

2004 Munitions Executive Summit

FY2005 Defense Budget Perspectives

February 2004

FY2005 President's Budget

Unacceptable to Congress:

- Presidential/Congressional Election Year Colors Every Debate***
- Deficit Dominates Discussions***
- Restraints on Domestic Programs***
- Unrealistic Assumptions***
- Additional Tax Cut Proposals***

How Congress Will Respond

- ***Budget Resolution Will Be First Indication***
- ***Spending Controls***
- ***Move Funds from Defense & DHS to Domestic Accounts?***
- ***Innovative Approaches (e.g., combined bills)***
- ***Long-term Continuing Resolution? Lame Duck Session?***

Prognosis

- *Pass Defense and DHS Early*
- *Address Minimum Domestic Spending Needs*
- *Rationalize Forecasted Deficits*

Budget Projections

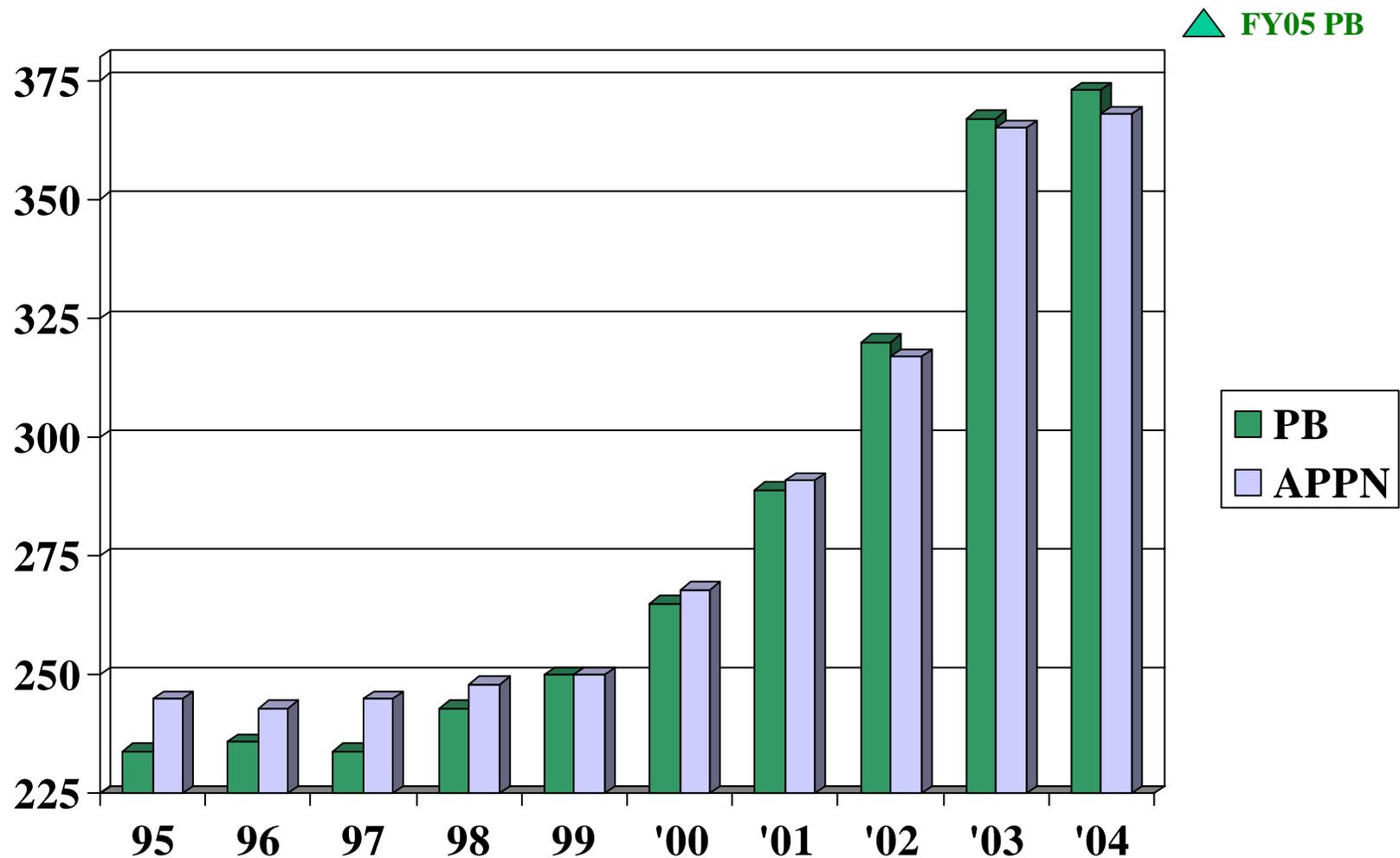
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues (\$B)	1,782	1,817	2,049	2,256	2,385	2,506	2,644	2,786
Outlays								
Discretionary	826	896	936	955	972	998	1,021	1,045
Mandatory	<u>1,179</u>	<u>1,242</u>	<u>1,295</u>	<u>1,350</u>	<u>1,424</u>	<u>1,504</u>	<u>1,591</u>	<u>1,687</u>
Total (incl Int)	2,158	2,294	2,411	2,525	2,652	2,783	2,912	3,037
Deficit/Surplus	-375	-477	-362	-269	-267	-278	-268	-261

Source: OMB

***The Defense Budget:
Review and Considerations***

DoD BUDGET REQUEST vs. APPROPRIATION – A Quick Review

\$B



σ Clinton Admin.

↵ Repub. Take-over

σ Bush Admin

↵ Dem. Senate

↵ Rep. Senate

FY04 does not include Supplemental, nor does FY05 Request include needed Iraq Funds

FY2004 Appropriations

- ***Third consecutive year in which Congress has appropriated less than President requested for defense (excluding supplemental funds)***
- ***In defense appropriations conference, 236 R&D and procurement programs incurred funding cuts to pay for adds in other programs***
- ***What about Congressional adds in FY04?***
 - ***85% of all adds were less than \$5M***
 - ***95% of all adds were less than \$10M***
 - ***Less than 1% exceeded \$20M***

FY 2005 Defense Budget Topline

(Discretionary BA \$B)

<u>DoD (051)</u>	<u>FY04</u>	<u>05</u>	<u>06</u>	<u>07</u>	<u>08</u>	<u>09</u>
<i>(Budget Auth)</i>	375.3*	401.7	422.7	443.9	465.7	487.7
<i>(R&D)</i>	64.3	68.9	71.0	70.7	71.6	70.7
<i>(Proc)</i>	75.3	74.9	80.4	90.6	105.1	114.0

** Baseline includes adjustments and recissions*

Funding Challenges for FY 2005 & Beyond

Large increases in investment accounts over POM unlikely

Reasons:

- Pressure on budget from military health care, MILPERS, O&M***
- No partisan imperative for increases to investment accounts***
- Major disincentives: deficit, domestic priorities***

Impacts:

- Programs in the budget will remain under pressure into outyears***
- Member efforts to add funds to R&D and procurement will continue to be selective and marginal***

FY 2005 Defense Budget Overview

- ***FY2005 defense budget (051) is \$401.7B (6% growth before inflation)***
- ***R&D increases by \$4B over FY2004; procurement down slightly***
- ***Defense Budget Considerations:***
 - ***Key election year defense issue is one of policy (Iraq), not funding***
 - ***Operational costs (Iraq, Afghanistan) are impacting budget***
 - ***Reserve/NG call-ups, training requirements remain high***
 - ***Modernization/transformation***
 - ***Escalating personnel, military health care costs***

Munitions Budget Trends

Major Account Snapshot (\$M):

	<u>FY02</u>	<u>FY03</u>	<u>FY04</u>	<u>FY05</u>
<i>PAA</i>	1,151	1,921	1,378	1,402
<i>PA, N&MC</i>	717	1,421	928	858
<i>PAAF</i>	971	1,400	1,253	1,396

Munitions Budgets Stable, Probably Through POM

Key Staffers for Munitions Issues

HASC:

Bob Lautrup *R&D*

Bob Simmons *Proc (newly assigned)*

SASC:

Joe Sixeas *Proc*

Bruce Hock *R&D*

Dan Cox *R&D*

HAC:

Paul Juola *R&D/Proc*

SAC:

Brian Potts *R&D/Proc (newly assigned)*

Key Members on Oversight Committees

	<u>Chairman</u>	<u>Ranking</u>
<u>HASC:</u>	<i>Duncan Hunter (CA)</i>	<i>Ike Skelton (MO)</i>
<u>Readiness:</u>	<i>Joel Hefley (CO)</i>	<i>Solomon Ortiz (TX)</i>
<u>SASC:</u>	<i>John Warner (VA)</i>	<i>Carl Levin (MI)</i>
<u>Readiness:</u>	<i>John Ensign (NV)</i>	<i>Dan Akaka (HI)</i>
<u>HAC:</u>	<i>Bill Young (FL)*</i>	<i>David Obey (WI)</i>
<u>HAC-D:</u>	<i>Jerry Lewis (CA)*</i>	<i>John Murtha (PA)</i>
<u>SAC:</u>	<i>Ted Stevens (AK)*</i>	<i>Robert Byrd (WV)</i>
<u>SAC-D:</u>	<i>Ted Stevens</i>	<i>Dan Inouye (HI)</i>

* *Last Year*

Summary

- *Highly Unpredictable Process for FY2005*
- *Defense Appropriations May be One of Few Bills Prior to Election*
- *Ammunition Budget at Steady State*