

Congressional Perspective

NDIA Munitions Executive Summit
February 7, 2007

The Congressional side of Defense Budgets

--The next 30 minutes

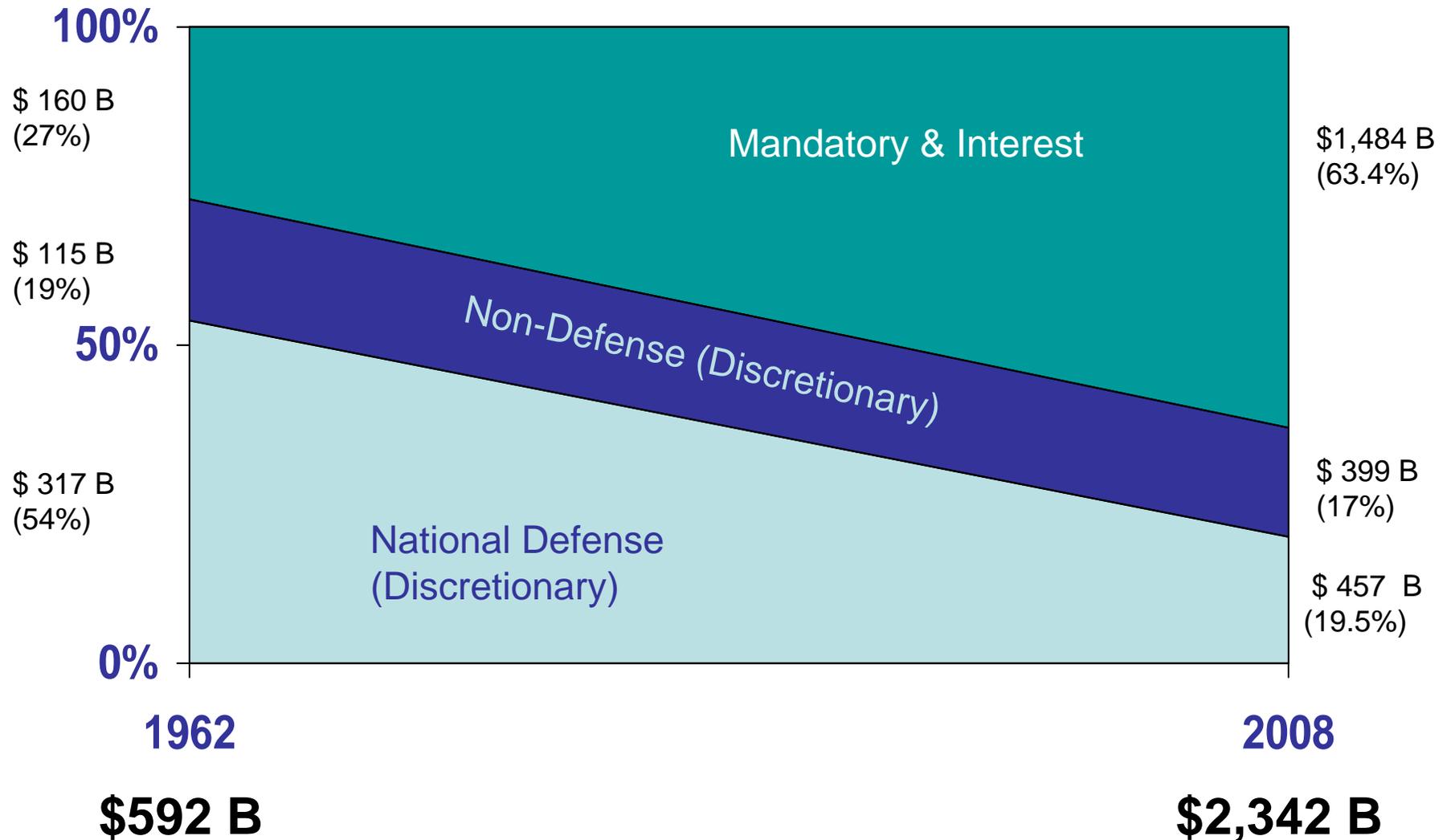
- What we know
- What I think we know
- What I think
- Questions

Bottom Line: FY08-13 better than “forecasted” due to “budgeted” end strength increases -- *Ammo will continue to be well supported at requested level by new 110th Congress*

What we know

% Discretionary / Mandatory Federal Outlays

(FY2008 Budget Historical Table 8.2 – FY 2000 \$B)



POLITICAL WASHINGTON

FY08 FEDERAL BUDGET (Table S-3)
(\$ 2.9B Trillion in BA)

Discretionary
(\$ 930 Billion)

Defense
(\$ 481 Billion)

Ammo
(\$ 3.9B + \$0.9B '07 Supp)

2008 Election Year Positioning

Domestic programs NO REAL GROWTH

FY 2008 Budget Cycle

DoD View

- FY 2008 Budget (051) submitted
 - Approx \$481B with ~8.7% real growth (>2X forecast growth)
 - FY07 Iraq \$93B Supplemental attached
 - FY08 Iraq \$142B full year GWOT, Supplemental attached
- Buying power continues to be impacted by increase in end strength, Health Care and Fuel Costs
- Continuing issue of balance between near term readiness and investing for the future

FY 06/07 Appropriations FY 08-13 Budget/POM (\$B)

Year	'06	'07	'08 (last Bush	'09 budgets)	'10	'11	'12	'13
Total	410.7	435.5	481.4	512.9 +50 Sup	523.3 {+31}	529.4 {+27}	538.5	
Procurement	77.7	81.3	101.7					
R & D	72.0	75.1	75.1					
Milpers	109.1	110.9	116.3					
O & M/Other	151.9	168.0	188.3					

FY 08 AMMO Request (\$B): Army \$2.2 USN/USMC \$0.8 USAF \$0.9

Missile Request: Army \$1.6 USN/USMC \$ 3.0 USAF \$3.9

Supplementals (\$B)

'04 thru '07 Bridge & '07-'08 Requests

Year	'04	'05 Bdge	'05	'06 Bdge	'06	'07 Bdge	'07	'08 _{GWOT} Full Yr
Pay	17.8	1.3	17.4	6.1	10.3	5.4	12.1	17.1
O&M	39.2	16.4	37.1	29.2	30.0	37.6	37.2	71.4
Acq	5.5	1.1	17.3	6.6	14.0	16.8	23.8 (~.9 ammo)	34.9
Othr	2.2	5.9	4.0	6.7	11.7	10.3	20.2	18.3
Total	64.7	25.0	75.9	48.5	66.0	70.0	93.4	141.7

FY 09 \$50M supp may be last supplemental enacted prior to '08 elections

Life Cycle Costs of Army & USMC End Strength (after initial capitalization)

- Army permanent ES grows 65,000 to 547,000 (+13.5%)
- USMC permanent ES grows 27,000 to 202,000 (+15.4%)
- +92,000 ES increase costs \$10B/year in just personnel costs

Estimated top line, out year increase over FY07 PB:

Army ~\$15B (+13.5%)

USMC ~\$2.5B (+15.4%)

++ some marginal help to Ammo program

110th Congress

Defense Committee “Ammo” Leadership

- HASC: Ike Skelton Duncan Hunter
– Air-Land: Neil Abercrombie Jim Saxton
- HAC-D: Jack Murtha Bill Young
- SASC: Carl Levin John McCain
– Readiness: Daniel Akaka John Ensign
- SAC-D: Dan Inouye Ted Stevens

110th Congress

Defense Committee Key “Ammo” SDs/PSMs

- HASC: Doug Roach & Jesse Tolleson
- HAC-D: Dave Morrison John Shank
 - PSMs: Paul Terry (USA) Josh Hartman
 - Tim Prince (USN)
 - Kris Mallard (USMC)
 - Greg Lankler (USAF)
- SASC: Michael McCord Greg Kiley
- SAC-D: Charlie Houy Sid Ashworth
 - PSMs: Nicole Di Resta Brian Wilson

Some new faces with little ammo background

What I think we know?

Washington Political Environment

- 2008 election tactics and media coverage
- FY07 Domestic Funding/Continuing Res
- Iraq Strategy and Strategic direction
 - FY07 Iraq Supplemental Funding & “surge policy”
 - FY08 and beyond “Supplemental” budgeting
- Lobbying, “earmarks”, energy, prescription drugs
 - Pressure to increase domestic funding
- Tax adjustments for deficit control and a balanced budget -- **\$50+T USG “fiscal exposure” today**
- FY08 Approps – domestic/defense shares

Members adjusting to new earmarking and ethics rules

Congressional Budget Schedule -- 2007

- Iraq and other over sight hearings underway
- February 5th – President submitted Budget
- By mid-February – Complete FY07 Continuing Resolution
- Early March – Start FY07 Iraq Supplemental
 - House moves quickly: Senate slower going
 - Probable completion: late April/early May
 - Veto resolution by late May, if necessary
- March 15- April 1 – House & Senate pass Budget Resolutions
- April 15 – Concurrent Budget Resolution done and HASC/SASC start Authorization Bills
- May 15th – FY08 Appropriations process starts
 - Defense early start & early finish
 - Defense early start & late finish
 - Defense late start & late finish

FY08 Defense bill and FY08 “GWOT” (as must pass legislation) done late in cycle pending resolution of domestic funding issues

POLITICAL WASHINGTON

FY08 FEDERAL BUDGET (Table S-3)
(\$ 2.9B Trillion in BA)

Discretionary
(\$ 930 Billion)

Defense
(\$ 481 Billion)

$\$471B + \$46B + \$13B = \$481B$
+11% +3%

Ammo
(\$ 3.9B + \$0.9B Supp)

2008 Election Year Positioning

Domestic programs NO REAL GROWTH

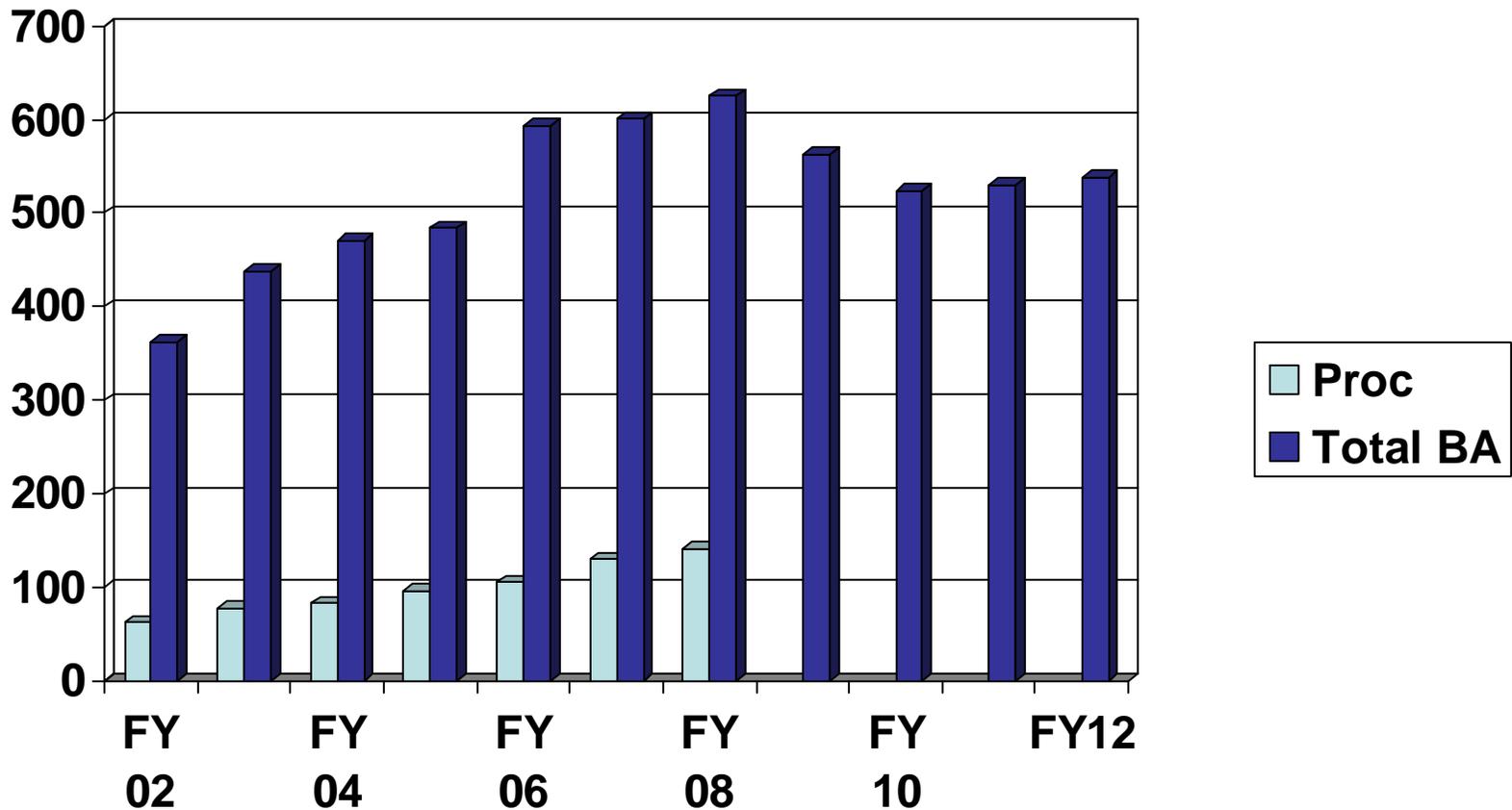
FY 2008 Budget Cycle

-- Congressional Results

- Democratic Congress unlikely to change FY08 Defense (051) top line
 - Likely to alter funding priorities/allocations
 - Could fund some items in GWOT
 - Possible hot button issues:
 - Shipbuilding
 - More C-17s
 - JSF Alternate Fighter Engine
 - National Guard equipment/readiness
- FY08 GWOT could be adjusted based on FY07 Iraq performance/situation & other needs
- Continue to press to get Iraq costs on budget?

Procurement vs DoD Budget (\$B)

“can have all the defense we want, just have to pay for it” – Senator Rudman



Trade space: cut defense, cut domestic, raise taxes, deficit financing

Trade Space is Tough

Chairman “Skelton said he does not yet know where the billions of dollars needed to refit the armed services will come from. He declined to commit himself to recommending such tradeoffs as killing weapons designed for the Cold War, like the Air Force F-22 fighter, to free up money to replace trucks, tanks and helicopters worn out in Iraq.” – George Will, Congressional Daily, Feb 5, 2007

If funds tight, will USA/USMC give up End Strength?

Acquisition likely bill payer and ammo is lowest priority

Policy level preparations? “SOFT LANDING”

What I think?

FY08 Ammo Funding

- Total of \$4.8B is quite robust & profitable
 - By historic standards, very good
- Isolated problem areas exist:
 - Numerous single sources points of potential supply chain failure
 - Softness in demand for some items, e.g., artillery fuzes
- Looming challenge of again returning to peace time procurement levels while restoring readiness levels
- After Desert Storm, little preparation; Congress helped; start of MIBTF
 - How to prepare this time?
 - Engage defense think-tanks on issues?
 - Congressional Ammunition Caucus?

Heading for procurement cycle down side along with many others

Soft Landing Policy Options

(We've been here before -- \$ are only part of the answer)

- Continue consolidating industry in to larger organizations with shared overhead
- Move to more flexible manufacturing – facilities and personnel
- Move to “stop and start/batch production”
- Recognize critically of “artful” work force
- Adopt “Best of World” production models for variable “run” sizes
- Stockpiling components
- Layaway
- Design out low density obsolescent parts/components
- Recognize industry globalization
- Enforce Section 806
- Recognize “Wall Street” factor: stock prices, earnings, ROI, ...
- Balance capacity – requirements – demand – MSR – Surge – available \$ - risk

Need “consensus building” Service-PEO-industry concept talks to prepare for competition for Congressional support

QUESTIONS