Defense Spending and the Budget Control Act Limits

Amy Belasco
Specialist in U.S. Defense Policy and Budget

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Summary

Enacted on August 1, 2011, the Budget Control Act (BCA) as amended (P.L. 112-75, P.L. 112-240, P.L. 113-67) sets limits on defense spending between FY2012 and FY2021 that are playing a significant role in the debate about the appropriate level of defense spending. Each year, if Congress enacts a spending level that exceeds BCA caps for the defense base budget, the President is required to sequester or levy across-the-board cuts to each type of defense spending to meet the BCA caps. These spending levels are sometimes referred to as revised or “sequester” caps. War-designated funding (for “Overseas Contingency Operations”) is not subject to BCA caps.

Under these limits, national defense spending decreased from the $578 billion requested in the FY2012 President’s Budget to $553 billion in FY2012 and $518 billion in FY2013, including a sequester. In the next two years, Congress complied with revised BCA caps, providing $521 billion in FY2014 and the same amount in FY2015, thus basically setting a nominal freeze in spending for three years (without an increase to cover inflation). At the FY2015 low point of the BCA path, defense spending would be equivalent in real terms (the same purchasing power) to the level between FY2007 and FY2008 and would be somewhat below the recent FY2010 high point.

For FY2016, the BCA caps for defense are slated to rise from $521 billion to $523 billion, a continuation of the nominal freeze for the base budget. In FY2016, the President requested funding of $561 billion, $38 billion above the BCA defense cap. To the extent that FY2016 enacted appropriations for defense exceed this cap, a sequester will be triggered, requiring largely across-the-board decreases under current law.

Following the nominal freeze, BCA caps provide annual increases in defense spending starting in FY2017 that average $13 billion, rising from $523 billion in FY2016 to $644 billion by FY2021, the last year of the BCA caps. These increases would provide sufficient funds to more than offset the effects of inflation, setting defense spending at about .005% real growth each year through FY2021.

The current debate in Congress has centered on whether to (1) adjust the BCA defense caps upward; (2) move base budget spending to accounts designated for Overseas Contingency Operations (OCO) that are not subject to spending limits; (3) reduce the defense spending in the Administration’s request to comply with BCA revised caps; or (4) use some combination of these approaches, all in order to avoid a sequester. While DOD and other policymakers contend that BCA caps could make it difficult to meet future threats, other policymakers argue that defense spending could be reduced to comply with the caps and still provide DOD with the necessary capabilities.

The recently passed conference version of the FY2016 budget resolution would meet sequester caps by transferring $38 billion from the defense base budget request to accounts designated for Overseas Contingency Operations that are exempt from the caps. This approach has been characterized as budget gimmickry and has reignited debate about whether war funding is a “slush fund.” The House-passed version of the FY2016 National Defense Authorization Act (H.R. 1735) also moved $38 billion from the base budget request to funds to be designated as OCO.
Since enactment, both Congress and the Administration have adapted to the BCA caps. While Congress has raised the caps in the near term to ease DOD’s adjustment, it has left intact caps in later years. The Administration has made substantial adjustments to BCA limits by reducing its defense budget plans, shrinking the savings required to meet BCA caps for the decade from $1.0 trillion in savings to $180 billion.

With four of the ten years of the BCA limits completed, the gap between the FY2016 Administration plan for total defense spending and BCA limits now in effect has narrowed. Over three-quarters of the savings needed are already incorporated in current Administration plans as of the FY2016 budget. To close this gap for the six remaining BCA years, Congress would have to reduce the Administration’s FY2016 plan by an average of 5% instead of the 16% originally required.

There are a variety of savings approaches that DOD could take to adapt to BCA spending limits, such as:

- temporary cuts (as were typical of the FY2013 sequester);
- recurring savings from force structure decreases or compensation restraints: both would contribute enduring savings; and
- efficiency savings that reduce the cost of carrying out various programs and activities.

In a report to Congress last year, DOD outlined how it would meet the 4% cut of $115 billion in BCA cuts for FY2015-FY2019, its planning horizon at the time. DOD’s plan would rely heavily on cuts to its modernization programs, and would make significant cuts to service readiness programs. In adapting to the BCA, DOD faces uncertainties in its future projections of cost, exacerbated by long-term trends in rising costs per troop that it is beginning to reverse.
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Defense Spending Limits and the Budget Control Act (BCA)

Enacted August 2, 2011, the Budget Control Act (BCA, P.L. 112-25) sets limits for National Defense spending for each year from FY2012-FY2021 that applies to the base budget. War spending—designated by both Congress and the President as for “emergencies” or for “Overseas Contingency Operations” (OCO)—is essentially exempt from these caps.¹

Since enactment, the appropriateness and potential effects of the BCA spending caps on defense spending have generated a vigorous debate. Passed by strong majorities in both houses—269-161 in the House and 74-26 in the Senate—the spending limits reflected concerns about increases in the federal deficit.²

In return for a $2.1 billion increase in the debt limit, the BCA reduced the Congressional Budget Office (CBO) baseline for total discretionary spending by the same amount by setting annual limits for FY2012-FY2021 that, if necessary, would be enforced by a sequester. The decrease to the deficit focused almost entirely on the discretionary spending that is appropriated annually and makes up about one-third of total federal spending; the two-thirds of the budget for direct or mandatory spending, primarily for entitlement programs like Social Security and Medicare, was not affected.

To achieve the $2.1 trillion in required savings, the Budget Control Act set “initial caps” that would reduce discretionary spending by $1.0 trillion over the ten-year decade, FY2012-FY2021—with half for defense and half for nondefense. A second tranche of savings was to be based on a plan to be developed by the congressionally established, bipartisan, Joint Committee on Deficit Reduction (or Super Committee).

When that committee was unable to develop a plan to ensure these savings, the BCA provided that a second set of “revised caps” or “Joint Committee limits” would go into effect for National Defense, budget function 050 that is comprised primarily of the Department of Defense or DOD (budget function 051) and “nondefense” or all other discretionary programs. For FY2013, the Act required that the President order a sequester to reduce the enacted level for defense by the amount specified.³ Under a sequester, OMB calculates the pro rata percentage cut to each type of spending or program that is necessary to reach the BCA limit and cancels that budget authority.⁴ (For more detail, see Appendix A.)

¹ The caps are raised to accommodate this spending; see §251(b)(2)(A) of the Balanced Budget and Emergency Deficit Control Act of 1985 (hereinafter BBEDCA). Caps are set in terms of Budget Authority (BA). All figures are BA unless listed otherwise.
³ OMB, Sequester Preview Report to the President and Congress for Fiscal Year 2014 and OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014, p. 3, April 10, 2013; May 20, 2013;
⁴ OMB, Final Sequestration Report to the President and Congress for Fiscal Year 2012, January 2012, p. 3; http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/sequestration/sequestration_final_jan2012.pdf
After FY2013, a sequester is required only to the extent that annual enacted appropriations breach or exceed separate defense and nondefense “revised caps” or “limits” set in the BCA. The breach would be eliminated by the sequester. Some commentators refer to these limits as “sequester” caps, presumably because spending above these levels would trigger a sequester (for more detail, see Appendix A).

The President’s request for FY2016 exceeds the BCA cap by $38 billion. If Congress were to enact that amount, a sequester would be triggered. Congress is currently debating its response, which could range from raising the caps themselves with new statutory language, to cutting defense spending to comply with the cap, to designating base budget spending as Overseas Contingency Operations (OCO) to avoid breaching the caps (as proposed in the FY2016 budget resolution S.Con.Res. 11).

This report uses the terms “BCA revised limits” or “BCA caps” to refer to the BCA caps as amended by the American Taxpayer Relief Act (ATRA, P.L. 112-240) and the Bipartisan Budget Act (BBA, P.L. 113-67) that Congress must meet to avoid a sequester. Unless indicated otherwise, all figures are budget authority (BA) for the defense base budget, which excludes funds designated as emergency or for OCO that are not subject to BCA caps.

In testimony by defense spokesmen, these BCA spending limits or revised caps are often used to refer to two different dilemmas faced by Congress:

- reducing defense spending to ensure compliance with BCA caps to avoid an across-the-board reductions; or
- facing the potential effects of a sequester itself on the defense programs and activities if Congress does not meet the limits.

Alternate Approaches to BCA Caps

Congress could respond to the current, statutory FY2016 defense spending caps with various approaches, including:

- transferring funds from DOD’s base budget to OCO-designated accounts that are not subject to caps, as proposed in the conference version of S.Con.Res. 11, the FY2016 budget resolution;
- reducing the President’s request by $38 billion or 5.6% through targeted cuts in order to comply with BCA limits;
- enacting some targeted cuts and relying on a small (1-2%, for example), sequester to comply with BCA caps;
- enacting the request and relying entirely on an across-the-board sequester to meet BCA spending limits; or

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5 In its report, the Office of Management and Budget, responsible for reporting BCA spending limits, refers to the initial caps as the “original limits,” and to adjustments to those limits as “Joint Select Committee on Deficit Reduction Enforcement,” and the lowered or revised caps as “Revised Limits;” see OMB, Sequestration Preview Report to the President and Congress for Fiscal Year 2016, February 2, 2015, p. 4-p.4; http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/sequestration/2016_sequestration_preview_report_president.pdf.
Defense Spending and the Budget Control Act Limits

- raising current defense and nondefense caps by some amount and complying with those caps.

Congressional Choices

To help frame these choices about how to respond to the BCA revised or “sequester” caps on defense spending, this report

- explains congressional adjustments of the caps and Administration reactions;
- describes the Administration’s position and DOD concerns;
- analyzes defense spending levels in the FY2016 annual budget resolution;
- places BCA caps in historical perspective;
- outlines different types of savings that could help comply with the caps;
- analyzes DOD’s current plan for compliance, and
- describes budget uncertainties faced by DOD in responding to spending limits.

Adapting to BCA Spending Limits

BCA caps are set in terms of National Defense (budget function 050), of which DOD constitutes about 95%. The story for DOD (budget function 051) follows the same lines as for National defense. The discussion below focuses on National Defense; later sections focus on DOD, which is the center of the defense spending debate.

Between FY2012 and FY2015, the gap between the Administration’s defense spending plans and the BCA spending limits narrowed. Based on CBO’s estimate, the original BCA limits required a reduction to National Defense spending for the decade by about 14% or $860 billion compared to continuing the FY2011 enacted level in real terms (steady-state spending with an adjustment for inflation). CBO and OMB generally compare budget requests to a “current services” baseline that reflects the prior year’s enacted level plus an adjustment for inflation.

Compared to the President’s FY2012 budget plan submitted before passage of the BCA, BCA caps would reduce defense spending for the base budget by $1.0 trillion or about 16%. This gap is greater because the Administration’s FY2012 ten-year plan incorporated an annual average of just below 1% growth for defense that was to be concentrated in the first three years.

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6 Defense-related programs in the Department of Energy for nuclear weapons and the Department of Justice for counter-terrorism make up most of the remainder.

7 CBO, Letter from Douglas Elmendorf, Director to Speaker of the House John, Boehner and Majority Leader of the Senate, Harry Reid, “CBO Estimate of the Impact on the Deficit of the Budget Control Act of 2011,” August 1, 2011; http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/123xx/doc12357/budgetcontrolactaug1.pdf. The defense share is half of the total reduction of $2.1 trillion over the decade. BCA limits are set at the budget function level, or National Defense (budget function 050); the Department of Defense (DOD) makes up about 95% of that total.

8 When the BCA caps were enacted, CBO uses those statutory limits as its “baseline” estimate.

9 CRS calculation based on OMB, FY2012 Analytical Perspectives, Table 32-1; http://www.whitehouse.gov/sites/default/files/omb/budget/budget/fy2012/assets/32_1.pdf.
By the FY2016 request, the savings gap—compared to the Administration’s ten-year plan—had shrunk from 16% to 5%. This change resulted from a combination of raising caps in the American Taxpayer Relief Act (ATRA, P.L. 112-240) and the Bipartisan Budget Act (BBA, P.L. 113-67) and Administration decisions to submit lower defense budget plans. These actions:

- raised the spending limits for FY2013, FY2014, and FY2015 easing the year-to-year cuts required; and
- reducing the savings needed by lowering defense spending plans in successive budgets between FY2012 and FY2015.

While the adjustments in ATRA and BBA were significant in the near term, the reductions themselves were modest for the decade, requiring $54 billion, or 1% less savings. The original $1.0 trillion in defense savings needed compared to the FY2012 President’s budget plan became $963 billion with these adjustments.¹⁰

Raising Defense Spending Limits

Although ATRA retained the requirement for a sequester in FY2013, it reduced the amount from $54.5 billion for defense to $42.5 billion. At the same time, ATRA softened the scheduled $62 billion cut between FY2012 and FY2013, splitting the reduction over two years rather than one. Instead, ATRA mandated decreases of $36 billion in FY2013 and $20 billion the following year. Congress left later years intact.

Signed by the President on December 26, 2013, the BBA raised the ATRA National Defense caps for FY2014 from $498 billion to $520 billion, a $22 billion increase. For the following year, the BBA raised the earlier ATRA limit from $512 billion to $521 billion, a $9 billion increase. BCA caps remained the same for FY2016 through FY2021.¹¹

Together these changes set defense spending at a nominal freeze (without adjustments for inflation) between FY2013 and FY2016. (For more details, see Appendix B.)

Lowering Long-term Defense Spending Plans

While changing BCA caps reduced the gap between the pre-BCA Administration plans by a relatively small amount, the lower defense budget plans submitted by the President narrowed the gap by some $780 billion. These reductions reflect Administration and DOD decisions to reduce force structure, slow modernization plans, propose compensation restraints, delay readiness improvement plans, and adopt various efficiencies (see “DOD’s Plan for Complying with BCA Limits”).


From FY2013-FY2015, the gap between the Administration’s budget plans and the BCA caps narrowed as the Administration incorporated additional savings into its plans. Figure 1 shows how total funding requests for FY2012-FY2021 changed under successive President’s budgets for National Defense. DOD funding levels changed in comparable ways.

- The FY2013 budget fell by $519 billion from $6.4 trillion to $5.9 trillion; an additional $497 billion in savings would be needed to comply with caps.
- The FY2014 plan declined by another $93 billion to $5.8 trillion; requiring $372 billion more savings to comply.
- The FY2015 plan decreased by another $188 billion to $5.6 trillion; requiring $185 billion more in savings; and
- The FY2016 budget remained at $5.6 trillion, requiring $185 billion more in savings.\(^\text{12}\)

**Figure 1. The BCA and Changes in National Defense Spending Plans**

(in billions of dollars of budget authority)

With four of the ten years of the BCA limits completed, the gap between the FY2016 Administration plan for total defense spending and BCA limits now in effect has narrowed. Over three-quarters of the savings needed are already incorporated in current Administration plans as of the FY2016 budget. To close this gap for the six remaining BCA years, Congress would have to reduce the Administration’s FY2016 plan by an average of 5.4% (Table 1).

\(^{12}\) CRS calculations based on OMB and DOD data, and CRS estimate of DOD’s share of BCA limits; includes the $26 billion separate request for DOD in the Administration’s Opportunity, Growth and Security Initiative (OGSI) fund.
Defense Spending and the Budget Control Act Limits

Defense Spending Complies with BCA Caps for FY2012-FY2015

By reducing the Administration’s request and with the FY2013 sequester required by the BCA, National Defense spending (050) met BCA caps from FY2012 through FY2015, totaling

- $552 billion in FY2012,
- $518 billion in FY2013 (post-sequester),
- $520 billion in FY2014, and
- $521 billion in FY2015 (see Table 1).

After decreases in FY2012 and FY2013, the BCA limits set defense spending at a nominal freeze for three years (the same spending level without adjustments for inflation) that would rise slightly to $523 billion in FY2016. After that, defense spending is slated to rise by an average of $11 billion a year to $610 billion in FY2021, sufficient to cover expected inflation (Table 1).

The BCA Spending Path and the FY2016 Request

This year, as in the past three years, President Obama proposed to raise caps for both defense and nondefense and substitute “spending cuts, tax loophole closers, and program integrity measures included in the Budget.”13 Thus far, Congress has shown little interest in such a trade-off.

For National Defense, the President proposes raising the BCA cap by $38 billion in FY2016 to match the request of $561 billion for the base budget. In later years, the President proposes to raise defense caps by about $10 billion annually, reaching $610 billion in FY2021, $20 billion above the current $590 billion statutory cap (Table 1). The President also proposes to extend the caps from FY2021 through FY2025 with annual increases of $13 billion.

In FY2016, the gap between the BCA limit and the FY2016 President’s Budget (PB) request is $38 billion, requiring a 6.8% reduction to avoid a sequester. The savings gap would gradually decline to between 3% and 4% in later years although savings in earlier years could contribute to those needed in later years. In real terms (converting all dollars to FY2016 purchasing power), meeting the BCA caps would require an average decrease of 5% over the next six years (Table 1).

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13 See “In addition to cancelling the 2016 mandatory sequestration order and replacing the automatic mandatory reductions required in future years, the 2016 Budget adjusts upward the 2016 through 2021 defense and non-defense caps from where they otherwise would be under Joint Committee reductions . . . [substituting] by a balanced package of spending cuts, tax loophole closers, and program integrity measures included in the Budget;” on p. 8 of OMB, Sequestration Preview Report to the President and Congress for Fiscal Year 2016, February 2, 2015; http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/sequestration/2016_sequestration_preview_report_president.pdf. 13 For previous proposals, see “The President stands by the compromise offer he made to Speaker Boehner in December 2012. This Budget includes all of the proposals in that offer. These proposals would achieve nearly $1.8 trillion in additional deficit reduction over the next 10 years, bringing total deficit reduction to $4.3 trillion. This represents more than enough deficit reduction to replace the damaging cuts required by the Joint Committee sequestration” in Office of Management and Budget, FY2014 Budget,” Reducing the Deficit in a Smart and Balanced Way,” p. 35-p.36; http://www.gpo.gov/fdsys/browse/collection.action?collectionCode=BUDGET&browsePath=Fiscal+Year+2014&searchPath=Fiscal+Year+2014&leafLevelBrowse=false&isCollapsed=false&isOpen=true&packageid=BUDGET-2014-BUD&ycord=0.
It is not uncommon for Congress to appropriate 5% less funding than requested by DOD. In the 63 years between FY1950 and FY2012, Congress provided DOD with 5% less than requested in about one-quarter of the years. Smaller reductions of 3% to 5% occurred in 11 years, or another 18%. So over 40% of the time, DOD received appropriations of 3% to 5% below its request.\textsuperscript{14}

\textbf{Table 1. FY2016 President's Budget (PB) Plan and BCA Caps for National Defense}

(in billions of dollars of budget authority and %)

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\textbf{Notes:} CRS calculations on OMB and DOD documents. Reflects budget authority. CRS used the GDP price index to convert nominal dollars into FY2016 dollars.

\textbf{a.} BCA caps refers to spending limits as amended by ATRA and the BBA.

Much of this year’s debate on the FY2016 budget resolution focused on how to respond to BCA caps for DOD. This debate about the appropriate level of defense spending in FY2016 and in later years is likely to continue into the summer and fall as Congress considers the National Defense Authorization Act (NDAA), and annual Department of Defense (DOD) and Military Construction/Veterans Affairs appropriations acts.

\textsuperscript{14} Calculation by CRS based on congressional action on the DOD Appropriations bill in those years.
This rest of this report analyzes BCA limits for DOD (051), which makes up the bulk of National Defense and is the chief focus of congressional concerns. This report does not address nondefense spending, which is subject to similar spending limits.15

The Story for DOD

The story for DOD follows the same path as for National Defense. DOD’s reactions to BCA caps have changed over time. With the submission of the FY2013 budget, DOD’s ten-year spending plan for the BCA decade fell by $487 billion, and the needed to comply with BCA caps fell from 16% in the FY2012 budget to 9% (Figure 2). DOD suggested that this initial adjustment “is hard, but manageable.”16 Additional savings of $482 billion would be needed to meet BCA caps.

![Figure 2. Gap Between BCA Limits and DOD Plans Narrows](image)

Sources: CRS calculations based on P.L. 112-75, P.L. 112-240, P.L. 113-67, and OMB Table 32-1, 31-1, and 28-1 in OMB’s annual Analytical Perspectives to estimate DOD share of National Defense (050) total.

With the additional $90 billion savings incorporated in the FY2014 DOD plan, the gap between the plan and the BCA as amended shrank to $331 billion over the next eight years of the BCA decade. The savings gap fell from 9.4% to 7.3%. DOD now warned that this change “led to significant ongoing and planned reductions in military modernization, force structure, personnel

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costs, and overhead expenditures,” but that it still complied with the President’s strategic guidance. 17

The FY2015 DOD plan trimmed another $186 billion reducing the savings gap to about $175 billion, now requiring an additional 5.1% for FY2015-FY2021 to comply with BCA limits (Figure 2).18 DOD characterized this spending level as allowing “the military to protect and advance U.S. interests and execute the updated defense strategy – but with somewhat increased levels of risk for some missions.19

In FY2016, BCA caps are slated to increase from $496 billion to $499 billion, and then to rise by about $11 billion annually from FY2017-FY2021, reaching $563 billion in FY2021. DOD’s FY2016 request of $534 billion exceeds the FY2016 cap by $36 billion and by $170 billion for the remaining BCA years. The FY2016 Administration plan did not incorporate additional savings, and the gap rose slightly to 5.1% or $165 billion (Figure 2 and Table 2).

In its FY2016 Budget Overview, DOD argued that only the Administration’s plan would be adequate to respond to recent geopolitical developments, including the Islamic State offensive, the Ebola virus outbreak, and Russian actions in the Ukraine, and to execute the updated defense strategy - but with somewhat increased levels of risk for some missions. . . [concluding that the] QDR [Quadrennial Defense Review] strategy cannot be executed at sequester-levels of funding.20 (For more detail, see Appendix C.)

Defense Department Concerns

Although Secretary of Defense Ashton Carter recently testified that DOD’s planned budget has met over three-quarters of the savings needed to comply with the BCA, DOD now argues that making the remaining reductions would have serious consequences.21 In testimony about potential effects of meeting BCA caps that would require a $36 billion decrease to DOD’s request, and further reductions from their plan in later years, DOD witnesses contended that complying with BCA caps would

- jeopardize the military’s ability to carry out the national military strategy because of cuts in force structure, and other changes;22

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18 This figure includes the $26 billion requested for DOD in the Opportunity, Growth and Security Initiative fund.
• delay reaching “full-spectrum” readiness, the broader training that prepares
troops for large-scale combat operations;
• slow modernization efforts; and
• exacerbate these problems if Congress rejects DOD proposals for compensation
and health care reform and other proposals that are incorporated in budget plans.\(^{23}\)

Table 2. FY2016 President’s Budget Plan and BCA Caps for DOD
(in billions of dollars of budget authority and %)

<table>
<thead>
<tr>
<th>Department of Defense (051)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paths</td>
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<td></td>
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</table>

<table>
<thead>
<tr>
<th>Paths</th>
<th>Actuals</th>
<th>Budget Plan</th>
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</thead>
<tbody>
<tr>
<td>FY2016PB</td>
<td>530</td>
<td>495</td>
</tr>
<tr>
<td>BCA Limits(^{a})</td>
<td>530</td>
<td>496</td>
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<tr>
<th>Paths</th>
<th>Actuals</th>
<th>Budget Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2016President’s Budget (PB) Plan less BCA Caps</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In $</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>In %</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Paths</th>
<th>Actuals</th>
<th>Budget Plan</th>
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</thead>
<tbody>
<tr>
<td>FY2016President’s Budget (PB) Plan less BCA Caps in FY2016 Dollars</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In $</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>In %</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

\(^{a}\) BCA caps refers to spending limits as amended by ATRA and the BBA.

After adapting to a nominal freeze in spending since the FY2013 sequester, DOD appears to be
particularly concerned about continuing that freeze for another year and then receiving average
annual increases of $11 billion through FY2021 that would more than cover inflation. Under BCA

FY2016_Budget_Request_Overview_Book.pdf.
Defense Spending and the Budget Control Act Limits

caps, DOD spending would rise from $496 billion in FY2015 to $499 billion in FY2016, and then to $581 billion by FY2021 (Table 2).

During a hearing on the impact of sequestration, Chair of the Senate Armed Services John McCain asked the Service Chiefs whether they would be able to execute the current 2014 Defense Strategic Guidance under “sequestration” or revised BCA caps. Each Service Chief responded “no.” The service chiefs did not provide a list of those programs and activities that would be cut as requested by the Chair.24

Each of the witnesses provided some examples of the impact of potential cuts that would be necessary, in their view, to reach BCA caps in FY2016 and later years. In 2014, DOD sent Congress a report about how and where spending would be reduced to comply with caps but did not explain how particular cuts would prevent the military from responding to potential military crises envisioned in the national strategy (see “DOD’s Plan for Complying with BCA Limits”).

Connecting defense funding levels and the national strategy is complex and depends on how and where reductions are taken. There is a wide range of views on ways to reduce defense spending to meet BCA spending limits and what the impact of those decreases would be (see Appendix D).

The FY2016 Budget Resolution and BCA Caps

This spring’s debate about the spending levels for defense in FY2016 and the next decade pitted defense hawks, worried about the effect on defense of reductions necessary to comply with BCA caps, against deficit hawks, concerned about increasing the deficit if BCA constraints are lifted.

As a result of concern over the effect on defense as well as preventing a sequester, the House and Senate budget resolutions (H.Con.Res. 27 and S.Con.Res. 11) both recommended adding a total of $96 billion for Overseas Contingency Operations (OCO), including $89 billion for DOD and $7 billion for State Department/USAID programs.25

This would add $38 billion to DOD’s $51 billion war request by designating funds requested in its base budget as being for OCO. Since these additional OCO-designated funds would not count against BCA caps, defense spending would be raised to the level requested without triggering a sequester.26

OCO-designated funds would rise from the $57 billion requested for the Afghanistan war and new efforts to combat the Islamic State or ISIS to $96 billion (including the $7 billion for the State Department). For DOD, OCO-designated funds would constitute 16% of the total rather than the 8% requested (Figure 3).


25 See Table 3 and Table 4 in S.Rept. 114-14; and Table 1 in H.Rept. 114-47; see also §104, Functional Categories for National Defense (050) and Overseas Contingency Operations (970) in the conference version of S.Con.Res. 11.

26 Under budget law, OMB raises budget caps to accommodate funding designated as OCO. The $57 billion and $96 billion in OCO-designated funds include $50 billion for defense and $7 billion for the State Department in the request, and the $96 billion includes $89 billion for defense and $7 billion for the State Department in the House and Senate budget resolutions.
The conference version of the FY2016 budget resolution on S.Con.Res. 11 adopted this approach, providing $523 billion for the National Defense base budget, complying with BCA caps, and another $96 billion in OCO-designated funding for DOD and the State Department. The total for defense was $1 billion above the President’s request.

While amounts in the budget resolutions are not binding, the House Appropriations Committees adopted these figures in its 302(b) allocations that govern the markup of individual bills by their subcommittees. The Senate Appropriations Committees has not yet published its 302(b) allocations.

**Figure 3. BCA Revised Caps and FY2016 Budget Resolutions**

(in billions of dollars and % of total)

<table>
<thead>
<tr>
<th></th>
<th>$Billions</th>
<th>Base</th>
<th>OCO</th>
<th>BCA Revised Caps</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCA Caps</td>
<td>100%</td>
<td>85.5%</td>
<td>84.5%</td>
<td>84.5%</td>
</tr>
<tr>
<td>Pres. Bud.</td>
<td>8.3%</td>
<td>84.5%</td>
<td>84.5%</td>
<td>84.5%</td>
</tr>
<tr>
<td>H. Con. Res. 27</td>
<td>15.5%</td>
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</tr>
<tr>
<td>Conference</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Sources:** Bipartisan Budget Act, H.Con.Res. 27 as passed by the House, H.Rept. 114-47, S.Con.Res. 11 and S.Rept. 114-14; and conference version of S.Con.Res. 11.

**Notes:** Figures include discretionary budget authority for base and OCO National Defense spending.

Secretary of Defense Ashton Carter, DOD Comptroller Michael McCord, and the service chiefs all expressed concerns about providing DOD with a one-year increase using OCO-designated funds, saying this approach was not a “sustainable” path, and therefore would not alleviate their concerns. A one-time spike, without assurances of longer-term increases, could complicate...
defense planning. OMB Director Shaun Donovan signaled the President’s opposition to this approach, stating that the FY2016 budget resolution would

Damage national security by funding national defense with gimmicks in the near term, short-changing it altogether in the long term, and singling out key non-defense national security programs for deep cuts relative to the President’s budget. . . [and] As the Secretary of Defense and the Chairman of the Joint Chiefs have explained, this is both bad budgeting and harmful to military planning.30

Distinguishing Between Base and OCO Funds

Under budget law, spending is classified as for an “emergency” or OCO if

- Congress includes statutory language designating funds as emergency or OCO in individual accounts; and
- the President subsequently designates the funds, generally in a letter to Congress.

If Congress and the President designate funds as “emergency” or “OCO” appropriations, then OMB raises BCA limits to accommodate that funding.32 This effectively exempts war funding from the caps. Determining which funds are OCO-related is not necessarily based on particular criteria but rather on whether both the congressional and executive branches have designated the funding that way.

Both OMB and DOD issue budget guidance and regulations with criteria for what qualifies as war-funding that are to be followed by DOD in developing their budgets. Once funding is appropriated with an emergency or OCO-designation by both Congress and the President, the funds are available to be spent regardless of their purpose.

Since the 9/11 attacks, both Congress and the President have designated as emergency or OCO funding items that may not be consistent with guidance, for purposes ranging from childcare centers to reorganizing the Army to funds transferred from DOD’s base budget request.33 Amounts designated in defense appropriations acts as “emergency” or “OCO” have ranged from

(...continued)


31§251 (b)(2)(ii) of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) includes this designation procedure. See also discussion in CRS Report RL33110, The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11, by Amy Belasco

32See, for example, Table 1 and pp.3-5 in OMB, “Final Sequestration Report to the President and Congress for Fiscal Year 2015,” January 15, 2015; https://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/sequestration/sequestration_final_january_2015_president.pdf.

33See Table 5 and sections “War Funding and Budget Controls” in CRS Report RL33110, The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11, by Amy Belasco. DOD’s monthly Cost of War reports have included a table listing all war-designated funding not tracked since FY2008. Presumably, DOD excludes this funding in order to use actual experience to estimate future spending without including these funds.
about $2 billion to $12 billion, typically falling in the $6 billion to $8 billion range each year. In FY2014, for example, Congress moved $9.2 billion in O&M funding requested in DOD’s base budget to Title IX war funding where it was designated as OCO.34

Using OCO Funds as a Safety Valve

At the same time as DOD and Congress have been using OCO designations as a “safety valve” for the base budget, some Members have raised concerns that war funding may be a “slush fund” and have proposed stricter controls.35 One sign of a desire to place some constraints on use of the OCO-designation was Section 409 included in the Senate-passed budget resolution (S.Con.Res. 11). Under that section, any Senator could raise a point of order on a provision in a bill, joint resolution, amendment or conference report if the amount for OCO-designated spending exceeded $58.0 billion in FY2016 (the President’s request level) or $59.5 billion in FY2017. This provision was dropped in the conference version of the resolution.36

The House-reported version of the FY2016 budget resolution (H.Con.Res. 27), Section 513 also appeared to reflect concerns about broad use of the OCO designation. It set up a “Deficit Neutral Reserve Fund” for OCO and provided that any OCO-designated funds above $73.5 billion and up to $94 billion could be provided only if offsets other than additional revenues were provided. In other words, OCO-designated funding would be capped at $73.5 billion–below the $94 billion in the reported version—unless the additional amounts were offset by reductions in other spending. During floor consideration, the House dropped this provision and added $2 billion to its OCO allocation in order to match the $96 billion included by the Senate.37

An alternate approach would be to raise the BCA caps themselves. The conference version of S.Con.Res. 11 included a Senate-proposed provision that would set up a “Deficit Neutral Reserve Funds to Strengthen America’s Priorities” that would permit “enhanced funding for national security or domestic discretionary programs provided such funding would not increase the deficit over the period of the total of fiscal years 2016 through 2025.”38 Such increases would have to be “paid for” or offset by higher revenues or decreases in mandatory spending.

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34 Ibid.


36 §409 in S.Con.Res. 11 as passed by the Senate gave the Chair of the Senate Budget Committee the prerogative to decide whether a particular provision is subject to this point of order. Unless 60 Senators agree to waive the point of order, the OCO-designated funds in a particular account would be struck, and the process could continue until funds did not exceed the §409 limit. Senate Budget Committee, Draft Concurrent Resolution of the Budget for Fiscal Year 2016, H.Rept. 114-0; http://www.budget.senate.gov/republican/public/index.cfm?f=a=Files.Serve&File_id=c7aa8422-0e77-45db-964e-7676b22cede0; and Concurrent Resolution on the Budget for Fiscal Year 23016, 114-111; http://www.budget.senate.gov/republican/public/index.cfm?f=a=Files.Serve&File_id=5389a308-6d7b-45fc-b8e7-efdb453ea99a. For pre-conference, see CQ Roll Call, “GOP Hawks May Get Final Word on War Spending in Budget,” by Paul M. Krawzak, 4-16-15.

37 See H.Rept. 114-47, p. 150 and §513 in the House-reported version of H.Con.Res. 27; see also Function 970 in §102 of the House-passed version for the increase in OCO funds from $94 billion to $96 billion. According to press reports, Senator McCain considered but decided against proposing an amendment to delete this point of order; Politico,” A procedural requirement will make it hard for the Pentagon to ever get the extra money,” by Jeremy Herb and Seung Min Kim, 3/23/15.

38 §4302 in conference version of S.Con.Res. 11 and §302 in S.Con.Res. 11 as passed by the Senate.
FY2016 Budget Resolution and FY2016-FY2021 Caps

Another important role of the FY2016 budget resolution is to set a ten-year path for defense spending for FY2016-FY2025. Compared to the BCA caps applying to the National Defense base budget for FY2016-FY2021,

- the House-passed resolution exceeded BCA caps by $229 billion;
- the Senate version matched the caps;
- the Conference would comply with BCA caps; and
- the President’s budget request exceeded the caps by $182 billion (Table 3).

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<thead>
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<td>Base</td>
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<td>3,518</td>
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<td>0</td>
<td>0</td>
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<td>OCO-designated</td>
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<td>193</td>
<td>231</td>
<td>231</td>
<td>380</td>
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<tr>
<td>Base and OCO Total</td>
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<td>3,711</td>
<td>3,796</td>
<td>3,567</td>
<td>3,716</td>
</tr>
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</table>

**Table 3. FY2016 Budget Resolution and National Defense BCA Caps**

* (in billions of dollars of discretionary budget authority)


**Notes:** CRS calculations based on above; adjusts OMB’s FY2016 figures to exclude war request.

In terms of OCO-designated funds, both H.Con.Res. 27 as passed by the House and S.Con.Res. 11 as passed by the Senate exceeded the President’s request by the $38 billion requested in the FY2016 base budget that the resolution proposes would be designated as OCO and hence exempt from BCA caps (see earlier discussion). For the rest of the period, both the House and Senate versions adopted the $27 billion placeholder for OCO-designated funds in the President’s FY2016 budget request, bringing the total for the BCA period to $231 billion compared to the President’s request of $193 billion (Table 3).

In the conference version of S.Con.Res. 11, Congress proposes to increase the amount that would be OCO-designated from $231 billion to $380 billion by including annual amounts from FY2016-FY2021, $187 billion above the President’s request. OCO-designated funds would exceed the request by

- $38 billion in FY2016 and FY2017,
- $36 billion in FY2018 and $31 billion in FY2018, and
- $23 billion in FY2020 and $21 billion in FY2021.39

While the President recently modified the drawdown of U.S. troops in Afghanistan this year, the goal to reduce to reduce U.S. troops in Afghanistan to an embassy presence of 1,000 by the beginning of 2017 did not change. For this reason, war funding is likely to decline in FY2017.

It appears that the FY2016 budget resolution may assume a continuation in later years of its FY2016 proposal to transfer funds requested for the defense base budget to war funding. For the FY2016-FY2025 decade, the FY2016 budget resolution is $178 billion below the President’s Budget request for the base budget and exceeds that request by $196 billion for OCO-designated funding (Figure 4).

The House-passed version of the FY2016 National Defense Authorization Act (H.R. 1735) also moved $38 billion from the base budget request to funds to be designated as OCO.

**Figure 4. National Defense Spending FY2016-FY2025, Base and OCO-Designated**

(in billions of dollars of budget authority)


Notes: CRS calculations based on sources above.

**BCA Revised Caps in Historical Perspective**

To put BCA caps in perspective, Figure 5 shows DOD appropriations for its base budget (excluding wars) over the past seven decades expressed in FY2016 dollars so as to exclude

inflation. Since its previous low point, DOD’s base budget grew from $403 billion in FY1998 to $567 billion in FY2010, its most recent high point in FY2016 dollars. Over that span, annual defense spending grew by $164 billion or 41% in real terms (Figure 5).

After more than a decade of real growth, DOD spending began to decline under BCA limits from its previous high point in FY2010 to a low point of $491 billion, a decrease of $76 billion or 13% in real terms (all in FY2016 dollars). Critics of the BCA limits often make this comparison. After FY2016, defense spending would grow by about $11 billion annually, enough to cover projected inflation (Figure 5).

From a longer-term perspective, BCA spending limits place DOD’s base budget resources at between FY2007 and FY2008 level in real terms, a relatively high level. Except for the 1985 peak during the peacetime buildup under then-President Reagan, DOD spending has generally been well below the FY2007 and FY2008 level, hovering closer to $400 billion annually (Figure 5).

Figure 5. Department of Defense Spending: FY1950-FY2025
(in billions of FY2016 budget authority)

Buildups and Drawdowns in Defense Spending

Except for the peacetime buildup in the early 1980s during the presidency of Ronald Reagan, defense base budget spending typically rises during wartime and falls for several years afterwards. Much but not all of previous wars have been funded with emergency appropriations. In the later stages of wars, funding has been included in the base budget in later years of the
conflict. For the Afghanistan and Iraq wars, funding has been consistently designated as either emergency or for OCO (Figure 6). (This discussion uses DOD rather than National Defense figures because of the focus on war funding.)

Figure 6. DOD Spending Including Both Base Budget and Emergency/OCO
(in billions of FY2016 budget authority)

<table>
<thead>
<tr>
<th>Years</th>
<th>Korean War:</th>
<th>Reagan Buildup/Post Cold War:</th>
<th>Iraq &amp; Afghanistan Wars:</th>
</tr>
</thead>
</table>

Sources: DOD and OMB historical data and budget projections.

Except for the Korean War, the Afghanistan and Iraq wars show a sharper buildup and shallower drawdown. In real terms, total DOD spending (base and war) grew by 84% by FY2010, well above the 54% increase during the Vietnam War and the 65% increase of the Reagan buildup. DOD’s FY2016 plan projects a 23% drawdown, less than the 31% decrease after the Vietnam War, and the 33% decrease after the Reagan buildup in response to the end of the Cold War (Figure 6).

The Afghanistan, Iraq and new Islamic State or ISIS (Operation Inherent Resolve) wars have been exclusively funded in supplemental emergency or OCO funds, which are not subject to budget constraints. Some observers, DOD spokesmen among them, have acknowledged that some war funding would more appropriately be part of its base budget.

41 CRS Memo, “Funding for military contingency operations in the regular defense appropriations bills in the 1990s,” by Stephen Daggett, April 6, 2005.
In recent years, DOD principals, as well as other policymakers, have called for distinguishing base and OCO costs in order to help ensure more realistic choices about the long-term affordability of DOD plans. One important step would be to distinguish temporary war-related costs from long-term, enduring requirements, such as maintaining large numbers of military personnel in the Central Command region that have been funded as war costs. DOD contends that this transition “will not be possible if the sequester-level discretionary spending caps remain in place.”

Transitioning longer-term “war” expenses to the base budget may be more difficult under budget caps because it could crowd out other programs. At the same time, war funding, particularly for procurement, has contributed to meeting base budget requirements over the past 14 years, often earlier than planned. For example, the Army used war funding to modernize and upgrade almost its entire armored vehicle fleet sooner than anticipated because of the additional wear and tear of war operations. For the same reason, depot maintenance of equipment has been carried out earlier than planned. For these types of expenses, DOD’s OCO funding may, in fact, help reduce future requirements, reducing pressure on the defense budget.

**Trends in DOD Spending**

DOD may also be concerned about BCA spending limits because the history of drawdowns shows that typically, procurement accounts are tapped to adjust to overall reductions to protect Operation and Maintenance (O&M), some of which funds the readiness of current forces. Procurement is often called the “bill payer” and varies in consonance with overall increases and decreases, signaling perhaps that there is more discretion to adjust the pace of modernization than to make changes to ongoing training and support costs (Figure 5).

This role may also reflect DOD’s preference for delaying modernization during tight times because it can be reversed fairly easily when more funding becomes more available, rather than cutting force structure, perceived to be more difficult to restore. It may also reflect the relative persistence of funding levels for O&M support activities, perceived to be largely “fixed” costs of running military installations.

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Figure 7. Trends in Types of DOD Spending in the Base Budget
(in billions of FY2016 dollars)

Sources: Calculated by CRS using OMB, Table 5.1 and Table 10.1 in FY2016 Historical Tables; OMB, FY2016 Historical Tables; https://www.whitehouse.gov/omb/budget/Historicals; totals adjusted to exclude emergency and Overseas contingency Operations as shown in Table 2-1 and Table 7-5 in Department of Defense, Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY 2016, March 2015; http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2016/FY16_Green_Book.pdf.

Notes: In this figure, the total for DOD’s base budget is divided by estimated average strength for active-duty forces; this calculation treats costs for reservists as part of overall costs for active-duty because of their support role. Budget Authority is deflated by GDP price index for Defense in OMB, Table 10.1 in FY2016 Historical Tables, converted from FY2009 to FY2016 dollars by CRS.

Different Types of Savings

While DOD believes that reductions to meet BCA caps would jeopardize its ability to meet the national military strategy, other policymakers and observers have offered alternative perspectives. Many think tanks, CBO, GAO, and other organizations have examined and proposed a wide range of alternate ways to reduce defense spending.

Some proposals reflect different military strategies while others accept the current strategy but propose different force structures. Others propose changes to military compensation, modernization paths, and support activities. Proposals begin from different baselines, rest on different rationales, could have different effects on programs, and provide different types of savings (Appendix D).

While most studies focus on potential programmatic impacts, this report examines the timing, duration, and pros and cons of different types of savings, specifically

- temporary, short-term savings;
- recurring savings that continue and may grow over time;
- savings from delay;
• saving requiring upfront investments;
• efficiencies that reduce implementation costs; and
• across-the-board sequester cuts.

In assessing savings proposals, it’s important to identify the baseline against which savings are measured. For DOD, the baseline is its Future Years Defense Program (FYDP) including the budget request plus four years, currently FY2016-FY2020. The President’s budget also sets a “defense topline” or annual total for a ten-year period including the request. DOD’s budget generally incorporates savings from proposed compensation or other reforms, which may require congressional approval. The section below looks at the characteristics and the advantages and disadvantages of each type of savings.

CBO’s steady-state baseline generally projects a spending path that continues the most recently enacted level with an adjustment for inflation so as to provide the same level of resources. With the requirement for “automatic reductions” required by the BCA since FY2013, CBO’s baseline now reflects BCA caps.45

Temporary or Short-Term Savings

During the FY2013 sequester, DOD adopted several changes to produce short-term, sometimes temporary savings, with limited effects, and without necessarily changing goals or policies.

According to a GAO assessment, most DOD’s sequestration cuts were temporary including:

• furloughing 650,000 civilian employees for six days in order to save $1.2 billion;46
• cancelling or shortening unit training for those units not preparing to deploy;
• postponing planned depot maintenance of equipment or repair and non-urgent renovations of facilities,
• reducing or delaying purchases of weapon system or modifications; and
• delaying testing and development of weapon systems.47

While some of these decisions—like cancelling training—resulted in lost training opportunities, others—like depot maintenance or repair plans or letting weapon system contracts several months later than planned—did not reflect policy decisions and had temporary effects. For longer-term savings, DOD would need to make explicit decisions about the size of the civilian workforce, the acceptable size of depot maintenance backlogs, or the size or scope of weapon system purchases or R&D programs.

Designating Funds as OCO

Another source of savings that could prove to be temporary is the current proposal in the conference version of the FY2016 budget resolution (S.Con.Res. 11 as passed by both houses) that transfers base budget funds to OCO as a way to meet BCA spending limits and avoid a sequester. OCO funding is expected to fall because of the President’s commitment to reduce U.S. troops in Afghanistan to an “embassy” presence of about 1,000 by the end of 2016.48 Although the President recently announced a delay of several months in the drawdown from 9,800 troops to 5,000 in FY2015, that change would not affect likely spending in FY2017.49

Although there is no consensus about how long OCO-designated funds may continue, Defense officials have opposed this budget resolution proposal because it gives them no confidence that an increase in FY2016 would be continued in later years. A one-time spike would also be inconsistent with DOD’s commitment to gradually “migrate” long-term, war-related costs to its base budget if BCA caps are raised.50

Recurring Savings Affect Later Years

In some ways, recurring savings may be the most beneficial type of savings because expenses are lowered not only initially but in later years, and sometimes build up over time with full implementation. Recurring savings would therefore reduce savings needed in later years.

Restraining Military Pay Raises and Compensation

Reducing annual military pay raises is a good example of recurring savings that decrease costs in the short term as well as in later years. In FY2016, for the third year in a row, DOD proposed to raise military pay by 1.3% rather than the 2.3% that would match the Economic Cost Index (ECI), a labor index that sets pay raises unless adjusted by the President or Congress. DOD estimates that this decision would save $700 million in FY2016 and $4.3 billion for FY2016-FY2020 compared to its previous baseline that assumed ECI increases.51


51See Figure 6-3 in DOD, “Overview: Fiscal Year 2016 Budget Request,” February 2015. http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2016/FY2016_Budget_Request_Overview_Book.pdf. Although Section 1009 (c) of Title 37 provides an automatic annual increase in basic pay, indexed to the ECI, the President can specify an alternate amount as he did in FY2014 and FY2015; see p. 8 – p. 9 in CRS Report RL33446, Military Pay: Key Questions and Answers, by Lawrence Kapp and Barbara Salazar Torreon.
DOD’s larger package of compensation recommendations includes other ways to reduce current and long-term costs by

- limiting basic housing allowances;
- reducing the commissary subsidy;
- consolidating TRICARE, DOD’s health care system; and
- reforming TRICARE by raising co-pays and requiring an enrollment fee from military retirees for Tricare for Life.

DOD estimates that altogether, these compensation reform proposals would save $1.7 billion in FY2016 and $25.4 billion for the FY2016-FY2020 period. These savings are incorporated in DOD’s budget plan and therefore would not provide additional savings to meet the current gap between BCA caps and DOD’s FY2016 request.

DOD’s proposals are a response to the expansion of military benefits and the awarding of pay raises above the ECI over the past decade. Some observers say that restraint is appropriate at this time because military personnel are currently paid more than 90% of the average pay of civilian employees of comparable age and experience whereas the DOD goal is to match the pay of 70% of equivalent civilians. Another sign that compensation is at least adequate is DOD’s success in meeting or exceeding its recruiting and retention goals. Slimmer pay raises also create permanent savings by lowering the base to which later increases are applied.

The January 2015 recommendations of the Military Compensation and Retirement Modernization Commission (MCRMC) call for revamping military retirement, providing military health care for dependents and retirees through a system like that available to civilian government employees, and changing “Quality of Life” programs like commissaries and childcare. Because their proposals were released after submission of DOD’s budget, these recommendations were not taken into account in the FY2016 DOD request.

The Commission estimates that adopting its entire package of proposals would save $4.8 billion in FY2016 and $7.1 billion annually by FY2017, with total savings of $31.8 billion for FY2016-FY2020 (in FY2016 dollars). If Congress were to adopt the Commission’s health care proposal, some of DOD’s proposals might no longer be relevant, such as changes in co-pays. Other savings, like DOD’s proposed TRICARE enrollment fee, are not included in the Commission’s proposals. To calculate the savings, overlapping savings incorporated in DOD’s current budget could be subtracted, and MCRMC savings would be substituted depending on the particular proposals adopted by Congress.

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55 These estimates are net savings, taking into account upfront costs. See Ibid. p. 255.
Force Structure Savings Grow Over Time

Reductions in force structure—the size of military forces—create recurring savings that build up over time and then continue indefinitely unless reversed. For example, in 2013, the Army decided to draw down its forces by reducing the number of active-duty personnel from 490,000 to 450,000. This action lowers military personnel and Operating and Maintenance (O&M) costs as fewer personnel need to be paid and supported with savings building up as personnel leave and are not replaced. (Most savings estimates do not include potential procurement savings if weapon system and support equipment buys were adjusted to reflect modernizing the equipment of the same portion of the force as originally planned).

Recent Army budgets include but do not identify savings from this 40,000 decrease in the number of active-duty strength that is to be achieved by FY2018. The rationale for the decrease is the change in the President’s National Military Strategy, which calls for no longer preparing to conduct long lasting ground wars.\(^56\)

Under the Army’s plan, the number of Brigade Combat Teams (BCTs) is slated to fall from 38 in FY2014 to 30 in FY2016.\(^57\) A CBO report estimates that annual savings per BCT could range from $1.2 billion to $1.6 billion in military personnel and O&M funds, depending on the type.\(^58\)

Assuming an average of $1.4 billion for the eight brigade combat teams would yield annual recurring savings of $11.2 billion after full implementation. (This estimate does not include potential procurement savings.) While this type of savings has the advantage of contributing to savings needed in later years, some would argue it has the disadvantage of not being quickly reversible. Recent experience during the Afghanistan and Iraq wars has demonstrated that the Army can, in fact, expand fairly quickly if necessary.

Smaller recurring savings would accrue as the services implement DOD’s initiative to decrease headquarters costs (military and civilian personnel, contractors, facilities) by 20%, which is expected to save $5 billion over the next five years. The rationale for this type of “efficiency” initiative is that growth in headquarters staffing over the past decade was due primarily to the Afghanistan and Iraq wars, and so could be trimmed as the wars wind down.\(^59\)


\(^{58}\) See Figure 2-1 in CBO, Approaches for Scaling Back the Defense Department’s Budget Plans, p. 18, March 18, 2013; CBO defines “direct” costs as compensation and operational costs; indirect costs as those attributable to units such as transportation and maintenance, and overhead costs, as those attributable to the services such as recruiting and administrative support; http://www.cbo.gov/sites/default/files/cbofiles/attachments/43997_Defense_Budget.pdf. This figure includes direct, indirect, and overhead costs.

Savings from Delay

Faced with making reductions, DOD often delays weapon system purchases by “stretching out” programs, purchasing fewer units than planned in the near-term but generally retains the original acquisition objective or total buy. What are the effects of program delays?

Critics argue that lower production rates are inefficient because per unit costs may be higher when production rates are lower. The cost penalty depends on the stage of the program, the size of the reduction, the amount of capacity established, and the potential for making adjustments. Stretch-outs are also criticized for delaying improvements in capabilities and requiring the services to rely on older systems for longer periods. Small decreases in quantity may yield significant savings and at the same time, have limited effects on unit cost or capability.

An often-cited concern, recently voiced by some observers, is that production delays may create a “bow-wave” or put pressure on overall procurement budgets in later years as peak production rates for multiple major weapon systems converge. The likelihood of a “bow-wave” depends on the plans and schedules for other major programs, as well as whether the services adjust long-term acquisition objectives in response to budgetary pressures.  

60 Production plans often shift over the ten-to-twenty-year acquisition cycles typical of major weapon systems in response to changes in threats, technology, and budget.

The F-35 Joint Strike Fighter

A recent example of substantial savings from stretching out plans is the F-35 fighter aircraft program, the largest weapon system program in terms of total cost in DOD history. The program includes three different versions being built for the Air Force, Navy, and Marine Corps. Because of management and technical problems, as well as spending limits, Congress has reduced the size of F-35 purchases in the past four years.

Begun in FY2001, estimated procurement cost is now $338.9 billion (in FY2015$) to buy 2,457 F-35 aircraft over about 40 years—a 50% increase from the original estimate. Projected lifetime operating and sustainment costs would add over $1 trillion to the total program cost.  


A recent GAO assessment cites “significant cost and schedule growth, as well as performance shortfalls,” due to the program’s concurrency where initial production occurs before developmental testing is completed. GAO continues that concurrency can increase the risk of design changes and cost of retrofits after production has started . . . one practice that has perpetuated the unsatisfactory results that have persisted in acquisitions through the decades.  

This assessment, along with program office concerns about software development, engine and aircraft durability, maintainability, and logistics information, has raised the issue of the affordability of the program.63

Between FY2012 and the FY2016 request, the number of F-35s to be purchased by all three services fell from 217 in the FY2012 plan to 127 in the FY2016 plan, a decrease of 90 aircraft. This 41% drop in quantity was coupled with 32% in savings, or $10.8 billion. While this change reflects a dramatic change in production plans in the near-term, the effect on the overall program is relatively small—a 6% slippage in the schedule (Table 4).64

Table 4. Changes in F-35 Plans, FY2012 President’s Budget (PB) vs. FY2016PB

<table>
<thead>
<tr>
<th>President’s Budget Plans</th>
<th>FY12-FY15</th>
<th>Change in Overall Program</th>
<th>Total Program</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity</td>
<td>$</td>
<td>Quantity To Complete</td>
</tr>
<tr>
<td>FY2012</td>
<td>217</td>
<td>$33.7</td>
<td>2,017</td>
</tr>
<tr>
<td>FY2016</td>
<td>127</td>
<td>$23.0</td>
<td>1,895</td>
</tr>
<tr>
<td>Change in Quantity: FY16 v. FY12</td>
<td>-90</td>
<td>-$10.8</td>
<td>-122</td>
</tr>
<tr>
<td>Change in %: FY16 v. FY12</td>
<td>-41%</td>
<td>-32%</td>
<td>-6%</td>
</tr>
</tbody>
</table>

Sources: P-40 Exhibits for the F-35 aircraft in FY2012 and FY2016 DOD budget exhibits including F-35 A in Aircraft procurement, Air Force, Joint Strike Fighter (STOVL) and Joint Strike Fighter (CV) in Aircraft Procurement, Navy, and P-1 Exhibits for quantities.

Notes: Includes F-35 program for the Air Force (A), the Marine Corps (B) and the Navy © versions. Program dollar values reflects Weapon system cost shown in P-40 exhibits, includes advance procurement, excludes initial spares because data is not available for F-35Bs and F-35Cs in FY2016. This table does not include aircraft purchased before FY2012.

Stretching out the F-35 program, with its multiple technical problems, could be attractive because the additional time could help ensure that problems would be resolved before production is ramped up, avoiding additional costly retrofits. The effects on future capability could be marginal since technical problems would need to be resolved in any case. For other modernization programs with high cost and technical risks, a decision to delay and stretch out production in order to meet spending limits could be perceived as an acceptable risk. The case for savings by delay could differ in cases where production is going smoothly.

Savings Requiring Upfront Investments

The closing of a military installation may offer a good example where eventual savings that persist indefinitely require significant one-time, upfront costs. Shuttering a military installation

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64 Table 3 does not include aircraft bought in previous years.
requires transferring military personnel, disestablishing and moving equipment and activities, remediating environmental contamination, and possibly adjusting facilities elsewhere to receive those activities that continue. Savings result primarily from reducing the number of military and civilian personnel, as well as avoiding the need for upkeep of unnecessary infrastructure.

It may take several years before savings offset such implementation costs. Since 1988, DOD has carried out five rounds of base closures. The first four rounds—in 1988, 1991, 1993 and 1995—were designed to cut excess capacity created by the one-third drawdown in military personnel in response to the end of the Cold War. DOD argued that savings from base closures should be applied to meet other DOD modernization and readiness goals. In contrast, the 2005 round of base closures was intended to consolidate bases in support of transformation. All rounds were to be completed within six years and eventual savings were to exceed implementation costs.65

For the fourth year in a row, DOD is pressing Congress to provide statutory authority for another round of base closures, arguing that savings from eliminating an estimated 20% excess capacity due to the ongoing downsizing of forces could be better spent to preserve critical DOD programs.66 In its FY2015 budget plan, DOD incorporated a total of $1.67 billion for FY2015-FY2019 to support a FY2017 BRAC round, beginning with less than $10 million a year through FY2017, and then rising to $590 million in FY2018 and $1.0 billion in FY2019.67 In its FY2016 request, DOD included $10.5 million in FY2016 for initial studies.68

Base closures are controversial because of the economic impact on communities, as well as the difficulties in estimating future savings and implementation costs. Based on assessments of experience with the first four rounds—where the rationale was savings rather than other DOD goals—there appears to be fairly firm evidence that net savings can be expected. In 1998, Congress required that DOD report the status of implementation costs and savings for the first four rounds, and that CBO and GAO evaluate that report.69

**GAO Evaluation of Base Closure Savings**

In its report, DOD found that for the first four rounds, its actual implementation costs was $22 billion, compared to its initial estimate of $23 billion. Based on a new analysis, DOD estimated that savings for the first four rounds were likely to higher than originally estimated: $7.1 billion rather than $5.7 billion annually.70

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GAO questioned the accuracy of both DOD’s costs and savings estimates. Because of “data and records weaknesses,” GAO characterized DOD’s estimates as providing a rough approximation of costs and savings rather than a precise accounting. DOD’s data systems do not capture all savings associated with BRAC actions, nor has DOD established a separate system to track BRAC savings.71

GAO also questioned the methodology of DOD’s new savings estimate as well as DOD’s decision to apply savings in later budgets to other purposes, because this made the tracking of savings difficult. GAO was also concerned because it was unclear whether military and civilian positions were eliminated or personnel shifted to other tasks. DOD refers to such savings as “cost avoidance” where new requirements are funded with other savings.

Nevertheless, GAO concluded that

These issues do not negate the fact that DOD can expect substantial savings from BRAC, although they have had some effect on overall savings and, if included in DOD’s accounting, would cause some increase in the time required for savings to fully offset costs. 72

CBO Assessment

CBO did not attempt to verify DOD’s figures but agreed with GAO that implementation costs could be somewhat higher because not all costs were included.73 CBO voiced confidence in DOD’s original savings estimate of about $5.0 billion annually (in 1999 dollars) but questioned DOD’s new estimate. CBO, like GAO, noted the difficulty in segregating the effect on savings of other actions that affect costs such as changes in workload, or other budget reductions.74

Despite weaknesses in DOD’s estimates, CBO, like GAO, concluded that DOD’s report provides rough but credible estimates of the total recurring savings from past BRAC rounds, the aggregate level of excess capacity in the United States, and the potential savings from future BRAC rounds.75

Efficiencies: Definitions and Concerns

Defense “efficiency” savings are defined in different ways by different organizations, policymakers, and observers. For example, a Stimson Center report counts as “efficiencies” not only cuts to “overhead” or “back-office” functions but also changes to military compensation.76 In

(...continued)

land sales or leases, which proved to be lower than anticipated.


75 Ibid, p. 5.

its Budget Overview, DOD also uses a fairly broad definition, with proposals ranging from reducing management headquarters and enhancing competition for contracts to terminating and restructuring weapon systems.\textsuperscript{77}

A CBO report defines “efficiencies” more narrowly as reducing the “cost of operations . . . without eliminating or curtailing activities if more efficient ways of conducting operations could be found.”\textsuperscript{78} This definition focuses on savings from changing how an activity is carried out without reducing services or benefits provided.

DOD identifies $188.5 billion in “efficiency” savings since enactment of the BCA. According to its tally,

- the FY2013 request included $60 billion in savings through FY2017;
- the FY2014 request included another $35 billion in savings through FY2018;
- the FY2015 request included $93.5 billion in savings through FY2019; and
- the FY2016 request does not identify additional savings.\textsuperscript{79}

DOD’s FY2012 request, pre-dating the BCA, included another $178 billion in anticipated savings, of which $100 billion were generated by the services and applied to other programs, and $78 billion was produced by defense agencies and used to meet topline decreases. Unlike later efficiency efforts, DOD identified savings in the budget year and planning period associated with individual initiatives.\textsuperscript{80} Because these savings were incorporated in DOD’s FY2012 budget plan, they would not contribute to meeting BCA caps.

While DOD acknowledges the importance of pursuing efficiencies by “eliminating duplication, reducing management headquarters and overhead, tightening personnel costs, enhancing contract competition, terminating or restructuring weapons programs and consolidating infrastructure” to reduce the ‘cost of doing business,’” it emphasizes that “The Department has learned from prior drawdowns that it is impossible to generate all the needed savings just through efficiencies.”\textsuperscript{81}


Based on DOD’s tally of $188 billion in efficiency savings incorporated in its FY2013-FY2016 budgets plans, about 25% of the total decreases in DOD’s budget plans to meet BCA caps from FY2012-FY2021 is expected to result from efficiencies. Because DOD has not presented the savings for the budget and future years, it is difficult to identify the effects of these initiatives on budget plans.

**Concerns Raised About Efficiency Savings**

Some observers have voiced skepticism about whether anticipated efficiency savings materialize, citing not only the difficulty in tracking savings but also the commitment of military and civilian managers, many of whom focus primarily on DOD’s core defense missions.\(^1\) Acquisition reforms, another type of efficiency savings, such as DOD’s “Better Buying Power” initiative, are also notoriously difficult to track because of the multiple factors affecting weapon system costs.

Former Secretary of Defense Donald Rumsfeld testified in June 2001 that DOD, like any “organization in the public or private sector,” could “by better management, operate, at least 5% more efficiently if given the freedom to do so,” and so save $15 billion annually at that time.\(^2\) Many other policymakers and think tank studies have estimated similar savings from a wide range of efficiencies (Appendix D).

In evaluating proposed efficiency savings, it would be useful for Congress to receive the following information in annual budget requests:

- estimates of year-by-year savings in both dollars and personnel (military, civilian, or contractor work-years);
- tracking of those savings in previous and later years;
- identification of those responsible for implementation;
- potential obstacles to reaching savings;
- adjustments to savings estimates as a result of experience; and
- programmatic effects.

**DOD’s FY2013 Sequester Experience**

If Congress is not able to meet BCA caps, in whole or in part, the Defense Department would face largely across-the-board sequestration cuts levied by OMB. Defense officials voiced alarm about the effects of both the funding levels—deemed inadequate—and the sequestration process itself—considered to be indiscriminate. The two issues are often conflated.\(^3\)

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\(^3\) *Politico Pro*, “The sequestration monster myth,” By Jeremy Herb, 4/12/15; http://politico.pro/1ynD964.
It is not unusual for Congress to rely on small 1% to 2% across-the-board cuts to meet budgetary limits. Sequestration has raised greater concern because of the size of potential cuts. While a small reduction may not appreciably affect programs, a reduction of 5% could make contract plans more difficult to execute or force delays in planned activities. In FY2013, DOD was faced with implementing a $37.2 billion sequester cut that was applied to $527.6 billion in budgetary resources, an average cut of 7.1%. At the same time, DOD had more flexibility than expected in how to apply cuts to particular programs and accounts.

How Sequestration Works

Budgetary law requires that fifteen days after the end of a congressional session OMB issues a final sequestration report based on appropriations enacted at that time, which could be individual, consolidated, or a continuing resolution appropriation act. To the extent that appropriations for defense exceed the BCA revised cap for that fiscal year, the President is required to identify for each account the amount to be sequestered.86

Budgetary law requires that the same percentage cut be levied on individual program, projects, and activities (PPAs). For investment programs (procurement and RDT&E), a PPA is defined as an individual program (or program element) as identified in justification materials submitted to Congress. For O&M activities, Congress has defined a PPA at the account level for each active-duty and reserve component, a much broader level. In addition, the President is allowed to exempt Military Personnel accounts entirely.87

In the case of defense spending, sequester cuts are applied to “total budgetary resources,” which include

- new Budget Authority (BA) for base funding in the current fiscal year,
- new BA for funding designated as Overseas Contingency Operations/Global War on Terror (OCO/GWOT),
- unobligated balances (funds not yet under contract) from prior years for both base and OCO funds, and
- exemptions for military personnel accounts excluded by the President.88

Predictions and Experience

Faced with the upcoming sequester, then-Deputy Secretary of Defense, Ashton Carter, issued guidance to the services and defense agencies in January 2013. This guidance required DOD components to begin implementing measures that will “help mitigate our budget execution risks” by

- fully protecting funding for wartime operations and Wounded Warrior programs;

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85 These are generally included in general provisions.
86 The caps are raised to accommodate funds designated as emergency or for Overseas Contingency Operations (OCO); see Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), §251, § 254 (a) and (f).
87 §255 (f), §258B, and 255 (f) of the BBEDCA.
88 See §253(d), §255 (f) § 258B, and §256 (k) in the BBEDCA.
Defense Spending and the Budget Control Act Limits

- protecting “to the extent feasible” programs associated with the new strategy, readiness programs, and family programs;
- reducing the civilian workforce through a hiring freeze, releasing temporary hires, and considering a furlough with mission-related exceptions;
- protecting urgently required war-related investment and reviewing other investment to avoid penalties associated with cancellations; and
- curtailing lower priority programs such as base operations, facilities sustainment, travel and training.89

This action helped DOD to begin adjusting to the likely cuts before OMB’s order was issued on March 1, 2013, and implemented on March 27, 2013.90

While the services followed DOD guidance, its spokesmen testified to dire effects. The Air Force predicted that one-third of its fighter and bomber force would be grounded, depot maintenance backlogs would grow, and contract plans for weapon systems would be disrupted. The Army cited drastic personnel cuts, and cancelled training exercises. DOD Comptroller Robert Hale stated that effects on readiness would be devastating.91

A year later, in its report on the effects of sequestration, GAO concluded that DOD’s guidance to the services focused cuts on lower priority areas to limit readiness impacts, and that most of DOD’s actions made short-term effects. For example, GAO found that

- the Army curtailed training for units not scheduled to deploy;
- the Air Force temporarily stopped training operations for combat forces but then resumed in July 2013;
- depot maintenance was deferred by the services;
- installations deferred facility upgrades and delayed renewing contracts;
- the services reduced and delayed weapon system and RDT&E contracts; and
- civilians were furloughed for six days rather than the 22 days originally expected.92

Overall, GAO concluded that

90§901(b) and (c) in P.L. 112-240.
Generally, DOD’s approach to sequestration was a short-term response focused on addressing the immediate funding reductions for fiscal year 2013. DOD was able to reduce spending levels for the remainder of fiscal year 2013 without making permanent changes, such as adjusting the size of its forces or canceling weapon systems programs. 93

**Flexibility Available to DOD to Mitigate Sequestration**

DOD had more flexibility than might be apparent in implementing sequester cuts because it could

- draw on both new BA and unobligated BA from prior years;
- tap war funding as well as its base budget;
- exempt military personnel;
- allocate cuts to O&M across an entire account; and
- redirect funds to areas harmed by sequester through reprogramming.

In addition, the sequester was applied to the $527.2 billion appropriated for DOD, which was $2 billion above the request. The sequester amount also turned out to be lower than originally because ATRA reduced the amount from about $53 billion to $41 billion. That amount was further reduced by $3.7 billion to $37.2 billion because of a provision in budgetary law that permits “credits” in those cases when final appropriations are below the post-sequester amount in the sequestration order. 94

At the same time, the FY2013 sequester was difficult to implement because the sequester cut of $37.2 billion required a 7.1% average cut to total budgetary resources. 95 In addition, the sequester order was issued on March 1, 2013, halfway through the fiscal year when a continuing resolution was still in effect, increasing uncertainty.

DOD had more flexibility because it could draw on three sources of funds: unobligated balances from prior years ($62.2 billion), new BA for the base budget ($392.4 billion in base budget funding excluding military personnel accounts); and funds designated as Overseas Contingency Operations ($73.0). 96 Sequester cuts were taken from all three sources for each individual

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94 For original estimate, OMB, Report Pursuant to the Sequestration Transparency Act of 2012 (P.L. 112-25), p. 7, September 14, 2012; http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/stareport.pdf; see §253(f) in the BBEDCA; amount provided by OMB. OMB was required under ATRA to calculate the sequester on March 1, 2013 based on an annualized level of the Continuing Resolution in effect at the time. Sec. 253(f) of the Deficit Control Act of 1985 provides that if the final enacted level is below the post-sequester amount in the order, then the agency receives a “credit” for savings in excess of sequester savings. For example, if the final appropriation was $90, and the post-sequester amount as calculated was $100, then DOD received a “credit” of $10 applied to the sequester total. OMB data identify $3.7 billion in DOD credits that reduced the sequester to $37.2 billion. Amount of credit provided by OMB. See also, Department of Defense, Office of the Under Secretary of Defense (Comptroller), Department of Defense Report on the Joint Committee Sequestration for Fiscal Year 2013, June 2013; http://comptroller.defense.gov/execution/Sequestration/Unclassified_Published_Sequestration_Final.pdf.

95 Table 1 in GAO-14-177R.

96 Amounts from DOD table provided to CRS. For exemption of military personnel, see Acting Director of OMB, Jeffrey D. Zients to Speaker of the House, John H. Boehner, “Notification letter to exempt military personnel from a sequester, July 31, 2012.” Figures from table provided to CRS by DOD. Unobligated BA is available from DOD procurement, Research, Development, Testing & Evaluation (RDT&E), and Military Construction funds are available (continued...)
procurement or RDT&E program and each O&M account, with individual cuts targeted to areas where funding was less needed.

Table 5. Implementation of DOD’s FY2013 Sequester
(in billions of dollars of budget authority and %)

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2013 New BAa</th>
<th>Prior Year Unobligated Balancesb</th>
<th>Totalb</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Available Resources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base</td>
<td>$392.4</td>
<td>$56.0</td>
<td>$448.4</td>
</tr>
<tr>
<td>OCO</td>
<td>$73.0</td>
<td>$6.2</td>
<td>$79.2</td>
</tr>
<tr>
<td>Total</td>
<td>$465.4</td>
<td>$62.2</td>
<td>$527.6</td>
</tr>
<tr>
<td><strong>Sequester Cuts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base</td>
<td>-$26.2</td>
<td>-$5.8</td>
<td>-$32.0</td>
</tr>
<tr>
<td>OCO</td>
<td>-$4.8</td>
<td>-$0.4</td>
<td>-$5.3</td>
</tr>
<tr>
<td>Total</td>
<td>-$31.0</td>
<td>-$6.2</td>
<td>-$37.2</td>
</tr>
<tr>
<td><strong>% Sequester Cut</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base</td>
<td>-6.7%</td>
<td>-10.3%</td>
<td>-7.1%</td>
</tr>
<tr>
<td>OCO</td>
<td>-6.6%</td>
<td>-7.0%</td>
<td>-6.7%</td>
</tr>
<tr>
<td>Total</td>
<td>-6.7%</td>
<td>-10.0%</td>
<td>-7.1%</td>
</tr>
</tbody>
</table>

**Source:** CRS analysis of table provided by Office of the Secretary of Defense, Comptroller, showing allocation of sequester reductions by account, by base and OCO, and by new BA and unobligated balances, November 24, 2014.

**Notes:**

a. New BA or Budget Authority refers to funds appropriated by Congress for the upcoming fiscal year.

b. Unobligated balances are BA appropriated in previous years that has not yet been obligated, i.e. put on contract.

DOD discriminated in how much it drew from each source. To reach the sequester amounts, DOD took a 10% cut to unobligated balances compared to a 6.7% cut to new BA appropriated in FY2013. This enabled DOD to protect new BA that would be available for a longer period of time than old BA appropriated in prior years. DOD often reprograms unobligated balances for new requirements when those funds are close to the end of their life and may lapse and be returned to the Treasury (Table 5).

Somewhat surprisingly, in light of guidance to protect funding related to combat operations, DOD cut its OCO-designated accounts by the same percentage as its base funding—by 6.7% (Table 5). It is not unusual for a certain amount of war funding to lapse.97

(...continued)

to be obligated for two, three, and five years respectively; in other words, contracts can be written for goods or services over that period of years, often called the “life” of the funds.

The decision to take larger amounts from unobligated balances helped shield new BA for procurement, which was cut by 3.0%. The benefit to RDT&E account was less, presumably because the pool of unobligated balances was smaller.

O&M accounts, available only for one year, could not be shielded in this fashion. And while military personnel accounts were protected, this increased cuts to other spending. New BA for Military Construction and Family Housing accounts were not protected, and cut by 16% (Table 6). Overall, new BA shown in Table 5 was cut by 4.7% compared to an overall cut of 7.1% to total defense budgetary resources.

### Table 6. Sequester Cuts by Type of Spending

<table>
<thead>
<tr>
<th>Title</th>
<th>FY2013 Base Budget Request</th>
<th>Seq. Cut to new FY2013 BA</th>
<th>Seq. Cut in % vs. Request</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military Personnel</td>
<td>$135.1</td>
<td>$0</td>
<td>0.0%</td>
</tr>
<tr>
<td>Operation and Maintenance</td>
<td>$208.8</td>
<td>-$14.8</td>
<td>-7.1%</td>
</tr>
<tr>
<td>Procurement</td>
<td>$98.8</td>
<td>-$3.0</td>
<td>-3.0%</td>
</tr>
<tr>
<td>RDT&amp;E</td>
<td>$69.4</td>
<td>-$5.4</td>
<td>-7.8%</td>
</tr>
<tr>
<td>Revolving Funds and Other</td>
<td>$2.1</td>
<td>$0.1</td>
<td>4.7%</td>
</tr>
<tr>
<td>Military Construction</td>
<td>$9.6</td>
<td>-$1.5</td>
<td>-16.0%</td>
</tr>
<tr>
<td>Family Housing</td>
<td>$1.7</td>
<td>-$0.1</td>
<td>-7.5%</td>
</tr>
<tr>
<td>DOD Total</td>
<td>$525.4</td>
<td>-$24.5</td>
<td>-4.7%</td>
</tr>
</tbody>
</table>

**Source:** CRS calculations based on data provided by DOD.

### DOD’s Plan for Complying with BCA Limits

How might DOD meet BCA reductions to their current plan? According to DOD, BCA reductions over the past four years were met by:

- efficiencies achieved through “more disciplined use of defense dollars” (better contracting and reducing overhead),
- changes in force structure (e.g., reducing the size of the Army to reflect a reduced likelihood of long ground wars),
- slowing modernization,
- restraining military pay raises, and
- modification of health care benefits.98

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In April 2014, DOD submitted a report that described the programs and activities that DOD would cut to meet the $115 billion decrease from the FY2015 request to comply with BCA caps from FY2015-FY2019. Based on this plan, DOD concluded that if sequestration-level cuts [BCA spending limits] persist, our forces will assume substantial additional risks in certain missions and will continue to face significant readiness and modernization challenges. These impacts would leave our military unbalanced and eventually too small to meet the needs of our strategy fully.

DOD’s report anticipates enactment of its FY2015 request, which complied with BCA caps. To meet the spending limits, DOD programs and activities would have to be cut by 4.3% or $115 billion from FY2016 through FY2019. DOD did not address FY2020 and FY2021, the last two years of the BCA limits because they were outside their planning window.

As is often the case with changes to DOD spending levels, DOD’s plan generally distributes BCA cuts in proportion to the each service’s share of the budget:

- 23% for the Army,
- 30% for the Navy and Marine Corps,
- 31% for the Air Force, and
- 16% for defense-wide agencies.

Over the five-year period, each service would be cut close to the overall average of 4.3%, with slightly greater cuts to the Air Force and slightly lower cuts to Defense-wide (Table 7).

Some observers might expect different shares in light of the new strategy deemphasizing ground wars and projecting a greater role of the Navy in the pivot to Asia. Others might expect a greater emphasis on cutting defense agencies, which are perceived as performing primarily “overhead” functions that would receive lower priority in tight times. DOD might argue that it had already taken efficiency cuts that could affect defense agencies, as well as proposed health care savings funded in the defense-wide accounts, some of which Congress adopted.

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99 This period covers DOD’s Future Years Defense Program (FYDP) as of the FY2015 budget request.
101 This does not include additional funds requested for DOD separately in the Opportunity, Growth, and Security Initiative account.
102 Ibid. p. 2-1; the FY2015 request complies with BCA caps if the additional $26 billion requested for DOD in a separate Opportunity, Growth, and Security Initiative (OGSI) is excluded: Congress did not address the OGSI request.
### Table 7. DOD’s Savings Plan for FY2015-FY2019 By Service

<table>
<thead>
<tr>
<th>Service</th>
<th>FY2015-FY2019</th>
<th>% Cut</th>
<th>Service Shares of</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DOD Plan Total</td>
<td>Total Caps Cuts</td>
<td>From DOD Plan</td>
</tr>
<tr>
<td>Army</td>
<td>$637.4</td>
<td>-$26.4</td>
<td>-4.1%</td>
</tr>
<tr>
<td>Navy</td>
<td>$798.0</td>
<td>-$34.6</td>
<td>-4.3%</td>
</tr>
<tr>
<td>Air Force</td>
<td>$760.6</td>
<td>-$36.2</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Defense-wide agencies</td>
<td>$488.9</td>
<td>-$18.0</td>
<td>-3.7%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$2,685</td>
<td>-$115.0</td>
<td>-4.3%</td>
</tr>
</tbody>
</table>


**Notes:** CRS analysis of data in tables on p. 2-1 in report above. DOD assumes no cuts to its FY2015 request.

#### DOD’s Plan Emphasizes Modernization Cuts, Protects Support Activities

Unlike the proportional shares in cuts for each service shares, DOD’s plan calls for cuts to investment accounts (Procurement, RDT&E, and Military Construction/Family Housing) that fund modernization that are twice their share of the budget. At the same time, Personnel and Support activities (Military Personnel and Operation & Maintenance), which comprise two-thirds of the budget, would take one-third of the cuts (Figure 8).103

---

103 DOD, *Estimated Impacts*
While the FY2015-FY2019 total of $928 billion for investment would be cut by 8%, the $1.8 trillion in Personnel, Operations, and Support would be cut by 2% (Table 8)

Table 8. DOD’s BCA Savings, FY2015-FY2019, Modernization vs. Personnel Operations, and Support
(in billions of dollars and %)

<table>
<thead>
<tr>
<th>Appropriation Title</th>
<th>Total FY2015-FY2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DOD Plan Total</td>
</tr>
<tr>
<td>Investment</td>
<td>$928</td>
</tr>
<tr>
<td>Procurement</td>
<td>$550</td>
</tr>
<tr>
<td>RDT&amp;E</td>
<td>$337</td>
</tr>
<tr>
<td>Mil.Con./Family Housing</td>
<td>$42</td>
</tr>
<tr>
<td><strong>Personnel, Operations, &amp; Support</strong></td>
<td>$1,756</td>
</tr>
<tr>
<td>Mil. Personnel</td>
<td>$678</td>
</tr>
<tr>
<td>O&amp;M/Family Housing</td>
<td>$1,078</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$2,685</td>
</tr>
</tbody>
</table>

DOD’s emphasis on meeting BCA caps primarily by slowing modernization is only one of a number of ways to achieve the BCA savings necessary to avoid sequesters. In a March 2013 report, the Congressional Budget Office outlined four different options to achieve BCA savings, each with different emphases:

- Preserve force structure and take equal cuts from acquisition (modernization) and operations (general operations and civilian pay);
- Split cuts between force structure, phased-in, and acquisition and operations;
- Cut primarily force structure; or
- Cut primarily force structure but shift timing of BCA caps.104

Other scenarios—with a different mix of reductions—would, of course, be possible, with Congress ultimately making the decisions each year about where and how to change defense programs and activities to comply fully or partly with current BCA spending limits.

**Potential Changes in Army Force Structure**

The main force structure cut due to BCA limits in DOD’s report would be a decrease in the number of active-duty Army combat brigades from the 29 currently planned for FY2016 to 24 in FY2019. This would entail a decrease of 30,000 in the number of active-duty military personnel from 450,000 in FY2017 to 420,000 in FY2019. According to DOD’s report, this reduction would be reviewed further in subsequent budget cycles. If Congress acts to support the out year PB15 [President’ Budget for FY2015] topline, the Department will maintain the Army at a force of 970-980K (440-450K Active, 335K National Guard and 195K Reserve). 105

The report does not identify the associated savings, which could be roughly $6 billion once fully implemented.106 DOD’s FY2016 request does not comply with BCA caps or include this change.

Army leadership has strongly objected to cutting active-duty personnel to 420,000 stating that 450,000 active duty is the “smallest acceptable force to implement the defense strategy” and that a 420,000 soldier active force provides “insufficient capacity; cannot implement defense strategy.” 107 Despite the high priority given by the Army to retaining its current force structure plan, DOD’s report says additional Army military personnel would be cut under BCA limits.

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104 CBO Approaches for Scaling Back the Defense Department’s Budget Plans, Summary Figure 2 and p. 3-p.6, March 18, 2013; http://www.cbo.gov/sites/default/files/attachments/43997_Defense_Budget.pdf.

105 See DOD, Estimated Impacts, p. 3-1, April 2014. The report states “Army force structure is shown in Figure 3-1. There would be no changes from PB15, as submitted, to BBA/BCA [under sequester cap limits].”

106 This is a rough estimate relying on CBO factors.

107 See Figure 3-1 in Department of Defense, “Estimated Impacts,” p. 1-2, April 2014. For Army position, see Army Briefing, “Army Force Mix: Least Risk, Best Value,” January 6, 2014, p. 5 as quoted in CRS Report R42493, Army Drawdown and Restructuring: Background and Issues for Congress, by Andrew Feickert.
DOD’s Approach to Modernization Cuts

Each of the Service Chiefs voiced considerable concerns about the effects of BCA funding limits on modernization, including both the adequacy of total investment spending and the effects on individual weapons systems. DOD’s plan appears to give greater priority to shielding RDT&E, particularly science and technology, than procurement from reductions. Cuts to procurement would be 9% compared to 4% for RDT&E.

Shares of cuts and the investment total were not proportional. While RDT&E programs took 16% of the cuts, it made up 30% of investment funds. Procurement accounted for 84% of the cuts and made up 70% of the investment total. Within RDT&E, science and technology, DOD protects its basic research programs by levying smaller cuts (-3%) than in programs dedicated to the development of specific weapons (-6%) (Table 9).

Among procurement programs, combat systems, munitions, and communications and electronics to arm and support those systems would be cut by 8% to 9% whereas support to weapon systems—maintenance, training and support, modifications for upgrades and spare and repair parts—would be cut by 6%. An undefined “other” account would be cut more heavily, by 17% or almost twice its overall share of investment programs (Table 9).

Table 9. DOD’s Plan for Achieving BCA Modernization Savings, FY2015-FY2019: RDT&E and Procurement

(in billions of dollars and %)

<table>
<thead>
<tr>
<th>INVESTMENT CATEGORY</th>
<th>FY15-FY19 Plan $ as of FY15PB</th>
<th>FY15-FY19 $ Cuts</th>
<th>% Cut</th>
<th>Shares of Plan Cut Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>RDT&amp;E Total</td>
<td>$264.1</td>
<td>-$10.8</td>
<td>-4%</td>
<td>30% 16%</td>
</tr>
<tr>
<td>Systems Developmenta</td>
<td>$203.6</td>
<td>-$9.2</td>
<td>-5%</td>
<td>23% 14%</td>
</tr>
<tr>
<td>Science &amp; Technologyb</td>
<td>$60.5</td>
<td>-$1.6</td>
<td>-3%</td>
<td>7% 2%</td>
</tr>
<tr>
<td>Procurement Total</td>
<td>$622.6</td>
<td>-$55.4</td>
<td>-9%</td>
<td>70% 84%</td>
</tr>
<tr>
<td>Combat Systemsc</td>
<td>$218.0</td>
<td>-$17.8</td>
<td>-8%</td>
<td>25% 27%</td>
</tr>
<tr>
<td>Munitions, Communications &amp; Electronicsd</td>
<td>$94.6</td>
<td>-$8.5</td>
<td>-9%</td>
<td>11% 13%</td>
</tr>
<tr>
<td>Maintenance, Training &amp; Support, Modifications and Spares and Repair Partsd</td>
<td>$162.3</td>
<td>-$9.2</td>
<td>-6%</td>
<td>18% 14%</td>
</tr>
<tr>
<td>Nondefense and Other</td>
<td>$147.7</td>
<td>-$19.9</td>
<td>-13%</td>
<td>17% 30%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$886.7</strong></td>
<td><strong>-$66.2</strong></td>
<td><strong>-7%</strong></td>
<td><strong>100% 100%</strong></td>
</tr>
</tbody>
</table>


109DOD Estimated Impacts, p. 4-2, April 2014.
**Notes:** DOD assumes no cuts to its FY2015 request.

a. Systems development is RDT&E related to specific weapon systems.
b. Science & Technology is basic research not associated with a specific weapon system.
c. “Combat systems” includes procurement of aircraft, warships, tracked vehicles and special operations forces equipment; includes some minor procurement.
d. These categories are part of “minor procurement,” and sustain weapon systems.
e. These categories are part of “minor procurement,” and support weapon systems.

### DOD Individual Weapon System Cuts under BCA Limits

For individual weapon systems, DOD’s cuts range widely in terms of quantity and percentage cuts. Some programs, including the Army’s Apache helicopter remanufacture, the Marine Corps’ CH-53K helicopter, the Navy’s DDG-51, and the Air Force’s MQ-9 armed drone are cut by 25% or more.

Other programs, like the Marine Corps’ amphibious combat vehicle, the Navy’s TAO oiler, and the Air Force’s combat rescue helicopter, would be delayed. A few would be cancelled—one brigade set of Stryker armored vehicles for the Army, the adaptive engine for the Air Force, and an additional ground-based sensor for missile defense (Table 10).

#### Table 10. DOD’s Cuts to Individual Weapon Systems under BCA Caps: FY2015-FY2019

(in billions of dollars and % cut)

<table>
<thead>
<tr>
<th>SERVICE</th>
<th>FY15-FY19 BCA Plan: Quantity and % Cut</th>
<th>FY15-FY19 BCA Plan: Billions of $ and % Cut</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Qty</td>
<td>Quantity Cut</td>
</tr>
<tr>
<td>ARMY</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blackhawk helicopter</td>
<td>410</td>
<td>-61</td>
</tr>
<tr>
<td>Apache remanufacture</td>
<td>259</td>
<td>-67</td>
</tr>
<tr>
<td>Stryker armored vehicles</td>
<td>Not provided</td>
<td>One brigade set</td>
</tr>
<tr>
<td>Light utility helicopter</td>
<td>1,005</td>
<td>-45</td>
</tr>
<tr>
<td>MARINE CORPS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CH-53K helicopter</td>
<td>13</td>
<td>-7</td>
</tr>
<tr>
<td>Amphibious combat vehicle</td>
<td>Beginning development</td>
<td>Beginning development</td>
</tr>
<tr>
<td>V-22</td>
<td>Underfunded</td>
<td>No quantity cut</td>
</tr>
<tr>
<td>H-1 helicopter</td>
<td>133</td>
<td>-11</td>
</tr>
<tr>
<td>NAVY/MARINE CORPS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Ships Including</td>
<td>[44]</td>
<td>[-8]</td>
</tr>
<tr>
<td>DDG-51</td>
<td>10</td>
<td>-3</td>
</tr>
<tr>
<td>VA class submarine</td>
<td>10</td>
<td>-1</td>
</tr>
</tbody>
</table>
## Defense Spending and the Budget Control Act Limits

<table>
<thead>
<tr>
<th>SERVICE</th>
<th>FY15-FY19 BCA Plan: Quantity and % Cut</th>
<th>FY15-FY19 BCA Plan: Billions of $ and % Cut</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Qty</td>
<td>Quantity Cut</td>
</tr>
<tr>
<td><strong>Carrier replacement program (CVN)</strong></td>
<td>0</td>
<td>Delays delivery of CVN 79; $2B in cost after FY2019</td>
</tr>
<tr>
<td><strong>P-8A aircraft</strong></td>
<td>56</td>
<td>-6</td>
</tr>
<tr>
<td><strong>TAO fleet oiler</strong></td>
<td>0</td>
<td>Delays construction to FY2016</td>
</tr>
<tr>
<td><strong>AIR FORCE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>KC-45 tanker</td>
<td>69</td>
<td>-5</td>
</tr>
<tr>
<td>Combat rescue helicopter</td>
<td>0</td>
<td>Delay start</td>
</tr>
<tr>
<td>MQ-9 armed drone</td>
<td>83</td>
<td>-36</td>
</tr>
<tr>
<td>MC-130J aircraft</td>
<td>35</td>
<td>-10</td>
</tr>
<tr>
<td>Global Positioning System III</td>
<td>11</td>
<td>-1</td>
</tr>
<tr>
<td>Adaptive engine</td>
<td>0</td>
<td>Cancelled</td>
</tr>
<tr>
<td>Adv. med. range air-to-air missile (AIM120D)</td>
<td>3,038</td>
<td>-531</td>
</tr>
<tr>
<td><strong>JOINT PROGRAMS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-35A (AF) fighter aircraft</td>
<td>238</td>
<td>-15</td>
</tr>
<tr>
<td>F-35B (MC) fighter aircraft</td>
<td>69</td>
<td>0</td>
</tr>
<tr>
<td>F-35C (N) fighter aircraft</td>
<td>36</td>
<td>-2</td>
</tr>
<tr>
<td>Jt. Light tactical veh. (MC and Army)</td>
<td>Slows Humvee replacement</td>
<td>-1,000</td>
</tr>
<tr>
<td>Jt. Direct attack munition (JDAM)</td>
<td>41,358</td>
<td>-17,095</td>
</tr>
<tr>
<td><strong>MISSILE DEFENSE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interceptor follow-on</td>
<td>0</td>
<td>Cancelled</td>
</tr>
<tr>
<td>Addl ground-based sensor</td>
<td>0</td>
<td>Cancelled</td>
</tr>
<tr>
<td><strong>TOTAL Weapon System Cuts</strong></td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
<tr>
<td><strong>Total Modernization Decreases</strong></td>
<td>Not applicable</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>


**Notes:** DOD assumes no cuts to its FY2015 request.

DOD’s report describes the individual cuts and potential impacts but does not explain why some programs are cut more heavily than others, why particular programs are selected, or whether some programs are experiencing technical or scheduling difficulties.
Operations and Maintenance: Readiness vs. Other Support

Of the $1.1 trillion Operations and Maintenance (O&M) spending for FY2015-FY2020, DOD categorizes

- 22% for service readiness activities, including unit training and depot maintenance;
- 5% for upgrades of facilities on bases;
- 10% for the running of installations; and
- 62% for “Other Defense O&M,” including training and recruiting, schoolhouse training, pre-positioning of war stocks, communications, transportation, environmental restoration, and administration (Table 11).

In testimony on the FY2016 budget request, each of the Service Chiefs emphasized their concerns about how BCA caps would affect readiness. Army Chief of Staff, Raymond Odierno said that “sustainable readiness will remain out of reach with our individual and unit readiness rapidly deteriorating between 2016 and 2020.”

Navy Chief of Naval Operations, Admiral Jonathan Greenert said that a return to BCA limits in FY2016 would “further reduce readiness of contingency response forces—the ones that are only at one-third level.” Air Force Chief of Staff General Mark A. Welsh III stated that recent recoveries in the readiness of units to 50% would be reversed and “squadrons would be grounded, readiness rates would plummet, red and green flag training exercises would have to be canceled.”

Despite these concerns, DOD’s proposed plan to comply with BCA limits would cut service readiness activities more than other O&M activities. While overall O&M would be cut by $40.1 billion or 4%, service readiness activities would be cut by 7%, shouldering 40% of the cut, almost double their 22% share of total O&M (Table 11).

Service readiness activities include unit training and depot maintenance of weapon systems. After the past 13 years of war when the services focused training on units scheduled to deploy and emphasized training for small-scale operations for counterinsurgency operations, the services are very gradually increasing “full-spectrum” training that would prepare units for larger conflicts. Sequester cuts, they argue, would delay plans to transition to this training in several years.

While cuts to depot maintenance, another high-profile part of O&M, could be delayed when equipment is refurbished and returned to units, this would be unlikely to affect the ability of units to train because the size of the equipment inventory takes the time for repair into account. In addition, the inventory is likely to be sufficient in light of the buildup of equipment for the wars and recent decreases in military personnel levels.

Often tapped in tight times, facilities, sustainment, restoration, and modernization funds that are used to upgrade base facilities would be cut by 14% cuts, more than three times its share of total

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112 Ibid, p.10.
O&M. Base installations support (e.g., paying electricity and water bills on bases), on the other hand, often considered to be “fixed costs,” would be cut by 4%.

Table 11. DOD’s Plan for Achieving BCA Operation & Maintenance Savings, FY2015-FY2019 by Category  
(in billions of dollars and %)

<table>
<thead>
<tr>
<th>Operation and Maintenance</th>
<th>Billions of $: FY2015-FY2019</th>
<th>% Cut</th>
<th>Shares of FY15-FY19 Total</th>
<th>BCA Cuts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DOD Plan Total</td>
<td>Total Caps Cuts</td>
<td>From DOD Plan</td>
<td></td>
</tr>
<tr>
<td>Service readiness</td>
<td>$239.9</td>
<td>-$16.0</td>
<td>-7%</td>
<td>22%</td>
</tr>
<tr>
<td>Facilities, sustainment, restoration, and modernization</td>
<td>$49.4</td>
<td>-$7.0</td>
<td>-14%</td>
<td>5%</td>
</tr>
<tr>
<td>Installation services</td>
<td>$111.6</td>
<td>-$4.8</td>
<td>-4%</td>
<td>10%</td>
</tr>
<tr>
<td>Nondefense and other defense O&amp;M*</td>
<td>$667.6</td>
<td>-$12.3</td>
<td>-2%</td>
<td>62%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$1,068.5</strong></td>
<td><strong>-$40.1</strong></td>
<td><strong>-4%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>


Notes: CRS analysis of DOD report above. DOD assumes no cuts to its FY2015 request.
a. Includes training and recruiting, schoolhouse training, prepositioning of war stocks, communications, transportation, environmental restoration, and administration.

The reason for the small 2% cut to “other” O&M activities, which makes up 60% of O&M, is unclear. Composed of training and recruiting, schoolhouse training, pre-positioning of war stocks, communications, transportation, environmental restoration, and administrative activities, taking reductions would require evaluating these “back office” activities that are often targeted for savings by outside groups (see Appendix D).

Uncertainties Facing DOD

At first glance, it may be difficult to understand why DOD’s concern about the BCA caps has grown just when those limits are about to rise each year by enough to cover inflation. However, in addition to BCA spending constraints, DOD is also aware of the uncertainties in its future budget projections.

In addition to the persistent tendency for cost growth in weapon systems, military personnel compensation has grown rapidly in the past decade. O&M costs and support activities also show unexplained but long-term tendencies to grow faster than inflation. DOD is also worried about congressional reluctance to accept its proposals for health care and other compensation reforms because savings from these changes are already embedded in budget projections.
CBO Projections of the Cost of DOD’s Plan

For many years, the Congressional Budget Office has projected the cost of DOD’s Future Years Defense Program (FYDP), as well as for longer periods, in order to assess whether DOD has budgeted sufficient funds to carry out its program. CBO uses DOD programmatic data about weapon system acquisition, various pay and economic factors, and historical experience to project future costs. It also excludes savings from changes proposed by DOD, such as health care reforms that require Congressional approval. For the 2014 evaluation, CBO compares its own projection with both DOD’s FYDP plan and BCA spending limits.113

Under these assumptions and starting from DOD’s FY2015 request, CBO projects that the cost of carrying out DOD’s plan for FY2015-FY2021 would exceed DOD estimates by $215 billion or about 5.5%. Compared to BCA caps, CBO projects a larger savings gap of $332 billion or 8.5%, well above the 5.1% gap from DOD planning figures. At the same time, CBO’s latest projection is half as large as projected for the FY2014 President’s budget request.114

CBO’s projections are higher than DOD for several reasons including

- higher annual increases in military pay and civilian pay than incorporated in DOD’s plans (ECI rather than 1%),
- exclusion of savings from DOD’s cost-sharing proposals that Congress has previously rejected,
- greater growth in health costs,
- more O&M growth after FY2019,
- higher projected cost growth for acquisition programs—roughly double that incorporated by DOD—based on historical experience, and
- potential “bow waves” because DOD has not adjusted its plans in response to budget constraints.115

Rising Cost per Troop

In addition to CBO’s higher projections of the cost of DOD plans, DOD is aware of the risks posed by long-term increases in per-troop costs. Since FY1980, the cost per troop—for all expenses ranging from pay to procurement—has almost doubled in real terms from $200,000 per troop in FY1980 to $390,000 per troop in FY2016 request (Figure 9). This growth reflects

- increases in the early 1980s during the peacetime buildup during former President Reagan’s tenure,
- further growth in the 1990s as DOD had difficulty adjusting its overhead and infrastructure costs to the one-third decrease in the number of military personnel in response to the end of the Cold War in 1990,

114 Ibid., p. 3.
115 Ibid., p. 9, p. 28, Figure 1-1, p. 29, and Figure 3-2.
Defense Spending and the Budget Control Act Limits

- continued increases in per-troop costs despite five rounds of base closures,
- higher compensation benefits and costs for military personnel after FY2000 particularly for health care, and
- sharp increases in procurement and RDT&E in the past decade (Figure 9 and Figure 10).

**Figure 9. Cost Per Troop, FY1980-FY2016 Request**

(in thousands of FY2016 dollars excluding war costs)

_Sources:_ Calculated by CRS using OMB, Table 5.1 and Table 10.1 in FY2016 Historical Tables; OMB, FY2016 Historical Tables; https://www.whitehouse.gov/omb/budget/Historicals; totals adjusted to exclude emergency and Overseas contingency Operations as shown in Table 2-1 and Table 7-5 in Department of Defense, Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY 2016, March 2015; http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2016/FY16_Green_Book.pdf.

_Notes:_ In this figure, the total for DOD’s base budget is divided by estimated average strength for active-duty forces; this calculation treats costs for reservists as part of overall costs for active-duty because of their support role. Budget Authority is deflated by the GDP price index for Defense in OMB, Table 10.1, FY2016 historical Tables, converted by CRS from FY2009 to FY2016 dollars.

Since FY2000, the cost per troop has increased sharply for most of DOD’s major types of expenses—military personnel, Operation & Maintenance, Procurement, RDT&E—with the exception of Military Construction/Family Housing (Figure 10). This growth reflects some of the same factors cited by CBO including:

- annual increases for both military and civilian personnel above the rate of inflation and above the Economic Cost Index for labor costs,
- a richer benefits package for military personnel, particularly in military health care with out-of-pocket costs for active-duty and retired military at one-fifth the average for civilians (e.g., low co-pays and a free Medigap policy in Tricare for Life),
- largely unexplained increases in other O&M support costs, and
large increases in the cost of major weapons systems due to ever more sophisticated technology, lower quantity buys, less competition, and fewer military personnel as support roles shift to contractors.116

Figure 10. Trends in Average Per Troop Cost by Type of Spending
(in thousands of FY2016 dollars, excluding war costs)

Sources: Calculated by CRS using OMB, Table 5.1 and Table 10.1 in FY2016 Historical Tables; OMB, FY2016 Historical Tables; https://www.whitehouse.gov/omb/budget/Historicals; totals adjusted to exclude emergency and Overseas contingency Operations as shown in Table 2-1 and Table 7-5 in Department of Defense, Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY 2016, March 2015; http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2016/FY16_Green_Book.pdf.

Notes: In this figure, the total for DOD’s base budget is divided by estimated average strength for active-duty forces; this calculation treats costs for reservists as part of overall costs for active-duty because of their support role. Budget Authority is deflated by GDP price index as shown in “Defense deflator” shown in OMB, Table 10.1, FY2016 historical Tables, converted by CRS from FY2009 to FY2016 dollars.

Figure 10 shows a flattening of this long-term trend in recent years; this may reflect congressional endorsement of DOD’s requests to restrain military and civilians pay raises, reductions in procurement, and efficiency packages, all adopted in response to BCA caps. Congress is currently considering whether to adopt recommendations by the Military Compensation and Retirement Modernization Commission in its January 2015 report. The Commission proposed major changes to DOD’s current retirement system and health care plan as well as other quality-of-life programs.117

Other uncertainties include the effectiveness of DOD’s planned efficiencies and whether DOD is willing to adjust its long-term weapons acquisition objectives to meet BCA caps, assuming those stay intact.
Appendix A. How BCA Defense Spending Limits Are Set

The original BCA (P.L. 112-25) set limits that would reduce discretionary defense spending by about $860 billion between FY2012 and FY2021 from CBO’s current services baseline (reflecting steady-state spending with increases to offset inflation) in effect at that time. Compared to the Administration’s FY2012 request, savings would be about $1.0 trillion, somewhat larger because the request included some real growth in defense spending beyond covering the effects of inflation.

These savings would be achieved in two steps. First, about half of the savings were reflected in defense spending caps set in the law. The second $500 billion in defense savings was to be determined by a plan to be proposed by a bipartisan Joint Committee on Deficit Reduction (popularly known as the Super Committee) and voted on by Congress.

If that committee failed to develop a plan within its deadline—as turned out to be the case—the BCA required that the initial defense caps in the law be revised and lowered by an additional $53.9 billion annually. The act established separate revised spending caps for defense and nondefense (known as a firewall or division between overall discretionary spending limits). This means that Congress must meet separate defense and nondefense annual cap each year to avoid sequestration. The American Taxpayer Relief Act (P.L. 112-240) lowered the amount to be taken from the initial statutory caps to $42.5 billion in FY2012 and FY2013. In FY2013, the BCA required that the sequester reduction be applied to the enacted level.

Initially, the BCA caps set limits for “security,” a broad definition including not only National Defense activities but also International Affairs and the Department of Homeland Security and “non-security” (other activities). Beginning in FY2013, BCA spending limits were redefined to apply to National Defense (budget function 050), consisting primarily of the Department of Defense, and “nondefense” (all other). The Bipartisan Budget Act (P.L. 113-67) amendments to the BCA specifically listed the annual revised caps or spending limits for FY2014-FY2021 that must be complied with to avoid a sequester (see Box A).

If Congress breaches or exceeds either revised cap, the President is required to levy a sequester that consists of largely across-the-board cuts. In the case of defense spending, these pro rata cuts apply at either the account level or the individual program level. CBO refers to these spending caps as an “automatic enforcement mechanism” because current statute requires a sequester in any year that Congress breaches or exceeds the Act’s caps.

119 §101 in P.L. 113-67. The original BCA specified the amount to be taken from initial caps.
Box A. Excerpt from OMB FY2014 Sequestration Report on “revised caps”

Section 302 of the BCA provided for revisions to the caps if legislation proposed by the Joint Select Committee on Deficit Reduction to reduce the deficit by more than $1.2 trillion was not enacted by January 15, 2012. Because such legislation was not enacted by this date, the section 302 revisions to the caps were triggered and reflected in the OMB Final Sequestration Report for FY 2012, issued on January 18, 2012.

As required by law, the security category was redefined to include only the discretionary programs in the defense budget function (050) (the “defense” category), which mainly consists of the Department of Defense and significant portions of agency budgets for the Department of Energy (including the National Nuclear Security Administration) and the Federal Bureau of Investigation. The non-security category was redefined to consist of all discretionary programs not in the security category—essentially all nondefense (non-050) budget functions (the “nondefense” category). The defense and nondefense categories were put in place for 2013 through 2021, replacing the overall discretionary category for those years. While the separate caps were adjusted to reflect the redefinitions, the total amount of discretionary funding remained unchanged.

121OMB, Sequester Preview Report to the President and Congress for Fiscal Year 2014 and OMB Report to the Congress on the Joint Committee Reductions for Fiscal Year 2014, April 10, 2013, Corrected version, May 20, 2013, p.3 and p. 5; http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/fy14_preview_and_joint_committee_reductions_reports_05202013.pdf. OMB sequestration reports only include the reductions required for the second set of savings for the budget currently considered by Congress, arguing that reductions in future years will be necessary unless Congress changes the law (see p. 5).
Appendix B. Raising BCA Caps in FY2013-FY2015

Congress Modifies BCA Defense Spending Limits

Both the American Taxpayer Relief Act (ATRA, P.L. 112-240) and Bipartisan Budget Act (BBA, P.L. 113-67) eased the path of meeting defense spending limits in the near-term. Together, these acts provided defense with an additional $54 billion for FY2012-FY2015, reducing ten-year savings required from the FY2012 President’s Budget plan by 1%. Instead of a ten-year defense total of $5.40 trillion in the original BCA, the BBA sets a limit of $5.45 trillion.122

In FY2012, Congress reduced DOD’s request by 4.2% or $23 billion to meet the new BCA spending limits. The effect on DOD was softened because BCA spending reductions for FY2012 were applied to a broadly defined “security” category which included not only DOD but also the Department of Homeland Security, International Affairs, the Department of Veterans Affairs, and other small agencies.123

American Taxpayer Relief Act

Several months after the FY2013 President’s budget plan was submitted, Congress modified the BCA spending limits. Facing the “fiscal cliff”—the combined contractionary effects of ending the tax cuts enacted during then-President Bush’s tenure, and slated BCA spending reductions in FY2013—Congress passed P.L. 112-240/H.R. 8, the American Taxpayer Relief Act (ATRA) on January 2, 2013, 17 months after enactment of the original BCA (P.L. 112-75).124 Although ATRA did not change the requirement for a sequester in FY2013, it reduced the amount of that sequester from $54 billion for defense to $42.5 billion.

At the same time, ATRA softened the scheduled $62 billion cut between FY2012 and FY2013, splitting the reduction over two years rather than one. Instead, ATRA mandated decreases of $36 billion in FY2013 and $20 billion the following year. Congress left later years intact (Table B-1). To “pay for” or offset the reduction in savings, ATRA changed the treatment of Roth IRA retirement accounts.125

Under the adjusted ATRA caps, Congress cut defense spending from $555 billion enacted in FY2012 to $518 billion in FY2013 rather than the $492 billion originally required.126 In the case

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122 See Table 1 above and for latest revised lowered caps, see Table 2 in OMB, Sequestration Preview Report to the President and Congress for Fiscal Year 2016, February 2, 2015; http://www.whitehouse.gov/sites/default/files/omb/assets/legislative_reports/sequestration/2016_sequestration_preview_report_president.pdf.
of DOD (which constitutes about 95% of the National Defense total), Congress appropriated $527.4 billion, $2 billion above the request. After various adjustments, OMB’s sequester order reduced the appropriated amount to $495 billion (see Table B-1).

The Bipartisan Budget Act

In the fall of 2013, faced with an impasse between the House and Senate about discretionary spending levels that led to a temporary government shutdown, Congressman Paul Ryan and Senator Pat Murray, Chairs of their respective budget committees, negotiated the Bipartisan Budget Act of 2014 (BBA; H.J.Res. 59/P.L. 113-67). This made further adjustments in BCA revised caps for FY2014 and FY2015 (Table B-1).

Table B-1. Adjustments in BCA Spending Caps

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<td>National Defense (050)</td>
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<tr>
<td>DOD (051) (est.)</td>
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127Table provided to CRS by DOD.
Signed by the President on December 26, 2013, the BBA raised the ATRA cap for FY2014 from $498 billion to $520 billion, a $22 billion increase. For the following year, the BBA raised the earlier ATRA limit from $512 billion to $521 billion, a $9 billion increase. BCA caps remained the same for FY2016 through FY2021.

With these changes, National Defense spending was set at the FY2013 post-sequester level $521 billion in FY2014 and FY2015, with a small increase to $523 billion in FY2016. This held defense spending to a nominal freeze for essentially four years without increases to cover the low levels of inflation in those years. After FY2016, defense spending under the caps would grow by about $11 billion each year, providing slightly more than needed to offset projected inflation. By FY2021, National Defense spending would be $590.0 billion, providing 2% real growth above the FY2016 level (Table B-1).

In FY2014, the Administration requested $552 billion for National Defense and $527 billion for the Department of Defense (DOD). Congress appropriated $520 billion for National Defense and $496 billion for DOD, complying with the BCA caps and avoiding a sequester (Table B-1).

For FY2015, the Administration requested $549 billion for National Defense and $522 billion for DOD including $26.4 billion in a separate Opportunity, Growth and Security Initiative (OGSI) that was intended to “accelerate modernization of key weapons systems, make faster progress toward restoring readiness lost under sequestration [in FY2013] and improve its facilities.”128 Congress appropriated $521 billion for National Defense and $496 billion for DOD, complying with BCA revised caps and continuing a three-year nominal freeze in DOD spending that began with the FY2013 sequester.

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Appendix C. Defense Plans Partly Adapt to BCA Spending Limits

Some observers would suggest that changes to defense spending to comply with BCA limits should be compared to the Administration’s original plan for defense spending before BCA enactment. Others would argue that BCA limits should be compared to the FY2011 CBO steady-state baseline which extrapolates defense spending at the enacted level with increases only for inflation, often referred to as a “real freeze.” Another approach compares BCA limits to successive Administration plans from FY2013-FY2016 to see how plans were adjusted in reaction to the caps.

Compared to CBO’s steady-state baseline, a “current services” baseline commonly used by Congress and across the government, BCA caps to the CBO baseline at the time, BCA caps required a reduction of $860 billion or about 14%. Before passage of the BCA, the gap between the FY2012 Administration plan for National Defense (budget function 050) and the BCA spending limits was close to $1.0 trillion for the decade (050). Defense spending was projected to total $6.41 trillion for FY2012-FY2021, assuming 4% real growth over the decade. Under BCA limits, defense spending would total $5.4 trillion, or $1.0 trillion lower (Table C-1).

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<td>-15.4%</td>
<td>-15.9%</td>
</tr>
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</table>


Notes:

- CBO’s baseline reflects the latest enacted level with adjustments for inflation in later years.
- The Administration FY2012 plan projected 4% real growth over the decade.

The FY2012 Administration plan exceeded the CBO baseline by $157 billion; that baseline projects defense spending at the latest enacted level with adjustments only for inflation.
DOD’s Reaction to BCA Caps Changes over Time

BCA caps on defense spending primarily affect the Department of Defense (DOD). Since enactment of the BCA, DOD budgets have been lowered in several steps, and DOD’s characterization of the effects of BCA spending limits has shifted with each new budget.

FY2013 Plan Achieves Half of BCA Savings

DOD’s FY2013 budget plan included a reduction of $487 billion reduction in the FY2013 budget plan compared to the prior year, achieving half of the savings needed to comply with BCA caps measured against DOD’s pre-BCA plan. In “Defense Budget Priorities and Choices,” a January 2012 strategy report, DOD suggested that

Achieving these savings [of $487 billion for DOD] is hard, but manageable. It is hard because we have to accept many changes and reductions in areas that previously were sacrosanct. Collectively, the changes align our investments to strategic priorities and budgetary goals, but individually, each one requires a difficult adjustment. It is manageable because the resulting joint force, while smaller and leaner, will remain agile, flexible, ready, innovative, and technologically advanced.130

The strategy paper stated that DOD could continue to plan and

size forces to be able to defeat a major adversary in one theater while denying aggression elsewhere or imposing unacceptable costs; [but] No longer size active forces to conduct large and protracted stability operations, and structure major adjustments in a way that best allows for . . . regeneration of capabilities.131

FY2014 Plan Adds Savings

With the additional $93 billion savings incorporated in the FY2014 DOD plan, the savings gap between the plan and BCA amended caps for the next eight years shrunk to $331 billion. In its FY2014 report, “Defense Budget: Priorities and Choices,” DOD’s tone shifted from the year before when the reductions were “manageable,” now warning that

The DoD is experiencing declining budgets that have already led to significant ongoing and planned reductions in military modernization, force structure, personnel costs, and overhead expenditures . . . [concluding overall that the] choices made in the FY 2014 submission reflects the Department’s intent to deepen the budget and program alignment with the President’s strategic guidance, seek additional taxpayer savings where possible and prudent, and do so at minimum risk to the readiness or quality of the All-Volunteer Force. 132

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131 Ibid., passim.
FY2015 Plan Trims Spending

The FY2015 DOD plan trimmed another $186 billion reducing the savings gap to about $175 billion. In its FY2015 Budget Overview, DOD concluded that

The FY 2015 funding levels will allow the military to protect and advance U.S. interests and execute the updated defense strategy – but with somewhat increased levels of risk for some missions . . . [due to] gaps in training and maintenance over the near term and will have a reduced margin of error in dealing with risks of uncertainty in a dynamic and shifting security environment over the long term.

DOD argued that it could comply with the amended BCA revised caps in the BBA for FY2015 but not in later years and meet the strategy in the 2014 Quadrennial Defense Review (QDR). Then-Secretary of Defense Chuck Hagel warned that while

We can manage these anticipated risks under the president's budget plan, but they would grow significantly if sequester-level cuts return in fiscal year 2016, if our reforms are not accepted, or if uncertainty on budget levels continues. As I've made clear, the scale and timeline of continued sequestration-level cuts would require greater reductions in the military's size, reach, and margin of technological superiority. Under sequestration spending levels, we would be gambling that our military will not be required to respond to multiple major contingencies at the same time.

FY2016 Plan Rejects BCA Limits

In FY2016, BCA caps are slated to increase to $499 billion, $3 billion above the previous year, and then to rise by about $11 billion annually from FY2017-FY2021, reaching $563 billion in FY2021. DOD’s request of $534 billion exceeds the FY2016 cap by $36 billion. In its latest plan, DOD made no attempt to incorporate additional savings.

In its FY2016 Budget Overview, DOD argues that recent geopolitical developments, including the Islamic State offensive, the Ebola virus outbreak, and Russian actions in the Ukraine have only reinforced the need to resource the Department of Defense (DoD) at the President’s budget level rather than the current law . . . [and that the higher level] will allow the military to protect and advance U.S. interests and execute the updated defense strategy - but with somewhat increased levels of risk for some missions . . . [concluding that the] QDR [Quadrennial Defense Review] strategy cannot be executed at sequester-levels of funding.

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133 This figure includes the $26 billion requested for DOD in the Opportunity, Growth and Security Initiative fund.
For the Army, the chief concern is their conviction that its force structure would have to be cut from 450,000 to 420,000 active-duty personnel, with associated cuts in reserve forces. According to Chief of Staff, General Raymond Odierno those force levels would mean “jeopardizing the Army’s ability to execute even one prolonged multiphase contingency operation.”

For the Navy, “Required cuts will force us to further delay critical warfighting capabilities, reduce readiness of forces needed for contingency response, forego or stretch procurement of ships and submarines and further downsize weapons capacity.”

General Joseph Dunford, commandant of the Marine Corps, testified that BCA funding levels will result in a Marine Corps with fewer available active-duty battalions and squadrons than we required for a single major contingency and result in fewer Marines and Sailors being forward-deployed in a position to immediately respond to a crisis involving our diplomatic posts, American citizens or US interest.

For Air Force Chief of Staff, Mark A. Welsh III, under ”sequestration level funding,” the Air Force would face a choice between being “‘ready and capable now’” and “ready and capable in the future.” . . . [resulting in] an Air Force that, at sequestered levels of funding, cannot successfully execute all Defense Strategic Guidance requirements.

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Appendix D. Selected Bibliography of Ways to Reduce Defense Spending

Below is a selected bibliography of recent reports on and studies of ways to reduce defense spending. The list includes primarily reports that address the problem of reaching a particular level by using various types of savings. It does not include the many reports on reducing the costs of individual weapon systems.

Table 12. Selected Bibliography of Reports and Studies on Reducing Defense Spending

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<td>Reducing the Deficit: Spending and Revenue Options</td>
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<td></td>
<td>Hosek, James, Beth J. Asch, Michael G. Mattock</td>
<td>Should the Increase in Military Pay Be Slowed?</td>
<td>June 2012</td>
<td><a href="http://www.rand.org/content/dam/rand/pubs/technical_reports/2012/RAND_TR1185.pdf">http://www.rand.org/content/dam/rand/pubs/technical_reports/2012/RAND_TR1185.pdf</a></td>
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**Author Contact Information**

Amy Belasco  
Specialist in U.S. Defense Policy and Budget  
abelasco@crs.loc.gov, 7-7627
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