dev $0.7  
Adv Component Dev $4.4  
System Dev & Demo $6.5  
Management Support $0.9  
Ops Systems Dev $4.1

#### Infrastructure: $3.1B

- **MILCON** $2.5B  
- **BRAC** $0.1B  
- **Family Housing** $0.5B

MILCON $2.5  
BRAC $0.1  
Family Housing $0.5

#### FY12: $161.4B

**Summary by Appropriation Title**  
*Numbers may not add due to rounding*

**DoN**  
**PB12 SUBMIT**
“In this unprecedented fiscal and budgetary environment, we must focus on maintaining the best military in the world and avoid hollowing out our all-volunteer force, while also meeting our obligations to help get our Nation’s economic house in order. To do so, we must implement savings – in efficiencies, personnel costs, force structure, and modernization and procurement reforms – that are driven by strategy rather than expediency.”

SECDEF Memo signed 17 October 2011
The Budget and Accounting Act of 1921 – Section 201

"The President shall transmit to Congress on the first day of each regular session, the Budget, which shall set forth in summary and in detail:"

- The Budget
- Acquisition
- Programming

June 10, 1921

Budget

Acquisition

Programming
## FY 2012 – Congressional Action

<table>
<thead>
<tr>
<th>APPN (SM)</th>
<th>BASE</th>
<th>OCO</th>
<th>Total (Base + OCO)</th>
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<tbody>
<tr>
<td></td>
<td>PB12</td>
<td></td>
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<tr>
<td></td>
<td>HAC Delta</td>
<td>SAC Delta</td>
<td>PB12</td>
</tr>
<tr>
<td>MPN</td>
<td>27,154</td>
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<td>-353</td>
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<tr>
<td>RPN</td>
<td>1,960</td>
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<td>-26</td>
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<tr>
<td>MPMC</td>
<td>13,573</td>
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<td>80</td>
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<tr>
<td>RPMC</td>
<td>653</td>
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<tr>
<td>OMN (Res)</td>
<td>1,323</td>
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<td>OMMC (Act)</td>
<td>5,960</td>
<td>76</td>
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<tr>
<td>OMMC (Res)</td>
<td>271</td>
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<td>0</td>
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<tr>
<td>ERN</td>
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<tr>
<td>APN</td>
<td>18,587</td>
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<tr>
<td>WPN</td>
<td>3,408</td>
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<td>PANMC</td>
<td>720</td>
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<tr>
<td>SCN</td>
<td>14,928</td>
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<td>186</td>
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<tr>
<td>OPN</td>
<td>6,285</td>
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<td>-150</td>
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<tr>
<td>PMC</td>
<td>1,391</td>
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<td>RDTEN</td>
<td>17,956</td>
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<tr>
<td>NDSF</td>
<td>1,126</td>
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<td>-425</td>
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<tr>
<td>Total DON</td>
<td>154,968</td>
<td>-1,942</td>
<td>-4,034</td>
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### Better budgets to the Hill results in smaller cuts

$17M Delta
**Where Our Worlds Collide -- Constantly**

<table>
<thead>
<tr>
<th>OCT</th>
<th>NOV</th>
<th>DEC</th>
<th>JAN</th>
<th>FEB</th>
<th>MAR</th>
<th>APR</th>
<th>MAY</th>
<th>JUN</th>
<th>JUL</th>
<th>AUG</th>
<th>SEP</th>
<th>OCT</th>
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<tbody>
<tr>
<td><strong>FY 2012 Execution</strong></td>
<td><strong>FY 2013 Execution</strong></td>
<td><strong>FY 2012 continued</strong></td>
<td><strong>FY 2013 Budget Formulation / Justification</strong></td>
<td><strong>FY 2014 Program/Budget Development / Review</strong></td>
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<tr>
<td><strong>OCT</strong></td>
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<td><strong>JAN</strong></td>
<td><strong>FEB</strong></td>
<td><strong>MAR</strong></td>
<td><strong>APR</strong></td>
<td><strong>MAY</strong></td>
<td><strong>JUN</strong></td>
<td><strong>JUL</strong></td>
<td><strong>AUG</strong></td>
<td><strong>SEP</strong></td>
<td><strong>OCT</strong></td>
<td><strong>NOV</strong></td>
<td><strong>DEC</strong></td>
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<tr>
<td>Executing under a CR</td>
<td>Length of last year’s CR</td>
<td>How well you execute is impacted by the CR</td>
<td>How well you execute is reported and noticed by everyone</td>
<td>Reprogrammings do not move at your pace</td>
<td>Executing under a CR?</td>
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**FY 2012 continued**

- **FY12 Appeals**
- Accurate and complete budget exhibits makes a difference
- How well you execute is reported and noticed by everyone
- Do your briefs match your budget?
- How well you execute is reported and noticed by everyone
- Appeals

**FY 2013 Budget Formulation / Justification**

- Appeals

**FY 2013 Program/Budget Review**

- SPP Process
- PVT
- Mid-year
- PBCG
- DON LG/SG

**FY 2014 Program/Budget Development / Review**

- Issue Teams
- OSD DMAG / SG
Now Repeat After Me – “I Will . . .

- Develop better and more accurate budgets and exhibits
- Embrace CNO’s culture of judiciousness
- When given a new task, do not immediately ask
  - “Where are my new and greater resources?”
- Ask everyday “Is this a need or a want?”
  - FMB corollary – Almost every stated need is actually a want
- Challenge every growth, strive to match the top performing programs
  - NAVFAC/CEC negative 7-10% returns
  - VA SSN, CLF, etc
  - Look for the second knee in a curve
- Beware the “Fallacy of savings”
  - “10X the gigabytes for only twice the price” is still twice the price
  - Its not just the Rate it is the Total, it is not the Unit Price it is the Total Price
  - True energy efficiency is not Biofuel, it is not BTU’s/sec, it is Total Energy Use
The Department of Defense

Secretary of Defense Leon Panetta

The way ahead:

• Spending choices based on sound strategy and policy

• Balance the need for fiscal solvency

• Aligning resources with our priorities

• Produce a financial statement that passes all financial audit standards

• Tackle wasteful and duplicative spending, and overhead

“I promised, and said continually, as a former Chairman of the Budget Committee and as a former Director of OMB, that I do not believe that we have to choose between national security and fiscal security. What I cannot promise is that this can be achieved without making some very difficult choices. Those choices are essential if we are not to hollow out the force and at the same time meet the threats we confront.”

SECDEF 11 October 2011
The role of the Budget Officer

"I neither create nor destroy money. I merely move it around among people who hate me."

Life as a Program Manager

"This is an average year - worse than last but better than next."