

Congressional Budget Perspective

What Lies Ahead?

NDIA Munitions Executive Summit

February 5, 2009

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

What we know

- New Democratic President and Congress
 - “Left of center” Congress
 - Many operational budget decisions yet to be made
- Winds of change blowing – a “perfect storm”
 - Needs and expectations very high – even defense
 - Policy and “outlays”
 - Complex uncharted GLOBAL economic terrain
 - Out of Iraq into Afghanistan/Pakistan
- Stimulus bill very important! Game changer?
 - Out year impacts uncertain at best
 - Spending could be addictive, habit forming
 - NYT: “rewriting the social contract with the poor, the uninsured and the unemployed”

111th Congressional Leadership

- Speaker Pelosi and Majority Leader Reid yield leadership of Democratic agenda to President Obama
 - Traditional House and Senate differences remain
 - “Regular order” or not??.
- Generational change underway: “old bulls” giving way to 50’s-something crowd
- Most changes in Republican leadership ranks

111th Congress

Defense Committee “Ammo” Leadership

- HASC: Ike Skelton John McHugh (Ft Drum)
– Air-Land: Neil Abercrombie Roscoe Bartlett
- HAC-D: Jack Murtha Bill Young
- SASC: Carl Levin John McCain
– Readiness: Dan Akaka John Thune (??)
- SAC-D: Dan Inouye Thad Cochran

A few new, but experienced minority leaders

111th Congress

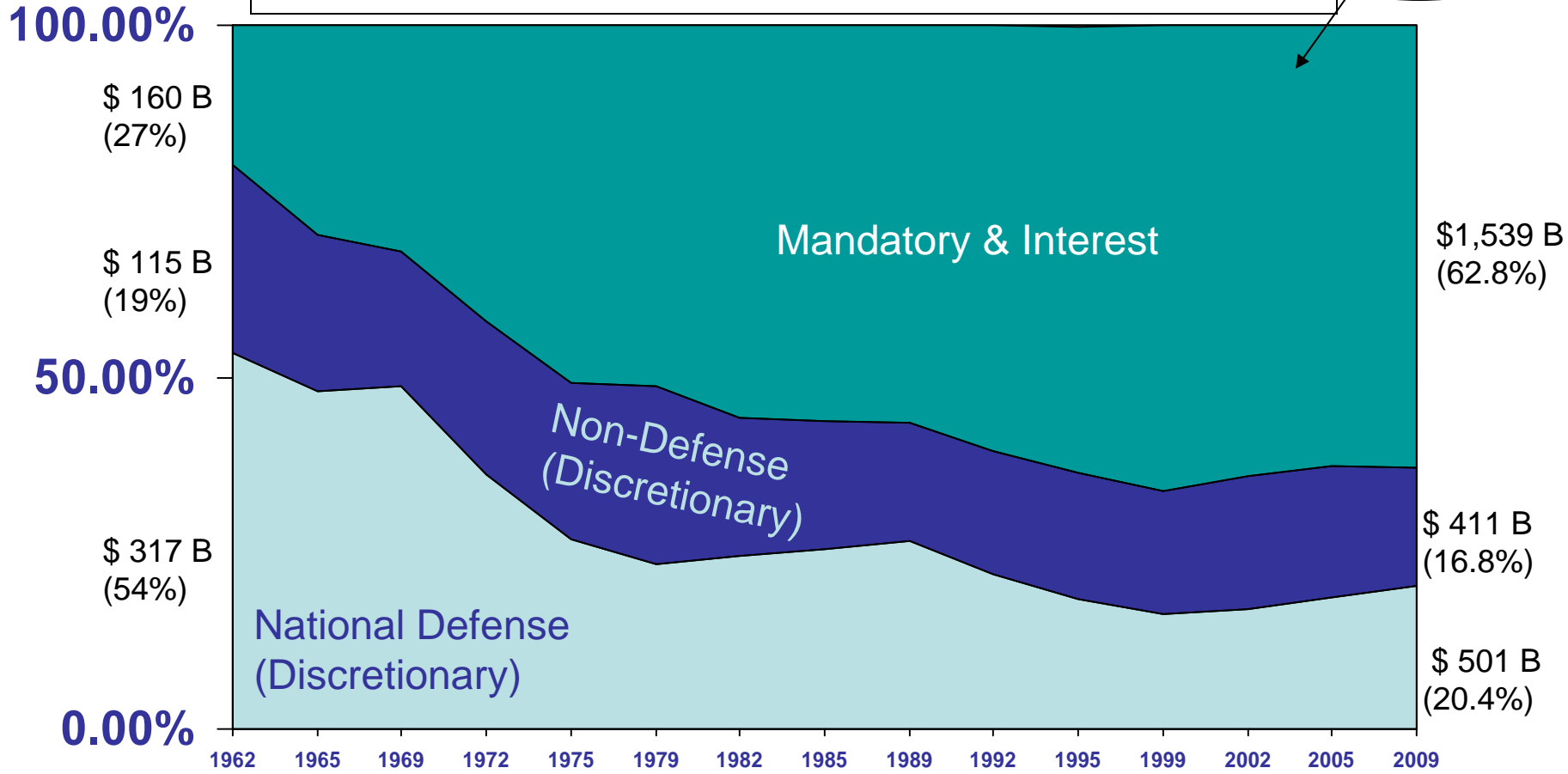
Defense Committee Key “Ammo” SDs/PSMs

- HASC: Jesse Tolleson, Doug Bush & John Wason
- HAC-D: Paul Juola & Tom McLemore
 - PSMs: Paul Terry (USA)
 - Tim Prince (USN)
 - Kris Mallard (USAF)
 - B G Wright (USMC)
- SASC: Bill Sutey & **PSM assignments pending**
- SAC-D: Charlie Houy & **Stewart Holmes**
 - PSMs: Nicole Diresta & Brian Wilson

PSMs largely unchanged from last year

% Discretionary / Mandatory Federal Outlays
 (FY2009 Budget Historical Table 8.2 – FY 2000 \$B)

Last year's slide



1962
\$592 B

\$825B stimulus and \$700B TARP substantially increase non-defense FY09/10 spending

2009
\$2,451 B

Today's Political Battle

The Stimulus Plan (\$B) as of Feb 1st

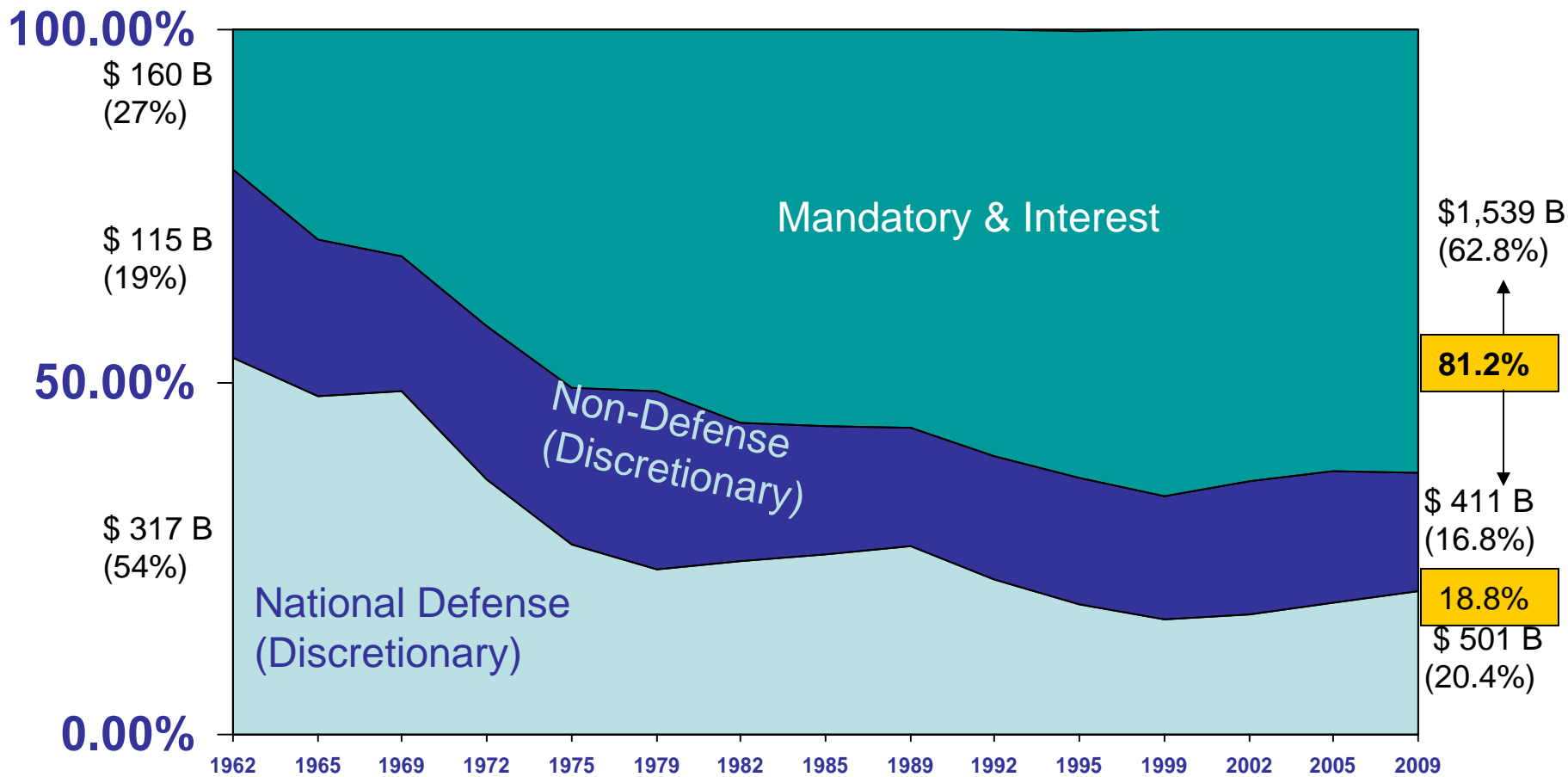
	White House	House	Senate
Taxes	1/3	275	272+70=342
Mandatory	2/3	186	193
Discretionary		358	365
Total	≤ 850	819	900

- o Supply-side Economics vs. Public Investment: @ tax rates
- o Clinton: tried both public investment & balanced budget
 - Bush 41 = \$121B/yr Clinton = \$143B/yr
- o Stimulus has \$280B/year in new public investment = Reagan tax cuts

Now see which economic/governance policy is better

% Discretionary / Mandatory Federal Outlays

(FY2009 Budget Historical Table 8.2 – FY 2000 \$B)



1962

\$592 B

FY09 impact of \$550B outlays if 50% spends in '09, defense share -1.6%

2009

\$2,451 B

2009 Congressional Budget Process

- Stimulus Package in process
 - To WH by Feb 13th
- “DoD Budget Outline” to Congress Feb 2nd – no detail
 - ~~May include increase to FY10 column of FY09 submit~~ → Probably Out
- Omnibus Approps/CR extension before March 6th
- “State of the Union” Feb XX:
 - “Top Lines” w/ spending themes and objectives
- Detailed Presidential Budget to Congress in late March/early April
- Congressional Budget Committees starting process
 - Deal w/ “process” for balancing Budget: “BRAC-like” commission
 - Stimulus Bill relieves pent up demand for more domestic funding
 - Deal with FY10 “reconciliation” issues not addressed in Stimulus: AMT, investment loss tax credits, etc
 - Outline of tax, discretionary spending and entitlements goals due about April 15th

DoD FY 2010 Budget View

(going into new Administration review)

- DoD proposed FY 2010 DoD “top line” increase to \$581B
 - Proposed +\$57B to \$524B estimate in FY09 budget: **+10.9%**
 - Army: \$17.1B (30%)
 - USN/USMC 13.7B (24%)
 - USAF 9.8B (17.2%)
 - SOCOM & OSD 16.4B (28.7%)
 - **~\$30B of increase for “persistent presence”**
 - **Increase carried in base in FY11 and beyond (~\$300B to POM)**
- FY09 “Full” Supp expected before April budget submission
 - SECDEF “personal estimate” \$69.7B
 - New Administration to review and submit
 - Brings FY09 supplemental funding to \$135.6B; down \$37B from '08
 - Deferred \$20B for reset
 - Historically, next year (FY10) bridge supps attached to “full supp” request
- Buying power continues to be squeezed
- Near term readiness vs. future modernization challenge

Rejected

QDR starting to inform PB-10; drive POM 11-15 adjustments
AND probably set Administration ammo policy

Supplementals (\$B)

Year	'05 Bridge	'05	'06 Bridge	'06	'07 Bridge	'07 Full	'08* Bridge	'08 Full	'09 Bridge/ Full
Milpers	1.3	17.4	6.2	10.2	5.4	13.5	1.1	16.7	3.8/12.4
OPS	16.4	37.1	33.2	37.9	44.3	50.4	61.1	30.5	51./29.8
Proc.	1.4	17.4	8.0	15.0	19.8	25.6	6.1	48.7	8.5/20.4 (deferral)
Other	5.9	4.0	2.6	2.7	.5	6.0	1.8	6.5	2.2/7.1
Total	25.0	75.9	50.0	65.8	70.0	95.5	70.0	102.5	65.9/69.7 **

FY 10 Bridge Supplemental expected

*\$16.8B Appropriated separately for MRAP; ** SECDEF estimate

Ammunition (FY08/09 PB) Procurement Funding (\$M)

NO ammo \$ in '09
 \$65.9B in bridge
 Supp
 ★

	FY 08	'08 GWOT		FY 09	Full '09 GWOT
		Bridge	Full		
Army	2,235	154	345	2,276	
Navy/ USMC	1,057	305	305	1,123	
Air Force	749	0	205	895	
Total	\$4,041	\$459	\$855	\$4,294	

What I think we know?

- Winds of change favoring domestic programs
 - ***Economic recovery higher priority than defense today***
 - ***Public Investment may have priority over National Security***
- Political environment: sunny becoming partly cloudy/discordant
 - ***All players have a lot at stake***
- Obama Administration still working Departmental PB10 “top lines”
 - ~~***Proposed +\$57B increase probably being scaled back***~~ → ~Inflation
- Congress will continue supporting Service ammo requests
 - ***Ammo remains an acceptable bill payer account within DoD and Congress***
- Allocation of FY09 Full Supp procurement funds not final
 - ***Not sure if '09 supp ammo allocation is OK***
 - ***Challenge is forecasting current operations requirement***
- Policy to phase out use of supplementals
 - ***Will be difficult in near term***
 - ***Afghanistan costs could slow phase out***
 - ***Expect some migration to “base” of new essential capability***

We're on “long final” for the “soft landing” zone

DoD FY 2010 Budget View

(going into new Administration & OMB review)

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 - SOCOM & OSD 16.4B (28.7%)
 - +\$31B of increase for “persistent presence”
 - +\$14B Capitalization and acceleration (USN \$8/USAF\$4.7B)
 - +\$12B Fact-of-life/inflation
- Anticipated “pass back”: Fact-of-life/inflation + some for “persistent presence”
 - Balance forms basis of FY 10 Supplemental

Not
accepted

Starting to turn off the defense spending “spigot”

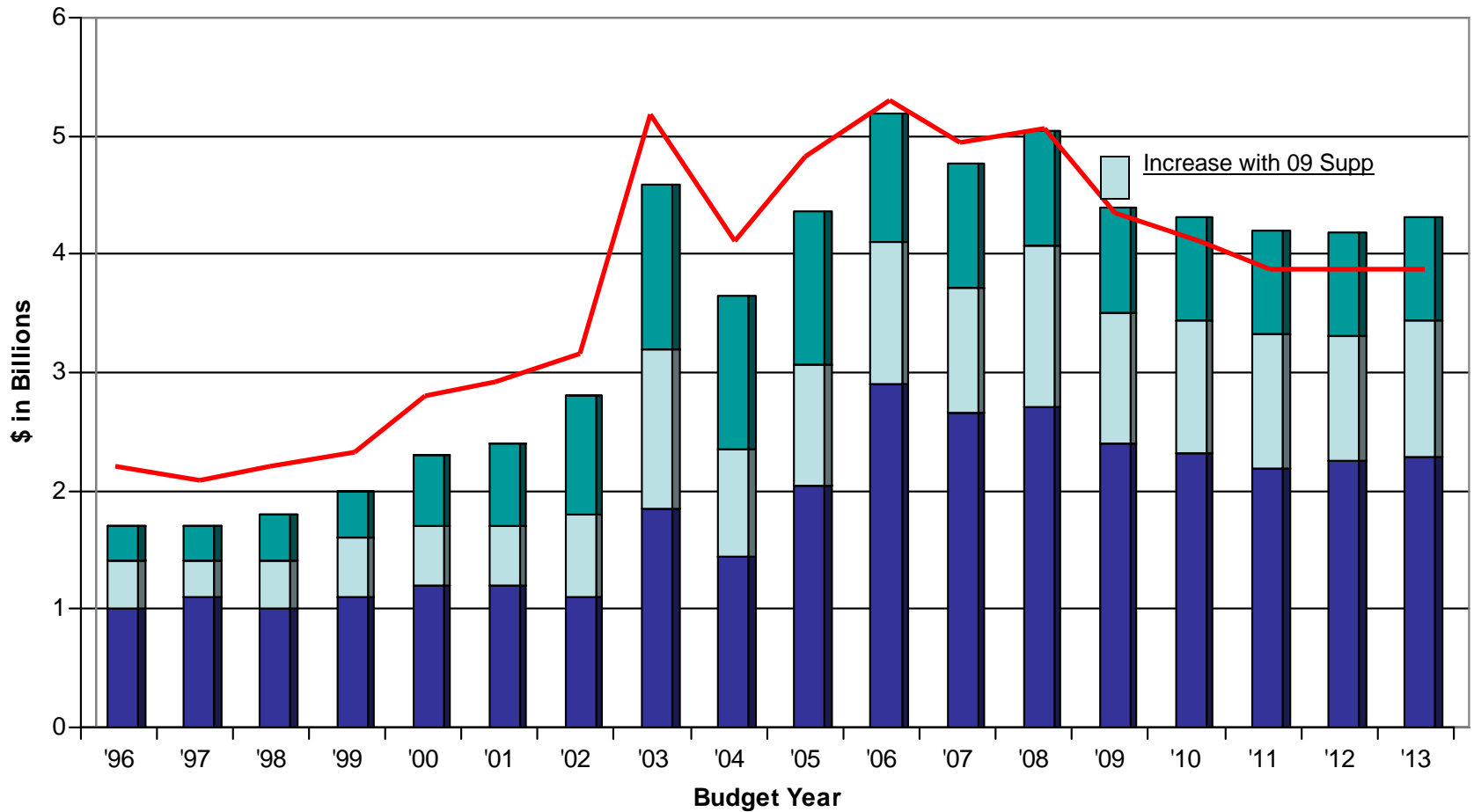
POM 08-13 (\$B)

	2008	2009	2010	2011	2012	2013
MILPERS	116	125	129	134	139	144
O & M	164	180	181	187	190	197
PROC	98	104	113	118	122	125
R & D	76	80	77	72	71	68
Total	\$480	\$515	\$524	\$530	\$539	\$548

First major QDR-based POM adjustments in APOM 11-15;
politically expect top line reduction; best case "no change"

Ammo Funding (\$B)

(no supp\$ shown after '08)



Total '08 (\$B)

■ APA □ PA,N ■ PA,AF

Congressional Budget Schedule – CY 2009

- Stimulus Package through mid-February
- Omnibus Appropriations/CR extension late February
- April 15th Congressional Budget Resolution sets USG functional allocations, e.g. “050 Defense”
 - ***Indicator of Congressional support for Defense funding***
 - ***Reflection of Defense Committee advocacy***
- Agency authorization and appropriation hearings: Mar & April
- FY09 Full Supplemental possible by Memorial Day
- HASC and SASC marks May-June
- HAC and SAC marks July - September
- Late session but DoD could be done on time

Schedule driven by economic recovery considerations
and time requirements

Random Thoughts/Gates Testimony

- Top line constraints – “Money Spigot” closing
 - SECDEF does not like “across the board adjustments”
 - Current acquisition program not affordable
 - Major systems not off the table: FCS, ARH, LCS, KCX
 - C-17 and F-22 on the table but not in budget
 - Balance “desired vs. true needs” – 75% vs. 90% solutions
 - Priority to current threat over potential future threats
- SECDEF/Deputy: Acquisition reform a priority
 - Clean up procurement system
 - Fix the requirements process

“CJCS say Defense budget cuts may target spending on Weapons”:

T. Capaccio, Bloomberg

“Turning final for a soft landing zone?”

- If USG revenue is 18.3% of GDP in 2027, flow will not cover mandatory outlays and interest
- In 2017, Social Security outlays exceed receipts – no Social Security Surplus, debt restructuring?
- Obama Administration has called for commission to reconcile entitlements, costs and revenues
- Many estimate DoD top line insufficient:
 - SECDEF >\$57B/year
 - CBO \$100B/year
- Next full POM (FY12-17 starting in 2010) may touch a new “fiscal reality”

What I think?

- OMB budget pressure yields near top line “freeze” and supplemental safety valve
 - Not clear Congress would over ride Presidential “top line”
- For ammo, little changed since last year:
 - PEO-MIBTF “surge model” worked and continues to work
 - the right stuff delivered on time
 - Ammo program remains robust by historic standards
 - “Soft Power” requirements will compete for funding
 - Total spend is tapering off
 - Supplemental funding dropping off
 - “Soft landing” policy & procedures still a “work in progress”
- Accelerated QDR guiding and informing PB10, POM build and Administration policy
 - Now is the time to make case for IB health issues

PS: “take a victory lap”

- The PEO-MIBTF “surge model” worked very well – the right ammo gets there at the right time
- If not so, what did not work? Why?
 - Do not confuse management processes squeaking and “blundering through” with being broken
 - The “consensus answers” here are what need to be worked on and addressed
 - New Administration doing top-to-bottom review: now is the time to be heard.

QUESTIONS