Pressures on DoD’s Budget Over the Next Decade

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Outline

• Fiscal Situation

• Implications of Budget Control Act

• Internal Pressures on DoD’s Budget
Deficits or Surpluses Under CBO’s Baseline for FY 2016

Percentage of Gross Domestic Product

Federal Debt, Spending, and Revenues Under CBO’s Extended Baseline for FY 2016

Percentage of GDP

Components of Federal Spending Under CBO’s Extended Baseline for FY 2016

Percentage of GDP

Outline

- Fiscal Situation
  - Implications of Budget Control Act
- Internal Pressures on DoD’s Budget
Costs of DoD’s 2016 Plans in the Context of the Budget Control Act, as Amended

Billions of 2016 Dollars

FYDP = Future Years Defense Program.
Outline

- Fiscal Situation
- Implications of Budget Control Act
  - Internal Pressures on DoD’s Budget
Growth in DoD’s Inflation-Adjusted Base Budget, Fiscal Years 2000 and 2014

Costs of DoD’s 2016 Plans by Appropriation Category

Billions of 2016 Dollars

FYDP = Future Years Defense Program.
Pressure in Each of the Three Major Categories of the Defense Budget

- Costs of developing and buying weapons have been, on average, 20 percent to 30 percent higher than DoD’s initial estimates.
- Costs for compensation of military personnel—including their active and retired health care benefits—have been rapidly increasing since 2000.
- Costs of operation and maintenance per active-duty service member have been steadily increasing since at least 1980, without including the cost of the wars in Iraq and Afghanistan.

The mismatch between DoD’s FYDP plans and the Budget Control Act caps is exacerbated by these internal pressures in DoD’s budget.
Example of Budgetary Pressure in Acquisition: The Navy’s Shipbuilding Program

- CBO estimates that the 2016 shipbuilding plan will cost more than the Navy estimates.
- The Navy’s 2016 plan would fall short of meeting the service’s inventory goal for some types of ships.
- Historical average funding would be insufficient to pay for the 2016 plan.

Example of Budgetary Pressure in Military Personnel: Pay and Benefits

- Annual increases in military basic pay exceeded the percentage increase in the employment cost index (ECI) by at least 0.5% for each of the years between 2001 and 2010
  - Basic pay raises then equaled ECI for 2011 through 2013
  - In the last three years (2014–2016) basic pay raise was below the ECI

- DoD estimates that cash compensation for enlisted military personnel exceeds that of 90 percent of workers with similar education and years of experience
  - Noncash compensation (including health care and other) makes that gap larger
Sources of Growth in Military Personnel Costs, Fiscal Years 2000 to 2014

Cost in 2014 ($142.3 billion), a 46% Increase From 2000

Growth From 2000 to 2014 ($44.6 billion)

Percent of Total Growth

- Basic Allowance for Housing (24%)
- Basic Pay (18%)
- TRICARE for Life Accrual (16%)
- Concurrent Receipt (Mandatory) (14%)
- Retirement Pay Accrual Charge (10%)
- Other (17%)

Cost in 2000 ($97.7 billion)

Example of Budgetary Pressure in Operation and Maintenance: O&M per Active-Duty Service Member

- O&M pays for most DoD civilians’ salaries, goods and services (below procurement thresholds), fuel, maintenance, contractor services, etc.
- Compared with the prewar (1980–2001) trend, DoD’s 2016 FYDP:
  - Rises $300 per year faster
  - Is $20,000 per person higher in 2020

**FYDP = Future Years Defense Program.**
Sources of Growth in Operation and Maintenance Costs, Fiscal Years 2000 to 2014

Cost in 2014 ($193.5 billion), a 34% Increase From 2000

Growth From 2000 to 2014 ($49.6 billion)

Cost in 2000 ($143.9 billion)

Percent of Total Growth

Defense Health Program (33%)

Fuel (20%)

Base Operating Support (4%)

Other (43%)

(101% Growth)

(22% Growth)

Operation and Maintenance (O&M) Funding in the 2012 Base Budget

Remaining O&M comprises many smaller categories. The causes of growth in those categories are difficult to track.

- Remaining O&M, $110 Billion (56%)
- DHP, Excluding Civilian Compensation, $26 Billion (13%)
- Civilian Compensation Excluding DHP and WCF, $48 Billion (24%)
- Fuel, $8 Billion (4%)
- DHP Civilian Compensation, $6 Billion (3%)

CBO can explain the causes of growth in these four large categories.

DHP = Defense Health Program; WCF = working capital fund.
Purchases Funded Through Operation and Maintenance (O&M) in the 2012 Base Budget

Billions of 2012 Dollars

Activity
- Forces (27.3)
- Support and Individual Training (71.5)
- Administration (33.1)
- Infrastructure (34.7)
- Health Care (31.4)

Commodity Class
- Goods (33.3)
- Services (91.9)
- Property (4.3)
- Civilian Compensation, Non-WCF (53.6)

Provider
- Private Sector (87.7)
- Working Capital Funds (37.6)
- Other Government Agencies (4.2)
- DoD Civilians (53.6)
- Classified (14.8)

WCF = working capital fund.

Total Base-Budget O&M: $198 billion
Growth in Operation and Maintenance Funding for “Activities” in Base Budget from 2000 to 2012, by Service

Billions of 2012 Dollars