

Legislative Update

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DEFENSE FUNDING REMAINS DEPENDENT ON OUTCOME OF LARGER FISCAL BATTLE

Republicans control Congress for first time during Obama presidency

- » Leaders have criticized the budget request
- » Budget resolution will reflect their policies and agenda
- » Still need Democratic support, at least in Senate, to pass bills
 - Reconciliation process could be used to advance proposals with simple majority

Debate about spending caps will have to be joined

- » White House has proposed ways to pay for it
- » Republicans may propose more for defense, cuts to nondefense
- » Consensus that further cap increases should be deficit-neutral will prompt offset fight
 - Entitlement cuts or revenue increases could pay for more defense but neither side wants to budge on these issues
 - Nondefense discretionary spending approaching historic lows as percentage of GDP – tough to find more savings here

Events to watch

- » Debt limit: comes back into effect March 16, action needed by late summer/fall
- » Defense appropriations and authorization hearings

Source: Bloomberg Government, [Debt Ceiling, Shutdown Deadlines Converge Setting Up Fall Fights](#); Congressional Budget Office

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GOVERNMENT // DEFENSE DEPARTMENT 2016 BUDGET —
ARE HAPPY DAYS HERE AGAIN?

International Pressures

- IRAN
- ISIS/ISIL
- RUSSIA – UKRAINE
- CHINA
- ETC

Issues Facing Congress

- GOVERNMENT FUNDING AND THE BUDGET
- ACQUISITION REFORM
- ENERGY
- DEBT CEILING
- HEALTH CARE
- FEDERAL INTEREST RATES
- TRADE PARTNERSHIP
- EXIM BANK REAUTHORIZATION

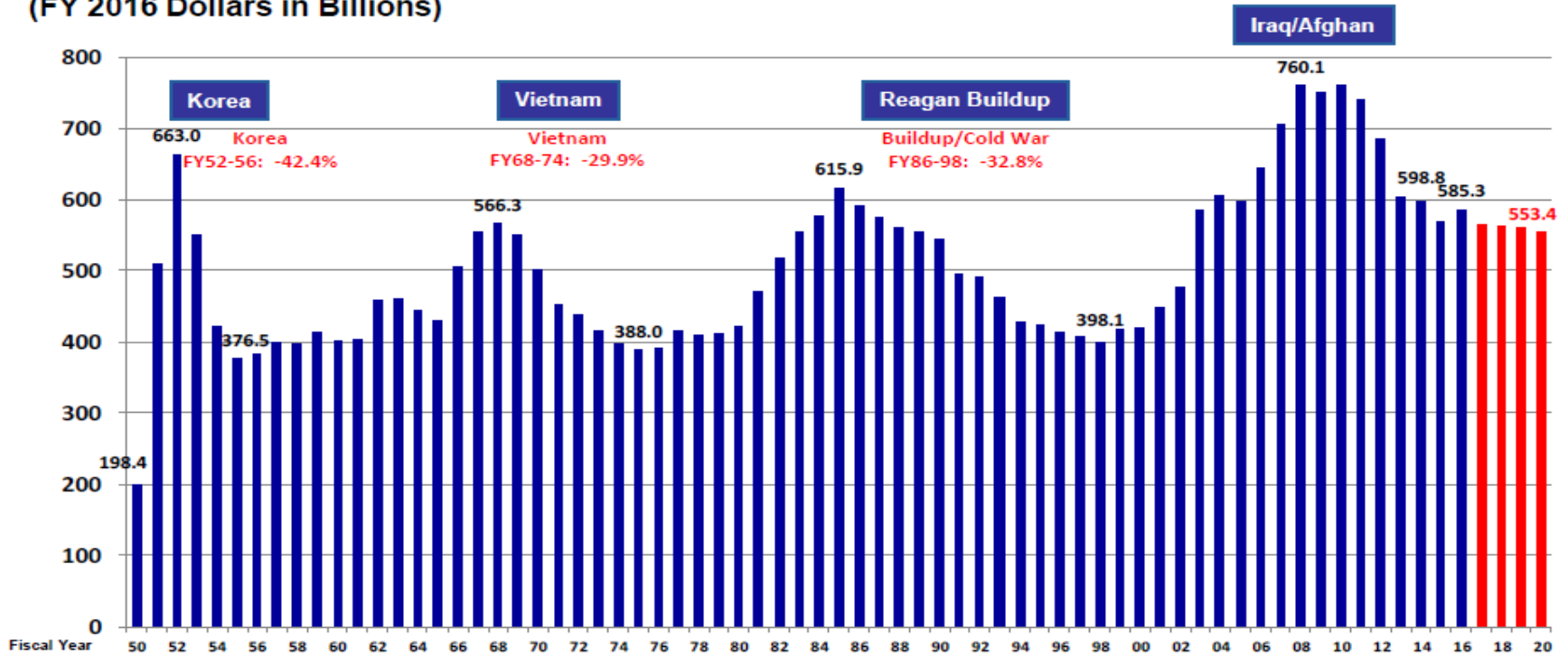
Upcoming Military Nominations

- Terms of four members of the Joint Chiefs of Staff expire this summer and fall
 - Chairman, Joint Chiefs of Staff
 - Vice-Chairman, Joint Chiefs of Staff
 - Army Chief of Staff
 - Chief of Naval Operations
 - SOUTHCOM
- Additional vacancies will be created at the COCOMs and possibly at the services depending on who is nominated for CJCS and VCJCS.

Total Budget Trends

(Including supplemental and OCO funding)

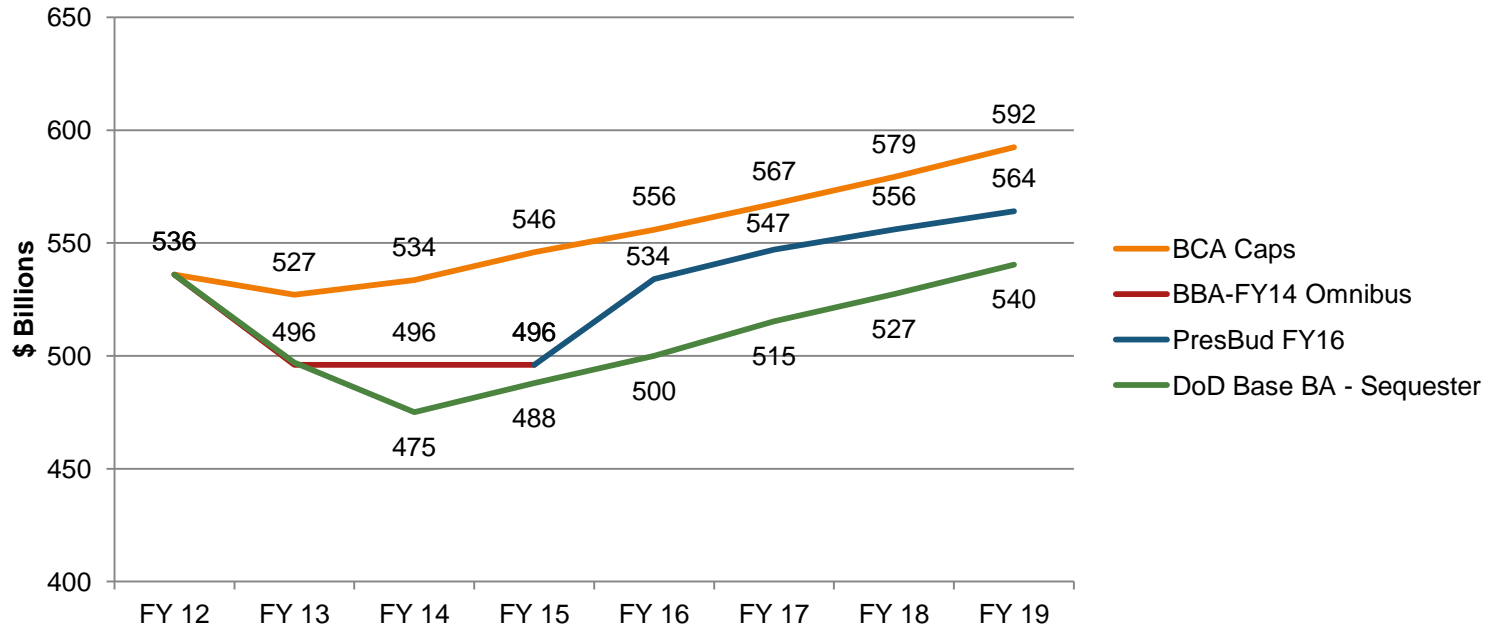
(FY 2016 Dollars in Billions)



Projections (red bars) assume FYDP plus \$26.7 billion annual placeholders for OCO in years beyond FY 2016

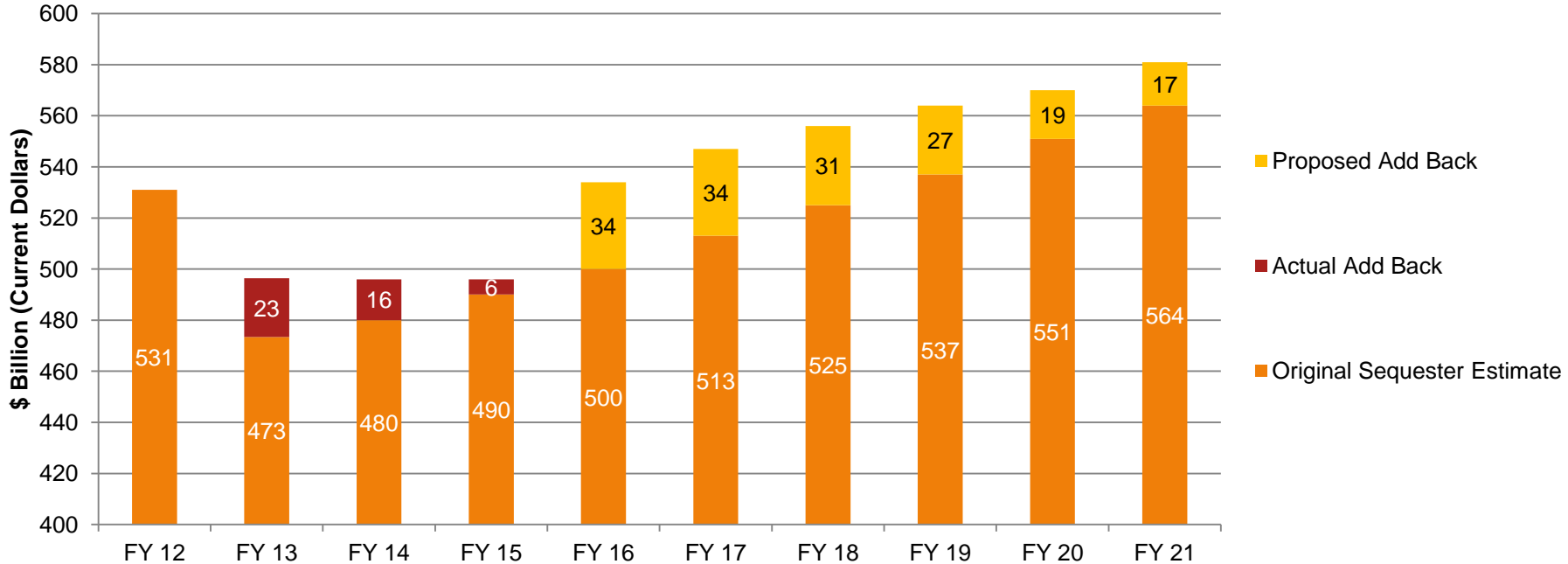
DoD Base Discretionary Trends

DoD Base Discretionary Budget Authority (Current \$)



- The FY16 President’s budget request for DoD follows a very similar profile to the FY15 request
- The key question moving forward is whether Congress will be able to negotiate offsets for any increases that put overall funding levels above the sequester trigger; Administration position that defense increases must be tied to domestic increases
- There is a high probability of at least some funding above sequester levels given the actions of Congress in FY13-FY15 regarding defense funding coupled with the increasing threats

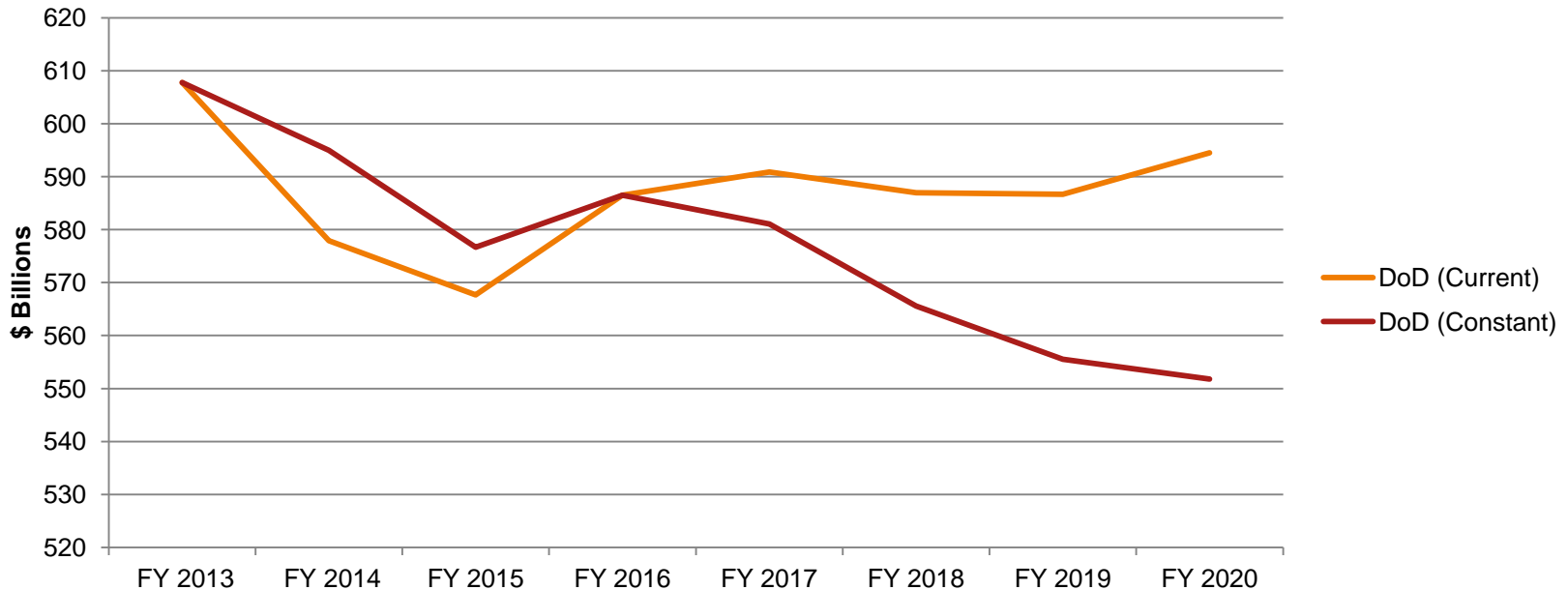
DoD Discretionary Base Budget Compared to Sequester



- The FY13 Omnibus and the FY14 & FY15 BBA added back \$54B to DoD topline funding levels compared to the sequester levels under the original BCA limits.
- The FY16 request adds back an additional \$162B through FY21, but also provides the beginning of base budget levels under sequester on an upward trend.
- Even if no adjustments are made to sequester levels, DoD's base discretionary budget authority will increase in FY16 and beyond, for a total increase of 13.5% over the FYDP through FY21, a level which in real terms will be at or below the rate of inflation

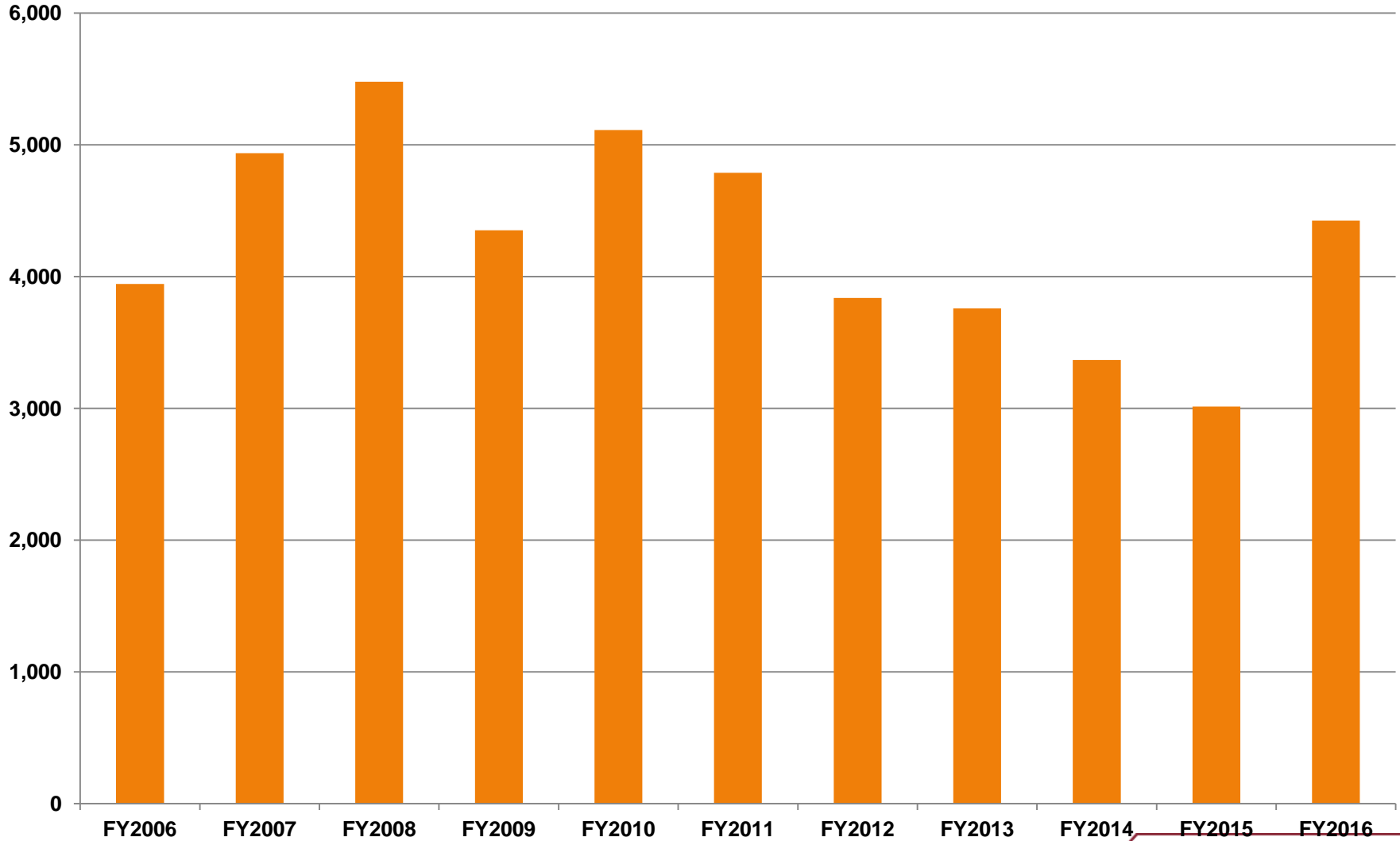
Defense Base + OCO Discretionary Outlays

Comparison of DoD Discretionary Outlays



- In both current and constant dollars, outlays are projected to increase in FY16 given the large increase in requested base budget funding.
- Outlays grow and remain constant through the FYDP in current dollars, but in real terms decrease each year. This could easily change since FY17 and beyond are based on an OCO level of \$26.7B in new authority each year.

TOTAL DOD PROCUREMENT OF AMMUNITION: FY2006-FY2016



FY2016 Budget Resolution

- BCA limit for defense in FY16: \$499B
- President's base defense budget: \$534B
- President's FY16 OCO request: \$51B
- Total: \$585B

- The House Budget Resolution increased the President's OCO requests to \$90B;
 - BCA limit for defense in FY16: \$499B
 - House Budget Res. For OCO: \$90B
 - Total: \$588B

WHAT'S NEXT IN THE FEDERAL BUDGET PROCESS

PRESIDENT'S REQUEST: First Monday in February, by law	President submits budget request to Congress, often late; includes funding requests for each department and agency, reorganization proposals and revenue proposals
CONGRESSIONAL HEARINGS: Under way	Agency officials testify before authorizing and appropriating committees to justify requests
BUDGET RESOLUTION: April 15, by law	The House and Senate Budget committees are supposed to produce budget resolutions, called a "blueprint," that set revenue and spending targets for legislation; not always completed (no penalty) and don't have the force of law
APPROPRIATIONS BILLS: May and beyond	Subcommittee members and staff draft spending bills, which are generally considered by the subcommittee, then full committee, before going to the full chambers
FISCAL YEAR BEGINS: Oct. 1	Bills are supposed to be done. If not, a continuing resolution is enacted to fund departments and agencies as House and Senate try to reconcile bills. If appropriations aren't in place, there's a partial government shutdown

Major DoD Focus Areas

- Initiatives first put out in the President's FY2015 budget, and not approved by Congress, remain in the FY2016. Estimated savings from the following total approximately \$30 billion:
 - Divesting the Air Force's A-10
 - Restructuring Army Aviation
 - Phasing the Navy's Cruiser/LSD modernization program
 - Conducting another Base Realignment and Closure round (for 2017)
 - Implementing compensation reforms (the MCRMC report was not released in time for budget submittal; however, DoD will provide testimony to the HASC/SASC on their position on various reform recommendations)
- Other key investment areas
 - Funding nuclear enterprise improvements
 - Space capabilities including control and space launch aspects
 - Advanced sensors, communications and munitions to project power
 - Funding for Science and Technology to manage technological risk
- Emphasis on Innovation
- DoD continues to state that it will be reducing management headquarters operating budgets by 20% but has yet to identify what will be reduced and from what measurement point the 20% cut will be achieved

NDAA

- HASC begins marking up the NDAA at the subcommittee level this week. The full committee mark-up is scheduled for April 29.
- SASC will likely mark-up sometime in May but it's the floor time that is important in the Senate and it's unclear how soon time be schedule to considered the NDAA on the Senate floor.

Appropriations

- House Appropriations Committee Chairman Rep. Hal Rogers announced it will mark up the so-called 302 (b) allocations as well as the first of this year's spending bills on April 22.
- The committee will consider the allocations that will set spending for the panel's 12 fiscal year 2016 bills as well as mark up the Energy and Water and Military Construction and Veterans Affairs bills that already were approved at the subcommittee level April 15.
- Full committee approval of the bills will put them in the queue for early floor action. House Majority Leader Kevin McCarthy (R-Calif.) said he is reserving floor time for the measures the week of April 27.

QUESTIONS?