

# Report for Congress

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## **Authorization and Appropriations for FY2003: Defense**

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Appropriations are one part of a complex federal budget process that includes budget resolutions, appropriations (regular, supplemental, and continuing) bills, rescissions, and budget reconciliation bills. The process begins with the President's budget request and is bounded by the rules of the House and Senate, the Congressional Budget and Impoundment Control Act of 1974 (as amended), the Budget Enforcement Act of 1990, and current program authorizations.

This report is a guide to one of the 13 regular appropriations bills that Congress passes each year. It is designed to supplement the information provided by the House and Senate Appropriations Subcommittees on Energy and Water. It summarizes the current legislative status of the bill, its scope, major issues, funding levels, and related legislative activity. The report lists the key CRS staff relevant to the issues covered and related CRS products.

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# Authorization and Appropriations for FY2003: Defense

## Summary

Congress has completed action on the FY2003 defense authorization (H.R. 4546) and defense appropriations (H.R. 5010) bills. The President signed the FY2003 defense appropriations act into law on October 23 (P.L. 107-248), and he signed the FY2003 defense authorization act into law on December 2 (P.L. 107-314). In addition, Congress has approved, and the President has signed, the military construction appropriations bill (H.R. 5011, P.L. 107-249). The House and Senate Appropriations Committees did not, however, take up bills to provide \$10 billion that the Administration requested as a contingency fund for costs of counter-terrorism operations in FY2003.

The conference agreement on the defense appropriations bill establishes final funding levels for key defense programs, and it resolves a number of matters that were at issue during the year. As the Administration requested, the bill eliminates funds for development of the Crusader artillery system and instead provides increased funding for other Army indirect fire programs. Conferees added funds to develop an alternative tube artillery system to be deployed by 2008. Earlier, the conference report on the FY2002 supplemental appropriations bill (H.R. 4775, P.L. 107-206) directed the Army to enter into a follow-on contract to use Crusader technology in developing such a system.

Conferees on the defense authorization bill reached agreement on several contentious issues, though some may recur next year. The key issue, which held up the conference agreement until after the mid-term elections, was whether to permit concurrent receipt of military retired pay and veteran's disability benefits. The Senate authorization bill included a provision to allow immediate, full concurrent receipt, while the House bill phased in a program to allow concurrent receipt for those with 60% or greater disabilities. The White House threatened to veto a bill that included either provision. The conference agreement provides a new benefit, paid by the Defense Department, to military retirees who have a disability determined to be caused by a combat or combat-related injury.

The conference agreement on the defense authorization also resolved a number of other issues. The agreement includes amended versions of Senate provisions tightening oversight of missile defense programs; it drops a House provision concerning application of the Endangered Species Act to defense facilities, but includes a provision concerning the Migratory Bird Treaty Act; it prohibits FY2003 funds from being used to develop nuclear armed interceptors for missile defense; it provides funds for developing a nuclear-earth penetrator warhead, but only after the Defense Department submits a report on the project that includes a review of non-nuclear alternatives; and it drops a Senate provision permitting service members to have access to abortions at military facilities overseas.

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# Authorization and Appropriations for FY2003: Defense

## Most Recent Developments

*On November 12, the House, and on November 13, the Senate, approved a conference agreement on the FY2003 defense authorization bill (H.R. 4546), and the President signed the bill into law on December 2 (P.L. 107-314). Earlier, on October 10, the House, and on October 16, the Senate, approved a conference agreement on the FY2003 defense appropriations bill (H.R. 5010), and the President signed it into law on October 23 (P.L. 107-248). The conference agreement on the defense appropriations bill provides \$355.1 billion for programs it covers. This is \$11.7 billion below the Administration's request. The bill does not include \$10 billion that the Administration requested as a contingency fund for costs of counter-terrorism operations in FY2003.*

## Status of Legislation

**FY2003 Defense Authorization Bills.** On May 1, the House Armed Services Committee marked up its version of the FY2003 defense authorization bill, H.R. 4546. The committee also considered, but did not report, a companion measure, H.R. 4547, to provide funds for the war on terrorism. The House passed H.R. 4546 early on the morning of May 10. On May 9, the Senate Armed Services Committee completed marking up its version of the FY2003 defense authorization, S. 2514, and a report was issued on May 15. On June 13, the committee approved an amendment to be offered on the floor regarding the Crusader artillery system. On June 18, the full Senate began considering the bill, and the Senate passed the bill on June 27. On July 18, the House Armed Services Committee reported H.R. 4547, entitled the Cost of War Against Terrorism Authorization Act (COWATAA), and the full House approved the bill under suspension of the rules on July 24. On November 12, a conference report on the bill was filed. The conference agreement was approved in the House under suspension of the rules on November 12. The Senate approved the conference report on November 13 by voice vote. The President signed by bill on December 2.

**FY2003 Defense Appropriations Bill.** On June 19, the House Defense Appropriations Subcommittee marked up its version of the FY2003 defense appropriations bill, and on June 24, the full committee marked up the bill (H.R. 5010) and ordered it to be reported. The House passed the bill on June 27. On July 18, the Senate Appropriations Committee reported its version of the bill (also H.R. 5010). The Senate passed the bill on August 1. On October 9, conferees announced agreement on a compromise version of the bill. The House approved the conference

report on October 10 and the Senate on October 16. The President signed the bill into law on October 23.

**FY2003 Congressional Budget Resolution.** On March 20, the House passed its version of the annual congressional budget resolution, H.Con.Res. 353, and the Senate reported its version, S.Con.Res. 100, on March 22. Both versions recommended funding levels for defense in FY2003 very close to what the Administration requested. The full Senate never considered the resolution on the floor, however, and it the two chambers were not able to agree on a common budget. On May 22, as part of the rule governing debate on supplemental appropriations, the House approved a measure deeming the budget resolution, as approved in the House, to have been passed for purposes of guiding later action on funding legislation.

**FY2002 Supplemental Appropriations.** On March 21, the Administration submitted a request for \$27.1 billion in supplemental FY2002 appropriations for activities in response to last year's terrorist attacks, of which \$14 billion was for defense programs. On May 24, the House approved its version of the bill, H.R. 4775, providing \$28.8 billion using Office of Management and Budget (OMB) scoring of a key provision (as assumed by the appropriations committee) and \$30.1 billion using Congressional Budget Office (CBO) scoring. The Senate approved its version of the bill on June 7, providing \$31.4 billion. On July 18, conferees announced agreement on a compromise bill that provides \$28.9 billion, including \$14.5 billion for defense. The House approved the conference report on July 23 and the Senate on July 24, and the President signed the bill on August 2 (P.L. 107-206). Of the total in the bill, \$5.1 billion was provided in contingent emergency appropriations, and on August 13, the White House announced that the President would not designate those amounts as emergency funding. Without those amounts, the total available for defense in the bill is \$13.983 billion offset by \$613 million in rescissions.

**Table 1a. Status of FY2003 Defense Appropriations**

Subcommittee Markup		House Report	House Passage	Senate Report	Senate Passage	Conf. Report	Conference Report Approval		Public Law
House	Senate						House	Senate	
6/19/02	–	6/24/02 H.Rept. 107-532	6/27/02 413-18	7/18/02 S.Rept. 107-213	8/1/02 95-3	10/9/02 H.Rept. 107-732	10/10/02 409-14	10/16/02 93-1	10/23/02 P.L. 107- 248



**Table 1b. Status of FY2003 Defense Authorization**

Full Committee Markup		House Report	House Passage	Senate Report	Senate Passage	Conf. Report	Conference Report Approval		Public Law
House	Senate						House	Senate	
5/1/02	5/9/02	5/3/02 H.Rept. 107-436	5/10/02 359-58	5/15/02 S.Rept. 107-151	6/27/02 97-2	11/12/02 H.Rept. 107-772	11/12/02 Voice Vote	11/13/02 Voice Vote	12/2/02 P.L. 107-314

## The FY2003 Defense Budget Debate

On February 4, 2002, the Administration submitted its formal FY2003 budget request to Congress. The Administration proposed \$396.8 billion for the national defense budget function, about \$46 billion above the estimated FY2002 level (for an overview of the request, see **Appendix B**). Of the total requested, \$3.4 billion was for full accrual accounting of civilian personnel retirement benefits, which Congress ultimately did not approve. Without the accrual accounting change, the request was \$393.4 billion. Of this amount, \$366.7 billion was requested for programs covered by the defense appropriations bill, \$9.7 billion by the military construction appropriations bill, \$16.5 billion for Department of Energy defense-related activities funded in the energy and water appropriations bill, and the remainder in other appropriations bills.

With a global war against terrorism underway, Congress was not inclined to make substantial changes in the Administration's request for a defense increase. Early in the year, however, there was some skirmishing, particularly between the defense committees and the budget committees, over two issues:

- ! first, how to treat the Administration's request for \$10 billion in FY2003 in an unallocated contingency fund for the war against terrorism and,
- ! second, how to treat the Administration's request for full accrual accounting of civilian retirement benefits, which, across the whole government, would increase discretionary spending by about \$9 billion and reduce mandatory spending by an equal amount (see **Appendix B** for a discussion of accrual accounting).

## National Defense Funding in the FY2003 Budget Resolution

For their part, the congressional defense committees would have preferred to be able to allocate the entire amount the Administration requested for national defense as they saw fit. The House Budget Committee, however, set aside the \$10 billion requested for war costs in a reserve fund available only for that purpose. The House also set aside funds for civilian accrual accounting in a reserve fund, while the Senate

Budget Committee rejected the shift to full accrual accounting altogether. **Table 2** shows amounts recommended for national defense in the House and Senate versions of the budget resolution, compared to the Administration request.

The House approved its version of the FY2003 budget resolution, H.Con.Res. 353, on March 20 by a vote of 221-209. In all, the measure recommended \$393.8 billion for the national defense budget function in FY2003, but \$10 billion of that amount was in the reserve fund available only for costs of the global war against terrorism. An additional \$3.4 billion, not shown in the national defense total, was available for defense in the reserve fund to cover costs of accrual accounting, if Congress approved it.

The Senate Budget Committee version of the resolution, S.Con.Res. 100, was reported on March 22 but was never brought up on the Senate floor. The committee recommended \$393.4 billion for national defense in FY2003 and explicitly rejected a shift to full accrual accounting for civilian employees. The committee also recommended lower levels of defense spending after FY2004 than either the House or the Administration, though the committee set aside future funds in a reserve to be available either for defense or deficit reduction. Recommended national defense funding levels in the budget resolution are not binding on the appropriations committees, however, which are free to allocate funds for discretionary programs as they decide.

**Table 2. Congressional Budget Resolution, Recommended Amounts for National Defense, FY2003-FY2007**

(billions of dollars)

<b>Fiscal Year:</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>House-Passed</b>						
Budget Authority	347.514	393.831	401.640	422.740	444.243	466.458
Outlays	344.777	375.261	390.579	409.696	425.090	439.181
<b>Senate Budget Committee</b>						
Budget Authority	–	393.353	401.073	411.744	422.785	434.118
Outlays	–	380.145	394.354	405.833	411.587	415.278
<b>Difference (House Minus Senate)</b>						
Budget Authority	–	+0.478	+0.567	+10.996	+21.458	+32.340
Outlays	–	-4.884	-3.775	+3.863	+13.503	+23.903
<b>Administration Request</b>						
Budget Authority	–	396.801	405.642	426.571	447.702	469.750
Outlays	–	379.012	393.802	413.527	428.549	442.473
<b>CBO Estimate of Administration Request, Excluding Civilian Accrual</b>						
Budget Authority	–	393.445	402.013	422.790	443.764	465.636
Outlays	–	375.656	390.173	409.746	424.611	438.359

**Sources:** H.Con.Res. 353; S.Con.Res. 100.

## **Treatment of Full Civilian Accrual Accounting**

The \$9 billion requested for full civilian accrual accounting was at the center of debate over the total amount available for appropriations bills. The House-passed budget resolution provided \$759 billion in total discretionary funding to the appropriations committee, which is equal to the Administration request without the \$9 billion government-wide cost of shifting civilian accrual payments from the mandatory to the discretionary side of the budget. The Senate reported version of the budget resolution, however, provided \$768 billion in discretionary funds, though it did not assume that Congress would approve the shift of accrual funding. As a result, without the \$9 billion for accrual accounting, the House ended up marking up appropriations bills with \$9 billion less than the Senate. Eventually, this contributed to a deadlock, and none of the appropriations bills, except for defense and military construction, have been enacted.

## **Treatment of \$10 Billion Contingency Fund for Global Counter-Terrorism**

How to treat the \$10 billion that the Administration requested as an unallocated contingency for war costs was a matter of ongoing discussion. On May 22, the House approved H.Res. 428, the rule governing debate on the FY2002 supplemental appropriations bill (H.R. 4775), which includes a provision “deeming” the budget resolution, as passed by the House, to be in effect for purposes of subsequent House action on appropriations and other funding bills. Appropriators wanted the “deeming” language amended to allow the appropriations committee to remove the reserve fund designation for the contingency funding, thus letting the committee use the \$10 billion as it decided. In the face of objections from some conservatives, however, the House leadership did not agree, and the deeming language refers to the measure as passed by the House on March 20.

The debate over treatment of the \$10 billion contingency fund for war costs played out further in congressional action on the defense authorization bill. The House Armed Services Committee approved the \$10 billion in a separate bill, H.R. 4547, the Cost of War Against Terrorism Authorization Act, and used part of the money in that bill to finance programs that otherwise would have been included in the regular authorization bill – see below for a full discussion. In the end, however, the conference agreement on the defense authorization bill approved the \$10 billion as requested as an unallocated contingency fund for costs of the war against terrorism. That amount was not appropriated, however. The appropriations committees did not act on the \$10 billion contingency request at all, though funding for counter-terrorism activities may be addressed next year in a supplemental appropriations measure.

## **Appropriations Action**

The House version of the defense appropriations bill, H.R. 5010, approved on June 27, provided \$354.7 billion for defense activities it covers (excluding military construction programs, Department of Energy defense-related activities, and defense-related activities of some other agencies). This was \$12.1 billion below the amount

requested, of which \$10 billion was the counter-terrorism contingency amount. The additional \$2.1 billion reduction in defense was then available for other appropriations bills, including the military construction bill, which was \$541 million above the request, and the energy and water bill, which includes defense-related programs. The Senate version of H.R. 5010, approved on August 1, provided \$355.4 billion, \$11.4 billion below the request. The conference agreement on the defense appropriations bill provides \$255.1 billion, \$11.6 billion below the request. (See **Table C2** in the Appendices for details).

## Key Issues in Congress

Along with negotiations about the overall level of defense spending, there was considerable debate in Congress about priorities within the budget and about a number of specific programs. The most contentious issue was whether to permit concurrent receipt of military retired pay and veterans disability benefits. The House authorization bill included a provision to phase in partial concurrent receipt. The Senate bill included a measure approved on the floor to provide immediate, full concurrent receipt. The White House Statement of Administration Policy on the Senate bill threatened to veto any bill that includes either partial or full concurrent receipt. The conference agreement on the defense authorization bill provides a benefit payment only to military retirees with a disability determined to be caused by a combat or combat-related injury.

Another major issue emerged at the beginning of May, on the eve of the House Armed Services Committee markup of the defense authorization bill, when the committee received word that the Office of the Secretary of Defense (OSD) had decided to terminate the Army Crusader self-propelled artillery program. The committee did not agree to end the program, however, and it included full funding for the Crusader in the bill that passed the full House. Subsequently, however, as work on defense funding bills proceeded, Congress agreed to terminate the program, though it added money for a new artillery system that the Administration had not requested.

A major issue in the Senate debate over the authorization bill was the level of funding for missile defense. The Senate Armed Services Committee reduced requested missile defense R&D funds by more than \$800 million, freeing up funds for, among other things, increased shipbuilding. Eight Republicans on the Committee voted against reporting the bill, several citing the missile defense cut as the reason. In floor action, however, the Senate voted to allocate \$814.3 million in anticipated inflation savings either to missile defense or to counter-terrorism.

Other major issues over the course of the year included provisions concerning environmental limitations on military training, missile defense funding and management, and nuclear weapons development and testing.

The following discussion provides an overview of major elements of the Administration's request and of congressional action to date, with particularly controversial items highlighted.

## Counter-Terrorism Funding

The Administration requested a total of \$19.4 billion in the FY2003 defense budget for costs of the global campaign against terrorism. Of the total, \$10 billion was requested as an unallocated reserve for future, as yet unplanned military operations, and the remaining \$9.4 billion was requested for specified activities. All of the money, and an additional \$700 million to support programs identified in the Administration's Nuclear Posture Review, was requested to be appropriated to the Defense Emergency Response Fund (DERF), a transfer account from which money would then be allocated to operating accounts of the services. This would allow the Defense Department considerable flexibility in using the money, since funds can be shifted to different activities without going through normal reprogramming procedures.

The counter-terrorism amounts requested for FY2003 are to carry on activities that were financed in FY2001 and FY2002 mainly through emergency supplemental appropriations. Last autumn, Congress appropriated \$40 billion for responding to the terrorist attacks of September 11, of which \$17.1 billion was devoted to defense programs. On March 21, 2002, the Administration sent Congress a request for an additional \$27.1 billion in FY2002 supplemental appropriations for responding to the terrorist attacks, of which \$14.0 billion was for defense. On July 23, the House, and on July 24, the Senate, approved a conference agreement on a bill providing \$28.8 billion in supplemental appropriations for FY2002, of which \$14.5 billion is for defense. Of the total in the bill, \$5.1 billion was appropriated as contingent emergency funding, which requires the President to designate the funds as an emergency before it is made available. The White House has announced that it does not intend to designate the funds as an emergency, however. Of the \$5.1 billion that will not, therefore, be available, \$983 million is for defense. (For a full discussion, see CRS Report RL31406, *Supplemental Appropriations for FY2002: Combating Terrorism and Other Issues*, by Amy Belasco and Larry Nowels.)

**Congressional Action.** None of the congressional defense committees agreed to provide the \$9.4 billion requested for specific counter-terrorism programs in the DERF. Instead, all the committees allocated funding to regular operating and acquisition accounts in the authorization and appropriations bills. All the committees also reduced funding for combat air patrols and for some other programs requested in the DERF.

In the end, Congress did not provide the \$10 billion requested as an unallocated contingency fund, though it may provide part or all of the amount requested next year in a supplemental appropriations measure. The House Armed Services Committee considered the \$10 billion in a separate bill, H.R. 4547. In preliminary markup of the bill on May 1, the committee allocated \$3.6 billion to specific programs – later, that amount was reduced to \$3.1 billion. All but about \$200 million of that amount is for programs the Administration requested as part of the \$9.4 billion in specifically allocated counter-terrorism money. In effect, the committee freed up about \$3 billion of funds for other programs in the regular authorization bill by using some of the \$10 billion in the unallocated contingency fund for counter-terrorism projects that otherwise would have been financed in the regular authorization.

The Senate Armed Services Committee authorized the full \$10 billion in a general provision (Section 1003) of its version of the authorization bill. The provision authorized the full \$10 billion for continuation of the war on terrorism, subject to a specific request for the funds and to subsequent appropriations.

On July 3, after considerable prodding from Congress, the Administration submitted a formal budget amendment revising its request for the \$10 billion. The Administration did not provide significantly more detail on the allocation of the funds, however. Instead, the revised request would authorize the Secretary of Defense to transfer the \$10 billion to various DOD appropriations accounts 15 days after notifying Congress of the transfer. The letter accompanying the request estimated that up to \$2.55 billion would be for military personnel accounts, up to \$5.57 billion for operation and maintenance accounts (including the Defense Health Program and Overseas Humanitarian, Disaster, and Civic Aid), military construction or working capital funds; and up to \$1.88 billion for appropriations for procurement or research development. (The full text of the request is available electronically at: [[http://w3.access.gpo.gov/usbudget/fy2003/pdf/15dod\\_amend.pdf](http://w3.access.gpo.gov/usbudget/fy2003/pdf/15dod_amend.pdf)].)

On July 18, the House Armed Services Committee marked up and reported a revised version of H.R. 4547. It provided \$3.1 billion allocated to specific programs, with another \$6.9 billion in very broad categories. The House took up the bill under suspension of the rules late in the evening of July 23, and the bill was passed on July 24. Taken together, the regular defense authorization bill, H.R. 4546, and the Cost of War Against Terrorism Authorization, H.R. 4547, as passed by the House, authorized \$392.8 billion for national defense.

In the end, however, Congress did not approve the House Armed Services Committee's effort to use part of the contingency fund for war costs to finance an increase in other defense programs. The conference report on the defense authorization bill provides \$10 billion as an unallocated reserve for war costs, as requested, and as in the Senate version of the bill.

More importantly, the disposition of the \$10 billion requested for counter-terrorism ultimately depended on what happened in appropriations bills. The conference report on the defense appropriations bill does not provide any of the money, and the appropriations committees did not take up separate legislation to provide additional funding for the war on terrorism.

## **Personnel Pay and Benefits**

The Administration request included a 4.1% pay raise for military personnel; additional selective pay increases for mid-grade personnel that could increase their pay raise to 6.5%; the extension of special pays and bonuses to bolster retention of personnel with critical skills; and continued incremental increases in the basic allowance for housing intended to eliminate out-of-pocket off-base housing costs by FY2005.

**Congressional Action.** Pay raises and benefits for uniformed military personnel and authorized military end-strength are under the jurisdiction of the Armed Services Committees and are addressed in the annual defense authorization

bill. The defense appropriations bill formally provides funding for military personnel, but it does not authorize the pay raise or benefits, though it sometimes makes changes in some personnel-related activities.

Both the House and the Senate Armed Services Committees approved the Administration's proposed pay and benefits increases, and the authorization conference report provides the full 4.1% pay raise and other targeted pay increases as requested. A number of significant personnel related issues emerged, however. The major issue concerned concurrent receipt of retirement and disability benefits. Other issues included House cuts in funding for health benefits accrual and a House and Senate increase in authorized active duty military end-strength.

***Concurrent Receipt of Retirement and Disability Benefits.*** Under current law, military retirees – who leave after 20 years or more of service – are eligible for payments from the Veterans Administration (VA) for service-connected disabilities, but their military retirement pensions are reduced by the amount of disability benefits received. Individuals who qualify often accept the disability benefits, however, because VA disability payments are not taxed, while pensions are.

Veterans organizations have long argued that individuals should be able to receive both full retirement pensions and VA disability benefits without any offset. Last year, Congress approved a measure to phase in partial concurrent receipt (as in the House plan this year), but it was contingent on the Administration taking steps to fund the measure, and the Administration did not do so. This year, concurrent receipt was a critical issue both in the House and in the Senate.

The House-passed authorization bill approved a plan to phase in a measure that would allow military retirees with a disability of 60% or greater to receive both disability benefits and retirement pensions. Allowing phased in, partial concurrent receipt, as in the House bill, would cost an estimated \$516 million in FY2003, \$5.8 billion over the five years from FY2003 through FY2007, and \$17 billion over ten years through FY2012. These amounts would be scored not as discretionary funding in the defense bills, but as mandatory spending coming either from mainly from the military retirement trust fund.

The measure would also require an increase in contributions to the military retirement fund to cover the accrual cost of the increased benefits payable in the future to current military personnel. The House measure provides that the accrual payments will be made from the general Treasury, however, rather than from discretionary funds in the defense budget. Including both increased payments to retirees and payments from the general fund into the military retirement fund, the Congressional Budget Office estimates that the total budget cost of the House plan would be \$1.1 billion in FY2003, \$8.8 billion over the five years, FY2003-FY2007, and \$22.6 billion over the next ten years through FY2012.<sup>1</sup>

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<sup>1</sup> Congressional Budget Office, "Cost Estimate, H.R. 4546, Bob Stump National defense Authorization Act for Fiscal year 2003," p. 13 and p. 15.

The Senate Armed Services Committee included a similar, phased in, partial measure in its reported bill, but the committee also voted to offer an amendment on the floor that would immediately allow full concurrent receipt of disability and retired pay regardless of the level of disability. Senators Levin and Warner brought up that amendment on the floor on June 19, and it was approved by a voice vote. The Senate-passed measure did not insulate the Defense Department from the accrual costs of the increased benefits as the House measure did. CBO estimated that the Senate version of concurrent receipt would cost \$4.3 billion in FY2003, \$25.8 billion over the next five years, and \$61.0 billion over the next ten years. Of those amounts, the Defense Department would have to provide \$1.1 billion in FY2003, \$2.5 billion over the next five years and \$6.4 billion over the next ten years in its budget to cover accrual payments for its current military personnel. (For a full discussion of the budget issues, see CRS Report RS21327, *Concurrent Receipt of Military Retirement and VA Disability Benefits: Budgetary Issues*, by Amy Belasco.)

For its part, the Administration opposed permitting concurrent receipt. In its “Statement of Administration Policy” on the Senate authorization bill (available at [<http://www.whitehouse.gov/omb/legislative/sap/107-2/S2514-s.html>]), the White House threatened to veto the defense authorization if it provided for either partial or full concurrent receipt. The Defense Department also threatened a veto in the package of appeals of provisions in the House and Senate authorization bills that it sent to the Armed Services Committees on July 24 and in a letter that Secretary of Defense Rumsfeld sent to Senator Levin and Senator Warner on September 24.

The dispute over concurrent receipt held up a conference agreement on the defense authorization bill until after the November elections. On November 12, during the 107<sup>th</sup> Congress’s lame duck session, authorizers announced a compromise on the issue that provides a new benefit for retirees who are determined to have a disability caused by a combat or combat-related injury. Payments would be made to all retirees with a disability of 10% or greater resulting from an injury or wound for which the retiree was awarded a Purple Heart. Payments would also be made to retirees with a disability of 60% or more resulting from combat-related activities, which include injuries received as a direct result of armed conflict, while engaged in hazardous service, while performing duty under conditions simulating war, or through an instrumentality of war. As explained by the bill managers on the House floor on November 12 (see *Congressional Record*, pp. H8536-8537), injuries caused by instrumentalities of war include an injury cause by a mine, accidents during combat, or sickness caused by fumes, gas, or military ordnance. The amount of the payment to each individual will be equal to the amount that would be paid as a VA disability benefit.

Exactly how many retirees will qualify for the new benefit is not known; preliminary estimates are in the range of 30,000. The Defense Department is responsible for administering the program, and it will have to establish criteria for determining eligibility. **Table 3** shows a preliminary Congressional Budget Office (CBO) estimate of the costs.



**Table 3: Preliminary CBO Estimate of Costs of Combat Related Disability Benefits**  
(by fiscal year in millions of dollars)

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
108	265	512	624	665	697	730	762	696	830

**Source:** Congressional Budget Office.

As the provision is written, these amounts will be paid directly by the Defense Department out of its current budget rather than from the military retirement fund. These amounts, therefore, will be subject to annual appropriations. The FY2003 defense appropriations bill, which was passed before the authorization bill, did not provide funding. To cover the costs, the Defense Department may reprogram money or request supplemental appropriations.

**Reduction in Funding for Estimated Cost of Retiree Health Care Benefits.** When it submitted its budget request, the Administration estimated that the Defense Department would have to pay \$8.1 billion in FY2003 into the retiree health care reserve fund for accrual costs of 65-and-over health care benefits (see the discussion of accrual accounting in Appendix B, below). Later officials said that DOD actuaries were expected to reduce the estimated cost when they convened later in the year. The House Armed Services Committee reduced military personnel funding by \$810 million, 10% of the estimated cost of health benefits accrual. Representative Spratt, the second ranking Democrat on the committee, criticized this measure, saying that the \$810 million is at the upper limit of the amount DOD said might be saved. If defense actuaries did not revise their cost estimate as much, there could be a shortfall of several hundred million dollars in military personnel accounts.

The House Appropriations Committee reduced funding for health benefits accrual by \$405 million, the lower end of DOD estimates of likely savings. The Senate Appropriations Committee reduced accrual contributions by \$372.6 million to reflect changes in retiree health benefits that were approved in the FY2002 defense authorization act (P.L. 107-107). The committee also said it would revisit the amount of accrual contributions after defense actuaries met. The Administration package of appeals on the House and Senate authorization bills opposed the House authorization measure. The conference agreement on the defense appropriations bill reduces funding for health benefits accrual by \$405 million.

**Increase in Personnel End-Strength.** The House Armed Services Committee approved an increase of 12,552 in active duty end-strength, including increases in full time guard and reserve personnel. The House-passed authorization bill provided \$528 million in FY2003 to cover associated costs in the military personnel accounts. Each of the military services has requested an increase of personnel end-strength recently, with Army seeking the largest increment of as many as 40,000 additional soldiers over the next few years. Secretary Rumsfeld has resisted increases, however, arguing repeatedly that added personnel would be very expensive over the long term and that measures should instead be taken to reduce demands on the force.

It was not clear whether the House Armed Services Committee intended the end-strength increase to be a temporary measure related to the war against terrorism or a permanent addition to the force. Once fully phased in, an increase of 12,552 in end-strength would cost more than \$1 billion a year in the personnel accounts (see **Table 4**), with additional costs required in operation and maintenance accounts to fully train, sustain, and equip the added troops.

**Table 4. Congressional Budget Office Estimate of the Costs of the House Armed Services Committee Increase in Active Duty End-Strength**

(budget authority in millions of dollars)

	2003	2004	2005	2006	2007
House – H.R. 4546	528	1,089	1,122	1,155	1,191

**Source:** Congressional Budget Office.

The Senate Armed Services Committee did not include an increase in end-strength in the authorization bill it reported. But on the floor on June 27, the Senate approved an amendment offered by Senators Cleland and McCain to increase authorized active duty end-strength by 12,000. Senator Cleland called for an increase of 40,000 service members over the next five years. The Defense Department’s package of appeals on the authorization opposed any increase in end-strength.

The House Appropriations Committee did not approve an increase in end-strength, arguing that requirements are uncertain. The committee report said that any increase that might be needed in FY2003 should be addressed in a supplemental appropriations request. The Senate Appropriations Committee also did not approve an increase in end-strength. The appropriations conference report does not include funds for an overall increase in end-strength.

The conference agreement on the defense authorization bill does not include an increase in end-strength. In report language, conferees said that an increase is needed but that the appropriations bill did not provide enough money. The conference agreement also allows the Secretary of Defense to increase end-strength by up to 3% above the authorized level – standing law had allowed a 2% increase – and it gives the military service secretaries independent authority to increase end-strength by up to 2%. The agreement also establishes a floor on end-strength equal to the requested levels, and it repeals a measure that allowed the Secretary of Defense flexibility to reduce end-strength below authorized levels.

## **Army Modernization**

The Army’s modernization plan involves three overlapping initiatives: one, to upgrade and recapitalize the existing “legacy” force of heavy armored forces; a second to build new, more easily deployable “interim brigade combat teams”; and a third to develop the “objective force” of the future.

Key elements of legacy force modernization include upgrading existing weapons with digitized communications links and new surveillance and reconnaissance capabilities. The most controversial elements of the plan have been the Comanche helicopter, which has experienced repeated development delays and cost increases, and the Crusader artillery system.

The central element of the interim force is a new light armored vehicle, recently named the "Stryker." Congress has supported the interim force concept, although there has been some debate about the characteristics of the armored vehicle. In the past, the issue was whether it should be a tracked vehicle instead of the wheeled system the Army has selected. More recently, the issue has been whether the new vehicle will be transportable on C-130 airlift aircraft.

The key element of the objective force is the "Future Combat System," which is an integrated suite of capabilities, including new armored systems and also improved communications, intelligence, and surveillance capabilities. The Army's FY2003 budget request includes funds to accelerate FCS development.

**Congressional Action.** Congress has generally supported the Army's modernization plan, including plans for the interim combat brigade teams and development of the Future Combat System. But several issues have been contentious, including funding for the Crusader artillery system, and for some Army helicopter programs.

**Crusader Artillery System.** One of the most contentious issues in the defense budget this year was the fate of the Crusader self-propelled artillery system. Advocates of defense transformation have long been critical of the program, arguing that the 40-ton system is not readily deployable. Supporters of the system responded that the weight has been reduced substantially and that the system was needed to allow artillery to keep up with rapidly moving armored forces on the battlefield. On the eve of the House Armed Services Committee markup of the defense authorization bill, Deputy Secretary of Defense Wolfowitz informed committee members that DOD was ordering the Army to prepare an analysis of alternatives to the Crusader within 30 days, a step toward canceling the \$11 billion program. DOD officials later confirmed that Secretary Rumsfeld intended to terminate the project.

The Crusader had considerable support in Congress, however. In the authorization markup the House Armed Services Committee provided the full \$475.6 million for Crusader R&D that was in the Administration's February budget request. The Committee also included language in its report on the bill, though not in the statutory language of the measure, that prohibits a cut in funding until after a more extensive, formal analysis of alternatives was completed, which likely would not be until April 2003. This prompted the White House to threaten a presidential veto of any bill if it included any statutory provisions limiting the Administration's ability to cancel the program. The Rules Committee did not permit any floor amendments to reduce Crusader funding.

When it marked up its version of the authorization bill on May 9, the Senate Armed Services Committee deferred action pending a committee hearing on the Crusader. The reported bill included \$475.6 million for Crusader. But when

reporting the bill, committee Chairman Carl Levin said that the committee might offer an amendment to reduce funding when the bill is on the floor. Later, Senator Levin said that DOD's civilian leadership had not given the Army adequate time to review the alternatives to the Crusader that civilian officials supported.

On May 29, the Administration formally submitted an amendment to its defense budget request asking Congress to allocate the Crusader funding to other Army R&D programs, including the Future Combat System, the Excalibur precision artillery projectile, the Army tactical unmanned aerial vehicle, and a new precision guided mortar munition (see **Table 5**).

**Table 5: Crusader Budget Amendment/Non-Line of Sight Cannon Funding: Appropriations Action**  
(budget authority in thousands of dollars)

	Original Request	Amended Request	House Approp.	Senate Approp.	Conf. Approp.
0603854A - Artillery Systems - Dem/Val	-	-	-	-	-
Crusader Demonstration/Validation	246,465	-	-	-	-
Objective Force -- Indirect Fires	-	-	195,500	-	195,500
Technology Integration -- Cannon, Platform, Munitions	-	-	173,000	-	173,000
Reduction	-	-	-	-5,200	-
0604854A - Artillery Systems - EMD	-	-	-	-	-
Crusader Engineering Development and Operational Test	229,144	-	-	-	-
Paladin Upgrades	-	7,500	7,500	-	5,625
0604645A - Armored Systems Modernization	-	-	-	-	-
Netfires System Technology	-	57,000	57,000	-	42,750
Netfires C4ISR	-	57,509	57,509	-	43,000
Objective Force -- Indirect Fires	-	195,500	-	-	-
Crusader Follow-On Indirect Fires	-	-	-	475,609	-
Technology Integration -- Cannon, Platform, Munitions	-	-	-	173,000	-
Precision Guided Mortar Munition in PE 603802A	-	10,800	10,800	-	8,100
XM982 (Excalibur) Projectile in PE 604814A	-	48,300	48,300	-	36,225
Guided MLRS Unitary and HIMARS in PE 603778A	-	55,000	55,000	-	41,250
Advanced Field Artillery Tactical Data System in PE 203726A	-	4,000	4,000	-	4,000
Abrams Engine Program in PE 203735A	-	28,600	28,600	-	28,600
Tactical Unmanned Aerial Vehicles Transfer in PE 305204A	-	11,400	11,400	-	-
Micro Electro-Mechanical Systems (MEMS) in PE 602303A	-	-	15,000	-	12,750
Total	475,609	475,609	663,609	643,409	590,800

**Source:** FY2003 Defense Appropriations Conference Report, H.Rept. 107-731, p. 257.

On June 13, the Senate Armed Services Committee held a closed session to consider action on the Crusader. The committee approved an amendment that would fence Crusader funding for 30 days after the bill is signed into law and require the Army to complete a study of alternatives during that time. Subsequently the measure would permit the Secretary of Defense to submit a request to the congressional defense committees to reprogram the money into other Army indirect fire weapons development. Senator Levin proposed the committee amendment on the floor on

June 19. Senator Warner then offered a second degree amendment to permit the Secretary of Defense to allocate funds to other development programs without seeking congressional permission through a reprogramming request. The Warner amendment was agreed to by unanimous consent, and the Levin amendment, as amended by Warner, was subsequently approved by a vote of 96 to 3.

Subsequent to House and Senate action on the defense authorization bill, however, the issue was resolved in a fashion acceptable to the Administration. In its version of the defense appropriations bill, the House Appropriations Committee agreed to terminate the Crusader program and to fund the alternatives that the Administration proposed in its May 29 budget amendment. But the committee also said that development of an alternative indirect fire system must be coupled with development of an appropriate platform to carry a new cannon. The committee therefore added \$173 million to develop a platform and new munitions and specifically earmarked funds for that purpose in a general provision. The general provision also required a system to be delivered by 2008. Like the House, the Senate Appropriations Committee added \$173 million for a non-line of sight cannon to be deployed by 2008.

The conference agreement on H.R. 4775, providing supplemental appropriations for FY2002, includes legislative language directing the Army to enter into a follow-on contract immediately to develop and field a next generation non-line of sight cannon artillery system by 2008. Subsequently, on July 31, August 1, and August 2, all four of the congressional defense committees sent letters to the Defense Department approving a DOD request to reprogram FY2002 funds from the Crusader to the Army's Future Combat System development program.

Like the House and Senate appropriations bills, the conference agreement on the defense appropriations provides most of what the Administration proposed in its Crusader budget amendment and adds \$173 million for a non-line of sight cannon to be deployed by 2008.

***UH-60, CH-47, and TH-67 Helicopters.*** The defense committees took different actions on several Army helicopter programs. The House authorization bill added \$115 million for 8 additional UH-60 Blackhawk utility helicopters and one simulator and specified what versions to buy. The House appropriations bill added funds for 4 helicopters and a simulator. The Senate authorization and appropriations bills added \$96.7 million for 9 aircraft allowing the Army to allocate the funds. The conference report on the defense appropriations bill provides \$269.9 million for 19 Blackhawks, an increase of \$116.6 million for seven additional aircraft, and, as in the House authorization, specifies which models to procure and which components will receive them.

Funding for the CH-47 cargo helicopter was more contentious. The House authorization added \$13.5 million to the on-going modification program for crashworthy seats. The Senate authorization as reported had \$4 million for crashworthy seats, but this was reduced in floor action as offsets for other programs. The Senate appropriations bill added just \$1 million for crashworthy seats. The House appropriations bill, however, added \$45 million to the modification plan to increase the production rate and instructed the Army to plan to upgrade all CH-47s

to the most modern “F” version over the next several years. The appropriations conference adds \$39.1 million to support an increased production rate and directs the Army to ensure that all requirements for upgraded aircraft are fulfilled by 2016.

The House authorization and appropriations bills and the Senate appropriations bill added funds for 6 TH-67 training helicopters. The Senate authorization provided no funds. The appropriations conference agreement provides \$9.6 million for six aircraft.

***Comanche Helicopter.*** The Comanche helicopter program has also been a target of criticism from some transformation advocates. Last year, the program cost increased, the development plan was restructured, and projected procurement was delayed. DOD reportedly considered canceling the Comanche as one of a number of steps to reduce the procurement “bow wave” at the end of the decade. The House Armed Services Committee included a measure in its version of the defense authorization bill to establish a cap of \$6 billion on total engineering and manufacturing development (EMD) costs for the Comanche – a level that now appears to be below the amount the Army is projecting for development of just the first versions of the aircraft. The House bill also required an annual review of the EMD program by the Defense Department’s Inspector General. In its report on the defense appropriations bill, the House Appropriations Committee warned that its support for the Comanche program is in jeopardy because of delays and cost growth, and the committee urged the Army to begin exploring low-cost alternatives.

For its part, the Defense Department has also been scrutinizing the program, and in October the DOD’s decision-making body, the Defense Acquisition Board, decided to cut planned procurement of the Comanche by about half. The conference report on the authorization bill eliminates the House cap on EMD costs and the requirement for an Inspector General review but requires quarterly reports to Congress on the status of the program.

***Other Army Weapons Programs.*** There were a number of significant differences between the various bills on several other Army programs. The House and Senate appropriations bills eliminated funds for the Wide Area Munitions program and instructed DOD to terminate it. The House authorization and appropriations bills added \$60 million for Bradley fighting vehicle upgrades for the National Guard, while the Senate authorization and appropriations bills added no money. The House authorization also added \$45 million to upgrade tank recovery vehicles for the National Guard. The House bills and the Senate appropriations bill added money for up-armored HMMWVs. The House bills both cut money for ATACMs Block II missiles, but the House authorization added back money to upgrade some Block I missiles. The Senate appropriations bill eliminated funds for Block II missiles. The House authorization added \$61 million for SINGCARS radios and the House appropriations added \$17 million. The Senate authorization, however, cut \$22.1 million that was requested for the program in the DERF. The Senate appropriations bill provided the amount requested, including the \$22.1 million requested in the DERF. Both the House and the Senate appropriations bills eliminated R&D funds for the Brilliant Anti-Armor Submunition (BAT) Product Improvement Program, though neither version of the authorization bill reduced

funding. Both House bills shifted funds for PAC-3 anti-aircraft missile procurement from the Army to the Missile Defense Agency, but the Senate bills did not.

The defense appropriations conference report terminates the Wide Area Munitions program, adds \$48 million for Bradley upgrades, eliminates funds for the ATACMS Block II, but adds money to upgrade Block I missiles, adds \$11.9 million for SINGCARS radios, provides funds for up-armored HMMWVs, and terminates the BAT Product Improvement Program. The conference agreement also follows the House and shifts Patriot PAC-3 procurement from the Army to the Missile Defense Agency.

***Stryker-Equipped Interim Combat Brigades.*** The Army now plans to outfit six brigades (a combat division has three brigades plus support and command units) with the new “Stryker” light armored combat vehicle. These brigades are designed to be more rapidly deployable than heavy armored units but more capable and survivable than light infantry or airborne units. These units are intended to be an interim approach to transformation of the Army while development of the Future Combat System proceeds. Recently, there have been reports that the Defense Department is considering a measure that would reduce the number of Interim Combat Brigades to three. This is one of many options DOD is considering in preparing the FY2004-FY2009 defense plan. Congress has not debated any specific proposal to reduce the number of new brigades, and the Administration has not yet decided on the proposal. But the appropriations conference report adds \$59.5 million for Stryker brigade deployment and includes a general provision, Section 8121, that requires the Army to budget for six brigades.

**Table 6: Appropriations Action on Major Army Acquisition Programs**  
(amounts in millions of dollars)

	Request			House Appropriations			Senate Appropriations			Conference Appropriations			Change to Request		
	Procurement		R&D	Procurement		R&D	Procurement		R&D	Procurement		R&D	Procurement		R&D
	#	\$	\$	#	\$	\$	#	\$	\$	#	\$	\$	#	\$	\$
RAH-66 Comanche	-	-	914.9	-	-	914.9	-	-	914.9	-	-	914.9	-	-	-
UH-60 Blackhawk	12	180.2	99.1	16	269.4	99.1	21	276.5	123.1	19	296.8	115.1	+7	+116.6	+16.0
TH-67 Creek Training Helos.	-	-	-	6	9.6	-	6	9.6	-	6	9.6	-	-	+9.6	-
CH-47 Upgrades	-	403.2	-	-	458.2	-	-	406.2	-	-	450.3	-	-	+47.1	-
AH-64 Mods	-	93.6	-	-	96.9	-	-	159.6	-	-	136.9	-	-	+43.3	-
AH-64D Apache Longbow	-	895.5	46.2	-	895.5	46.2	-	895.5	46.2	-	895.5	46.2	-	-	-
Bradley Base Sustainment	-	397.1	-	-	457.1	-	-	395.3	-	-	444.9	-	-	+47.9	-
M-1 Abrams Mods/Upgrades	-	691.4	54.6	-	679.2	54.6	-	690.4	58.1	-	678.2	57.1	-	-13.2	+2.5
Stryker Interim Armored Vehicle	332	811.8	124.4	332	772.0	124.4	332	788.0	148.2	332	788.0	148.2	-	-23.8	+23.8
SINGCARs Radios	-	52.2	-	-	72.2	-	-	52.2	-	-	64.1	-	-	+11.9	-
Wide Area Munition	-	12.5	-	-	-	-	-	-	-	-	-	-	-	-12.5	-
ATACMS Upgrade	-	58.7	-	-	32.3	-	-	9.1	-	-	29.1	-	-	-29.7	-
LOSAT Missile	144	17.9	14.5	144	17.9	14.5	-	-	14.5	-	-	14.5	-	-17.9	-
BAT Product Improvement	-	-	190.3	-	-	38.1	-	-	38.1	-	-	45.0	-	-	-145.3
HMMWV	-	196.8	-	-	204.8	-	-	261.8	-	-	240.8	-	-	+44.0	-
FMTV (medium trucks)	-	681.4	-	-	681.4	-	-	656.4	-	-	681.4	-	-	-	-
FHTV (heavy trucks)	-	242.8	4.0	-	252.8	4.0	-	242.1	20.0	-	241.6	15.2	-	-1.2	+11.2

Source: H.Rept. 107-532; S.Rept. 107-213; H.Rept. 107-732.

## Navy Shipbuilding

The pace of Navy shipbuilding was a major focus of attention in Congress this year. The FY2003 budget request included funds for five new ships, far short of the 8.5 ships per year needed, in principle, to sustain a fleet of 300 ships, which has long been the Navy's goal.

**Congressional Action.** The House Armed Services Committee provided funds to procure an additional DD-51 destroyer on condition that the Justice Department reach a settlement with General Dynamics Corporation in the long-standing A-12 termination lawsuit. The tentative settlement would have provided \$385 million in advance procurement for Virginia-class submarine acquisition. By the time the authorization and appropriations conference agreements were being negotiated, however, that settlement had failed.



In the absence of a settlement, the House authorization added \$810 million to be distributed among several shipbuilding programs, including \$415 million for Virginia class submarine advance procurement, \$210 million for cruiser conversion advance procurement, and \$185 million for a nuclear submarine refueling overhaul. The committee also added funds to accelerate procurement of the next aircraft carrier, the CVN(X). The Navy plan to procure the ship had slipped by one year, with half the funding to be requested in FY2007 and the remainder in FY2008. The committee added \$229 million in advance procurement to accelerate production and instructed the Navy wants to move the start date back to FY2006.

The Senate Armed Services Committee also added a significant amount for Navy shipbuilding, including \$690 million that Senator Levin said was transferred from missile defense R&D. The committee additions included \$415 million in advance procurement for Virginia-class attack submarines, \$200 million for refueling rather than retiring an SSN-688 Los Angeles-class attack submarine, \$150 million in advance procurement for LPD-17 amphibious ships, and \$125 million in advance procurement for DDG-51 destroyers. Like the House Armed Services Committee, the Senate Armed Services Committee provided \$229 million to accelerate CVN(X) procurement.

The House Appropriations Committee took a substantially different approach to shipbuilding in general and to aircraft carrier procurement in particular. Rather than provide money to accelerate CVN(X) procurement, the committee added \$250 million for the CVN-77 carrier, which is now being built, and instructed the Navy to incorporate a more advanced radar and other electronic systems into the ship as a transition to the CVN(X). The committee did not add money for other major shipbuilding programs, and it eliminated \$253 million requested for the LHD-8 amphibious assault ship – this ship was started in FY2001 and is being incrementally funded through FY2006.

The Senate Appropriations Committee added a substantial amount for shipbuilding, but it allocated funding quite differently from the other committees. The committee added \$530.9 million to cover cost overruns on LPD-17 amphibious ships, DDG-51 destroyers, and Virginia-class submarines approved in prior years, while it reduced funding requested for advance procurement for the same programs. The committee also criticized the Navy for overusing advance procurement, saying that it should only be employed for long lead components of ships and that it should not comprise as large a share of the total cost of ships as it has in recent years. The committee also added \$306 million to pay for the cost of an agreed transfer of work on LPD-17s and DDG-51s between the two major shipbuilders. Like the authorizing committees, the committee provided \$229 million to accelerate CVN(X) procurement and about \$200 million for an SSN-688 attack submarine refueling overhaul.

The appropriations conference report adds \$90 million, rather than the \$250 million in the House bill, to incorporate advanced electronics on CVN-77. The conference report provides \$160 million, rather than the \$229 million in the Senate bill, to restore the CVN(X) procurement schedule. As in the Senate bill, the conference report provides \$530.9 million in added money for prior year cost growth. The agreement provides \$243 million for LHD-8, rejecting the House reduction. As

in the Senate bill, the agreement provides \$165 million for an additional SSN-688 refueling overhaul.

After congressional action on the authorization and appropriations bills was well underway, a new issue arose when the Navy announced that it planned to accelerate development of a new, smaller vessel called the Littoral Combat Ship (LCS). The LCS program was one element of the Navy's plan to develop a series of new ships under the DDX program that was announced in 2001 after the DD-21 destroyer program was canceled. During the summer of 2002, the Navy said it wanted to pursue the LCS more rapidly, and it informally asked Congress for additional money to begin studying alternatives. The Senate report on the authorization bill included \$4 million for the program. The program had not undergone the review process that has normally been part of the acquisition process, however, which includes, among other things, a formal assessment of requirements for a new system, projections of the program schedule and costs, and an analysis of alternatives. The defense authorization conference report provides \$4 million for the program, but it includes a long discussion of the need for a thorough review of program requirements and alternatives, and it requires DOD and the Navy to report to Congress on the assessments that had previously been required under DOD acquisition regulations.

**Table 7: Appropriations Action on Major Navy Shipbuilding Programs**  
(amounts in millions of dollars)

	Request			House Appropriations			Senate Appropriations			Conference Appropriations			Change to Request		
	Procurement		R&D	Procurement		R&D	Procurement		R&D	Procurement		R&D	Procurement		R&D
	#	\$	\$	#	\$	\$	#	\$	\$	#	\$	\$	#	\$	\$
Virginia Class Submarine	1	1,512.7	238.3	1	1,490.7	250.3	1	1,512.7	238.3	1	1,499.2	246.2	-	-13.5	+7.9
Virginia Class Sub. Adv. Proc.	-	706.3	-	-	706.3	-	-	645.2	-	-	645.2	-	-	-61.1	-
Submarine Refueling Overhaul	1	271.3	-	-	231.3	-	2	435.8	-	2	435.8	-	+1	+164.5	-
Submarine Refueling Adv. Proc.	-	88.3	-	-	88.3	-	-	-	-	-	64.0	-	-	-24.3	-
Missile Submarine Conversion	2	825.3	-	2	825.3	-	2	825.3	-	2	825.3	-	-	-	-
CVN Refueling Overhaul Adv. Proc.	-	296.8	-	-	296.8	-	-	195.8	-	-	221.8	-	-	-75.0	-
CVN-77 Aircraft Carrier	-	-	91.7	-	250.0	91.7	-	-	91.7	-	90.0	91.7	-	+90.0	-
CVN(X) Aircraft Carrier Adv. Proc.	-	243.7	268.0	-	243.7	243.0	-	472.7	268.0	-	403.7	268.0	-	+160.0	-
DDG-51 Destroyer	2	2,295.5	300.7	-	2,273.0	323.7	2	2,321.5	311.7	2	2,321.5	348.1	-	+26.0	+47.4
DDG-51 Destroyer Adv. Proc.	-	74.0	-	-	74.0	-	-	-	-	-	-	-	-	-74.0	-
LPD-17 Amphibious Transport	1	596.5	10.1	1	596.5	10.1	1	596.5	10.1	1	596.5	10.1	-	-	-
LPD-17 Adv. Proc.	-	8.0	-	-	8.0	-	-	-	-	-	-	-	-	-8.0	-
LHD-8 Amphibious Assault Ship	-	253.0	-	-	-	-	-	243.0	-	-	243.0	-	-	-10.0	-
Prior Year Shipbuilding Costs	-	644.9	-	-	644.9	-	-	1,175.8	-	-	973.7	-	-	+328.8	-
DDG-51/LPD-17 Work Swap	-	-	-	-	-	-	-	306.2	-	-	306.2	-	-	+306.2	-
DD (X) Destroyer	-	-	960.5	-	-	895.5	-	-	1,006.5	-	-	993.2	-	-	+32.7
T-AKE Auxiliary Cargo Ship	1	388.8	-	1	388.8	-	1	388.8	-	1	388.8	-	-	-	-

Sources: H.Rept. 107-532; S.Rept. 107-213; H.Rept. 107-732.

## Aircraft Programs

Funding for several major aircraft programs was included in the FY2003 Administration request, including Marine Corps V-22 tilt rotor aircraft development and procurement; Air Force F-22 fighter development and procurement; Air Force and Navy F-35 Joint Strike Fighter development; Navy F/A-18E/F multirole fighter procurement; and C-17 cargo aircraft procurement. The Navy has reportedly been considering reducing future planned F-35 procurement, but this has not affected congressional support for the program to date.

**Congressional Action.** Both the House and Senate Armed Services Committees approved requested funding for most major aircraft programs, including the F-22, F-35, V-22, and C-17. The House Armed Services Committee added funds for a few lower profile programs, including trainer aircraft, Navy helicopters, and F-15 communications upgrades. The Senate Armed Services Committee added funds to procure an additional 4 F/A-18EF fighters for the Navy and Marine Corps. Both committees added funds for EA-6B electronic warfare aircraft upgrades. The House Appropriations Committee added funding for F-22 R&D, but otherwise made few changes in the request for major aircraft programs. The Senate Appropriations Committee added funds for 4 additional F/A-18E/F fighters. The committee also added money to fully fund procurement of C-17 aircraft.

The appropriations conference report adds \$120 million for 2 additional F/A-18E/F aircraft, half as many as in the Senate bill. The committee also added money to fully fund C-17 procurement.

**C-17 Funding Profile.** One rather technical, but potentially significant issue this year was whether the funding approach that the Air Force proposed for future C-17 procurement sets a precedent that would erode DOD policies designed to promote long-term fiscal discipline. In the past, DOD typically requested enough money to procure a specific number of fully equipped end-items – funding requested for 15 C-17 aircraft, for example, would be sufficient to buy 15 deployable aircraft. This year, however, the Air Force requested only enough money to finance progress payments on a new 5-year contract for multi-year procurement of the aircraft. The effect is to reduce amounts requested early in the multi-year contract and increase costs in the later years.

This is technically at odds with longstanding DOD policy which calls for full funding of the cost of end-items being requested in any given year, and it is the first time a significant breach of the full funding policy has occurred in an area apart from Navy shipbuilding. (For an extensive discussion, see CRS Report RL31404, *Defense Procurement: Full Funding Policy – Background, Issues, and Options for Congress*, by Ronald O'Rourke and Stephen Daggett.)

The House Armed Services Committee approved the requested C-17 procurement profile, but warned DOD against using this funding approach in the future. The House Appropriations Committee rejected the Air Force approach and required the Air Force to use C-17 funding in FY2004 to procure complete aircraft. The committee also instructed the Defense Department to restructure future funding plans for the C-17 to use full funding. The Senate Appropriations Committee specifically rejected the Air Force's incremental funding approach and instead added \$585.9 million to finance the full cost of procuring 15 aircraft. The appropriations conference agreement mandates full funding of the C-17 – as in the Senate bill, it adds \$585.9 million for full funding in FY2003, and it retains House language instructing the Air Force to request full funding in the future.

**Tanker Aircraft Leasing.** Last year, the conference report on the defense appropriations bill included a provision allowing the Air Force to pursue negotiations with the Boeing Corporation to lease tanker aircraft for a ten-year period. The provision was structured so that the aircraft would be returned to the manufacturer

after the lease expired. As a result, the lease is considered an “operating lease” rather than a “lease-purchase” agreement, so that only the annual cost of actual payments on the lease would be scored in the Air Force budget on a year-to-year basis – otherwise, the full cost of the contract would have to be scored in the years when the money would be obligated. Boeing has offered to lease 100 767 aircraft as tankers.

Senator McCain and some others have objected to the leasing provision, arguing that it will cost the government more in the long run than simply procuring additional tanker aircraft. Both the Office of Management and Budget and the Congressional Budget Office have prepared analyses which project considerably higher costs for leasing than for regular procurement. (The text of the CBO letter is available electronically at [<ftp://ftp.cbo.gov/34xx/doc3413/tankers.pdf>].) Mitch Daniels, the Director of OMB, has criticized the plan, insisting that it will be cheaper either to buy new tankers or to re-engine older aircraft. In its markup of the defense authorization bill, the Senate Armed Services Committee approved an amendment proposed by Senator McCain that would require Congress to authorize and appropriate funds for any tanker lease agreement. In floor action on the defense appropriations bill, however, Senator McCain offered but then withdrew a similar amendment. Recently, the Air Force has reported that it is very close to reaching an agreement with Boeing on the tanker leases.

The appropriations conference agreement provides \$3 million for the tanker lease program (in Operation and Maintenance, Air Force). The agreement also includes a general provision, Section 8117, that provides that payment for tanker leases may be made one year in advance and that permits funds either for procurement of aircraft or for operation and maintenance to be used for the leases. On October 16, Senator McCain made a floor statement that was strongly critical of the leasing provisions in the conference report (*Congressional Record*, pp. S10519-10520).

The authorization conference report includes a provision (Section 133) revising Senator McCain’s amendment. The revised provision prohibits the leasing agreement unless funds have been specifically authorized and appropriated for the program, or unless a reprogramming notification has been submitted to the congressional defense committees. In report language, the conference agreement says that it expects the Secretary of Defense to seek congressional approval for a new tanker lease.

**Table 8: Appropriations Action on Major Aircraft Programs**  
(amounts in millions of dollars)

	Request			House Authorization			Senate Authorization			House Appropriations			Senate Appropriations		
	Procurement		R&D	Procurement		R&D	Procurement		R&D	Procurement		R&D	Procurement		R&D
	#	\$	\$	#	\$	\$	#	\$	\$	#	\$	\$	#	\$	\$
<b>Navy Aircraft</b>															
V-22 Osprey	11	1,106.0	420.1	11	1,086.0	420.1	11	1,096.8	420.1	11	1,077.6	420.1	-	-28.4	-
F-35 Joint Strike Fighter	-	-	1,727.5	-	-	1,727.5	-	-	1,752.5	-	-	1,747.3	-	-	+19.8
F/A-18E/F	44	3,159.5	204.5	44	3,162.5	214.5	48	3,295.4	210.5	46	3,252.2	215.7	+2	+92.7	+11.2
JPATS Trainer	-	-	-	-	15.0	-	6	42.5	-	-	26.0	-	-	+26.0	-
E-2C Hawkeye	5	295.5	19.0	5	295.5	19.0	5	281.0	19.0	5	291.5	19.0	-	-4.0	-
T-45	8	221.4	-	8	221.4	-	8	221.4	-	8	221.4	-	-	-	-
MH-60S	15	372.2	23.2	15	367.2	23.2	15	362.2	23.2	15	357.2	23.2	-	-15.0	-
MH-60R	-	116.2	89.0	-	116.2	96.0	-	121.2	89.0	-	119.7	94.9	-	+3.5	+6.0
EA-6B Prowler Mods	-	223.5	74.7	-	229.5	75.6	-	267.5	84.7	-	263.1	81.3	-	+39.6	+6.6
KC-130J Aircraft (DERF)*	4	334.0	-	4	334.0	-	4	315.2	-	4	315.2	-	-	-18.8	-
<b>Air Force Aircraft</b>															
F-22	23	4,621.1	808.5	23	4,621.1	808.5	-	4,592.6	808.5	23	4,592.6	808.5	-	-28.5	-
E-8C Joint STARS	1	279.3	55.5	1	279.3	67.5	1	279.3	55.5	1	279.3	61.5	-	-	+6.0
F-16C/D Mods.	-	265.0	81.3	-	269.0	85.3	-	268.1	81.3	-	281.0	83.4	-	+16.0	+2.1
F-15 Mods.	-	232.5	81.7	-	259.9	81.7	-	300.0	81.7	-	283.7	81.7	-	+51.2	-
JPATS Trainer	35	211.8	-	35	211.8	-	35	211.8	-	35	211.8	-	-	-	-
C-17 Globemaster	12	3,698.5	157.2	12	3,708.0	157.2	15	4,236.5	157.2	15	4,236.5	157.2	+3	+538.0	-
F-35 Joint Strike Fighter	-	-	1,743.7	-	-	1,743.7	-	-	1,733.7	-	-	1,733.7	-	-	-10.0
B1-B Bomber Mods.	-	98.0	160.7	-	98.0	78.7	-	109.0	120.7	-	106.0	160.7	-	+8.0	-
B-2 Stealth Bomber Mods.*	-	72.1	275.3	-	104.1	265.3	-	72.1	267.0	-	104.1	265.3	-	+32.0	-10.0

**Sources:** H.Rept. 107-532; S.Rept. 107-213; H.Rept. 107-732.

**Notes:** Funding for 4 KC-130Js was requested in the Defense Emergency Response Fund (DERF). B-2 request includes \$50 million for R&D requested in the DERF.

## Missile Defense

The Administration requested \$7.8 billion for missile defense programs in FY2003. The request included

- ! \$3.2 billion for mid-course defenses, including funds for the National Missile Defense program to develop ground-based systems to protect the entire United States, and the Navy Theater Wide program, which is a theater defense system to be based on navy ships;
- ! \$1.1 billion for battle management and related support programs;

- ! \$935 million for the ground-based Theater High Altitude Area Defense (THAAD) system;
- ! \$858 million for Patriot PAC-3 development and procurement;
- ! \$797 million for boost phase defense systems, including the Airborne Laser (ABL) and the Space-Based Laser (SBL); and
- ! \$373 million for space-based sensors, including the Space-Based Infrared System-Low (SBIRS-Low);
- ! an additional \$815 million in the Air Force budget for the Space-Based Infrared System-High (SBIRS-High).

The SBIRS-High program has experienced very large cost increases, and early in the year, the program was under review because the cost growth violated Nunn-McCurdy cost cap provisions. DOD decided to continue the program, however, though its status remains a matter of concern. There continues to be extensive debate in Congress about the status of the National Missile Defense program, which the Administration has tried to accelerate, and about space-based systems like the SBL.

**Congressional Action.** The House Armed Services Committee generally supported the Administration's request. The committee reduced funding for the ABL (now funded under the title "Air-Based Boost" defense) by \$77.5 million, on the premise that a second test aircraft, that was included in the request, may not yet be needed. That judgment was disputed in House floor action on the defense appropriations bill (discussed below). The committee distributed the savings to a number of other missile defense programs. The House Armed Services Committee also refused to fund Patriot PAC-3 or Medium Extended Air Defense System (MEADS) development in the Army budget, as requested, but instead shifted the money back to the Missile Defense Agency.

During the House Armed Services Committee markup, Representative Spratt offered an amendment to reduce funding for the SBL and for space-based kinetic interceptor development and to transfer the savings to the PAC-3 and Arrow theater missile defense programs. The amendment was defeated in the committee. On the floor, the House approved an alternative offered by Representative Hunter to add funds for PAC-3 and Arrow to be financed from funds available to the Missile Defense Agency, but without specifying the offsetting source of funds.

In committee markup, Representative Spratt also offered an amendment to prohibit deployment of nuclear tipped interceptor missiles for missile defense, which was rejected. On the floor, the Rules Committee did not make in order an amendment on the issue, but Representative Spratt offered a motion to recommit the bill to committee with instructions to prohibit nuclear interceptor development, and that motion was defeated.

The Senate Armed Services Committee reduced overall missile defense funding by \$814.3 million (see **Table 9** for a detailed tabulation of funding), prompting several Republicans on the committee to vote against reporting the bill. Most of the reductions were in systems engineering and other support activities, which the committee argued are not adequately justified in support material provided by DOD. This became a major issue on the Senate floor. The Senate Armed Services

Committee also reduced ABL funding by \$135 million and SBIRS-High funding by \$100 million.

In addition, the committee approved several provisions designed to require stricter oversight of missile defense programs and adherence to more traditional acquisition procedures in the development programs. One provision would require the independent Director of Operational Test and Evaluation to conduct an annual assessment of specific missile defense programs. Another provision requires the Secretary of Defense to provide annual schedule and cost estimates for major elements of the program to Congress.

On June 12, Secretary Rumsfeld send at letter to Senator Levin opposing the Senate Armed Services Committee reduction in missile defense funding and objecting to the committee's provisions regarding acquisition procedures. The committee's measures, said Rumsfeld, "would impose a number of burdensome statutory restrictions that would undermine our ability to manage the program effectively." The Secretary said he would recommend a veto if a final authorization bill includes either the Senate cuts in missile defense funding or the Senate provisions regarding management of the program. OMB's June 19 "Statement of Administration Policy" repeated the veto threat.

On June 26, the Senate approved an amendment offered by Senator Warner, with a second degree amendment by Senator Levin, to restore some or all of the missile defense funding that the committee cut. The amendment would permit the President to allocate up to \$814.3 million of anticipated inflation savings either to missile defense or to counter-terrorism programs. The Levin amendment stipulates that priority should be given to counter-terrorism. The Senate did not consider any measures to revise committee provisions on program management.

Also on June 26, the Senate approved an amendment proposed by Senators Feinstein and Stevens to prohibit development or deployment of nuclear armed interceptors for missile defense. This measure is similar to the Spratt amendment that the House turned down.

The House Appropriations Committee made a number of changes in requested missile defense funding. The committee denied funding for Navy sea-based terminal defense, a replacement for the terminated Navy Area Defense program, saying that DOD had not presented a plan for using the research funds. The committee also denied funding for the Russian-American Observation Satellite Program (RAMOS) because the Russian government has not yet responded to a U.S. proposal to implement the program. The committee said it would revisit the issue in conference if the two governments sign an agreement. The committee also cut funding for sea-based and space-based boost phase defenses, saying that requested large increases in funding were not justified in view of requirements for near term programs like the PAC-3 system. The committee added \$30 million for additional PAC-3 testing and required a report on planned testing of the Theater High Altitude Area Defense (THAAD) system.



In floor action, the House approved an amendment by Representative Spratt to reduce funding for the space-based kinetic interceptor program by \$30 million and shift the funds to the Airborne Laser program.

The Senate Appropriations Committee largely followed the Senate authorization bill. In a general provision, it provided an additional \$814.3 million for missile defense or for counter-terrorism programs, offset by anticipated inflation savings. The provision also itemized the programs to and amounts for which funds are to be restored, should the President choose to allocate these funds to missile defense.

The appropriations conference report provides most of what the Administration requested for missile defense. In all, it reduced funding by \$43 million. It added \$45 million for Patriot PAC-3 procurement (offset by a \$25 million reduction in support funding) and \$70 million for the U.S.-Israeli Arrow program. It reduced funding for RAMOS but did not eliminate it as in the House bill.

The authorization conference report includes revised provisions governing management of missile defense programs. It requires that DOD submit annual reports to Congress on performance goals and development baselines for each development block of each missile defense system as part of annual budget justification material; it requires year-by-year funding profiles for each block of each system that could be fielded; and it requires the Defense Department's Joint Requirements Oversight Council (JROC), which is chaired by the Deputy Chairman of the Joint Chiefs, to provide to Congress a one-time review of cost, schedule, and performance criteria. The agreement also requires that DOD provide a life-cycle cost estimate for the Theater High Altitude Area Defense (THAAD) program – the Senate had prohibited obligation of more than 50% of the money authorized for THAAD until the report is submitted, while the conference agreement permits 85% to be obligated. The conference report also requires the director of the Missile Defense Agency to provide reports to Congress on each flight test of the Ground-Based Mid-Course National Missile Defense System. The authorization conference agreement drops provisions in the Senate bill requiring annual JROC reviews of missile defense programs and operational assessments of some programs by the Director of Operational Test and Evaluation.

The authorization conference report also prohibits the use of FY2003 funds for development of a nuclear-armed interceptor for missile defense – the Senate version of the bill had flatly prohibited development.

**Table 9: Congressional Action on Missile Defense Funding by Program Element and Project**  
(millions of dollars)

Program Element/Project	FY2003 Request	House Auth.	Senate Auth.	House Approp.	Senate Approp.	Conference Approp.	Change to Request
<b>Missile Defense Agency R&amp;D</b>							
<b>0603175C BMD Technology</b>							
6010 Advanced Technology Development	118.9	118.9	142.6	124.9	142.6	152.1	+33.2
6090 Program Operations	2.9	2.9	2.9	2.9	2.9	2.9	
<b>MEADS Concepts -- Dem/Val</b>							
Transfer from Army R&D	-	-	-	-	69.7	117.7	+117.7
<b>0603880C BMD System</b>							
BM/C2	112.8	112.8	112.8	112.8	112.8	112.8	-
1020 Communications	12.0	12.0	12.0	12.0	12.0	12.0	-
1030 Targets & Countermeasures	128.2	128.2	128.2	128.2	128.2	128.2	-
1050 Systems Engineering & Integration	371.1	371.1	231.1	371.1	29.1	371.1	-
1060 Test & Evaluation	382.0	382.0	412.0	382.0	392.0	382.0	-
1070 Producibility & Manufacturing Technology	21.9	21.9	21.9	21.9	21.9	21.9	-
1090 Program Operations	37.9	37.9	37.9	37.9	37.9	37.9	-
Wide bandwidth technology program	-	10.0	-	5.0	-	3.0	+3.0
Battlespace environment and signatures toolkit	-	10.0	-	-	-	-	-
High Energy Laser Transmitters for LADAR	-	-	-	5.0	-	4.3	+4.3
General Reduction, Lack of Justification	-	-	-222.0	-	-	-	-
<b>0603881C Terminal Defense Segment</b>							
2015 Medium Extended Air Defense System (MEADS)	-	117.7	-	117.7	-	-	-
2016 Israeli Arrow Program	65.7	221.7	105.7	129.7	145.7	135.7	+70.0
2022 Sea-Based Terminal	90.0	90.0	90.0	-	50.0	-	-90.0
2090 Program Operations	14.2	14.2	0.2	14.2	0.2	4.2	-10.0
<b>0603882C Midcourse Defense Segment</b>							
3011 Block 2004 Test Bed	533.9	533.9	533.9	533.9	533.9	533.9	-
3012 Ground-Based Midcourse Defense (GMD)	2,075.0	2,075.0	2,075.0	2,075.0	2,075.0	2,075.0	-
3020 Sea-Based Midcourse Defense (SMD)	426.6	426.6	426.6	426.6	386.6	416.6	-10.0
Transfer S-Band Radar Research to Navy	-	-	-	-	-	-22.0	-22.0
Adds for PMRF, SHOTS, ESPRIT, Range Data Monitor	-	-	-	-	-	29.1	+29.1
3050 Segment Common Systems Engineering and Integration	95.0	95.0	-	95.0	-	95.0	-
3090 Program Operations	64.5	64.5	0.5	64.5	40.5	64.5	-
Transfer Physical Security to National Guard	-	-	-	-	-	-6.7	-6.7
Aegis LEAP interceptor flight demonstration	-	27.0	-	-	-	-	-
Long-range X-band and S-band discrimination radar development	-	25.0	-	-	-	-	-
High Power Discriminator Radar Development	-	-	40.0	-	-	-	-
Small Kill Vehicle Technology Development	-	-	10.0	-	-	-	-
Concept Development, Studies, and Risk Reduction	-	-	-52.0	-	-2.0	-	-

Program Element/Project	FY2003 Request	House Auth.	Senate Auth.	House Approp.	Senate Approp.	Conference Approp.	Change to Request
<b>0603883C Boost Defense Segment</b>							
4020 Sea-Based Boost	89.6	89.6	34.6	69.6	34.6	89.6	-
4030 Air-Based Boost	598.0	520.5	463.0	568.0	463.0	598.0	-
4040 Space-Based Boost	54.4	54.4	24.4	14.4	24.4	54.4	-
4043 Space-Based Laser	34.8	34.8	24.8	34.8	24.8	24.8	-10.0
Kinetic Energy Boost	-	-	-	-	-	-50.0	-50.0
4090 Program Operations	20.1	20.1	0.1	20.1	0.1	20.1	-
<b>0603884C Sensors</b>							
5041 Space-based Infrared System (SBIRS) Low	293.9	293.9	238.9	293.9	250.9	293.9	-
5049 Russian-American Observation Satellite Program (RAMOS)	69.1	69.1	79.1	-	79.1	50.1	-19.0
5090 Program Operations	10.4	10.4	0.4	10.4	0.4	10.4	-
Airborne Infrared Surveillance (AIRS) System	-	-	22.0	-	10.0	5.0	+5.0
<b>0604861C THAAD System</b>							
2011 Theater High Altitude Area Defense (THAAD)	932.2	932.2	892.2	932.2	892.2	912.2	-20.0
<b>0604865C Patriot PAC3 - EMD</b>	-	220.8	-	180.8	150.8	180.8	+180.8
<b>0901585C Pentagon Reservation Maintenance Fund</b>	7.5	7.5	7.5	7.5	7.5	7.5	-
<b>0901598C Management Headquarters</b>	27.9	27.9	27.9	27.9	27.9	27.9	-
<b>General Reduction</b>	-	-135.0	-	-	-	-	-
<b>Total, R&amp;D Missile Defense Agency (MDA)</b>	6,690.7	7,044.7	5,924.4	6,820.2	6,145.0	6,896.2	+205.5
<b>Army R&amp;D</b>							
<b>0604865A - Patriot PAC-3 - EMD</b>	150.8	-	150.8	-	-	-	-150.8
<b>0603869A - Meads Concepts - Dem/Val</b>	117.7	-	69.7	-	-	-	-117.7
<b>0203801A - Patriot PAC-3 Product Improvement</b>	43.7	43.7	43.7	43.7	43.7	43.7	-
<b>Total, R&amp;D Army</b>	312.3	43.7	264.3	43.7	43.7	43.7	-268.6
<b>Senate Warner/Levin Amendment*</b>	-	-	814.3	-	814.3	-	-
<b>Total, R&amp;D Missile Defense Agency and Army</b>	7,003.0	7,088.4	7,003.0	6,863.9	7,003.0	6,939.9	-63.1
<b>Procurement</b>							
Patriot Mod	151.3	151.3	151.3	151.3	151.3	151.3	-
Patriot Mod Initial Spares	40.7	40.7	40.7	40.7	40.7	40.7	-
Patriot PAC-3	471.7	536.7	471.7	536.7	471.7	491.7	+20.0
<b>Total, Procurement</b>	663.7	728.7	663.7	728.7	663.7	663.7	-
<b>Total, R&amp;D &amp; Procurement</b>	7,666.7	7,817.1	7,666.7	7,592.6	7,666.7	7,603.6	-43.1
<b>Related Program</b>							
0604441F Space Based Infrared System (SBIRS) High	814.9	814.9	814.9	714.9	714.9	784.9	-30.0

**Sources:** Department of Defense, FY2003 RDT&E Program Descriptive Summaries; H.Rept. 107-436; S.Rept. 107-151; H.Rept. 107-532; S.Rept. 107-213; H.Rept. 107-732.

\***Note:** Warner/Levin amendment to the Senate authorization bill provides up to \$814.3 million for missile defense and counter-terrorism programs.

## Strategic Nuclear Weapons Policy

In January, the Administration completed a congressionally mandated Nuclear Posture Review and submitted a classified report on the review, with an unclassified summary, to Congress. Parts of the classified report were later leaked to the press, prompting considerable public debate about several issues, including the potential use of nuclear weapons against non-nuclear states that use or threaten to use non-nuclear weapons of mass destruction, plans to shorten the time needed to resume nuclear testing, and potential development of new nuclear weapons for missions such as destruction of deeply buried and hardened targets. The review also reaffirmed Administration plans to reduce offensive nuclear warhead numbers. Later, on May 13, the White House announced an agreement with Russia on a treaty to reduce strategic offensive force levels to between 1,700 and 2,200 warheads.

**Congressional Action.** In the House Armed Services Committee markup, Representative Tauscher offered an amendment to limit strategic nuclear force levels to 1,700. The proposal was rejected in committee. On the floor, the House approved a Tauscher amendment to require a report on options for achieving a level of 1,700 to 2,200 warheads. Representative Spratt offered an amendment, also rejected in committee, to require one-year advance notification of a decision to resume nuclear testing. The Rules Committee did not permit a floor vote on the amendment. The full House also rejected an amendment offered by Representative Markey to prohibit development of a nuclear earth penetrator weapon.

The Senate Armed Services Committee version of the authorization eliminates \$15.5 million requested in the Department of Energy weapons budget for development of a “Robust Nuclear Earth Penetrator” warhead and requires a detailed report on the proposed program. On July 26, the Senate approved an amendment to the bill, offered by Senators Feinstein and Stevens, to prohibit development or deployment of nuclear armed interceptors for missile defense (see the discussion of missile defense programs, above).

The Senate bill also includes a provision that would require the Secretary of Energy to request funds before beginning research and development or production of any new or modified nuclear weapon. The provision also requires a specific authorization for a new or modified nuclear weapon program before funds could be obligated or expended.

The authorization conference report provides funds for the Robust Nuclear Earth Penetrator warhead but prohibits obligation of the money until 30 days after Congress receives the report required by the Senate version of the bill. The conference agreement also includes a revised version of the Senate requirement that the Department of Energy specifically request funds to develop any new nuclear weapons. The conference report also requires a report on options for resuming nuclear testing.

## Environmental Restrictions on DOD Training

The Defense Department has voiced increasing concern in recent years about the effect on training of environmental regulations. Shortly before the House Armed Services Committee markup of the defense authorization bill, the Administration proposed legislation to exempt DOD training activities from the requirements of several environmental statutes ranging from the Endangered Species Act to the Clean Air Act.

**Congressional Action.** The House-passed version of the authorization bill includes provisions exempting DOD from or waiving application of the Endangered Species Act, the Migratory Bird Treaty Act, and the Wilderness Act to areas used for military training exercises. On the Endangered Species Act, Section 312 of the House bill would allow DOD to substitute its own Integrated Natural Resource Management Plan to protect endangered species rather than having installations designated as a critical habitat. DOD would, however, still be prohibited from taking any actions that would harm endangered or threatened species. In designating new critical habitats, the bill would also require that the effect on national security, as well as the economic impact, must be considered.

Section 311 of the House bill provides that in the case of military training activities, DOD would not be subject to the part of the Migratory Bird Treaty Act that designates certain types of activities as unlawful. According to the committee report, this provision was intended to permit DOD to carry out military exercises even if they might unintentionally harm migratory birds. The language adopted would exempt DOD more broadly from any activity deemed to be unlawful under the Act.

The House bill also permits DOD to conduct training activities and have emergency access to the Utah Test and Training Range, despite the fact that a portion of that range has been designated as a wilderness area with certain restrictions on noise and disturbances. The House bill also includes provisions that would designate several areas owned by the Bureau of Land Management that are adjacent to the Utah Test and Training Range as wilderness areas although DOD's training activities in these areas would also not be covered by Wilderness Act restrictions. (For a discussion of these and other provisions, see CRS Report RL31456, *Defense Cleanup and Environmental Programs: Authorization and Appropriations for FY2003*, by David Michael Bearden, and CRS Report RL31415, *The Endangered Species Act, Migratory Bird Treaty Act, and Department of Defense Readiness Activities: Current Law and Legislative Proposals*, by Pamela Baldwin.)

The House Armed Services Committee did not address other environmental measures that DOD included in its legislative proposal. In the House Armed Services Committee markup, Representative James Maloney offered an amendment to remove the environmental waiver provisions, but the proposal was rejected. The Rules Committee did not permit a similar amendment proposed by Representatives Rahall, Dingell and Maloney to be offered on the floor.

The Senate Armed Services Committee did not address these environmental issues in its version of the authorization bill. Instead, it referred the Administration's

proposals to the Environment and Public Works Committee, which recently held a hearing on those proposals. The Senate bill authorizes \$20 million to allow the Secretary of Defense to acquire lands adjacent to military installations to serve as a buffer zone and provide additional natural habitat areas for endangered species in areas where animals have moved to military installations as a result of development.

The authorization conference report includes a revised version of the House provision regarding the Migratory Bird Treaty Act. The House provision would have altered the Act to exempt military training from certain provisions. The conference revision temporarily exempts training activities and requires the Secretary of the Interior to prescribe regulations to exempt DOD.

The conference report does not include the House provision regarding the Endangered Species Act, but it includes without change the House provisions regarding the Utah Test and Training Range.

## **Cap on Military Personnel in Colombia**

Under current law, there is a cap of 400 on the number of U.S. military personnel who can operate in Colombia. The cap specifically excludes personnel serving diplomatic functions or performing emergency missions. The House authorization bill included a provision that would establish a cap of 500 on the number of U.S. military personnel in Colombia who are supported or maintained by Department of Defense funds. The measure also would permit the Secretary of Defense to waive the cap for national security reasons and provided he informs Congress within 15 days of a waiver. The authorization conference report does not include the House provision.

## **Base Realignment and Closure**

Last year, Congress approved a measure that will permit a new round of military base closures in 2005, following procedures that were used in earlier rounds in 1991, 1993, and 1995. In the House Armed Services Committee markup of the authorization bill, Representative Taylor offered an amendment to repeal last year's base closure provisions. The committee defeated the amendment by a vote of 38-19. The Rules Committee did not allow the amendment to be offered on the floor, which was a matter of considerable contention when the bill was debated.

## **Abortions in Military Hospitals Overseas**

Abortions are readily available in the United States, but are often not available to U.S. personnel deployed abroad. Congress has perennially debated measures to allow abortions for U.S. military personnel at military hospitals overseas.

**Congressional Action.** In the House Armed Services Committee markup, the committee rejected an amendment by Representative Sanchez to allow abortions at U.S. military hospitals abroad; the full House rejected the proposal in a floor vote. On June 20 the Senate debated and on June 21 approved by a vote of 52-40 an amendment to the authorization bill by Senators Murray and Collins that would

remove the prohibition on privately funded abortions at overseas military facilities. The authorization conference report drops the Senate provision.

## **Limitation on Transfer Authority**

Like other House FY2003 appropriations bills, the House-passed measure includes a provision, Section 8122, that prohibits the transfer of funds to any other agency unless approved in an appropriations act. One effect would be to prevent the transfer of defense funds to the new Department of Homeland Security without the approval of the appropriations committees. That provision is not included in the appropriations conference agreement.

## **Legislation**

### **Congressional Budget Resolution**

#### **H.Con.Res. 253 (Nussle)**

A concurrent resolution establishing the congressional budget for the United States government for fiscal year 2003 and setting forth appropriate budgetary levels for each of fiscal years 2004 through 2007. Reported by the House Budget Committee (H.Rept. 107-376), March 15, 2002. Passed by the House, 221-209, March 20, 2002.

#### **S.Con. Res. 100 (Conrad)**

An original concurrent resolution setting forth the congressional budget for the United States government for fiscal year 2003 and setting forth the appropriate budgetary levels for each of the fiscal years 2004 through 2012. Reported by the Senate Budget Committee, March 22, 2002. Written report filed (S.Rept. 107-141), April 11, 2002.

### **Defense Authorization**

#### **H.R. 4546 (Stump)**

A bill to authorize appropriations for fiscal year 2003 for military activities of the Department of Defense, and for military construction, to prescribe military personnel strengths for fiscal year 2003, and for other purposes. Marked up and ordered to be reported by the House Armed Services Committee, May 1, 2002. Report filed (H.Rept. 107-436), May 3, 2002. Considered by the House and approved, with amendments (359-58), May 10, 2002. Laid before the Senate, Senate struck all after the enacting clause and substituted the language of S. 2514, and passed by the Senate by unanimous consent, June 27, 2002. Conference report filed (H.Rept. 107-772), November 12. Conference report agreed to in the House on suspension of the rules by voice vote, November 12. Conference report agreed to in the Senate by voice vote, November 13.

#### **H.R. 4547 (Stump)**

A bill to authorize appropriations for the costs of the war against terrorism. Considered by the House Armed Services Committee, May 1, 2002. Marked up and

ordered reported by the House Armed Services Committee July 18, 2002. Report filed (H.Rept. 107-603), July 23, 2002. Considered under suspension of the rules, yeas and nays ordered, and further consideration postponed, July 23-24, 2002. Approved by the House (413-3), July 24, 2002.

**S. 2514 (Levin)**

An original bill to authorize appropriations for fiscal year 2003 for military activities of the Department of Defense, for military construction, and for defense activities of the Department of Energy, to prescribe personnel strengths for such fiscal year for the Armed Forces, and for other purposes. Marked up and ordered to be reported by the Senate Armed Services Committee, May 9, 2002. Report filed (S.Rept. 107-151), May 15, 2002. Considered by the Senate, June 18, 19, 20, 21, 24, 25, 26, 27. Approved by the Senate as amended (97-2), June 27, 2002.

**Defense Appropriations**

**P.L. 107-248, H.R. 5010**

Making appropriations for the Department of Defense for the fiscal year ending September 30, 2003, and for other purposes. Marked up and reported by the House Appropriations Committee (H.Rept. 107-532), June 25, 2002. Considered by the House and approved as amended (413-18), June 27, 2002. Marked up and reported as amended by the Senate Appropriations Committee (S.Rept. 107-213), July 18, 2002. Considered by the Senate July 31 and August 1, 2002. Approved by the Senate, as amended (95-3), August 1, 2002. Conference report filed (H.Rept. 107-732), October 9, 2002. Conference report agreed to in the House (409-14), October 10, 2002. Conference report agreed to in the Senate (93-1), October 16, 2002. Signed into law October 23, 2002.

**P.L. 107-249, H.R. 5011**

Making appropriations for military construction, family housing, and base realignment and closure for the Department of Defense for the fiscal year ending September 30, 2003, and for other purposes. Marked up and reported by the House Appropriations Committee (H.Rept. 107-533), June 25, 2002. Considered by the House and approved, as amended (426-1), June 27, 2002. Senate struck all after the enacting clause and substituted the text of S. 2709, as reported, July 17, 2002. Approved by the Senate, with an amendment (96-3), July 18, 2002. Conference report filed (H.Rept. 107-731), October 9, 2002. Conference report agreed to in the House (419-0), October 10, 2002. Conference report agreed to in the Senate by unanimous consent, October 11, 2002. Signed into law October 23, 2002.

**S. 2709 (Feinstein)**

An original bill making appropriations for military construction, family housing, and base realignment and closure for the Department of Defense for the fiscal year ending September 30, 2003, and for other purposes. Marked up and ordered to be reported by the Senate Appropriations Committee, June 27, 2002. Report filed (S.Rept. 107-202), July 3, 2002.



## FY2002 Supplemental Appropriations

### **P.L. 107-206, H.R. 4775**

Making supplemental appropriations for the fiscal year ending September 30, 2002, and for other purposes. Reported by the House Appropriations Committee (H.Rept. 107-180), May 20, 2002. Considered by the House, May 22-23, 2002. Approved by the House (280-138), May 24, 2002. Measure laid before the Senate and Senate struck all after the enacting clause and substituted the language of S. 2551 to be used as original text, June 3, 2002. Cloture motions presented in the Senate, June 4, 2002. Cloture motion invoked (87-10), June 6, 2002. Approved by the Senate (71-22), June 7, 2002. Conference agreement reported (H.Rept. 107-593), July 19, 2002. Conference report agreed to by the House (397-32), July 23, 2002. Conference report agreed to by the Senate (92-7), July 24, 2002. Signed into law August 2, 2002.

### **S. 2551 (Byrd)**

An original bill making supplemental appropriations for further recovery from and response to terrorist attacks on the United States for the fiscal year ending September 30, 2002, and for other purposes. Marked up and ordered to be reported by the Senate Appropriations Committee, May 22, 2002. Written report filed (S.Rept. 107-156), May 29, 2002.

## For Additional Reading

CRS Report RL31310. *Appropriations for FY2003: Military Construction*, by Daniel H. Else.

CRS Report RS21327. *Concurrent Receipt of Military Retirement and VA Disability Benefits: Budgetary Issues*, by Amy Belasco.

CRS Report RS21218. *Crusader XM2001 Self-Propelled Howitzer: Background and Issues for Congress*, by Edward F. Bruner and Steven R. Bowman.

CRS Report RL31456. *Defense Cleanup and Environmental Programs: Authorization and Appropriations for FY2003*, by David Michael Bearden.

CRS Issue Brief IB10062. *Defense Research: DOD's Research, Development, Test and Evaluation Program*, by John Dimitri Moteff.

CRS Report RL31415. *The Endangered Species Act, Migratory Bird Treaty Act, and Department of Defense Readiness Activities: Current Law and Legislative Proposals*, by Pamela Baldwin.

CRS Issue Brief IB93103. *Military Medical Care Services: Questions and Answers*, by Richard A. Best, Jr.

CRS Issue Brief IB10089. *Military Pay and Benefits: Key Questions and Answers*, by Robert L. Goldich.

CRS Report 95-469. *Military Retirement and Veterans' Compensation: Concurrent Receipt Issues*, by Robert Goldich and Carolyn Merck.

CRS Issue Brief IB85159. *Military Retirement: Major Legislative Issues*, by Robert L. Goldich.

CRS Report RL31111. *Missile Defense: The Current Debate*, coordinated by Steven A. Hildreth and Amy F. Woolf.

CRS Report RS20535. *Navy Ship Procurement Rate and the Planned Size of the Navy: Background and Issues for Congress*, by Ronald O'Rourke.

CRS Report RS20643. *Navy CVNX Aircraft Carrier Program: Background and Issues for Congress*, by Ronald O'Rourke.

CRS Report RS21059. *Navy DD(X) Future Surface Combatant Program: Background and Issues for Congress*, by Ronald O'Rourke.

CRS Issue Brief IB94040. *Peacekeeping: Issues of U.S. Military Involvement*, by Nina Maria Serafino.

CRS Report RL31297. *Recruiting and Retention in the Active Component Military*, by Lawrence Kapp.

CRS Issue Brief IB92115. *Tactical Aircraft Modernization: Issues for Congress*, by Christopher Bolcom.

CRS Report RL31187. *Terrorism Funding: Congressional Debate on Emergency Supplemental Allocations*, by Amy Belasco and Larry Q. Nowels.

CRS Report RS21133. *The Nuclear Posture Review: Overview and Emerging Issues*, by Amy F. Woolf.

CRS Report RL31384. *V-22 Osprey Tilt-Rotor Aircraft*, by Christopher Bolcom.

## Appendix A: What the Defense Authorization and Appropriations Bills Cover

Congress provides funding for national defense programs in several annual appropriations measures, the largest of which is the defense appropriations bill. Congress also acts every year on a national defense authorization bill, which authorizes programs funded in all of the regular appropriations measures. The authorization bill addresses defense programs in almost precisely the same level of detail as the defense-related appropriations, and congressional debate about major defense policy and funding issues usually occurs mainly in action on the authorization. **Because the defense authorization and appropriations bills are so closely related, this report tracks congressional action on both measures.**

The annual defense appropriations bill provides funds for military activities of the Department of Defense (DOD), including pay and benefits of military personnel, operation and maintenance of weapons and facilities, weapons procurement, and research and development, as well as for other purposes.

Most of the funding in the bill is for programs administered by the Department of Defense, though the bill also provides (1) relatively small, unclassified amounts for the Central Intelligence Agency retirement fund and intelligence community management, (2) classified amounts for national foreign intelligence activities administered by the CIA and by other agencies as well as by DOD, and (3) very small amounts for some other agencies. Five other appropriations bills also provide funds for national defense activities of DOD and other agencies including:

- ! the **military construction appropriations** bill, which finances construction of military facilities and construction and operation of military family housing, all administered by DOD;
- ! the **energy and water development appropriations** bill, which funds atomic energy defense activities administered by the Department of Energy;
- ! the **VA-HUD-independent agencies** appropriations bill, which finances civil defense activities administered by the Federal Emergency Management Agency, activities of the Selective Service System, and DOD support for National Science Foundation Antarctic research;
- ! the **Commerce-Justice-State appropriations** bill, which funds national security-related activities of the FBI, the Department of Justice, and some other agencies; and
- ! the **transportation appropriations** bill, which funds some defense-related activities of the Coast Guard.

## Appendix B: Overview of the Administration Request

On February 4, 2002, the Administration submitted its formal FY2003 budget request to Congress. The Administration proposed \$396.8 billion for the national defense budget function, about \$46 billion above the estimated FY2002 level (not including supplemental FY2002 appropriations of \$14 billion proposed on March 21).<sup>2</sup> The increase between FY2002 and FY2003 is the largest since at least the first years of the Reagan Administration. And with supplemental counter-terrorism funding for FY2001 and FY2002 included, the total increase in defense in the last year is the largest, in inflation-adjusted dollars, since the Vietnam War. The Administration projects continued growth in defense through FY2007, though at a much more modest pace – **Table B1** shows the long term trend in defense spending under the Administration's plan.

The large increase requested for defense has not been enough, however, to allay the concerns of defense advocates in Congress. In their view, the budget is not adequate to accommodate needed increases in weapons procurement. In the House, several Members threatened to vote against the proposed budget resolution because it set aside \$10 billion for defense in a reserve fund available only for costs of the global counter-terrorism campaign. The Administration requested the \$10 billion as an unallocated contingency fund for costs of counter-terrorism operations in FY2003, but several members of the Armed Services Committees both in the House and in the Senate have said they would prefer using that money to increase spending on major weapons programs, especially shipbuilding.

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<sup>2</sup> Early statements by the President and DOD briefing material on the budget request say the FY2003 increase over FY2002 is \$48 billion. This is the increase for Department of Defense discretionary budget authority if civilian accrual accounting costs are not included in the FY2002 base.

**Table B1. National Defense Budget Function and Department of Defense Budget, FY2000-FY2007, Administration Projections**  
(current and constant FY2003 dollars in billions)

Fiscal Year:	Actual 2000	Actual 2001	Estimate 2002	Request 2003	Proj. 2004	Proj. 2005	Proj. 2006	Proj. 2007
<b>National Defense Budget Function</b>								
<b>Budget Authority</b>								
Current year dollars	304.1	329.0	350.7	396.8	405.6	426.6	447.7	469.8
Constant FY2002 dollars	329.9	346.5	358.5	396.8	396.1	406.5	416.2	426.1
Real growth/decline	+1.4%	+5.0%	+3.5%	+10.7%	-0.2%	+2.6%	+2.4%	+2.4%
<b>Outlays</b>								
Current year dollars	294.5	308.5	348.0	379.0	393.8	413.5	428.5	442.5
Constant FY2003 dollars	319.5	324.9	355.2	379.0	384.5	394.2	398.4	401.1
Real growth/decline	+4.3%	+1.7%	+9.3%	+6.7%	+1.5%	+2.5%	+1.1%	+0.7%
<b>Department of Defense</b>								
<b>Budget Authority</b>								
Current year dollars	290.5	313.0	333.0	378.6	387.4	408.3	429.2	450.9
Constant FY2003 dollars	315.1	329.6	340.4	378.6	378.3	389.0	398.9	409.0
Real growth/decline	+1.7%	+4.6%	+3.3%	+11.2%	-0.1%	+2.8%	+2.5%	+2.5%
<b>Outlays</b>								
Current year dollars	281.2	294.0	330.6	361.0	375.6	395.2	410.2	423.9
Constant FY2003 dollars	305.1	309.6	337.4	361.0	366.7	376.7	381.3	384.2
Real growth/decline	+4.8%	+1.5%	+9.0%	+7.0%	+1.6%	+2.7%	+1.2%	+0.8%

**Sources:** U.S. Office of Management and Budget, *Historical Tables: Budget of the United States Government, Fiscal Year 2003*, February 2002. Constant dollar figures are CRS calculations using deflators from DOD Comptroller.

**Notes:** This and other tables in this report use OMB data that reflect enacted and proposed changes in accounting for retirement benefits. Figures reflect (1) enacted accrual accounting for health care benefits for over-65 military retirees beginning in FY2003; (2) proposed accrual accounting for health care benefits for under-65 military retirees beginning in FY2004; and (3) proposed accrual accounting for all civilian retirement pension and health benefits beginning in FY2003. OMB has also adjusted FY2001 and FY2002 to be consistent with FY2003 and later treatment of civilian retirement benefits. Data in these tables also reflect OMB scoring of funds provided in the Emergency Terrorism Response (ETR) supplemental appropriations act approved in September 2001. OMB figures do not show the allocation of \$9.8 billion of funding provided for defense in the ETR supplemental.

## The Impact of Accrual Accounting for Military and Civilian Personnel Retirement Benefits on the Defense Budget

One important complicating element in the FY2003 defense budget is a series of changes in accounting for military and civilian personnel retirement benefits. Most federal retirement benefits, including benefits for uniformed military service

members and DOD civilian personnel, have long been funded on the basis of “accrual accounting,” in which the cost of future benefits for current employees is charged to the employing agency as the benefits are accrued. Under accrual accounting procedures, federal agencies pay the actuarially determined cost of future benefits into a fund. Payments to retirees are then charged to the fund, not to the agency. In the FY2003 and FY2004 defense budgets, three substantial adjustments involving accrual accounting have a large effect on budget totals. These are:

- ! **Accrual accounting for over-65 health care benefits for uniformed personnel:** The FY2001 Defense Authorization Act, P.L. 106-398, included a provision, known as “Tricare-for-Life,” that guarantees DOD-provided health care to 65-and-over military retirees and their dependents. Beginning in FY2003, these benefits are being funded on an accrual basis. This results in (1) an increase of \$8.1 billion in FY2003 in the military personnel accounts to reflect the accrual cost of future benefits for current uniformed personnel and (2) a reduction of \$5.6 billion in operation and maintenance accounts to reflect a payment from the health care trust fund to DOD for providing care to over-65 retirees.
- ! **Accrual accounting for all civilian personnel retirement pension and health benefits:** While most federal civilian retirement benefits have been funded on an accrual basis, a small part has not been. The Administration has proposed funding all retirement benefits on an accrual basis. In FY2003, the proposed change results in an increase of \$3.4 billion (both in budget authority and in outlays) in the Department of Defense budget. OMB has adjusted FY2001 and FY2002 figures – though not figures for earlier years – to be comparable to the new, proposed treatment of civilian retirement and health benefits. Thus, OMB figures include \$3.0 billion in FY2001 and \$3.2 billion in FY2002 Department of Defense budget totals (both in budget authority and in outlays) for increased civilian retirement accrual even though this accounting procedure was not in place in those years.
- ! **Accrual accounting for under-65 health care benefits for uniformed personnel:** Beginning in FY2004, the Administration is also proposing to finance health care benefits for under-65 military retirees on an accrual basis, in which, again, DOD would pay into a fund the cost of future benefits for current employees and would receive reimbursement from the fund for costs of under-65 retiree health care that it provides. Both the contributions to the fund and reimbursements from the fund are reflected in budget projections from FY2004 on.

**Table B2** shows the year-by-year impact of these changes in accrual accounting on the defense budget through FY2007.

**Table B2. Effects of Accrual Accounting on the Defense Budget**  
(millions of dollars)

	2003	2004	2005	2006	2007
<b>DOD Payments to Accrual Funds</b>					
Payments for Accrual of Benefits for 65-and-Over Health	8,102	8,618	9,151	9,720	10,338
Payments for Accrual of Civilian Benefits	3,356	3,629	3,781	3,938	4,114
Payments for Accrual of Benefits for Under-65 Health	–	6,484	6,889	7,319	7,778
Total Payments to Funds	11,458	18,731	19,821	20,977	22,230
<b>Receipts by DOD for Provision of Services</b>					
Receipts for 65-and-Over Health Care	5,634	5,986	6,361	6,758	7,180
Receipts for Under-65 Health Care	–	5,579	5,928	6,299	6,692
Total Receipts from Funds	5,634	11,565	12,289	13,057	13,872
<b>Net Effect on DOD Budget</b>	<b>+5,824</b>	<b>+7,166</b>	<b>+7,532</b>	<b>+7,920</b>	<b>+8,358</b>

Source: Office of Management and Budget.

### **“Must Pay” Bills in the Defense Budget**

The cost of changes in accrual accounting is only one of a number of so-called “fact of life” or “must pay” bills in the FY2003 defense budget. Much of the FY2002-2003 budget increase is taken up by accounting changes, inflation, pay raises, changes in weapons cost estimates, and costs of the global counter-terrorism campaign rather than by increases in weapons investment. DOD Comptroller Dov Zakheim has told congressional committees that such “must pay” bills leave less than \$10 billion for new initiatives.

According to the Defense Department, increased costs include:

- ! \$6.7 billion for inflation;
- ! \$2.7 billion for pay raises;
- ! \$8.1 billion for accrual payments for 65-and-over health care benefits for current uniformed personnel when they retire (discussed above);
- ! \$3.3 billion for increased accrual payments to retirement accounts for current civilian DOD personnel (also discussed above – the OMB estimate is \$3.4 billion for FY2003);
- ! \$7.4 billion for what DOD calls “realistic costing,” half for revised estimates of weapons costs (including the F-22 fighter and already contracted Navy ships) and half for closer to full funding of projected operating costs; and

- ! \$19.4 billion for counter-terrorism, including \$10 billion in an unallocated contingency fund for continuing the war and \$9.4 billion for specific costs associated with ongoing operations.

In all, this adds up to \$47.5 billion in new costs, but the total is offset by \$9.3 billion in savings from procurement programs that were in the FY2002 budget but are not in the FY2003 plan. So an increase of almost \$50 billion in the defense budget, by this account, still leaves relatively little available for new programs.

Although the point is generally well taken, some items are missing from the arithmetic. For one thing, DOD is receiving \$5.6 billion in payments from the retiree health care trust fund in FY2003 to cover costs of providing services to 65-and-over retirees – money it did not receive in FY2002. Also, some counter-terrorism costs were included in the FY2002 budget, so the increased cost in FY2003 is \$16 billion rather than \$19 billion. Moreover, OMB budget figures (though not some of the figures DOD used in its early briefings on the budget), show \$3.2 billion in costs of civilian accrual accounting in the FY2002 budget for purposes of comparison with the FY2003 request, so the added cost in FY2003 is only \$0.2 billion. And, finally, a substantial part of the \$9.4 billion for specifically allocated war-related funding will go to procure material, such as Unmanned Aerial Vehicles (UAVs), intelligence infrastructure, and communications equipment, that will be in the force for some time – DOD officials have said that at least \$3 billion of the amount for counter-terrorism is for weapons procurement. So, in all, the money available for new initiatives in FY2003, compared to FY2002, is more like \$20-25 billion – not the whole of the defense budget increase, but still not insubstantial.

## **The Impact of Growing Personnel and Operating Costs**

The impact of “fact of life” cost increases on the FY2003 budget is relatively large because of some special factors, but it is by no means unique. **Table B3** compares the FY2003 defense request with FY2002 estimated funding by appropriations title – a fairly common way of looking at the budget – with comments on major reasons for some of the changes. What stands out is how much of the large increase between FY2002 and FY2003 is going to military personnel and to operation and maintenance (O&M) rather than to procurement or to research and development (though, as noted, some procurement is being financed from war-related funds requested in the operation and maintenance title).



**Table B3. Changes in Requested National Defense Funding by Appropriations Title**  
(budget authority in billions of dollars)

<b>Fiscal Year:</b>	<b>Estimate 2002</b>	<b>Request 2003</b>	<b>Change</b>	<b>Notes/Comments</b>
Military Personnel	82.0	94.3	+12.3	+\$8.1 health benefits accrual
Operation & Maintenance	129.8	150.4	+20.7	+\$15.9 war costs; -\$5.6 health care receipts
Procurement	61.1	68.7	+7.6	+\$3.7 for increased cost estimates
RDT&E	48.6	53.9	+5.3	–
Military Construction	6.6	4.8	-1.8	Limited pending 2005 base closures
Family Housing	4.1	4.2	+0.2	–
Other	0.9	2.3	+1.4	–
Subtotal, DOD	333.0	378.6	+45.6	–
Atomic Energy Defense Activities	16.0	16.5	+0.4	–
Other Defense-Related Activities	1.7	1.7	+0.0	–
Total, National Defense	350.7	396.8	+46.1	–

**Source:** Office of Management and Budget; CRS calculations.

**Notes:** OMB figures include \$3.4 billion for civilian retirement benefits accrual in FY2003 and \$3.2 billion in FY2002. FY2002 estimate does not include \$14.0 billion in supplemental appropriations requested for counter-terrorism operations on March 21, 2002.

Military personnel accounts have grown especially rapidly in recent years because of pay and benefits increases that Congress approved beginning with the FY2001 defense authorization act (P.L. 106-398), passed in October, 2000. That bill included:

- ! a 3.7% across-the-board pay raise;
- ! “pay table reform” that provided additional substantial pay raises to mid-career personnel to bolster retention;
- ! the first increment of a Clinton Administration proposal to reduce out-of-pocket off-base housing costs by increasing basic allowance for housing benefits;
- ! “Tricare for Life,” guaranteeing DOD-provided health care to over-65 military retirees; and
- ! a requirement that future military pay raises be equal to the “employment cost index,” a broad measure of personnel costs in the economy as a whole, plus 0.5%.

Last year, the FY2002 defense authorization bill included some additional changes in the pay table to further boost income for selected mid-career personnel, and the bill also increased special pays and bonuses.

Increased pay and benefits appear to have improved military recruitment and retention, though recent gains may, in part, also be due to a less robust economy. The increases have also driven up personnel costs dramatically. **Table B4** illustrates the point. Under the Administration's plan, total military personnel funding will grow from less than \$70 billion as recently as FY1998 (in current year dollars – i.e., not adjusting for inflation) to \$94 billion in FY2003 and to \$117 billion by FY2007. After adjusting for inflation (using the Consumer Price Index), personnel costs will grow from about \$48,000 per active duty troop to more than \$65,000 in FY2003 prices over the same period.

**Table B4. Trends in Military Personnel Funding, FY1990-FY2007**  
(budget authority)

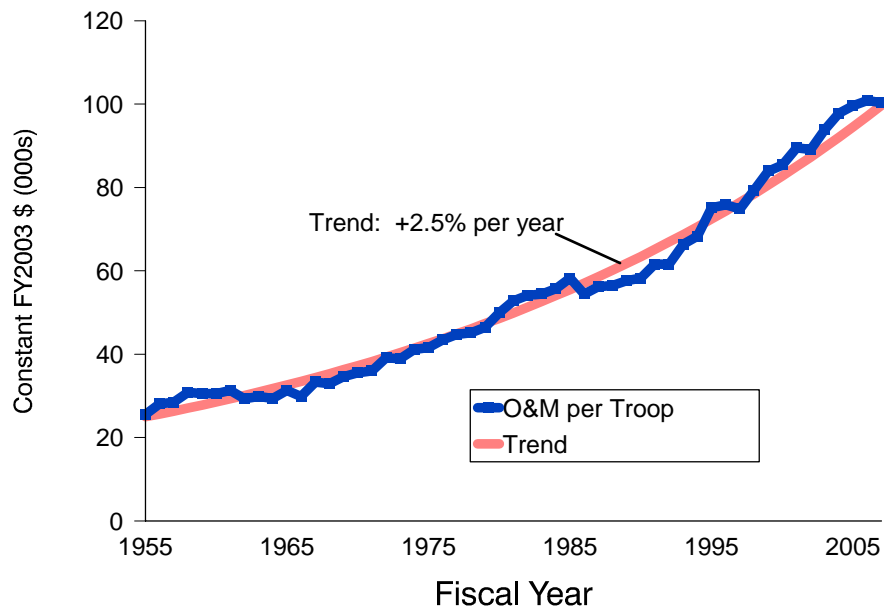
Fiscal Year	Total Military Personnel Funding (CY\$ in billions)*	Funding for Active Duty Military Personnel (CY\$ in billions)*	Funding for Active Military Personnel (FY2003\$ in billions)*	Active End-Strength (000s)	Funding for Active Military Personnel Per Troop (FY2003 \$)
1990	78.6	69.8	98.6	2,069	47,656
1991	78.4	75.0	101.1	2,002	50,485
1992	78.8	71.5	93.7	1,808	51,799
1993	76.0	66.5	84.7	1,705	49,652
1994	71.4	61.8	76.7	1,610	47,651
1995	71.6	62.1	75.0	1,518	49,389
1996	69.8	60.4	71.0	1,472	48,227
1997	70.3	60.9	69.8	1,440	48,453
1998	69.8	60.3	68.2	1,406	48,471
1999	70.6	60.7	67.2	1,386	48,519
2000	73.8	63.4	68.0	1,384	49,124
2001	76.9	65.7	68.3	1,385	49,287
2002	82.0	70.3	71.9	1,387	51,834
2003	94.3	79.9	79.9	1,390	57,494
2004	104.0	88.4	86.5	1,390	62,236
2005	108.1	91.7	87.6	1,390	63,048
2006	113.7	96.4	90.0	1,390	64,736
2007	117.4	99.4	90.6	1,390	65,183

**Source:** CRS calculations based on data from the Office of Management and Budget.

**\*Notes:** "CY\$" refers to "current year" dollars – i.e., not adjusted for inflation. FY2003 constant dollar figures are calculated using CPI-W deflators. DOD military personnel deflators are not appropriate to use because they count the amount of annual pay raises and benefits increases simply as inflation.

A similar, though much longer-term upward trend applies to operation and maintenance (O&M) accounts. A very simple measure of the trend is to calculate total O&M funding per active duty troop in constant, inflation adjusted prices. Making some adjustments to reduce inconsistencies from year to year, the result shows a very constant pattern of growth of about 2.5% per year above inflation from the mid-1950s on – **Figure 1** illustrates the trend.

**Figure 1. Trend in DOD Operation & Maintenance Funding per Active Duty Troop, FY1955-2007**



In the past, Defense Department projections often showed O&M costs per troop leveling off in the later years of each successive five or six year funding plan. When costs continued to grow, the Clinton Administration's response was either to reduce planned procurement funding in order to shift money into O&M or to increase the total defense budget to cover at least part of the shortfall. The Bush Administration appears, at least from this very rough measure, to be more fully funding likely O&M cost growth, though the projections, as in the past, do appear to level off between FY2006 and FY2007. DOD Comptroller Dov Zakheim has said that the Administration is insisting on more realistic estimates both of procurement and of operating costs.

Continuing, unabated growth in personnel and in O&M costs takes up a substantial share of projected increases in overall defense spending over the next few years. **Table B5** shows Administration projections of defense funding by appropriations title through FY2007. Between FY2000, the last full year of the Clinton Administration, and FY2007, overall national defense funding is projected to increase by \$166 billion. Of the increase, \$90 billion is for personnel and O&M and \$63 billion is for procurement and R&D.

**Table B5. National Defense Budget Function by Appropriations Title, FY2000-FY2007**

(budget authority, current year dollars in billions)

<b>Fiscal Year:</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Military Personnel	73.8	76.9	82.0	94.3	104.0	108.1	113.7	117.4
Operation & Maintenance	108.8	117.7	129.8	150.4	140.9	147.0	152.3	155.2
Procurement	55.0	62.6	61.1	68.7	74.7	79.2	86.9	99.0
RDT&E	38.7	41.7	48.6	53.9	57.0	60.7	58.9	58.0
Military Construction	5.1	5.5	6.6	4.8	5.1	6.3	10.8	13.8
Family Housing	3.5	3.7	4.1	4.2	4.3	5.1	4.9	4.8
Other	5.6	4.9	0.9	2.3	1.4	1.9	1.5	2.7
Subtotal, DOD	290.5	313.0	333.0	378.6	387.4	408.3	429.2	450.9
Atomic Energy Defense Activities	12.4	14.4	16.0	16.5	16.5	16.6	16.8	17.1
Defense-Related Activities	1.2	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Total, National Defense	304.1	329.0	350.7	396.8	405.6	426.6	447.7	469.8

**Source:** Office of Management and Budget.

**Note:** OMB figures show \$3.0 billion in FY2000 and \$3.2 billion in FY2001 for full accrual accounting for civilian retirement benefits, though it was not in effect in those years and is proposed to begin in FY2003.

## Reversing the “Procurement Holiday”

One key issue in congressional debate about the defense budget has been whether the \$70 billion or so requested for procurement in FY2003, or even the \$99 billion projected for procurement in FY2007, is enough to reverse what former Secretary of Defense William Perry called the “procurement holiday” in defense budgets that followed the end of the Cold War. A decline in new weapons purchases, said Perry in 1996, was justified in the early 1990s, first, because threats had declined, second, because many new weapons ordered in the 1980s had just entered the force, and, finally, because older weapons were retired first as the size of the force declined, so the average age of equipment was dropping even without new acquisitions. But the holiday would have to end soon, said Perry, in order to avoid creating an unaffordable “bow wave” of costs in the future to replace large numbers of rapidly aging weapons.

At the time, the Joint Chiefs set \$60 billion per year for procurement by FY1998 as the goal, a target reached in the Clinton Administration’s final budget for FY2001. In the years since Perry laid out the argument, however, the debate has shifted. Now the issue, at least among defense advocates, is no longer whether \$60 billion a year is adequate, but rather, how much more than \$60 billion is needed to meet modernization needs.

Much of the discussion has been shaped by a series of studies of the amounts needed to sustain a “steady state” procurement rate for major weapons: i.e., how

much is needed to replace the existing stock of weapons with more modern systems as weapons reach the ends of their planned service lives. A study by the Center for Strategic and International Studies estimated \$160 billion a year, in FY2000 prices, if strategic nuclear weapons are included in the calculus, and \$110 billion a year without strategic modernization. The Congressional Budget Office made its own estimate of about \$90 billion a year, and the Center for Strategic and Budgetary Assessments said \$80 billion, both also in FY2000 prices. Most recently the Chairman of the Joint Chiefs, General Richard Myers, said that a Joint Staff study, not released for public review, concluded that \$100-110 billion a year, in FY2001 prices, is needed.<sup>3</sup> After adjusting for inflation, the \$99 billion projected for procurement in FY2007 does not quite reach CBO estimates of steady-state procurement requirements: \$99 billion in FY2007 prices equals about \$83 billion in FY2000 prices.

Many members of the congressional defense committees have expressed concern that the Administration's budget plan – both in FY2003 and in future years – does not appear sufficient, despite large increases in the defense total, to finance planned weapons procurement programs. In the FY2003 request, committee members have been especially critical of the shipbuilding budget, which calls for procuring just five new ships. Assuming a 35-year service life for Navy ships, it would take an average of 8.5 new ships per year to maintain a force of 300 ships in the fleet. Only in the later years of the FY2003-2007 defense plan does the shipbuilding rate reach the nominal “steady-state” replacement rate. Some argue that helicopters, munitions, and other programs are inadequately funded as well.

## The Procurement “Bow Wave”

Most recently there have been reports that DOD has been discussing how to cope with a substantial “bow wave” of procurement costs in FY2007 and beyond. Analytically, a “bow wave” refers to the normal pattern of funding for weapons programs. The annual budget for any major acquisition program tends to grow as a system moves from technology development to full scale engineering development to production. Then the acquisition cost will decline again as production winds down. Thus the shape of a bow wave. A very large cumulative bow wave can develop if many new systems are scheduled to begin full production at about the same time.

This situation now appears to be facing the Defense Department at the end of the decade, when a number of new systems will be in production, including the F-22 and F-35 (Joint Strike Fighter) aircraft, the Comanche helicopter, and several new

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<sup>3</sup> Daniel Gouré & Jeffrey M. Ranney, *Averting the Defense Train Wreck in the New Millennium*, (Washington: Center for Strategic and International Studies, 1999); Congressional Budget Office, *Budgeting for Defense: Maintaining Today's Forces*, September 2000; Steven M. Kosiak, “Cost of Defense Plan Could Exceed Available Funding By \$26 Billion a Year Over the Long Run,” Center for Strategic and Budgetary Assessments, April 2, 1998; Steven M. Kosiak, “CSIS “Train Wreck” Analysis of Defense Department's Plans-Funding Mismatch Is Off Track,” Center for Strategic and Budgetary Assessments, February 2000; prepared statement of General Richard B. Myers, Chairman of the Joint Chiefs of Staff, before the House Armed Services Committee, February 6, 2002.

Navy ships. According to numerous press accounts, the Defense Department has been considering how to cope with the substantial projected shortfalls in procurement funding. The Navy, reportedly, is proposing to cut back substantially on planned procurement of F-35 fighters, and Secretary of Defense Rumsfeld is reportedly considering terminating several weapons programs – perhaps some in addition to the Crusader self-propelled artillery system – in order to safeguard future funds for more “transformational” weapons (see below).

## Defense Transformation

During the presidential election campaign, then-candidate George Bush strongly endorsed the notion of a defense transformation to meet the needs of a dramatically new security environment. Both President Bush and Secretary of Defense Rumsfeld have reaffirmed their commitment to transformation in major policy speeches in recent months.<sup>4</sup> Defense transformation has been defined in diverse ways, however, and the Administration has been under some pressure from Congress to articulate its definition more fully.

Most recently, using categories of transformation laid out in the Quadrennial Defense Review that was released last September,<sup>5</sup> Deputy Secretary of Defense Paul Wolfowitz gave a rough estimate of the amount of money requested for transformation-related initiatives in FY2003 and future years. In testimony before the Senate Armed Services Committee on April 9,<sup>6</sup> Wolfowitz said

The six specific transformation goals identified in the QDR are first, to defend the U.S. homeland and other bases of operation and defeat nuclear, biological and chemical weapons and their means of delivery. Second, to deny enemy sanctuary, depriving them of the ability to run or hide, any time, any where. Third, to project and sustain forces in distant theaters in the face of access denial threats. Fourth, to conduct effective operations in space. Fifth, to conduct effective information operations. And sixth, to leverage our information technology to give our joint forces a common operational picture.

In all, Wolfowitz said, about \$21 billion is requested in FY2003 for such transformational goals, and \$136 billion is planned over the next 5 years.

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<sup>4</sup> Remarks by the President at the Citadel, December 11, 2001; Remarks by U.S. Secretary of Defense Donald Rumsfeld, National Defense University, Fort McNair, Washington, D.C., Thursday, January 31, 2002.

<sup>5</sup> U.S. Department of Defense, Office of the Secretary, *Quadrennial Defense Review Report*, September 30, 2001, 71 p. Available electronically on the Department of Defense web site at: [<http://www.defenselink.mil/pubs/qdr2001.pdf>].

<sup>6</sup> Statement of Deputy Secretary of Defense Paul Wolfowitz before the Senate Armed Services Committee, Hearing on Transforming the Armed Forces to Meet the Challenges of the 21st Century, April 9, 2002. The prepared statement is available electronically at: [[http://www.senate.gov/~armed\\_services/statemnt/2002/April/Wolfowitz.pdf](http://www.senate.gov/~armed_services/statemnt/2002/April/Wolfowitz.pdf)].

## Appendix C: Summary Tables

**Table C1. Congressional Action on Defense Authorization by Title**  
(budget authority in billions of dollars)

	Request	DERF Allocated	Request With DERF Allocated	House Authorization	Senate Authorization	Conf. Authorization	Change to Request
Military Personnel	94.3	0.0	94.3	94.2	94.4	93.8	-0.5
Operation and Maintenance	130.4	3.9	134.3	131.0	130.2	129.8	-4.6
Defense Emergency Response Fund	20.1	10.0	10.0	6.7	10.0	10.0	+0.0
Procurement	68.7	2.9	71.6	75.1	72.2	73.8	+2.1
RDT&E	53.9	2.3	56.1	56.7	56.4	56.7	+0.6
Military Construction	4.8	0.6	5.3	5.8	6.0	6.3	+0.9
Family Housing	4.2	0.0	4.2	4.3	4.2	4.2	-0.0
Revolving Funds/Other	3.3	0.3	3.6	2.4	2.6	2.6	-1.0
General Provisions	0.0	0.0	0.0	0.0	0.0	-1.0	-1.0
Mandatory Programs	-1.3	0.0	-1.3	-1.4	-1.3	-1.3	+0.0
<b>Total DOD</b>	<b>378.2</b>	<b>20.1</b>	<b>378.2</b>	<b>374.9</b>	<b>374.6</b>	<b>374.8</b>	<b>-3.4</b>
Atomic Energy Defense Activities	16.4		16.4	16.3	16.7	16.5	+0.1
Other Defense-Related Activities	1.7		1.7	1.6	1.6	1.6	-0.1
<b>Total National Defense</b>	<b>396.3</b>		<b>396.3</b>	<b>392.8</b>	<b>392.8</b>	<b>392.9</b>	<b>-3.4</b>

**Sources:** H.Rept. 107-436; S.Rept. 107-151; H.Rept. 107-772.

**Note:** DERF allocation as shown by the Senate Armed Services Committee in S.Rept. 107-151.

**Table C2. Congressional Action on Defense Appropriations by Title**  
(budget authority in billions of dollars)

	FY2002 Enacted	FY2003 Request	DERF Allocated	Request With DERF Allocated	House Appropriation	Senate Appropriation	Conference Appropriation	Change to Request (with DERF)
Military Personnel	82.1	94.2	0.0	94.3	93.4	93.8	93.6	-0.7
Operation and Maintenance	105.0	112.2	3.9	116.1	114.8	114.8	114.8	-1.4
Defense Emergency Response Fund	-	19.3	10.0	10.0	0.0	0.0	0.0	-10.0
Procurement	60.9	67.2	2.9	70.1	70.3	71.5	71.5	+1.4
RDT&E	48.9	53.7	2.3	56.0	57.8	56.1	58.6	+2.6
Revolving & Management Funds	1.7	2.4	0.3	2.8	2.8	2.7	2.7	-0.0
Other DOD Programs	20.5	17.1	0.0	17.1	17.1	17.5	17.4	+0.3
Related Agencies	0.4	0.4	-	0.4	0.4	0.4	0.5	+0.1
General Provisions	-2.8	0.0	-	0.0	-1.8	-1.6	-4.0	-4.0
Counter-Terrorism/WMD Defense	0.9	-	-	-	-	-	-	-
Scorekeeping Adjustment	-0.2	-	-	-	-	-	-	-
<b>Total</b>	<b>317.5</b>	<b>366.7</b>	<b>19.3</b>	<b>366.7</b>	<b>354.7</b>	<b>355.4</b>	<b>355.1</b>	<b>-11.6</b>
Supplemental Appropriations								
P.L. 107-117	3.4	-	-	-	-	-	-	-
P.L. 107-206	13.4	-	-	-	-	-	-	-
<b>Total with Supplementals</b>	<b>334.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Sources:** H.Rept. 107-532, S.Rept. 107-213, H.Rept. 107-732.

**Note:** DERF request as shown in the appropriations conference report is reduced by \$716.849 million that is transferred to military construction appropriations. DERF allocation is as shown by the Senate Armed Services Committee in S.Rept. 107-151.

**Table C3: Summary of Congressional Action on Defense and Military  
Construction Appropriations**  
(budget authority in millions of dollars)

	FY2002 Enacted	FY2003 Request	House Approp.	Senate Approp.	Conf. Approp.	Change to Request	Change from FY2002
Defense Appropriations	317,473.7	366,671.6	354,712.9	355,405.9	355,107.4	-11,564.3	+37,633.6
Military Construction Appropriations	10,630.2	9,664.0	10,083.0	10,622.0	10,499.0	+835.0	-131.2
<b>Total</b>	<b>328,103.9</b>	<b>376,335.7</b>	<b>364,795.9</b>	<b>366,027.9</b>	<b>365,606.4</b>	<b>-10,729.3</b>	<b>+37,502.4</b>
Supplemental Appropriations							
P.L. 107-117 (Jan. 2002)	3,395.6						
P.L. 107-206 (Aug. 2002)	13,343.9						
<b>Total with Supplemental Approp.</b>	<b>344,843.5</b>	<b>376,335.7</b>	<b>364,795.9</b>	<b>366,027.9</b>	<b>365,606.4</b>	<b>-10,729.3</b>	<b>+20,762.9</b>

**Source:** Summary tables of appropriations conference reports in *Congressional Record*, October 10, 2002, pp. 7807 and 7816.