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FY2017 Defense Budget Request: In Brief

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Summary

The Administration's FY2017 budget request includes \$619.5 billion for national defense of which \$590.6 billion is for the Department of Defense (DOD). Of the DOD total, \$523.9 billion covers the base budget, discretionary spending subject to the spending caps established for FY2017 by the Balanced Budget Act (BBA) of 2015. An additional \$58.8 billion of the DOD total is to support Overseas Contingency Operations (OCO). OCO funding supports the continued U.S. military presence in Afghanistan and assistance to Iraqi and Syrian opposition forces. The OCO request also includes \$3.4 billion to enhance the U.S. presence in Eastern Europe, referred to as the European Reassurance Initiative (ERI).

The budget request would reduce active-component end-strength of the armed forces from 1.30 million to 1.28 million. The Army would drop by 15,000 to 460,000 (heading toward a planned level of 450,000). The Navy decline is 4,400, largely to reflect a proposal to disband one of 10 carrier air wings. Military basic pay would increase by 1.6%, costing about \$300 million less than if military pay rose at the 2.1% rate that is the average in the private sector (according to the Labor Department's Employee Compensation Index).

The Administration has acknowledged that procurement accounts—and aircraft accounts in particular—bore the brunt of DOD's belt-tightening. For example, although the Army's total procurement request for FY2017 was a net of \$1.3 billion lower than the amount appropriated in FY2016, the amount requested for procurement of Army aircraft was a net \$2.3 billion less than the corresponding FY2016 appropriation. The request funds 63 Joint Strike Fighters (43 for the Air Force, 16 for the Marine Corps, and 4 for the Navy), deferring the planned FY2017 procurement of an additional five F-35As. DOD officials cited this reduction as one instance of a program reduction made in response to budgetary limits. To compensate for the slower-than-planned fielding of the F-35, the budget request includes funds to enlarge and upgrade DOD's fleet of earlier model fighters.

Thus the Administration's budget includes funds for programs that been funded in recent years as congressional initiatives, for instance:

- To mitigate a shortfall in the Navy's fleet of strike fighters, the Administration requests \$185 million (in FY2017 OCO funds) to replace two Navy F/A-18s lost in combat; and it plans to continue F/A-18 purchases in future budget years.
- The budget request would fund two DDG-51 Aegis destroyers for \$3.4 billion, two *Virginia*-class submarines for \$5.2 billion, and two Littoral Combat Ships (LCSs) for \$1.3 billion. The budget assumes the Navy would save \$200 million by removing seven Aegis cruisers from service for long-term modernization. Congress has rejected similar proposals in previous years.

The budget requests \$900.0 million in FY2017 to keep in service A-10 ground-attack planes that the Administration has been trying for years to retire, over congressional objections. The current plan is to keep the planes in service—at a cost of \$3.4 billion—through FY2022 when they would be replaced by F-35s.

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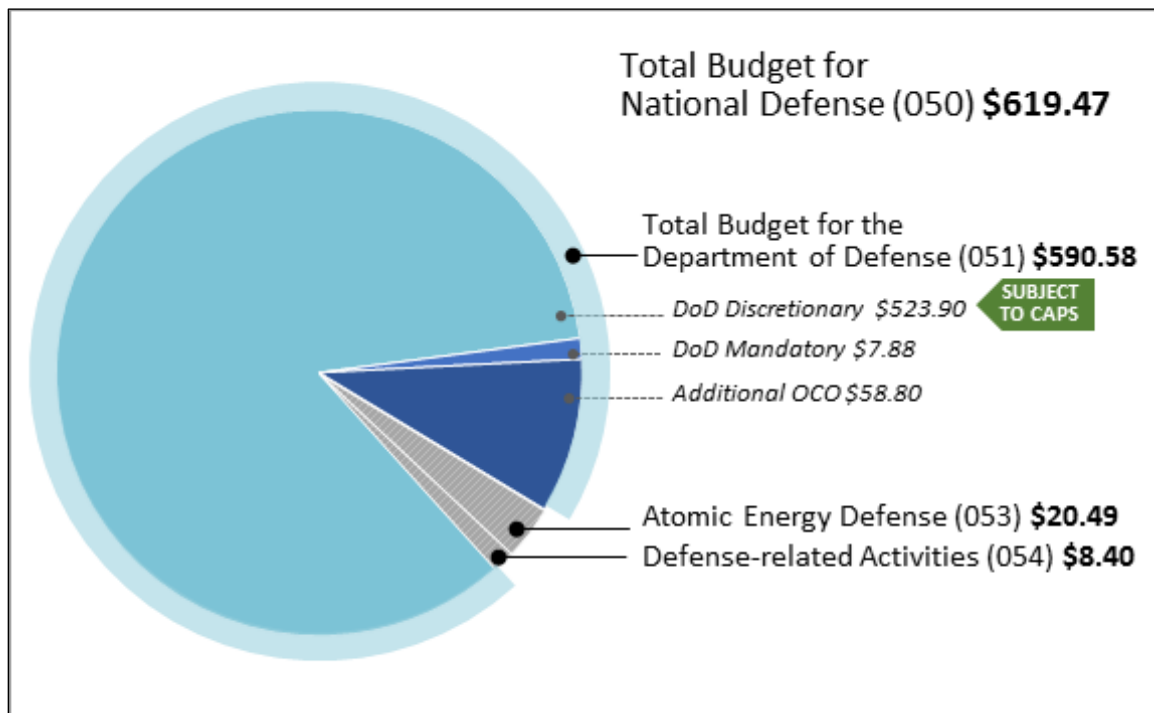
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FY2017 Defense Budget Structure

For FY2017, the Administration proposed a total budget of \$619.5 billion for all Federal Government National Defense-related activities of the federal government (Budget Function 050). As has been typical in recent years, about 95% of that total is for military activities of the Department of Defense (DOD). The balance of the Function 050 request comprises \$20.5 billion for defense-related nuclear energy activities of the Department of Energy (designated subfunction 053) and \$8.4 billion for defense-related activities of other agencies (designated subfunction 054) of which about two-thirds is allocated to the FBI.

Of the National Defense total (including Overseas Contingency Operations, or OCO), \$609.9 billion is discretionary spending provided, for the most part, by the annual appropriations bill drafted by the Appropriations Committees of the House and Senate.¹ The remaining \$9.6 billion is mandatory spending, that is, spending for entitlement programs and certain other payments. Mandatory spending is generally governed by statutory criteria and it is not normally set by annual appropriation acts.² See **Figure 1**.

Figure 1. FY2017 Total Budget for National Defense (050)
(dollars in billions)



Source: OMB

Notes: Discretionary portions of subfunctions 053 (\$19.3 billion) and 054 (\$7.8 billion) are also subject to caps. The total national defense discretionary request is \$609.9 billion.

¹ For instance, the budget includes \$6.37 billion to support medical insurance for military retirees under the TRICARE for Life program. The annual TRICARE for Life payment occurs automatically, on the basis of permanent law rather as part of an annual appropriation, but, in terms of congressional budgeting rules, it is “discretionary” funding.

² Congressional Budget Office, <https://www.cbo.gov/content/what-difference-between-mandatory-and-discretionary-spending>

The DOD budget (subfunction 051) also is divided. The primary category is “base budget” activities—that is, activities the Pentagon would not pursue if U.S. forces were not engaged in combat (or combat-like) operations in Afghanistan and elsewhere. In principle, the remainder of the DOD budget covers the incremental cost of those “non-base budget” activities (designated OCO) in Afghanistan and elsewhere.

For FY2017, the Administration proposes a DOD discretionary budget totaling \$582.7 billion, of which \$523.9 billion comprises the base budget while \$58.8 billion would fund OCO. The \$523.9 billion DOD discretionary budget request is compliant with the spending caps established for FY2017 by the Bipartisan Budget Act (BBA) of 2015 (P.L. 114-74). This base budget request is \$2.2 billion over the FY2016 enacted budget, but is \$23.4 billion below the amount forecast for FY2017 by the President’s FY2016 request. See **Table 1**.

Table 1. DOD Discretionary Appropriations (Subfunction 051)
(dollars in billions)

	FY15 Actual	FY16 Enacted	FY17 Request	FY16-FY17 Change
Base	\$497.3	\$521.7	\$523.9	\$2.2
OCO	\$63.1	\$58.6	\$58.8	\$0.2
Total	\$560.4	\$580.3	\$582.7	\$2.4

Source: Department of Defense

Notes: Numbers may not add due to rounding.

Defense and the Budget Caps

The Budget Control Act of 2011 (BCA) established statutory limits on spending by imposing a series of caps³ on discretionary budget authority for defense and non-defense programs from FY2012 through FY2021.⁴ The caps do not apply to funding for OCO or emergencies, providing both Congress and the President designate the funds as thus exempt.

These caps have been modified several times.⁵ The most recent changes to the caps on defense programs (currently defined as all programs included in Budget Function 050) occurred with November 2, 2015 enactment of the BBA. The BBA raised the FY17 cap to \$548.1 billion.⁶ Taking account of the non-DOD agencies funded in the 050 function, this implies an imputed cap of \$526.3 billion on DOD discretionary appropriations for FY2017. See **Figure 2**.

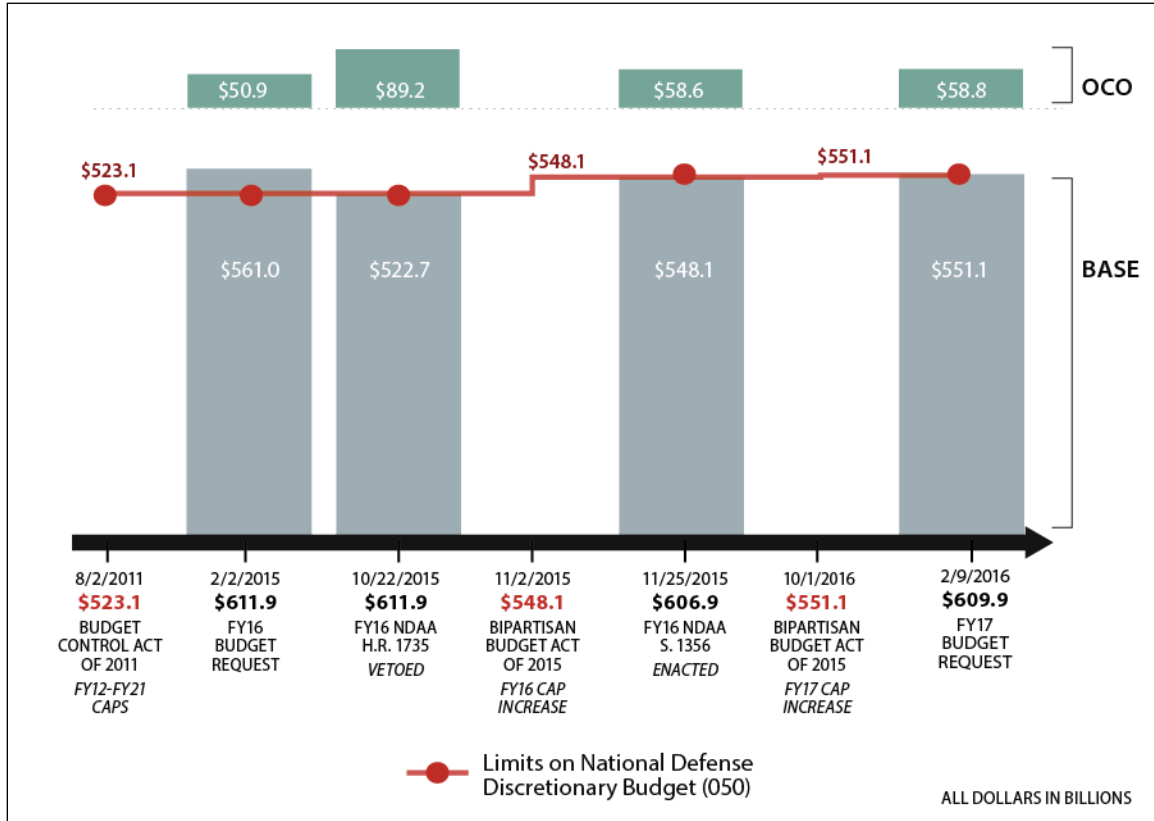
³ The annually adjusted limits on discretionary spending are commonly referred to as “budget caps”.

⁴ P.L. 112-25

⁵ CRS Report RL34424, *The Budget Control Act and Trends in Discretionary Spending*, by D. Andrew Austin. See also CRS Report R44039, *Defense Spending and the Budget Control Act Limits*, by Amy Belasco.

⁶ P.L. 114-74

Figure 2. BCA Caps and the Defense Budget



Source: P.L. 114-74, H.R. 1735, S. 1356, and DOD Fiscal Year 2017 Budget Request

FY2017 Base Budget Request

The FY2017 DOD base budget request reduces Military Personnel accounts by \$61 million from the FY2016 enacted level. It also includes \$205.8 billion for Operation and Maintenance (O&M) accounts, which is an \$8.4 billion increase from the FY2016 enacted amount. Procurement accounts face an \$8.2 billion decrease from the FY2016 enacted amount of \$110.7 billion. Investments in Research, Development, Test and Evaluation (RDT&E) accounts are up by \$2.6 billion. See **Table 2**.

Table 2. FY2017 DOD Base Budget Request by Appropriations Title
(dollars in thousands)

Title	FY16 Enacted	FY17 Request	FY16-17 Change
Military Personnel	\$135,330,213	\$135,269,240	-\$60,973
Operation and Maintenance	\$197,468,777	\$205,860,227	\$8,391,450
Procurement	\$110,737,432	\$102,566,680	-\$8,170,752
RDT&E	\$68,778,330	\$71,391,771	\$2,613,441
Revolving and Management Funds	\$1,175,932	\$1,371,613	\$195,681
Military Construction	\$6,909,712	\$6,124,204	-\$785,508
Family Housing	\$1,261,288	\$1,319,852	\$58,564

Source: Department of Defense

Notes: Numbers may not add due to rounding

FY2017 Overseas Contingency Operations Funding

In addition to revising the caps for the base budget, the BBA provided a non-binding level for OCO in FY2017 of \$58.8 billion. The President's request matches this level, which includes \$5.2 billion for activities that were not funded in the base budget due to the caps such as depot maintenance and procurement of preferred munitions.⁷

The FY2017 OCO request would maintain a U.S. presence in Afghanistan, sustain personnel deployed to the Middle East to conduct operations against ISIS, build capacity of the Iraqi and Syrian opposition forces, and support other partner nations in counterterrorism efforts. The OCO request also includes \$3.4 billion to enhance the U.S. presence in Eastern Europe, often referred to as the European Reassurance Initiative (ERI). The request is based on the force level projections in **Table 3**. **Table 4** depicts the OCO budget request by appropriation title.

Table 3. Assumed FY2017 Troop Levels for Overseas Contingency Operations
Average Annual Troop Strength

Force	FY15 Actuals	FY16 Actuals	FY17 Projection
Afghanistan (OFS)	10,012	9,737	6,217
Iraq (OIR)	3,180	3,550	3,550
In-theater support	55,958	55,831	58,593
In CONUS/Other Mobilization	16,020	15,991	13,085

Source: Department of Defense

Notes: In-theater support includes Afghanistan, Iraq, Horn of Africa, and ERI

⁷ Department of Defense Fiscal Year 2017 Budget Request Overview, Office of the Under Secretary of Defense (Comptroller)/CFO, February 9, 2016.

Table 4. OCO Budget Request
(dollars in billions)

Activity	FY16 Enacted	FY17 Request	FY16-17 Change
Operations/Force Protection	\$8.8	\$8.7	-\$0.1
In-theater Support	\$14.8	\$17.0	\$2.2
Joint Improvised-Threat Defeat Fund	\$0.4	\$0.3	-\$0.1
Afghanistan Security Forces Fund	\$3.6	\$3.4	-\$0.2
Support for Coalition Forces	\$1.4	\$1.4	\$0.0
Iraq Train and Equip Fund	\$0.7	\$0.6	-\$0.1
Syria Train and Equip Fund	\$0.0	\$0.3	\$0.3
Equipment Reset and Readiness	\$10.1	\$9.4	-\$0.7
Classified Programs	\$8.1	\$8.1	\$0.0
Counterterrorism Partnership Fund	\$1.1	\$1.0	-\$0.1
European Reassurance Initiative	\$0.8	\$3.4	\$2.6
National Guard and Reserve Equipment/Military Readiness	\$1.5	\$0.0	-\$1.5
Prior-Year Rescissions ^a	-\$0.4	—	—
Bipartisan Budget Act of 2015 Compliance ^b	\$7.7	\$5.2	—
Total	\$58.6	\$58.8	\$0.2

Source: Department of Defense

Notes: Numbers may not add due to rounding

^aFrom FY15 Afghanistan Security Assistance Fund. Additional funding provided in accordance with non-binding level set by BBA.

^bAdditional funding provided in accordance with non-binding level set by BBA.

Selected Budget Matters

Military Personnel

Under the budget request the number of active duty military personnel in the U.S. military services would decline from 1.30 million to 1.28 million, with the Army dropping by 15,000 to 460,000 (heading toward a planned level of 450,000) and the Navy declining by 4,400, partly to reflect a proposal to disband one of 10 carrier air wings.

The budget proposes that military basic pay increase by 1.6%, costing about \$300 million less than if military pay rose at the 2.1% rate that is the average in the private sector (according to the Labor Department's Employment Cost Index (ECI) survey). (For background, see CRS In Focus IF10260, *Military Pay Raise*, by Lawrence Kapp.)

The Administration proposes a revision of TRICARE for military healthcare that would increase some user costs (e.g., enrollment fees and increased pharmacy co-pays) while decreasing others

(e.g., eliminating deductibles for visits to the Emergency Room of a military hospital.) The package would yield net savings to DOD in FY2017 of about \$500 million and total savings through FY2021 of \$6.9 billion. (For background, see CRS Report RL33537, *Military Medical Care: Questions and Answers*, by Don J. Jansen.)

The Administration also proposed modifications to the revised military retirement system enacted as part of the FY2016 National Defense Authorization Act, some of which are intended to provide additional retention incentives for military personnel. (For background, see CRS Report RL34751, *Military Retirement: Background and Recent Developments*, by Kristy N. Kamarck.)

Long-range and Nuclear-armed Weapons

The request would sustain the Administration’s plan to recapitalize each leg of the “triad” of long-range, nuclear-armed weapons over the next decade. (For background, see CRS Report RL33640, *U.S. Strategic Nuclear Forces: Background, Developments, and Issues*, by Amy F. Woolf.)

To continue development of a new, long-range strategic bomber (designated LRSB), the Air Force requested \$1.4 billion, which is 40% less than the FY2017 request it projected a year ago for this project. Air Force officials said the reduction reflects a reduced cost estimate as a result of the competition to build the plane, which was won by Northrop Grumman (the result faces a bid protest by competing contractor, Boeing). (For background, see CRS Insight IN10384, *Air Force Bomber Contract Awarded*, by Jeremiah Gertler.)

The request also includes \$95.6 million to develop a new bomber-launched missile—the Long Range Stand-Off Weapon (LRSO)—slated to replace the 1970s-vintage Air-Launched Cruise Missile (ALCM). This is less than three-quarters of the FY2017 request projected a year ago because of contracting delays.

A total of \$1.5 billion is requested for a new class of ballistic missile-launching submarines, including \$700.8 million in continued R&D funding and \$773.1 million to buy components for use in the first ship, slated for delivery to the Navy in 2028 (when the existing *Ohio*-class missile submarines are scheduled to begin leaving service).

The Administration also requests \$114.9 million to continue development of a new, land-based ICBM and—outside the DOD budget—\$9.2 billion for nuclear weapons-related work by the Department of Energy.

Missile Defense and Space Programs

For the Ground-based Mid-course Defense system, intended to intercept long-range ballistic missiles launched toward U.S. targets, the budget requests \$862.1 million to continue the planned deployment of 44 interceptor missiles by the end of FY2017. The budget also includes \$162.0 million to develop a long-range missile detection radar and \$155.0 million—about half the total cost of site construction—to begin work on the radar’s installation in Alaska. A total of \$630.0 million is included for Phase III of the European Phased Adaptive Approach.

To develop a new satellite launch vehicle that would replace one currently used by DOD and the intelligence community, which uses Russian-built engines, the budget requests \$296.6 million.

Ground Forces

The Administration’s FY2017 budget request was not informed by recommendations from the legislatively-mandated Commission on the Future of the Army, which published its findings on January 28, 2016. For example, the budget request would continue transferring Apache attack

helicopters from the National Guard to active-component Army units, a shift that the Commission recommended be curtailed. Army officials acknowledged that the budget might be amended after the Administration had weighed the Commission's proposals. (See CRS Report R44366, *National Commission on the Future of the Army (NCFE): Background and Issues for Congress*, by Andrew Feickert).

Army officials emphasized that the service's FY2017 budget request gave priority to readiness over modernization. The Army's request for helicopter procurement funds underscored the Administration's acknowledgement that procurement accounts—and aircraft accounts in particular—bore the brunt of DOD's belt-tightening. Although the service's total procurement request for FY2017 was a net of \$1.3 billion lower than the amount appropriated in FY2016, the amount requested for procurement of Army aircraft was a net \$2.3 billion less than the corresponding FY2016 appropriation. Compared with the FY2017 requests projected a year ago for some major helicopter programs, the Army requested a total of \$1.2 billion less for procurement of upgraded Apaches and Chinooks and new Black Hawks—a reduction of 30% from the earlier projected request.

Naval Forces

As planned last year, the request would fund two DDG-51 Aegis destroyers (\$3.4 billion) and two *Virginia*-class submarines (\$5.2 billion), both types being purchased under multi-year, multi-ship procurement authority.

The request also includes \$1.3 billion for two Littoral Combat Ships (LCSs). A year ago, the Navy had projected buying three LCSs in FY2017, but Defense Secretary Ashton B. Carter cut that to one ship, as part of his decision to reduce from 52 to 40 the total LCS purchase. Administration officials said the Navy was allowed to fund a second ship in FY2017—while preserving the 40-ship ceiling—on grounds that funding two ships in one year would reduce costs as a result of competition. For background see CRS Report RL33741, *Navy Littoral Combat Ship (LCS)/Frigate Program: Background and Issues for Congress*, by Ronald O'Rourke.

The Administration's budget request would amend current law which requires the Navy to field 10 active-component carrier air wings⁸ (10 U.S.C. 562 (c) note) thus allowing DOD to deactivate one of the Navy's ten carrier air wings (Air Wing 14, based at Lemoore, CA). According to Navy officials, reallocating that wing's aircraft to the remaining nine wings would improve their readiness. The FY2017 budget request assumes saving about \$80 million to be realized by this action, and the Administration projects total savings of roughly \$3 billion through FY2021. The budget request also incorporates proposed legislation that would allow the Navy to take out of service seven Aegis cruisers which the Navy says it would modernize and then return to service, one by one, to replace un-modernized cruisers as they are retired beginning in the 2020s. The Navy's FY2017 budget assumes savings upwards of \$200 million from this move and projects total savings through FY2021 of \$3 billion. However, congressional defense committees have rejected previous similar proposals, allowing the Navy to remove from service only two of the

⁸ Congress, in passing the FY2012 National Defense Authorization Act (H.R. 1540/P.L. 112-81 of December 15, 2011), included a provision (Section 1093) stating: "The Secretary of the Navy shall ensure that the Navy maintains— (1) a minimum of 10 carrier air wings; and (2) for each such carrier air wing, a dedicated and fully staffed headquarters." The provision was codified as a note to 10 USC 5062, a statute that relates to the composition and functions of the Navy. (For background, see CRS Report RS20643, *Navy Ford (CVN-78) Class Aircraft Carrier Program: Background and Issues for Congress*, by Ronald O'Rourke.)

cruisers in any one year with no ship out of service for more than four years and no more than six out of service at any one time.

Combat Air Forces

The request funds 63 Joint Strike Fighters (43 F-35A, 16 F-35B, and 4 F-35C), deferring the planned FY2017 procurement of an additional five F-35As for the Air Force but buying two more F-35Bs for the Marine Corps than had been projected. DOD officials cited this reduction as one instance of a program reduction made in response to budgetary limits. (For background, see CRS Report RL30563, *F-35 Joint Strike Fighter (JSF) Program*, by Jeremiah Gertler.)

To compensate for the slower-than-planned fielding of the F-35—a so-called “5th generation” design incorporating stealth and other advanced technologies—the budget request includes funds to enlarge and upgrade DOD’s fleet of earlier, so-called “4th generation” fighters. Thus, the Administration’s budget includes funds for programs that been funded in recent years as congressional initiatives, for instance:

- To mitigate a shortfall in the Navy’s fleet of strike fighters, the Administration requests \$185 million (in FY2017 OCO funds) to replace two Navy F/A-18s lost in combat and plans to continue F/A-18 purchases in future budget years.
- To upgrade the aerial defense of U.S. territory, the budget includes \$56.4 million to modernize 24 Air Force F-16s with advanced radars.
- The budget requests \$900.0 million in FY2017 to keep in service A-10 ground-attack planes that the Administration has been trying for years to retire, over congressional objections. The current plan is to keep the planes in service—at a cost of \$3.4 billion—through FY2022 when they would be replaced by F-35s. (For background, see CRS Report R43843, *Proposed Retirement of A-10 Aircraft: Background in Brief*, by Jeremiah Gertler.)

Military Construction

For military construction and family housing in FY2017, the Administration requested \$7.4 billion in the base budget and \$172.4 million in OCO funds, for a total of \$7.6 billion. This compares with \$7.7 billion appropriated for these programs for FY2015 and \$8.6 billion enacted for FY2016. This continues a trend begun in in FY2010, when funding for construction activity associated with the 2005 Base Closure (BRAC) round began to subside. It is also a military construction appropriations request significantly below the pre-BRAC levels seen during the early 2000s.

The OCO portion of the request continues a trend seen during recent years of DOD construction funding for construction abroad shifting from the Middle East and Africa to Europe. The \$1.22 billion in OCO construction for FY2011 was devoted entirely to projects in Afghanistan, Qatar, and Bahrain. In contrast, nearly two-thirds of the FY2017 OCO military construction request of \$172.4 million is designated as part of the European Reassurance Initiative (ERI) and is dedicated to airfield improvements in Estonia, Lithuania, Romania, Bulgaria, and Poland, plus additional facilities in Iceland and Germany to accommodate the Navy’s P-8A *Poseidon* and the Air Force’s F/A-22 *Raptor* aircraft. The remainder of the request is intended for projects in Djibouti.

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