

NDIA 16th Annual Expeditionary Warfare Conference



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United States Navy

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Where We Are Going

- **Context**
- **Outlook**
- **Options**

Sailing Directions



Enduring responsibilities ...

- Remain ready to meet current challenges, today
- Build a relevant and capable future force
- Take care of our Sailors, Navy Civilians and their Families

Tenants

- Warfighting First
- Operate Forward
- Be Ready

CNO Guiding Principles

The starting point for developing and executing our plans

..Our **primary mission is warfighting**. All our efforts to improve capabilities, develop people, and structure our organizations should be grounded in this fundamental responsibility.

..People are the Navy's foundation. We have a professional and **moral obligation to uphold a covenant** with Sailors, Civilians and their families – to **ably lead, equip, train and motivate**.

..Our approach should be **Joint and combined** when possible. However, **we own the sea, and** must also be able to **operate independently** when necessary.

..Our primary Joint partner is the **U.S. Marine Corps**. We must continue to **evolve how we will operate and fight as expeditionary warfare partners**.

..At sea and ashore, **we must be ready to part with Navy roles, programs and** traditions if they are not integral to our future vision or a core element of our mission.

..We must ensure today's **force is ready for its assigned missions**. Maintaining ships and aircraft to their expected service lives is an essential contribution to fleet capacity.

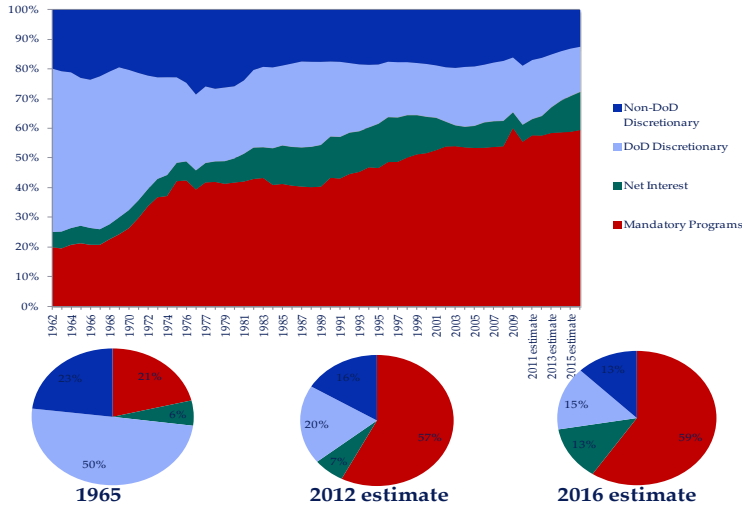
..Our **Navy Ethos defines us** and describes the standard for character and behavior.

..We must clearly and directly **communicate our intent and expectations** both within and outside the Navy.

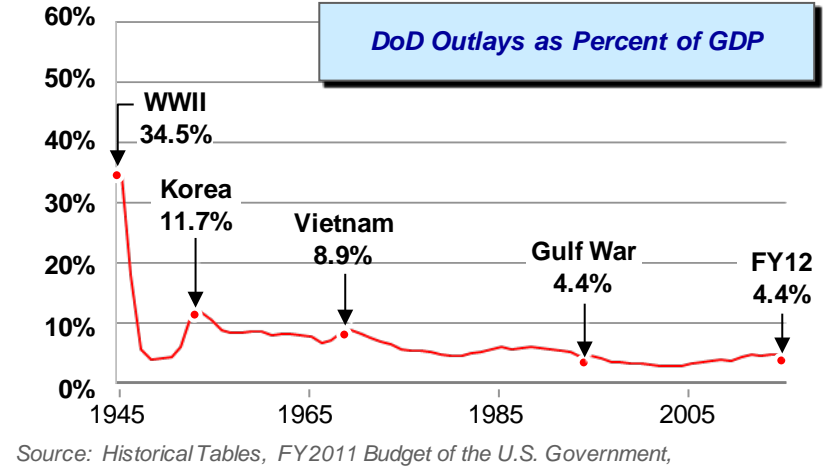
..I believe in the **"Charge of Command."** We will train and empower our leaders with authorities commensurate with their responsibilities.

U.S. Fiscal Pressures

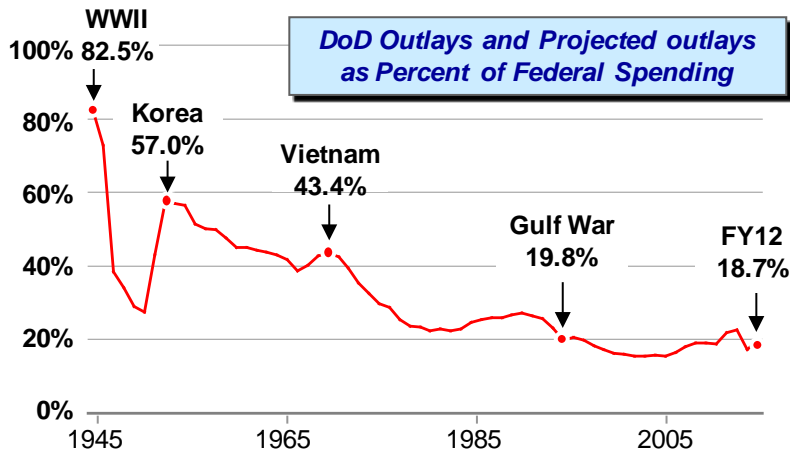
Federal Spending



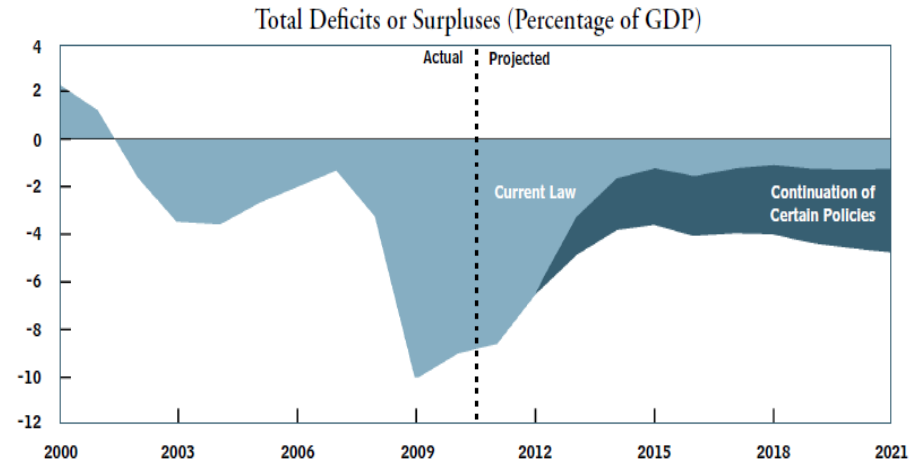
Defense as a Percentage of GDP



Defense as a Percentage of Federal Spending



Federal Deficit/Surplus

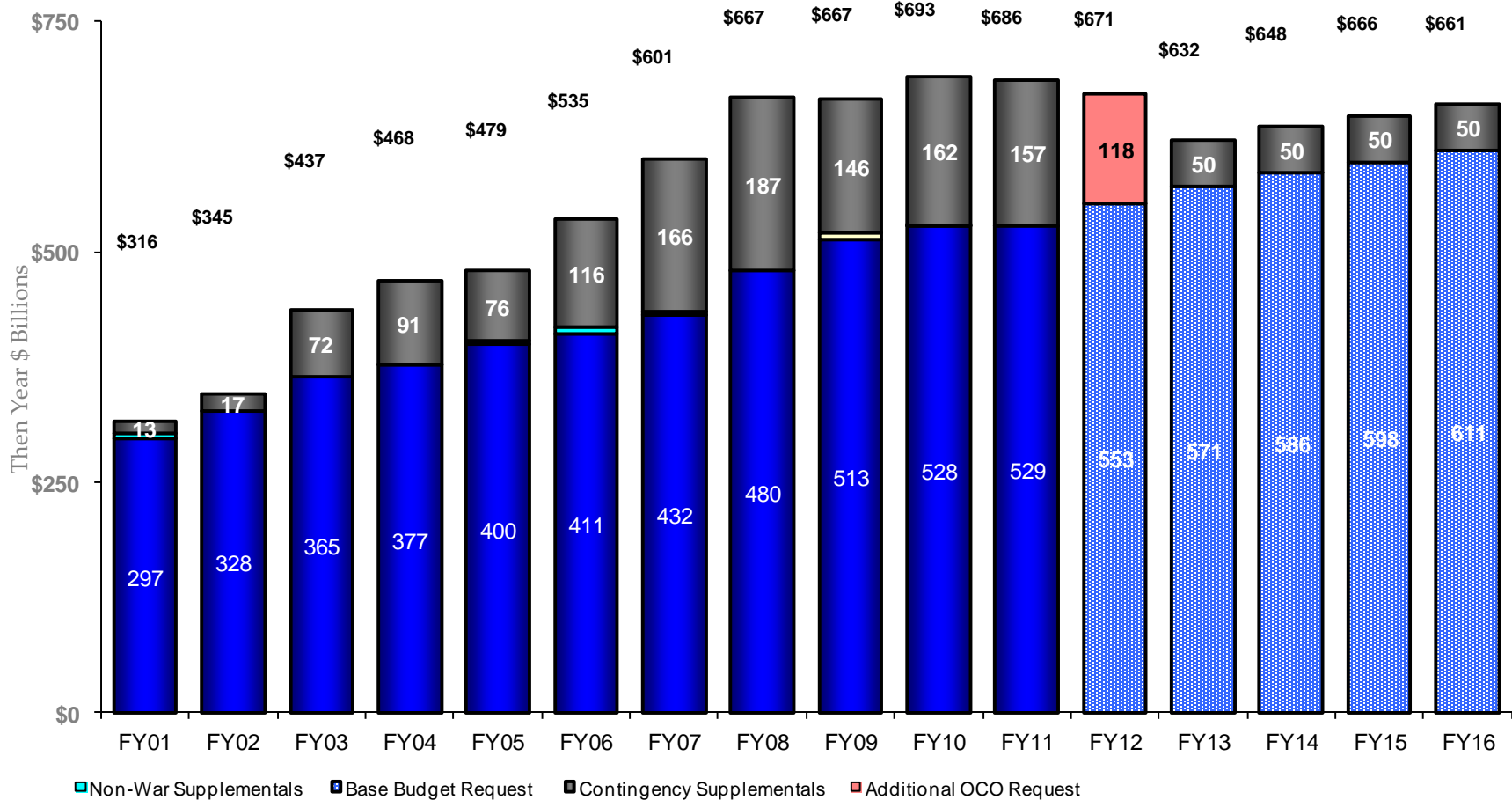


Source: Congressional Budget Office
 Note: Economic forecast as of August 2011 to reflect the policy changes enacted in the Budget Control Act of 2011

Mounting deficits, interest payments & entitlement spending will result in downward pressure to defense budgets

PB12 Defense Spending Outlook

FY 2010 - FY 2015 Base Growth	
Nominal Growth	2.5%
Real Growth	0.5%



*Data is discretionary budget authority. FY01 through FY10 are actual levels. FY 11 is appropriated amount. FY 12 is budget request.
 *Data is from OSD FY12 Green book and H.R. 1473 Full year CR with DoD appropriations

Current DoD Fiscal Environment

The Budget Control Act 2011

-2 August 2011-

- Establish caps on discretionary funding through 2021 and proposes further reductions to at least \$1.5T in budgetary savings over next 10 years

OMB FY13 Budget Guidance

-18 August 2011-

- Prepare FY2013 Budgets under two options:
 - 5% below the FY2011 enacted level and
 - 10% below the FY2011 enacted level



Services

4th Estate



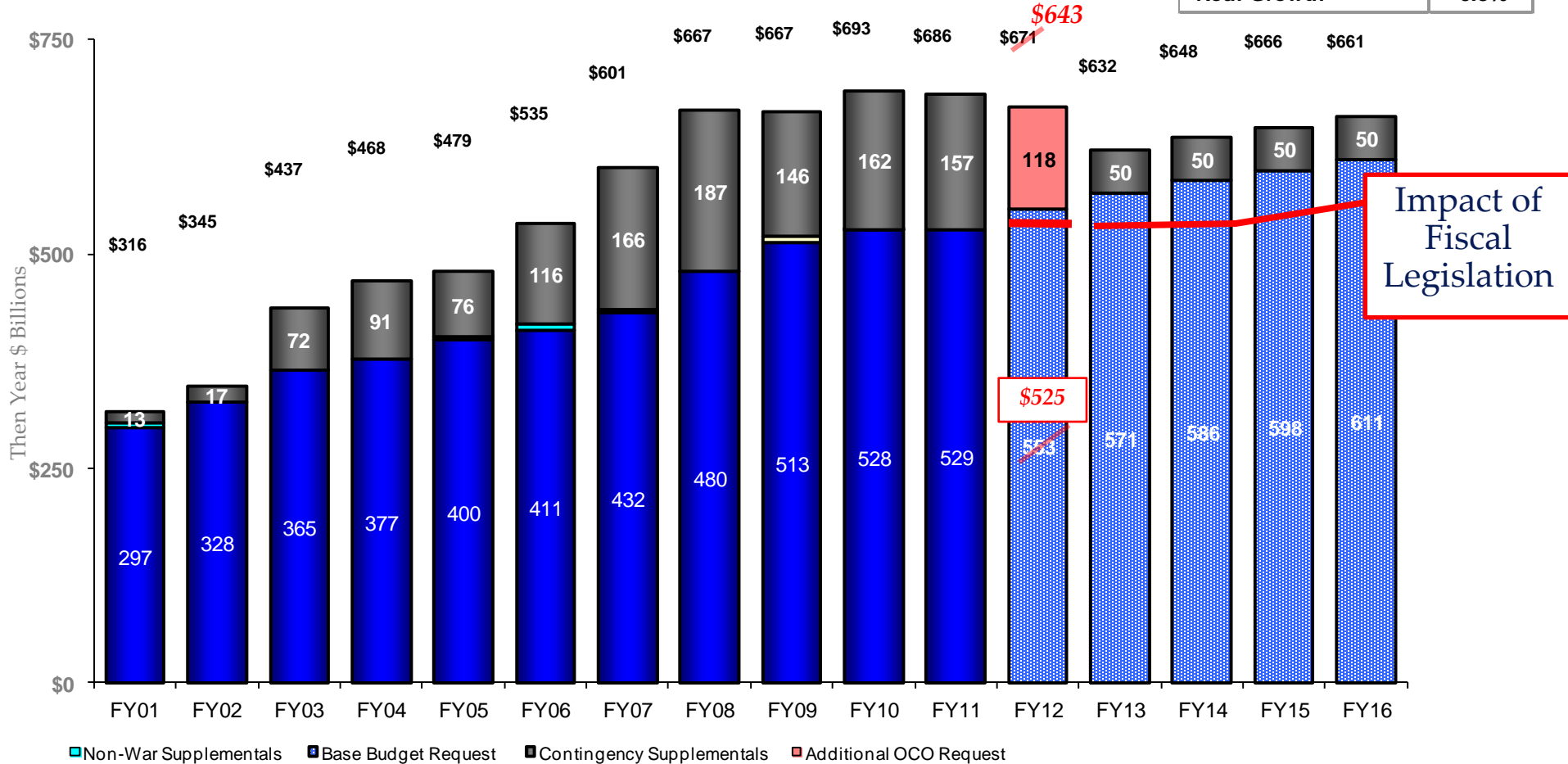
Impacts to DoD Budget

- Pro-rata distribution leaves DoD funding at \$529B/\$526B/\$528B FY 11-13
- If Congress fails to act on the committee's recommendations by the law's deadline of Dec 23rd, then a worse case "Sequestration" could result
 - An automatic across-government spending cut of \$1.2T – 1.5T over 10 years, with one half of the sequestration to be assigned to Defense funds resulting in an additional \$600B or more reduction

“...additional cuts caused by sequestration would hollow out the force, reduce the effectiveness of US alliances worldwide, and break faith with the troops and their families.”

PB12 Defense Spending Outlook

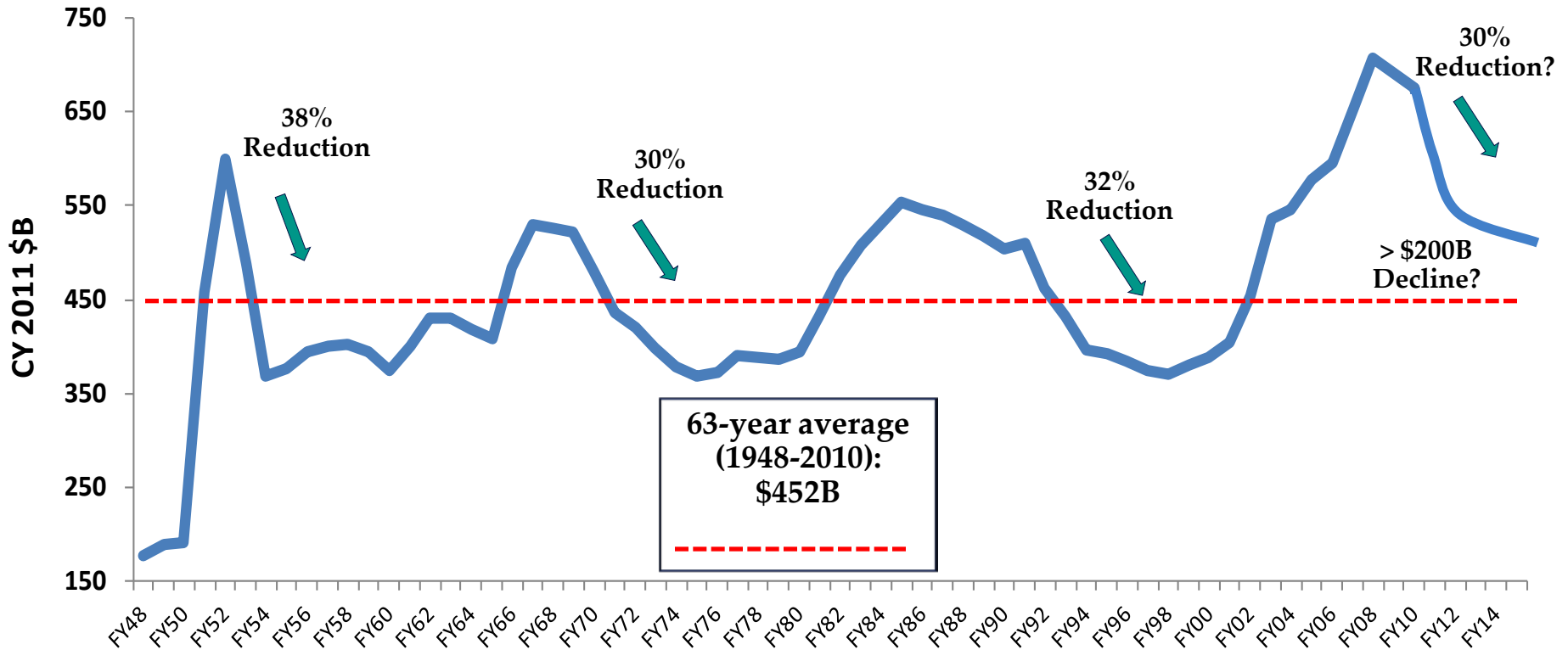
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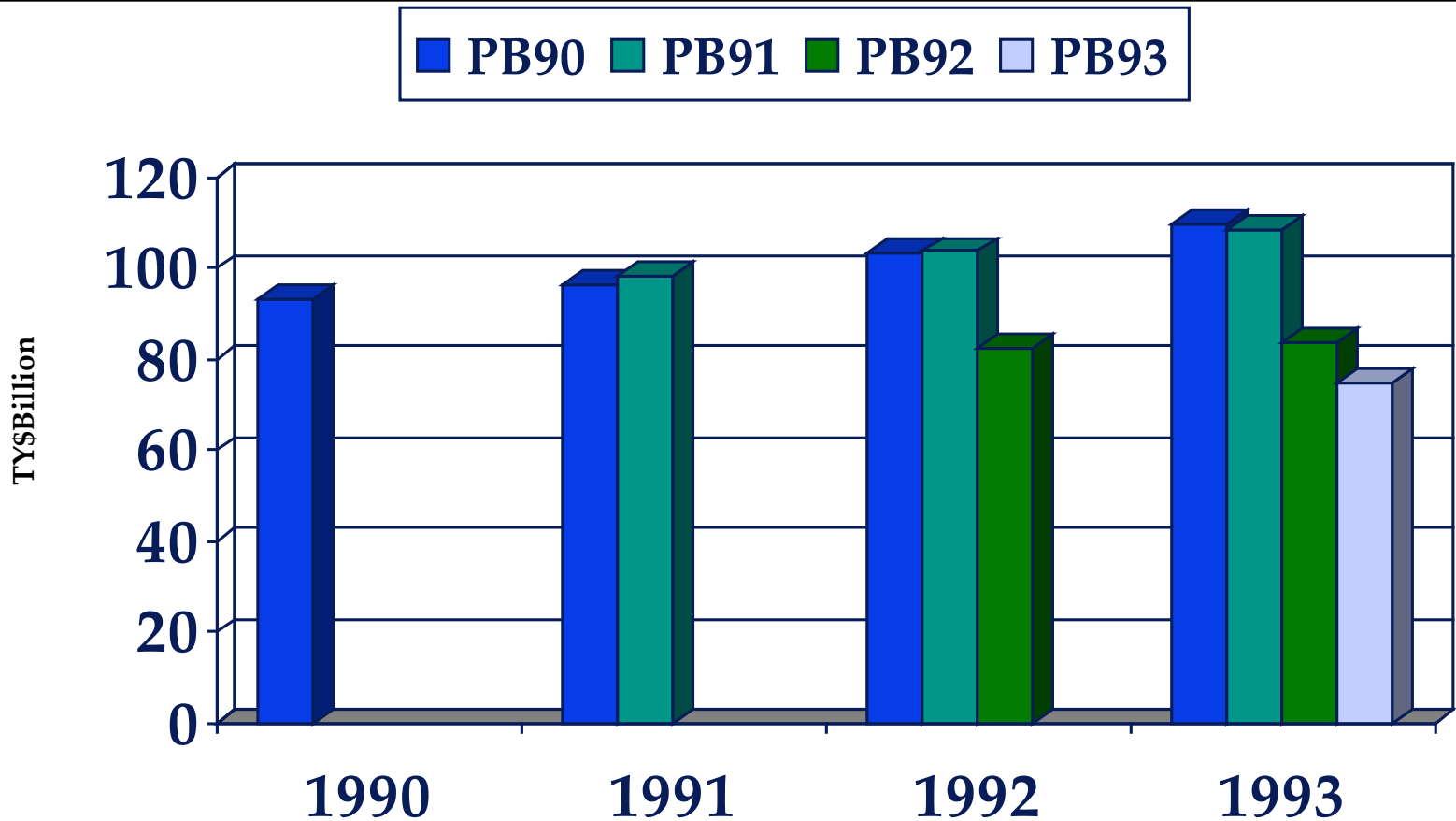
DoD Historical Topline



Source: 2011 President's Budget Historical Tables

History suggests a downturn is inevitable

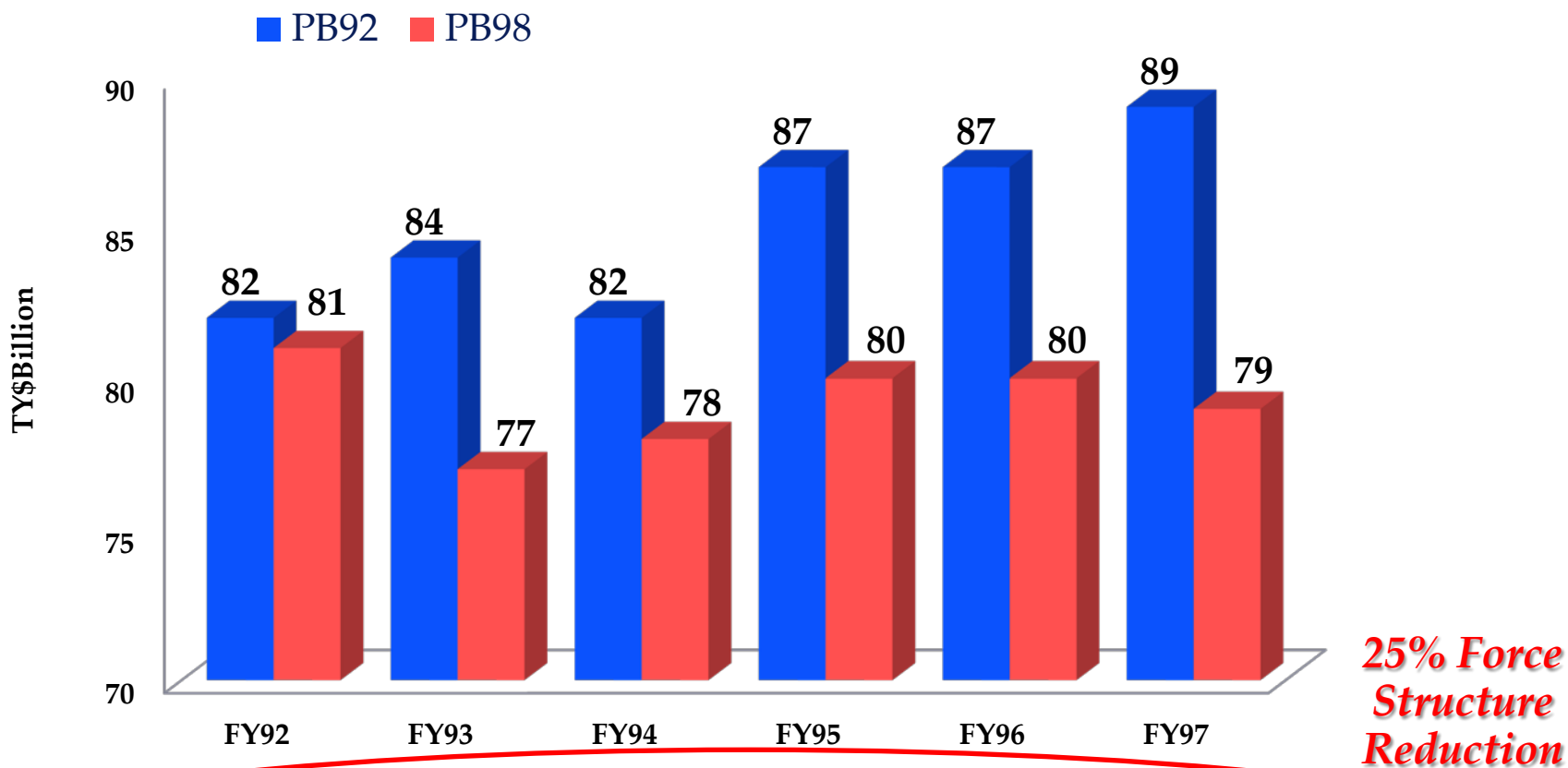
Comparing President Budget PB90-93



	1990	1991	1992	1993
PB90	93.6	96.6	103.4	109.9
PB91		98.6	103.8	108.7
PB92			82.4	83.8
PB93				74.8

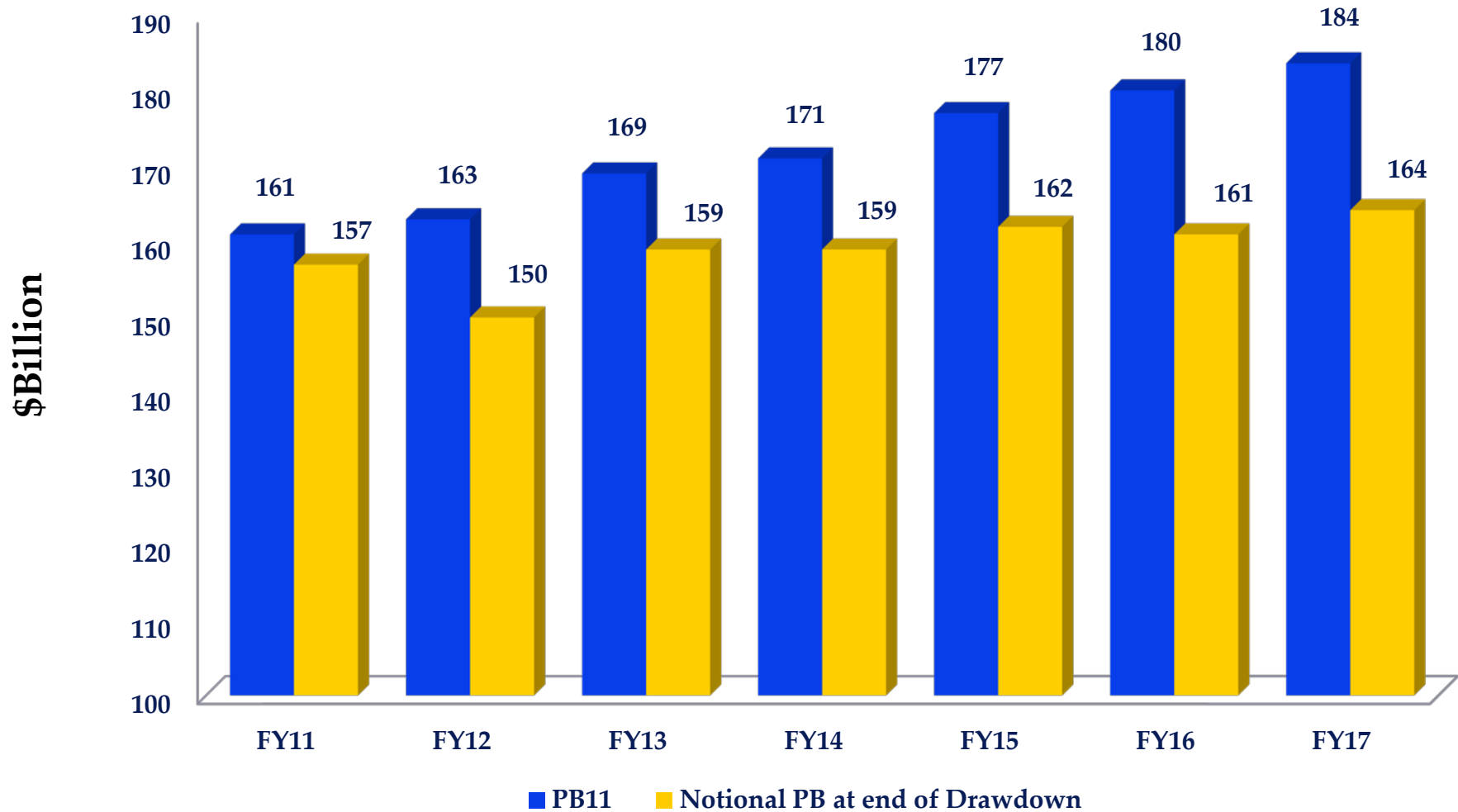
PB-92 Looking ForwardPB-98 Looking Back

Navy TOA and Force Structure ('92 – '97)



Active Forces	FY92	FY93	FY94	FY95	FY96	FY97
End strength	571,294	541,921	509,950	468,662	434,617	416,735
Ships	466	435	391	353	356	354

PB-11 Looking Forward ... PB-17 Looking Back??



Summary by Appropriation Title

FY 2012 Base Budget

MILPERS: \$46.6B

Basic Pays	\$18.5
Housing Allowance	\$7.3
Retired Pay Accrual	\$6.4
Health Accrual	\$3.3
Reserve Personnel	\$2.6
Subsistence	\$2.0
Allowances	\$1.8
Special Pays	\$1.3
Other	\$3.4

Navy Strength 325,700
Marine Corps 202,100

Procurement: \$45.8B

Aircraft	\$18.6
Ships	\$15.5
Weapons Procurement	\$3.4
Marine Corps Procurement	\$1.4
Ammunition Procurement	\$0.7
OPN	\$6.2

Focused Investment

DoN PB12 SUBMIT



O&M: \$47.9B

Ship Ops	\$12.1
Aviation Ops	\$8.4
Base Ops	\$7.5
Marine Corps O&M	\$6.0
Combat/Weapons Support	\$5.4
Service Wide Support	\$4.7
Training and Education	\$1.8
Reserve O&M	\$1.6
Environmental Restoration	\$0.3

Prevail in Current Conflicts

Infrastructure: \$3.1B

MILCON	\$2.5
BRAC	\$0.1
Family Housing	\$0.5

Sustaining the Institution

R&D: \$18.0B

Basic Research	\$0.6
Applied Research	\$0.8
Advance Tech Dev	\$0.7
Adv Component Dev	\$4.4
System Dev & Demo	\$6.5
Management Support	\$0.9
Ops Systems Dev	\$4.1

Balanced Portfolio

Challenges ...

... and Opportunities



“In this unprecedented fiscal and budgetary environment, we must focus on maintaining the best military in the world and avoid hollowing out our all-volunteer force, while also meeting our obligations to help get our Nation’s economic house in order.

To do so, we must implement savings – in efficiencies, personnel costs, force structure, and modernization and procurement reforms – that are driven by strategy rather than expediency.”

[PUBLIC LAW 784—81ST CONGRESS]

[CHAPTER 946—2d SESSION]

[H. R. 6038]

AN ACT

To authorize the President to determine the form of the national budget and of departmental estimates, to modernize and simplify governmental accounting and auditing methods and procedures, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Budget and Accounting Procedures Act of 1950".

TITLE I—BUDGETING AND ACCOUNTING

PART I—BUDGETING

Sec. 101. Section 2 of the Budget and Accounting Act, 1921 (42 Stat. 20), is amended by adding at the end thereof the following:

"The term 'appropriations' includes, in appropriate context, funds and authorizations to create obligations by contract in advance of appropriations, or any other authority making funds available for obligation or expenditure."

Sec. 102. (a) Section 201 of such Act is amended to read as follows:

"Sec. 201. The President shall transmit to Congress during the first fifteen days of each regular session, the Budget, which shall set forth his Budget message, summary data and text, and supporting detail. The Budget shall set forth in such form and detail as the President may determine—

"(a) functions and activities of the Government;

"(b) any other desirable classifications of data;

"(c) a reconciliation of the summary data on expenditures with proposed appropriations;

"(d) estimated expenditures and proposed appropriations necessary in his judgment for the support of the Government for the ensuing fiscal year, except that estimated expenditures and proposed appropriations for such year for the legislative branch of the Government and the Supreme Court of the United States shall be transmitted to the President on or before October 15 of each year, and shall be included by him in the Budget without revision;

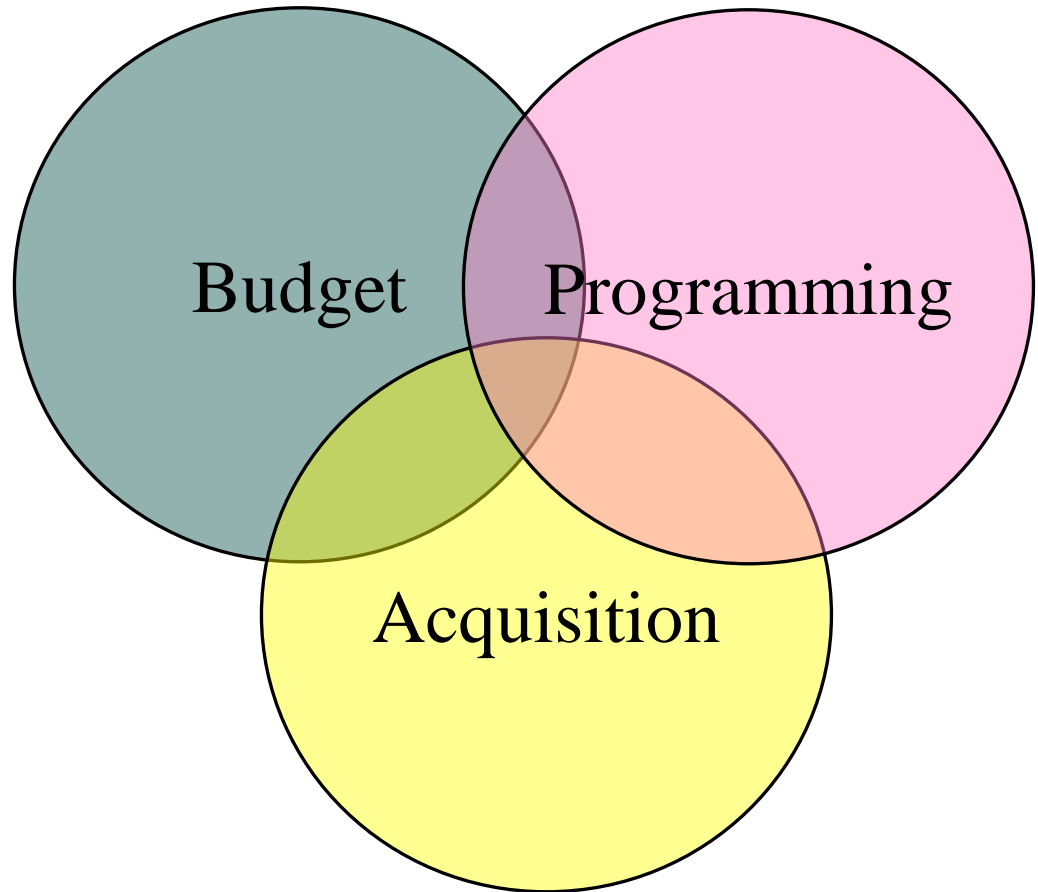
"(e) estimated receipts of the Government during the ensuing fiscal year, under (1) laws existing at the time the Budget is transmitted, and also (2) under the revenue proposals, if any, contained in the Budget;

"(f) actual appropriations, expenditures, and receipts of the Government during the last completed fiscal year;

"(g) estimated expenditures and receipts, and actual or proposed appropriations of the Government during the fiscal year in progress;

"(h) balanced statements of (1) the condition of the Treasury at the end of the last completed fiscal year, (2) the estimated con-

2



The Budget and Accounting Act of 1921 – Section 201

"The President shall transmit to Congress on the first day of each regular session, the Budget, which shall set forth in summary and in detail: ..."

June 10, 1921

FY 2012 – Congressional Action

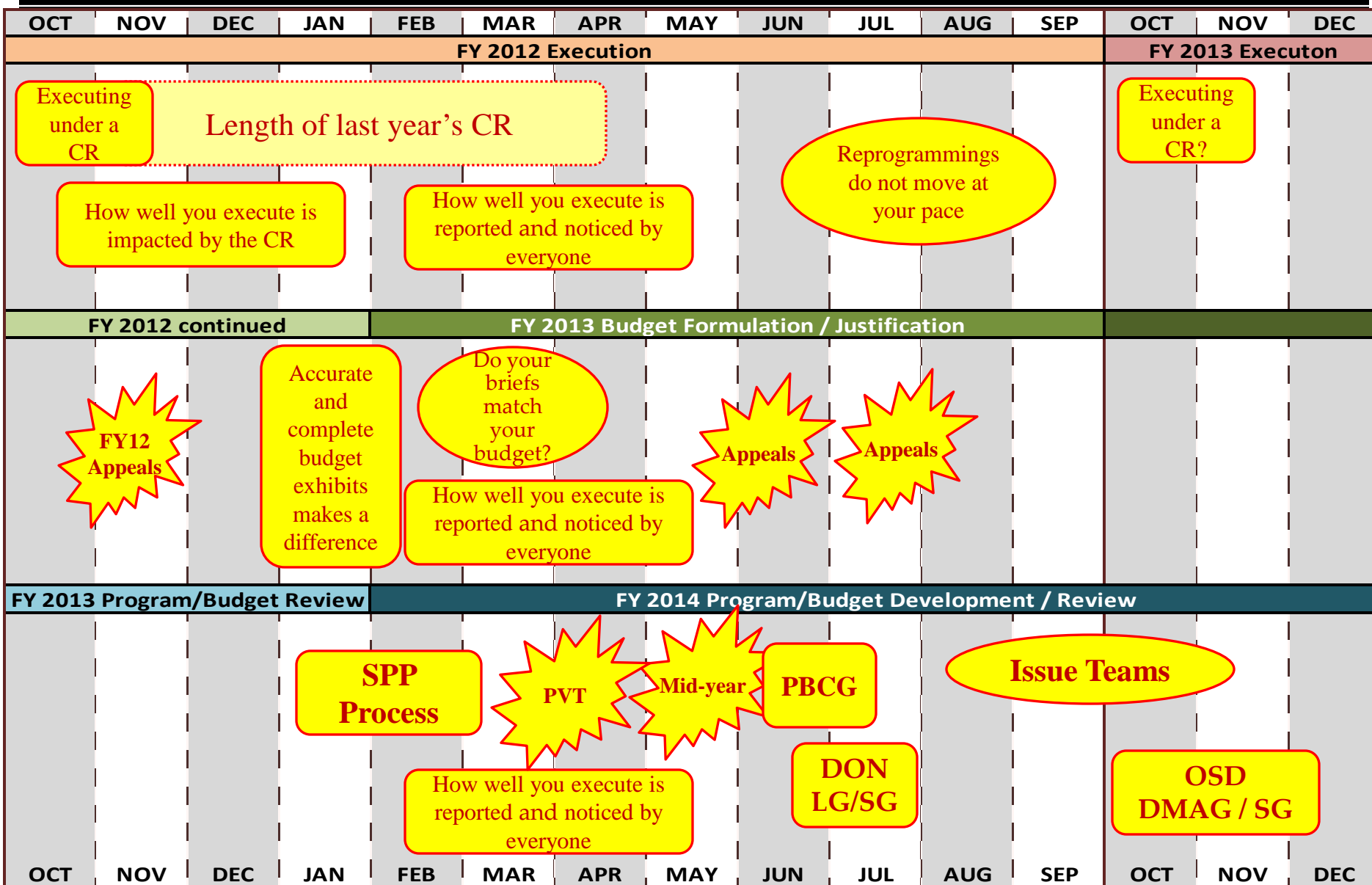
APPN (\$M)	BASE			OCO			Total (Base + OCO)		
	PB12	HAC Delta	SAC Delta	PB12	HAC Delta	SAC Delta	PB12	HAC Delta	SAC Delta
MPN	27,154	-13	-353	919	0	340	28,073	-13	-13
RPN	1,960	-12	-26	44	0	0	2,004	-12	-26
MPMC	13,573	-93	80	675	0	42	14,248	-93	122
RPMC	653	-8	-10	25	0	0	678	-8	-10
OMN (Act)	39,365	20	-1,189	7,006	-257	664	46,371	-237	-525
OMN (Res)	1,323	0	-18	74	0	0	1,397	0	-18
OMMC (Act)	5,960	76	-415	3,571	0	347	9,531	76	-68
OMMC (Res)	271	0	0	36	0	0	307	0	0
ERN	308	0	0	0	0	0	308	0	0
APN	18,587	-782	-995	731	-239	20	19,318	-1,021	-975
WPN	3,408	-432	-127	41	0	0	3,449	-432	-127
PANMC	720	-87	-30	317	0	0	1,037	-87	-30
SCN	14,928	-203	186	0	0	0	14,928	-203	186
OPN	6,285	-289	-150	282	-33	-22	6,567	-322	-172
PMC	1,391	63	-13	1,261	-78	-27	2,652	-15	-40
RDTEN	17,956	-157	-549	54	0	104	18,010	-157	-445
NDSF	1,126	-25	-425	0	0	0	1,126	-25	-425
Total DON	154,968	-1,942	-4,034	15,036	-607	1,468	170,004	-2,549	-2,566

Base to
OCO

\$17M Delta

Better budgets to the Hill results in smaller cuts

Where Our Worlds Collide -- Constantly



Now Repeat After Me – “I Will . . .

- . . . Develop better and more accurate budgets and exhibits
- . . . Embrace CNO’s culture of judiciousness
- . . . When given a new task, do not immediately ask
 - *“Where are my new and greater resources?”*
- . . . Ask everyday *“Is this a need or a want?”*
 - FMB corollary – Almost every stated need is actually a want
- . . . Challenge every growth, strive to match the top performing programs
 - NAVFAC/CEC negative 7-10% returns
 - VA SSN, CLF, etc
 - Look for the second knee in a curve
- . . . Beware the *“Fallacy of savings”*
 - *“10X the gigabytes for only twice the price”* is still twice the price
 - Its not just the *Rate* it is the Total, it is not the *Unit Price* it is the Total Price
 - True energy efficiency is not *Biofuel*, it is not *BTU’s/sec*, it is Total Energy Use

The Department of Defense

Secretary of Defense Leon Panetta

The way ahead:

- Spending choices based on sound strategy and policy
- Balance the need for fiscal solvency
- Aligning resources with our priorities
- Produce a financial statement that passes all financial audit standards
- Tackle wasteful and duplicative spending, and overhead



"I promised, and said continually, as a former Chairman of the Budget Committee and as a former Director of OMB, that I do not believe that we have to choose between national security and fiscal security. What I cannot promise is that this can be achieved without making some very difficult choices. Those choices are essential if we are not to hollow out the force and at the same time meet the threats we confront."

SECDEF 11 October 2011

The role of the Budget Officer

"I neither create nor destroy money. I merely move it around among people who hate me."



Life as a Program Manager

"This is an average year - worse than last but better than next."