

THE DEPARTMENT OF DEFENSE BUDGET

The Department of Defense budget requests \$421.1 billion in budget authority⁴ and \$426.3 billion in outlays for Fiscal Year 2006. The budget authority is an increase of 4.8 percent over FY 2005, and a cumulative increase of nearly 32 percent over the FY 2001 (pre-9/11) enacted amount.⁵

DoD is responsible for ensuring, by timely and effective military action, the security of the United States, its possessions and areas vital to its interest and for advancing the national policies and interests. The DoD budget requests the resources and authorization necessary for accomplishing its mission and supporting the President's goal of protecting America.

As the President's lead agency on the budget, the Office of Management and Budget defines his goal in terms of the current Global War on Terrorism and transforming to be ready for future wars. In OMB's words, the goal involves

- Leading the Global War on Terror by eliminating sanctuaries for terrorism, capturing or killing al-Qaida's most senior leaders and al-Qaida associated individuals.
- Supporting democratic elections in Afghanistan and Iraq.
- Enabling field commanders in Iraq to fund reconstruction projects quickly.
- Transforming the way wars are fought, with

both new organizational strategies and weapon systems and equipment:

- Executing new strategies to improve the way the Army and Navy deploy their forces;
- Moving troops from their Cold War footing to new strategic locations and approaches through the Global Posture Initiative; and
- Pursuing an aggressive strategy of "spiral" development to ensure that new technologies are deployed sooner.⁶

The DoD budget supports the President's pledge to win the Global War on Terrorism and to transform the armed forces. At the DoD FY 2006 Budget Briefing on 7 February 2005, Secretary of Defense Donald H. Rumsfeld stated,

The attacks on September 11th, and the campaigns in Afghanistan and Iraq provided impetus to the department's efforts to transform our military into a more agile, lethal and expeditionary force. . . . It isn't the size of the force that was wrong, it's the shape of the force and the capability of the force. All branches of the armed services have been restructuring to deploy more combat power with increased speed, lethality, agility and precision. . . . [A]s a nation at war, an overriding priority must

⁴ U.S. Department of Defense News Release, No. 129-05, February 7, 2005, Subject: Fiscal 2006 Department of Defense Budget is Released, states that the Department of Defense requests \$419.3 billion in *discretionary* budget authority. The *Budget of the U.S., Historical Tables*, Table 5.1 Budget Authority displays the request as \$421.1 billion. This document uses the \$421.1 billion figure.

⁵ The President's Budget presents the administration's request for funds; what is enacted will differ. And, what is enacted initially may change with supplemental and recessions in subsequent acts. All dollar amounts in this analysis are from the *Budget of U.S. for FY2006*, unless otherwise identified.

⁶ Budget of the United States Government, Office of Management and Budget, Department of Defense, <http://www.whitehouse.gov/omb/budget/fy2006/defense.html>.

be to ensure that commanders have the troops and the equipment that they need to prevail in the global struggle against extremists.⁷

The Secretary essentially restated the President's national security goal—to prevail in the GWOT and, at the same time, to transform the military services to generate more relevant combat power to meet the emerging threats of the 21st century.

To fulfill the President's goal, the Secretary has established priorities for the Defense Department and for the department's FY 2006 budget:⁸

- Support the Global War on Terrorism;
- Restructure U.S. forces;
- Manage demand on the force;
- Restructure America's global defense posture;
- Develop and field joint military capabilities; and
- Take care of our forces.

The DoD budget presents programs, initiatives and actions and requests funds to support the priorities. The DoD budget requests "sizable sums" (the Secretary's words) from the American taxpayers. The DoD budget authority (BA) proposal of \$421.1 billion for FY 2006 is more than 16 percent of the total U.S. budget and 46 percent of all discretionary funds for the entire federal government.

Comparing the FY 2006 outlay estimate to FY 1990 (the final fiscal year of the Cold War) provides another perspective on the "sizeable sum." The FY 2006 outlay estimate, \$426.3 billion equates to 17.2 percent of all federal spending, down from 23 percent in FY 1990; it equates to 3.3 percent of the Gross Domestic Product, down from 5 percent in FY 1990. Comparisons to the total federal budget and the GDP provide relative insights on trends but no insights into whether the amount is too little, too much or about right for accomplishing the mission.

The primary question in reviewing any plan or budget must be, "Is this what we need to accomplish the

mission?" The DoD Budget for FY 2006 will enable the department to accomplish much of its mission, but the budget does not include funds for conducting the war-fighting operations—those funds will be in a supplemental budget request.

Congressional rules for submitting a budget require the departments to submit funding proposals for specific programs, activities and operations, but not for uncertain "current operations" in a future year. The departments may request funds for current operations when the scope of the operations is better known and allows for a more definitive budget proposal. This request after the President's Budget submission is called a supplemental budget request.

Supplemental funding makes comparisons across fiscal years difficult because BA and spending outlay data for prior and current years includes supplemental funds, but future-year budget proposals do not. Supplemental funding can be very substantial, as is the case for the wars in Afghanistan and Iraq. For example, Congress passed and the President signed supplemental bills into law for support of U.S. military actions in Afghanistan and Iraq and for reconstruction of those countries. As enacted, the supplemental bills for FY 2003, FY 2004 and FY 2005 provided \$79 billion (April 2003), \$87.5 billion (November 2003) and \$25 billion (August 2004). Additionally, a second supplemental for FY 2005 requested \$82 billion (February 2005), which includes \$75 billion for Defense. This second supplemental request is under consideration by Congress.

In return for so much money from the American taxpayers, DoD has a duty to act as a responsible steward of their trust.

NATIONAL DEFENSE BUDGET – THE TOPLINE

The federal government uses a unified or consolidated budget concept as the foundation for its budgetary analysis and presentation. This includes a functional classification structure containing 18 broad areas. Classifying budget authority and outlays data into functions occurs according to the primary purpose of the activity and without regard to distinctions within the departments or agencies. The

⁷ Defense Department Fiscal Year 2006 Budget Briefing, 7 February 2005, available online at <http://www.defenselink.mil/transcripts/2005/tr20050207-2103.html>.

⁸ DoD Budget Summary, 7 February 2005, available online at <http://www.defenselink.mil/comptroller/defbudget/fy2006/>.

functions provide a coherent and comprehensive basis for analyzing the national budget.

National Defense, designated as 050, is one of the 18 functional areas. It includes three subfunctions:

- 051 Department of Defense–Military;
- 053 Atomic energy defense activities;
- 054 Defense-related activities.

A discussion of the top line for defense refers to budget authority and outlays for National Defense. Obviously, not all National Defense dollars are in the DoD budget, but all DoD dollars are in subfunction 051 Department of Defense–Military. The DoD budget constitutes the preponderance of the Defense functional classification. Table 10 provides a snapshot of National Defense and its three subfunctions from the FY 2006 budget.

Table 10 presents prior-year actual dollars for FY 2003 and FY 2004, the enacted amounts for FY 2005, and the President’s Budget request for FYs 2006–10. The BA for FY 2006 is \$441.8 billion, up from FY 2005, but the FY 2005 estimate does not include the pending supplemental request for an additional \$75 billion. None of the BA proposals for FY 2006 to FY 2010 include current operations dollars, and the five years display a steady increase. The Outlays for FY 2006 are \$447.4, down by \$18.5 billion,

or 4 percent. Similar to BA, none of the Outlay estimates for FY 2006 to FY 2010 include current operations dollars, and the five years display a steady increase.

Prior to the 9/11 attacks, the BA for the DoD–military subfunction was \$ 319.4 billion in FY 2001—\$102 billion, or 32 percent, less than in FY 2006. The 32 percent increase does not include an amount equivalent to the large supplemental funding for current operations in FY 2004 or pending for FY 2005. The 32 percent dollar increase is not matched by personnel growth (i.e., the size of the department, in terms of numbers of members and employees, remains relatively constant). The 32 percent increase does include pay raises and inflation, new programs and growth in existing programs.

BUDGET PERSPECTIVES

DoD traces its roots to the War Department, established in 1789. The department includes more than three million active, Guard and Reserve servicemembers and civilian employees, and two million retirees and families receiving benefits. The department operates from 6,000 locations, using more than 600,000 buildings and structures and more than 30 million acres of land. DoD has a presence in 146 nations with nearly 500,000 personnel overseas or afloat. The department’s revenue-equivalent—budget authority—is more than \$400 billion annually.

Table 10

National Defense Functional Category (Current \$ billions ¹)

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Budget Authority²								
Department of Defense–Military	437.9	471.0	402.0	421.1	445.0	464.4	484.0	494.2
Atomic Energy Defense Activities	16.4	16.8	18.0	17.5	17.1	16.1	16.3	16.1
Defense-related Activities	1.9	2.8	3.6	3.2	3.3	3.4	3.5	3.6
Total Budget Authority, Defense	456.2	490.6	423.6	441.8	465.4	483.9	503.8	513.9
Outlays²								
Department of Defense–Military	387.3	436.5	443.9	426.3	428.0	446.5	468.1	485.1
Atomic Energy Defense Activities	16.0	16.6	18.7	18.0	17.6	16.2	16.2	16.1
Defense-related Activities	1.6	2.8	3.3	3.1	3.3	3.3	3.4	3.5
Total Outlays, Defense	404.9	455.9	465.9	447.4	448.9	466.0	487.7	504.7

¹ Numbers may not add due to rounding.

² FY03 and FY04 are actual dollars, FY05 are enacted dollars, FY06 and beyond are estimates.

Source: Budget of the U.S. Government, Historical Tables, Table 3.2 Outlays and 5.1 Budget Authority

DoD conducts warfighting, peacekeeping, evacuation and homeland security missions; trains rigorously to be ready, relevant and agile when called upon; and researches, develops and acquires the capabilities to give it the decisive edge over all enemies, present and future. The department recruits, trains and provides for the well-being of its members and their families. All of this makes DoD not only the oldest but also the largest and busiest organizational entity in the United States.

The department's military services and DoD agencies are organized to accomplish the mission effectively and efficiently. DoD and subordinate organizations conduct a vast array of functions. The DoD budget is organized into subordinate budgets for the military services and the Defensewide agencies, and the budgets are organized functionally based on the congressional consolidated budget concept with its functions and subfunctions.

This section presents summary-level BA information from both perspectives: by Defense components and by functions. The dollar and percentage data for each of the two perspectives is at tables 11–15. The tables begin with FY 1985 data and include other fiscal years at five-year intervals, up to the President's FY 2006 Budget. This provides a baseline that includes the peak years of the mid-1980s, the last fiscal year of the Cold War, the peace dividends of the 1990s, and the present. All but one of

these five tables display current or "then year" dollars, as enacted or spent; table 14 displays constant dollars that include adjustment to current-year dollars for subsequent pay raises, inflation and other price growth.

DoD Budget Authority by Title

The DoD budget titles are groupings of appropriations from across the military departments and Defense agencies by functional categories, e.g., Military Personnel (MILPERS), which includes all military pay appropriations for all active and reserve servicemembers. The DoD Budget for FY 2006 includes dollars by titles for FY 2004 outlays, for FY 2005 enacted amounts and for FY 2006 proposal amounts.

Table 11 includes the FY 2006 budget data plus similar data from the peak years in the mid-1980s, FY 1990 (the last fiscal year of the Cold War), and the budget reduction years of the 1990s. These data add long-term trend insights.

The Operation and Maintenance (O&M) and Military Personnel titles are consistently the largest since FY 1995, and both titles are increasing from FY 2005 to FY 2006. The Procurement and Research, Development, Test and Evaluation (RDT&E) titles are essentially constant between FY 2005 and FY 2006; together they are only slightly larger than O&M for these fiscal years.

Table

11

Department of Defense Budget Authority by Title (Current \$ billions¹)

	FY85	FY90	FY95	FY00	FY04	FY05	FY06 ²
Military Personnel	67.8	78.9	71.6	73.8	116.1	105.5	111.3
Operation and Maintenance	77.8	88.4	93.7	108.7	189.8	138.4	148.4
Procurement	96.8	81.4	43.6	55.0	83.1	78.3	78.0
RDT&E ³	31.3	36.5	34.5	38.7	64.6	68.8	69.4
Military Construction	5.5	5.1	5.4	5.1	6.1	6.1	7.8
Family Housing	2.9	3.1	3.4	3.5	3.8	4.1	4.3
Revolving, Management & Trust Funds	4.7	(0.4)	3.4	5.6	7.5	0.8	1.9
Total Budget Authority, DoD⁴	286.8	293.0	255.6	290.4	471.0	402.0	421.1

¹ Numbers may not add due to rounding.

² Data not available beyond FY06.

³ Research, Development, Test and Evaluation.

⁴ FY85–04 actual dollars, FY05 enacted dollars, FY06 estimate.

Source: Budget of the U.S. Government, Historical Tables, Table 5.1

An important point to remember is that the FY 2005 funds include the initial \$25 billion supplemental for the war operations but not the large supplemental similar to FY 2004.

The total dollars alone for FY 1990 and FY 2000 do not adequately convey the size of the reduction in Defense spending in that decade. However, a review of the dollars by title sheds light on the reductions. For example, Military Personnel dollars are down slightly due to the large reductions in endstrength but offset by pay raises over the 10 years. The Operation and Maintenance title grows by 23 percent, reflecting the emphasis on the readiness of the forces, plus civilian pay raises. The Procurement title drops by more than 32 percent, reflecting the reduction in Procurement associated with the decision to “skip a generation.” The Procurement and RDT&E oscillations over the 20 years are very interesting.

Between FY 2000 and FY 2006, the total DoD budget is up by 45 percent. The greatest increase is 79 percent in RDT&E, which reflects the importance of exploring technologies for new transformational capabilities. Ultimately, the older equipment must be replaced because of obsolescence, excessive cost to maintain it, or simply equipment failure at the end of a useful life. A major challenge is selecting and acquiring the material systems that will enable the transformation of America’s military forces.

DoD Budget Authority Percentage by Title

The Military Personnel and Operation and Maintenance titles together account for 61 percent of the DoD

budget for FY 2006. The RDT&E investment titles account for 36 percent. Between FY 2005 and FY 2006, the Military Personnel and O&M titles together increase by 1 percent, and the Procurement and RDT&E titles together decrease by 1.5 percent.

An important observation is that the FY 2005 funds include the initial \$25 billion supplemental for the war operations but not the pending large supplemental similar to FY 2004. See table 12 for percentages by title of the annual total budget authority.

In FY 1990, the Military Personnel and O&M titles accounted for 57 percent, and the Procurement and RDT&E titles accounted for 40 percent. In FY 1985, Military Personnel and O&M were 45 percent, and Procurement and RDT&E were 51 percent. Since FY 1985, there has been a progressive shift away from the investment accounts; the FY 2006 Procurement title is 15 percent less than in FY 1985.

The shift is more significant in light of the fact that between FY 1990 and FY 2000 DoD military and civilian personnel endstrengths were reduced significantly and have remained fairly constant since. The pay for the military and most of the civilian labor force is in the Military Personnel and O&M titles, and yet these titles continue to rise as a percent of the budget.

DoD Budget Authority by Service and Defensewide – Current Dollars

The military service and Defensewide activities prepare their own budgets using the functional areas discussed

Table 12

Title Percentages of Department of Defense Budget Authority

	FY85	FY90	FY95	FY00	FY04	FY05	FY06**
Military Personnel	23.6%	26.9%	28.0%	25.4%	24.6%	26.2%	26.4%
Operation and Maintenance	27.1%	30.2%	36.7%	37.4%	40.3%	34.4%	35.2%
Procurement	33.8%	27.8%	17.1%	18.9%	17.6%	19.5%	18.5%
RDT&E*	10.9%	12.5%	13.5%	13.3%	13.7%	17.1%	16.5%
Military Construction	1.9%	1.7%	2.1%	1.8%	1.3%	1.5%	1.9%
Family Housing	1.0%	1.1%	1.3%	1.2%	0.8%	1.0%	1.0%
Revolving, Management & Trust Funds	1.6%	-0.1%	1.3%	1.9%	1.6%	0.2%	0.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* Research, Development, Test and Evaluation

Source: Budget of the U.S. Government, FY 2006, Historical Tables, Table 5.1

above. This subsection consolidates the functional areas data into totals for the military service and a single line for all Defensewide organizations.

This subsection and table 13 provide the BA for the military services and Defensewide in current-year dollars. The current-year dollars are the actual amounts spent, enacted or proposed. The next subsection and table 14 provide the BA data in constant dollars. The constant dollar reflects the adjustment of earlier current dollars for various price increases to a common base year consistent with the President's Budget.

Table 14 includes the FY 2006 budget data plus similar data from the peak years in the mid-1980s, the last fiscal year of the Cold War (FY 1990), and the budget reduction years in the 1990s. The 20-year trend data and the constant-dollars table add interesting insights.

In the current budget submission, between FY 2004 and FY 2006 the Army budget decreases by 36 percent. However, FY 2004 does include most of the \$87.5 billion supplemental for the Global War on Terrorism. In FY 2005 a large part of the Army continues to be deployed, conducting wartime operations and using equipment and other materiel at levels far above peacetime operations. The Army requires supplemental funding in FY 2005 at about the same level as in FY 2004 for the continuing current operations. This leads to an assumption that a great deal of the proposed FY 2005 supplemental will go to the Army, and the Army will clearly need supplemental funding in FY 2006 if the war continues at about the same level of effort.

The funding for the other two service and Defensewide activities remain rather consistent over the three fiscal years in the FY 2006 budget.

The 20-year comparison demonstrates similar funding patterns among the services. However, the funding for the Defensewide activities demonstrates continual growth. The growth in Defensewide dollars, in large part, reflects program consolidations and transfers from the services to the Defensewide organizations. For example, in the 1990s, supply functions moved to the Defense Logistics Agency, health care funding moved to DoD, and the Ballistic Missile Defense Organization was established.

DoD Budget Authority by Service and Defensewide – Constant Dollars

This subsection and table 14 present the BA for the military services and Defensewide activities in constant dollars. The prior subsection and table 13 provide the BA data in current-year dollars. The constant dollar table converts the prior, current amounts to a common base year equal to the President's Budget proposal, i.e., adjusts for various price increases.

The use of constant dollars in table 14 demonstrates the real reduction in buying power over time. For example, between FY 1985 and FY 2000, Army buying power fell by 36 percent; between FY 2000 and FY 2004 it jumped by nearly 86 percent. In terms of buying power, the FY 2006 budget proposal for the Army is 27 percent below FY 1985 spending.

Table 13

Department of Defense Budget Authority by Component (Current \$ billions ¹)

	FY85	FY90	FY95	FY00	FY04	FY05	FY06
Army	74.3	78.5	63.3	73.2	153.1	100.2	98.5
Navy	99.0	99.9	76.9	88.8	124.3	119.6	125.4
Air Force	99.4	92.9	73.9	83.1	125.5	117.8	127.4
Defensewide	14.1	21.7	41.6	45.5	68.1	64.4	69.8
Total Budget Authority, DoD²	286.8	293.0	255.7	290.6	471.0	402.0	421.1

¹ Numbers may not add due to rounding.

² FY85–FY04 actual dollars, FY05 enacted dollars, FY06 estimates.

Source: DoD Greenbook Table 6-10

Department of Defense Budget Authority by Component
(Constant \$ billions *)

	FY85	FY90	FY95	FY00	FY04	FY05	FY06
Army	134.9	122.0	86.4	86.5	160.7	102.5	98.5
Navy	171.4	149.6	101.3	104.1	130.6	122.2	125.4
Air Force	168.7	137.6	97.2	96.8	131.9	120.1	127.4
Defensewide	24.4	30.7	53.7	54.3	72.7	66.4	69.8
Total Budget Authority, DoD	499.4	439.9	338.6	341.7	495.9	411.2	421.1
* Numbers may not add due to rounding.							
Source: DoD Greenbook Table 6-10							

For the other services, the decrease between FY 1985 and FY 2000 was larger: down 39 percent for the Navy and down 43 percent for the Air Force. The difference between FY 1985 and FY 2006 for all three services is essentially the same: Army down 27 percent, Navy down 27 percent and Air Force down 25 percent.

The amount for the Defensewide activities increases at every time period; from FY 1985 to FY 2006 it increases by 186 percent. This growth is, to a large degree, a function of the program consolidations and transfers from the services to Defensewide organizations.

DoD Budget Authority Percentage by Service and Defensewide

A review of the percentage distribution within each fiscal year provides relative insights across time without distortions from pay raises and other cost growth. However, the transfer of programs from the services to Defensewide activities does account for some portion of the shifts across time.

Table 15 presents the DoD Budget percentage distribution from FY 1985 to FY 2006.

The FY 2005 percentage is the enacted amount, which includes the small \$25 billion supplemental for current operations (but not the later \$75 billion supplemental); the FY 2006 percentage does not include funding for the current operations. This suggests the relative baseline relationship (i.e., the Army is at about 24 percent and the Navy and Air Force are at about 30 percent each).

The Army provides the preponderance of forces for the current operations and will likely continue to do in

future sustained operations. This operational requirement and the disparity between FY 2004 and FY 2005/2006 distribution suggest that an increase in the Army distribution may need to be considered.

BUDGET PRIORITIES

The DoD Budget Summary lists four of the President's pledges for protecting America:

- Defeat global terrorism;
- Restructure the armed forces and the global defense posture;
- Develop and field advanced joint warfighting capabilities; and
- Take good care of the forces.

The summary also presents the Secretary of Defense's priorities for strengthening the department's contribution to that goal, which strongly affect the DoD budget and the years beyond the budget in the Future Years Defense Plan (FYDP):

- Support the Global War on Terrorism;
- Restructure U.S. forces;
- Manage demand on the force;
- Restructure America's global defense posture;
- Develop and field joint military capabilities; and
- Take care of our forces.

This subsection provides insights into each of these six DoD priorities.

Component Percentages of Department of Defense Budget Authority
(Based on current \$)

	FY85	FY90	FY95	FY00	FY04	FY05	FY06
Army	25.9%	26.8%	24.8%	25.2%	32.5%	24.9%	23.4%
Navy	34.5%	34.1%	30.1%	30.6%	26.4%	29.8%	29.8%
Air Force	34.7%	31.7%	28.9%	28.6%	26.6%	29.3%	30.3%
Defensewide	4.9%	7.4%	16.3%	15.7%	14.5%	16.0%	16.6%
Total Budget Authority, DoD	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: DoD Greenbook, Table 6-10

Priority: Support the Global War on Terrorism

This priority focuses on strengthening DoD capabilities for the GWOT and keeping U.S. forces combat ready. This includes implementing lessons learned from ongoing operations, e.g., the need for flexible and adaptable joint military forces, strong special operations forces, highly responsive logistics and the best possible intelligence and communications capabilities.

- **Restructure ground forces.** Restructuring increases the number and type of forces needed to fight terrorism. The budget accelerates the restructuring of the Army to create a more modular force and the Marine Corps to add more combat and support units.
- **Strengthen chemical-biological defense.** The budget includes an increase in funds for protecting the force—from detection to fighting—in a chemical-biological attack. The budget includes \$1.6 billion for FY 2006 and \$9.9 billion for FY 2006–11, which is an increase of \$2.1 billion.
- **Conduct homeland defense.** The budget includes \$9.5 billion for activities related to homeland security, such as detection and protection against weapons of mass destruction, emergency preparedness and response and protection of critical infrastructure.
- **Fund a high level of readiness.** The budget strongly supports Operation and Maintenance accounts, where training, maintenance and other readiness essentials are funded. The FY 2006 O&M total equals \$147.8 billion, nearly \$11 billion above FY 2005.
- **Sustain enhanced special operations forces (SOF).** These forces have been critical to the fight against terrorism, and the U.S. Special Operations

Command (USSOCOM) has been transformed to give it a prominent role in defeating terrorism. The FY 2006 budget includes \$4.1 billion for SOF and several initiatives in FY 2006.

- **Increase foreign language capability.** The budget includes \$362 million for FY 2006–11.

Priority: Restructure U.S. Forces and Defense Posture

This priority focuses on improving capabilities to meet the challenges of the 21st century by restructuring ground, naval and air forces.

- **Restructuring Ground Forces—Army.** Restructuring substantially increases available combat power. DoD has made a major commitment to add \$35 billion over seven years (FY 2005–11) to the Army baseline of \$13 billion. DoD is relying on supplemental appropriations in FY 2005 and FY 2006 to fund Army restructuring; in FY 2007, DoD includes restructuring funds in the Army baseline budget.
- **Restructuring Ground Forces—Marine Corps.** Between FY 2005 and FY 2008 the Marine Corps will add combat and support units to increase its warfighting power and reduce stress on its high-demand forces.
- **Navy.** Restructuring enables the Navy to go from 12 to 11 aircraft carriers without diminishing its surge capability.
- **Air Force.** Restructuring involves creating 10 Air and Space Expeditionary Forces (AEFs), with more capability to meet the needs of U.S. combatant commanders across the globe.

Priority: Manage Demand on the Force

Continuing operations in Iraq, Afghanistan and the broader GWOT place high demand on U.S. forces. The current mix of forces requires involuntary mobilization of Guard and Reserve personnel during the early stages of a rapid-response operation and periodically during continuing operations. This priority focuses on rebalancing the mix of organizations and the use of military personnel—along with force restructuring—to meet current and future deployment demands.

- **Rebalancing forces.** This involves increasing the units and personnel skills that have been in high demand and reducing those that have been in low demand—in both active and reserve components. (For example, the Army is reducing artillery and air defense units while adding military police and transportation units.)
- **Military-to-civilian conversions.** These conversions increase numbers of military personnel in combat and other core military functions by reassigning them from commercial-like functions.

Priority: Restructure America's Global Defense Posture

Restructuring America's global presence refers to streamlining DoD bases and facilities. This will enable the department to meet global requirements more decisively and make optimum use of its funding.

- **Global posture.** DoD seeks to better position forces to strengthen allied and partner nation relationships, to defeat terrorism and to meet other 21st century challenges. This includes overseas bases, personnel, infrastructure and equipment. The department anticipates returning 70,000 servicemembers and 100,000 family members to the United States.
- **Base Realignment and Closure (BRAC).** The BRAC Commission for 2005 will have completed its decisions by early September 2005; if both the President and Congress approve the commission's recommendations in their entirety, implementation begins in FY 2006. The budget includes \$1.9 billion for FY 2006 and \$5.7 billion for FY 2007. The previous BRAC rounds eliminated about 21 percent of DoD infrastructure and generated savings of about \$7 billion per year.

- **Transforming DoD management.** DoD management processes and systems generate and sustain U.S. military capabilities. The FY 2006 budget supports continuing the department's ambitious plan to overhaul its process and systems. An example is the implementation of the National Security Personnel System for managing DoD civilians, which initially converts 300,000 civilians into the new system beginning as early as July 2005.

Priority: Develop and Field Joint Military Capabilities

This priority focuses on developing and fielding new military capabilities that can counter future threats to the nation and promote the transformation of America's military forces into the future dominant force. A number of the essential capabilities, along with FY 2006 budget funding proposals, follow.

- **Missile Defense Agency.** This continues the development, testing and fielding of missile defense technologies that can defeat ballistic missiles of any range during any phase of their flight. The FY 2006 budget adds five Ground-Based Interceptors for a total of 21 and 11 Standard Missile 3 missiles for a total of 22 at a cost of \$7.8 billion
- **Army modernization.** The modernization of Army capabilities is critical to the future Modular Force. Two important areas for modernization are:
 - **the Future Combat Systems (FCS) program** (the most critical). FCS is a family of advanced, networked, air and ground systems providing combat and support, manned and unmanned capabilities. The program has been restructured to deliver transformational technologies to the Modular Force as soon as they are mature enough, rather than wait until all FCS technologies are sufficiently mature. FCS priorities for development are (1) networking capabilities, (2) unattended munitions, (3) unmanned systems and (4) manned ground vehicles. FCS funding is \$3.4 billion for FY 2006.
 - **the Army Aviation Modernization Plan,** focused on achieving greater capabilities, reliability, sustainability, survivability and joint interoperability. It includes acquisition of new light utility and

armed reconnaissance helicopters, unmanned aerial systems and more.

- **Navy shipbuilding.** This priority focuses on development of a new generation of ships that provide increased capabilities and less manpower. The FY 2006 budget includes \$9.4 billion for the procurement of four new ships and for continuing advances for the next generation of ships.
 - **CVN-21.** This ship class features an innovative electrical generation and distribution system, a larger flight deck and a smaller crew (by at least 500) than the aircraft carriers it will replace. Construction will start in FY 2008; the FY 2006 budget provides \$565 million to continue advance procurement.
 - **DD(X).** The ship will provide precision and high-volume fires, at sea and in support of forces ashore. The lead ship will be funded in FY 2007, and another four funded through FY 2011. The budget includes \$716 million for advance procurement and \$1.1 billion for continued research and development of this multimission surface combatant.
 - **Littoral Combat Ship.** This new ship will be a fast, agile, stealthy, relatively small and affordable surface combatant capable of operating in shallow water close to shore. The Navy plan is to acquire 21 ships. The FY 2006 budget is \$613 million, including \$249 million in research and development funds for ship construction.
 - **Virginia-class submarine.** This new attack submarine has state-of-the-art stealth and enhanced features to support special operations forces and diverse missions in coastal areas. The plan is to procure one ship per year through FY 2011; the budget is \$2.4 billion to continue procurement.
- **Tactical and mobility aircraft.** This priority, supporting transformation with funding for acquisition of advanced aircraft to increase U.S. capabilities and replace aging systems, cuts across military services.
 - **F/A-22 Raptor.** This next-generation aircraft is designed to penetrate enemy airspace, achieve a first-look/first-kill capability against multiple targets and conduct ground attack. Aircraft procurement is funded through FY 2008, to reach a total of 179 aircraft (including nine test aircraft). The FY 2006 budget is \$4.3 billion.
 - **Navy F/A-18E/F Super Hornet.** This multi-mission aircraft has enhanced range, payload and survivability when compared to F/A-18C/D models. The FY 2006 budget is \$2.9 billion.
 - **Joint Strike Fighter.** This new strike fighter for the Air Force, Marine Corps, Navy and U.S. allies will ultimately replace Air Force F-16s and A-10s, Marine Corps AV-8Bs and Navy and Marine F/A-18C/Ds. The FY 2006 budget is \$5.0 billion.
 - **C-17.** This is a critical airlift asset with total procurement at 180 aircraft. The FY 2006 budget is \$3.7 billion to continue fielding.
 - **Tanker replacement.** The department is analyzing alternatives to replace its aging KC-135 aircraft.
- **Intelligence, communications and related systems.** Intelligence is key to defeating terrorism and predicting threats. Intelligence involves capabilities for collecting, producing, filtering, analyzing and communicating information. The FY 2006 budget ensures continuing development and fielding of intelligence capabilities, and the simultaneous integration of the capabilities into all DoD information systems within the secure, trusted Global Information Grid. Programs include:
 - **Advanced Extremely High Frequency Satellite Communication System.** This will replace Military Strategic/Tactical Relay (MILSTAR) satellites, providing much greater capacity and more secure and survivable communications. The budget provides \$1.2 billion; the first launch is scheduled for FY 2008.
 - **Transformational Satellite Communications.** This is a future system based on laser communications and greatly enhanced radio-frequency capability, which would free users from current bandwidth constraints and provide greatly enhanced interoperability and connectivity to support net-centric operations. The budget provides \$836 million for continuing development; first launch is scheduled for FY 2013.

- **Other key programs:** Space-Based Radar, Space-Based Infrared System High, Joint Tactical Radio System and Aerial Common Sensor aircraft.
- **Unmanned systems.** Unmanned systems have been invaluable to operations in Iraq and Afghanistan and are central to the transformation of U.S. military capabilities. The FY 2006 budget includes more than \$1.7 billion for continued development and procurement of several types of unmanned systems. Major programs include:
 - **Joint Unmanned Combat Air Systems.** These systems will fill existing capabilities with highly effective and affordable systems. The budget is \$350 million to continue development.
 - **Global Hawk and Predator.** The FY 2006 budget continues procurement and development of these unmanned aerial vehicles, which have been critical to the GWOT.

Priority: Take Care of Our Forces

This priority recognizes that people are the nation's most important defense asset. The FY 2006 budget maintains the commitment to servicemembers and their families.

- **Pay.** The budget funds a 3.1 percent increase in military base pay and a 2.3 percent increase in civilian pay.
- **Health care.** The Defense Health Program (DHP) provides good health care for military personnel and their families. The FY 2006 budget is about \$20 billion in direct funding. In addition, another \$7 billion for military personnel supports DHP and nearly \$11 billion more is contributed to the Medical Accrual fund in FY 2006.
- **Housing.** The budget continues the department's commitment to provide good housing to all servicemembers.
 - **Basic Allowance for Housing (BAH).** The budget sustains DoD's commitment to eliminate out-of-pocket costs for military members living in private housing. Before FY 2001, servicemembers had to absorb, on average, 18 percent of their out-of-pocket costs.
 - **Military family housing units.** The budget continues to move toward eliminating all inadequate

military family housing in the United States by FY 2007, and all inadequate units worldwide by FY 2009.

- **Privatization.** This initiative, begun in FY 1996, allows the department to improve military housing and get maximum benefit from the housing budgets. By the end of FY 2006, privatization will have produced nearly 172,000 high-quality family housing units.
- **Benefits for reservists.** This priority recognizes DoD's commitment to its reservists.
 - TRICARE eligibility expansion provides health care coverage for up to 90 days prior to activation for certain reserve component members and extends post-mobilization coverage for 180 days.
 - The budget also supports a new "GI Bill for Reservists" passed last year. This will provide education benefits for Guard and Reserve personnel who have been mobilized. Depending on length of active service in support of a contingency operation, members receive up to 36 months of payments, from \$400 to \$800 per month. The FY 2006 budget is about \$200 million.
- **Facilities.** This priority recognizes that taking care of military and civilian personnel includes providing them quality facilities. The FY 2006 budget requests funding at 92 percent of facilities sustainment (maintenance) requirements—much higher than the 78 percent funded in FY 2000.

FORCE STRUCTURE

The budget continues to support the transformation of the department and the armed forces. Transformation requires more than pursuing next-generation weapon systems—it also requires changing the force structure to produce the ability to evolve rapidly, adjust for changes in the global environment and address new threats.

As a part of their transformation, each of the services is innovatively restructuring its forces. The restructuring focuses on deploying more combat power with increased speed, lethality, agility and precision, and often with less manpower. Restructuring draws from the campaigns in Afghanistan and Iraq, as well as the future threats, both conventional and asymmetric.

Conventional Forces Summary

	FY04	FY05	FY06
Army			
AC UEx ¹ /Divisions	3/7	5/5	8/2
RC UEx ¹ /Divisions	0/8	2/6	4/4
AC Armored Cavalry Regiments	3	2	2
AC Brigade Combat Teams	36	39	43
RC Brigade Combat Teams	38	36	XX ²
Navy			
Aircraft Carriers	12	12	11
Surface Combatants	103	100	102
Amphibious Warfare Ships	35	36	35
Attack Nuclear Submarines	54	55	54
Ballistic and Guided Missile Submarines	18	18	18
Support, Logistics, Mine Ships	70	69	69
Active Force Air Wings	18	18	18
Reserve Forces Air Wings	5	5	5
Air Force			
Active Fighter Squadrons	49	49	50
Reserve Fighter Squadrons	34	33	25
Reserve Air Defense Squadrons	4	4	4
Bombers (Combat-Coded)	96	96	96
Marine Corps			
Expeditionary Forces	3	3	3
Expeditionary Brigades	4	4	4
Active Battalions	51	51	53
Reserve Battalions	21	21	20
¹ Tactical-level Unit of Employment commanded by major general.			
² Projected endstate for FY08 is 34.			
Sources: Army SAMAS; DoD, Army, Navy, Air Force Justification Materials			

DoD is also pursuing a number of other initiatives to complement the force restructuring. These include rebalancing the mix of units in the force to add high-demand units and reduce other units, conducting military-to-civilian conversions to redistribute servicemembers into the combat structure, and adjusting the global posture and stateside basing.

See table 16 for the major combat forces. The forces include active and reserve components. Although not visible at this level, other conventional forces provide operational mission support across the spectrum of operations, to include mobility forces and special operations forces.

Transformation of the Army's forces begins with the move from a division-based structure to a brigade-based structure. The new brigade structure applies a "modular" approach that adds capability and produces more self-contained units than current brigades. The new brigade combat team (BCT) includes its own artillery, engineers, military police and supply capabilities, making it more deployable and flexible than current brigades. The modular brigade structure enables active and reserve units to be more interchangeable, thus reducing the frequency of deployment of high-demand units and providing more stability for Soldiers and their families.

The active Army expands from 33 maneuver brigades in FY 2003 to 43 BCTs in FY 2007; the Army National Guard restructuring produces 34 BCTs by FY 2010. DoD plans to request an additional \$35 billion for the Army for modularity between FY 2005 and FY 2011.

Marine Corps transformation adds combat and support units to increase its warfighting power and reduce stress on its high-demand forces. The changes include adding two active infantry battalions with associated combat and support elements, and several reserve combat and support units. The Marine Reserve restructuring adds two Light Armored Reconnaissance companies, one Anti-Terrorism Battalion and other combat support units to increase availability.

U.S. Special Operations Command has been transformed to give it a prominent role in defeating terrorism. Special operations forces add 1,200 military personnel, including four SEAL platoons.

Navy restructuring involves the Fleet Response Plan (FRP) that allows the Navy to deploy more aircraft

carriers and supporting ships more rapidly by improving manning, maintenance and training. The Navy is able to go from 12 to 11 aircraft carriers without diminishing the surge capability. Such reductions in personnel and older ships allow the reallocation of funds to support continuing Navy transformation.

Air Force restructuring involves creating 10 Air and Space Expeditionary Forces that can rapidly provide the right mix of capabilities, from humanitarian relief to full-scale warfighting. This AEF structure enables the Air Force to manage the heavy demand on its forces while giving maximum predictability and stability to Airmen.

PERSONNEL ENDSTRENGTH

DoD includes three million active, Guard and Reserve servicemembers and civilian employees, plus two million retirees and families receiving benefits. The department has nearly 500,000 personnel overseas in 146 nations or afloat. Many of these servicemembers are conducting operations in Iraq, Afghanistan and other locations in the GWOT, and as part of the Stabilization Force and Kosovo Force in the Balkans and the Multinational Force and Observers mission in the Sinai.

Sustaining these operations over a number of years requires recurring deployments, which places a strain on servicemembers and their families. The old structure of the services added to the hardships of servicemembers. All of the services are aggressively pursuing transformation initiatives to generate greater and more relevant combat power to meet the emerging threats of the 21st century. The additional combat power enables the services to better manage the demands on servicemembers.

The transformation initiatives are producing the additional combat capability within existing endstrengths. The initiatives include:

- **Restructuring** – creating new organizations focused on deploying more combat power with increased speed, lethality, agility and precision, and often with less manpower.
- **Rebalancing the mix of units and people** – increasing high-demand units and military skills by shifting among active and reserve components and phasing out some low-demand or late-deploying units.
 - In FY 2003 and FY 2004, the Army, Navy and Air Force rebalanced nearly 30,000 military spaces.
 - In FY 2005, the services will rebalance nearly 20,000 more spaces.
 - Between FY 2006 and FY 2011, the Army will rebalance another 50,000 spaces.
- **Military-to-civilian conversions** – converting positions currently filled by military personnel to positions that could be supported by DoD civilians or contractors, thus increasing military personnel available to the force without increasing endstrength.

- In FY 2004, DoD converted more than 7,600 military spaces to DoD civilian or contractor positions.
- In FY 2005, nearly 24,000 additional spaces will be converted.
- In FY 2006, the budget includes \$1.4 billion for converting more than 6,400 spaces.
- Between FY 2007 and FY 2011, more conversions are planned.

- **Divesting lower-priority functions** – freeing up military and civilian personnel for other military missions.

The net result of these initiatives by fiscal year is in table 17.

On the whole, there is little change in endstrength between FY 2005 and FY 2006. The Navy will experience the most substantial change with a 3.6 percent reduction in the active component and a 12.4 percent reduction in the reserve component. One other important change is in

Table

17

Department of Defense Personnel Endstrength (thousands*)

	FY04	FY05	FY06
Active Military			
Army	499.5	482.4	482.4
Navy	373.2	365.9	352.7
Marine Corps	177.5	175.0	175.0
Air Force	376.6	359.7	357.4
Active Guard and Reserve, Full-time	66.2	72.0	73.6
Total Active Military	1,493.0	1,455.0	1,441.1
Selected Reserve			
Army	547.0	555.0	555.0
Navy	82.6	83.4	73.1
Marine Corps	39.7	39.6	39.6
Air Force	182.0	182.8	180.8
Total Selected Reserve	851.3	860.8	848.5
Civilians (Full-time equivalents)	689.4	697.7	701.9
* Numbers may not add due to rounding.			
Source: Department of Defense Financial Summary Part II			

the Active Guard and Reserve (AGR, reservists who work as full-time employees supporting their units). The AGR increases in FY 2006 by 2.2 percent over FY 2005, by 11.2 percent over FY 2004.

MILITARY PERSONNEL FUNDS

The Military Personnel title includes all the military pay appropriations for the services, active and reserve components. The FY 2006 budget includes a 3.1 percent pay raise for military personnel. The budget also eliminates the out-of-pocket housing costs for military personnel living in private housing. This is a substantial benefit because, prior to FY 2001, the average servicemember paid 18 percent of the cost for living in private housing out of his/her pocket.

See table 18 for military pay dollars by service.

Military endstrength is the primary driver of the military pay appropriations; with no substantial changes in the number of servicemembers, pay raises principally drive military pay dollar growth. The large dollar amount for the Army in FY 2004 reflects the many Guard and Reserve Soldiers on full-time duty.

Retirement and Medical Accruals

The FY 2006 budget includes a total of \$23.6 billion for retirement and medical accrual, a 1.3 percent increase over FY 2005.

The accrual method of funding is used for both military retirement and medical costs. This method requires

the services to transfer into a fund the amount necessary to pay for future benefits each year. In the case of the retirement fund, the amount transferred is a percentage of the service's basic pay.

The accrual method requires the department to fund the budgetary consequences of decisions immediately in the form of an increase in the amount transferred to the fund. For example, an additional benefit for retirees or an increase in endstrength would require adding an amount to the current budget proposal for the payment of the future benefit or the additional retirees. Clearly, the accrual funds are sensitive to endstrength.

See table 19 for data by accrual fund and services.

CIVILIAN PERSONNEL

The FY 2006 DoD budget includes the government-wide 2.3 percent pay increase for civilian personnel. The DoD civilian workforce, comprising 701,900 people, equals nearly 49 percent of the active military endstrength.

The civilian workforce contributes to the capabilities of the department by accomplishing many different functions at many locations around the world. The civilian workforce brings skills and continuity that enables the uniformed members to focus on the combat and combat-related assignments.

Most civilian personnel work in Operation and Maintenance functions, but civilian personnel also work in many other appropriations. Civilian personnel pay and benefits are included in the various appropriations where the civilians work, rather than in a separate appropriation title similar to Military Personnel.

DoD is starting to implement two management initiatives that will impact the civilian workforce over the long term:

- First, DoD is continuing to pursue opportunities for reducing direct civilian labor as well as military personnel by contracting out functions to the private sector;
- Second, DoD is implementing the Defense Transformation Act of FY 2003, which provides the authority to establish a new National Security Personnel System for managing DoD's civilian personnel. The DoD budget includes the initial implementation, covering roughly 300,000 DoD civilian employees.

Table 18

Military Personnel Budget
(\$ billions ¹)

	FY04	FY05	FY06
Army	49.6	39.1	41.4
Navy	26.1	26.5	27.1
Marine Corps	10.7	10.2	10.7
Air Force	29.7	28.2	29.8
Military Retirement Fund ²	—	1.5	2.3
Total³	116.1	105.5	111.3

¹ Numbers may not add due to rounding.
² Contribution to military retirement fund.
³ FY04 actual, FY05 enacted, FY06 proposal and include pay raises of 4.2, 3.5 and 3.1 percent, respectively.
Source: DoD Financial Summary Tables FY06 Part II

Department of Defense Accrual Accounts
Payments to Retirement and Medical Accrual Funds
(Current \$ millions)

	FY04	FY05	FY06
Retired Pay Accrual			
Military Pay, Army	4,997.0	3,924.0	3,883.0
Reserve Personnel, Army	320.0	331.0	359.0
National Guard Personnel, Army	498.0	580.0	591.0
Subtotal Army Retirement Accrual	5,815.0	4,835.0	4,833.0
Military Pay, Navy	2,998.0	3,032.0	2,948.0
Reserve Personnel, Navy	204.0	209.0	202.0
Subtotal Navy Retirement Accrual	3,202.0	3,241.0	3,150.0
Military Pay, Marine Corps	1,282.0	1,267.0	1,252.0
Reserve Personnel, Marine Corps	50.0	55.0	54.0
Subtotal Marine Corps Retirement Accrual	1,332.0	1,322.0	1,306.0
Military Pay, Air Force	3,405.0	3,234.0	3,200.0
Reserve Personnel, Air Force	103.0	133.0	133.0
National Guard Personnel, Air Force	240.0	272.0	278.0
Subtotal Air Force Retirement Accrual	3,748.0	3,639.0	3,611.0
Total Department of Defense Retired Pay Accrual²	14,097.0	13,037.0	12,900.0
Medical Accrual			
Military Pay, Army	2,252.0	2,598.0	2,705.0
Reserve Personnel, Army	430.0	673.0	717.0
National Guard Personnel, Army	705.0	1,146.0	1,219.0
Subtotal Army Medical Accrual	3,387.0	4,417.0	4,641.0
Military Pay, Navy	1,729.0	1,977.0	2,006.0
Reserve Personnel, Navy	198.0	283.0	292.0
Subtotal Navy Medical Accrual	1,927.0	2,260.0	2,298.0
Military Pay, Marine Corps	808.0	935.0	982.0
Reserve Personnel, Marine Corps	81.0	129.0	137.0
Subtotal Marine Corps Medical Accrual	889.0	1,064.0	1,119.0
Military Pay, Air Force	1,729.0	1,929.0	2,010.0
Reserve Personnel, Air Force	144.0	241.0	254.0
National Guard Personnel, Air Force	231.0	362.0	386.0
Subtotal Air Force Medical Accrual	2,104.0	2,532.0	2,650.0
Total Department of Defense Medical Accrual²	8,307.0	10,273.0	10,708.0

¹ Numbers may not add due to rounding.

² FY04 actual, FY05 enacted, FY06 proposal.

Source: National Defense Budget Estimate for FY06 (DoD Greenbook) Table 6-6

OPERATION AND MAINTENANCE FUNDS

DoD continues to prosecute the GWOT and meet its other operational commitments around the world. Operation and Maintenance funds sustain the troops as they fight the war on terrorism and conduct all the other operational missions. O&M funds contribute directly to combat readiness and relevancy of the forces by providing tough, realistic training, modernized and repaired equipment, timely logistical support and facilities maintenance. O&M funds also support the well-being of servicemembers and their families by providing reasonable base support and maintaining the infrastructure.

O&M funds pay for the vast majority of the civilian workforce who carry out the complete array of support functions, e.g., base support operations, depot maintenance and training support.

Total Obligational Authority funding for the DoD Budget for FY 2006 is shown in table 20.

The FY 2004 dollars include the supplemental appropriation. A review of the Army line clearly illustrates that the Army, with the bulk of the forces engaged in the

Afghanistan and Iraq campaigns, received the bulk of the supplemental funds to sustain the forces.

It is also obvious that FY 2005 and FY 2006 lack the same level of funds as in FY 2004 and require substantial supplemental funds to sustain the same level of effort as in FY 2004.

Defense Health Program

The Defense Health Program provides for the physical and mental well-being of servicemembers and their families. A large component of O&M, DHP consumed 10 percent in FY 2004, rising to 13.4 percent in FY 2006. The three-fold mission of DHP is to provide health care in support of deployed forces; provide health care benefits for members of the armed services and their families, retirees and others entitled to DoD health care; and conduct research, professional education and training, and prevention activities.

The Defense Health Program consists of Army, Navy and Air Force medical facilities plus the TRICARE system for all servicemembers. Almost all the funds for the program are in the O&M appropriations, as displayed in table 21.

Table

20

Operation and Maintenance (\$ billions ¹)

	FY04	FY05	FY06
Army	62.4	45.4	31.8
Navy	36.6	36.6	36.0
Air Force	39.5	33.8	38.7
Defensewide ²	38.2	38.2	39.3
Transfer Accounts and Miscellaneous			
Environmental Restoration Funds	0.0	1.4	1.4
Overseas Contingency Operations/Emergency Response Funds/Iraq Freedom Fund	0.1	2.2	0.0
Other	0.6	0.5	0.5
Total³	177.5	158.0	147.8

¹ Numbers may not add due to rounding.

² Includes Defense Health Program: \$17.8 billion in FY04, \$18.2 billion in FY05 and \$19.8 billion in FY06.

³ Total Obligational Authority.

Source: DoD Operation & Maintenance Exhibit O-1

Table

21

Defense Health Care Program (\$ millions ¹)

Title	FY04	FY05	FY06
Operation and Maintenance	16,978.9	17,302.5	19,247.1
Procurement	304.3	367.0	375.3
RDT&E ²	486.3	507.0	169.2
Total^{3,4}	17,769.5	18,176.5	19,791.6

Medical Accrual Payment⁵

8,307.0 10,273.0 10,708.0

¹ Numbers may not add due to rounding.

² Research, Development, Test and Evaluation.

³ DoD budget identifies only the direct program funds and excludes pay and military health care accrual of military health care providers.

⁴ FY04 actual, FY05 enacted, FY06 proposal.

⁵ DoD payments into Medicare-Eligible Retiree Accrual Fund are not part of the Defense Health Care Program.

Source: DoD Defensewide Justification Documentation

The DHP total for FY 2006 is \$19.8 billion. Additionally, DoD will pay \$10.7 billion more into the medical accrual fund (see table 19 for details). The total of these funds is \$30.5 billion in FY 2006 for health care for current and retired servicemembers and their families. This total does not include military pay for servicemembers who are physicians and other medical providers.

The \$30.5 billion equals 7.2 percent of the total BA in the DoD budget for FY 2006.

RESEARCH, DEVELOPMENT AND ACQUISITION

The Research, Development and Acquisition (RDA) budget for FY 2006 and the FYDP beyond reflect the department's initiatives at pursuing new technology and developing and fielding new military capabilities. RDA refers to a combination of all Research, Development, Test and Evaluation (RDT&E) and Procurement appropriations.

The security environment of the 21st century challenges the U.S. military to respond rapidly with responsive, agile, lethal and precise capabilities. Protecting America in this security environment requires transforming U.S. forces with new organizations, strategies and weapon systems. The transformation of weapons and other materiel systems requires DoD to exploit next-generation technologies.

To obtain the benefits of next-generation technologies as soon as possible, DoD is also transforming the acquisition management processes; perhaps the most important example of this transformation is the use of "spiral acquisition." Spiraling refers to applying new technologies and capabilities being developed for next-generation weapon systems to current platforms as soon as available rather than waiting for the acquisition of next-generation weapon systems.

In terms of dollars, the three-year trend for procurement indicates a decrease of more than 6 percent, while RDT&E increases nearly 8 percent. See table 22.

For a long-term view of procurement and RDT&E trends, beginning with the peak years for RDA in the mid-1980s, see figures 4 and 5. Figure 4 presents the funding data in current-year dollars; figure 5 presents the funding data in constant dollars (i.e., dollars for years prior to the current budget are adjusted for inflation and other price growth to be more comparable across time).

From FY 1985 to FY 1996, there was a continuing decline in RDA funds, but, more specifically, a

Table 22			
Research, Development and Acquisition (Procurement and RDT&E) (\$ billions)			
	FY04	FY05	FY06
Procurement ¹	83.2	79.6	78.0
RDT&E ¹	64.4	69.2	69.4
Total Research, Development and Acquisition²	147.6	148.8	147.4
¹ FY04 actual, FY05 enacted, FY06 proposal.			
² Procurement and Research, Development, Test & Evaluation (RDT&E) are often discussed together as Research, Development & Acquisition (RDA).			
Source: DoD Financial Summary Tables Fiscal Year 2006, P-1 & R-1			

substantial decline in procurement funds. Then, for the next 10 years, both procurement and RDT&E continually grew at about the same rate. However, procurement is again leveling off.

Another way of reviewing trends over time is to adjust the dollars for inflation and other price growth to a common base year. The results better illustrate the "buying power" over time. Figure 5, which uses constant dollars, dramatically illustrates the peak years in the mid-1980s, the drawdowns in the 1990s (with a 55 percent reduction between FY 1985 and FY 1996) and the growth in the 2000s. The FY 2006 RDA budget has 73 percent of the buying power of the FY 1985 budget.

An interesting observation drawn from figure 5 is the change in the mix between procurement and RDT&E. In FY 1985 procurement was 75 percent of the total RDA, and in FY 2006 it is 53 percent of the total; RDT&E is now 41 percent of all RDA. This is illustrative of the decision to transition to next-generation technology.

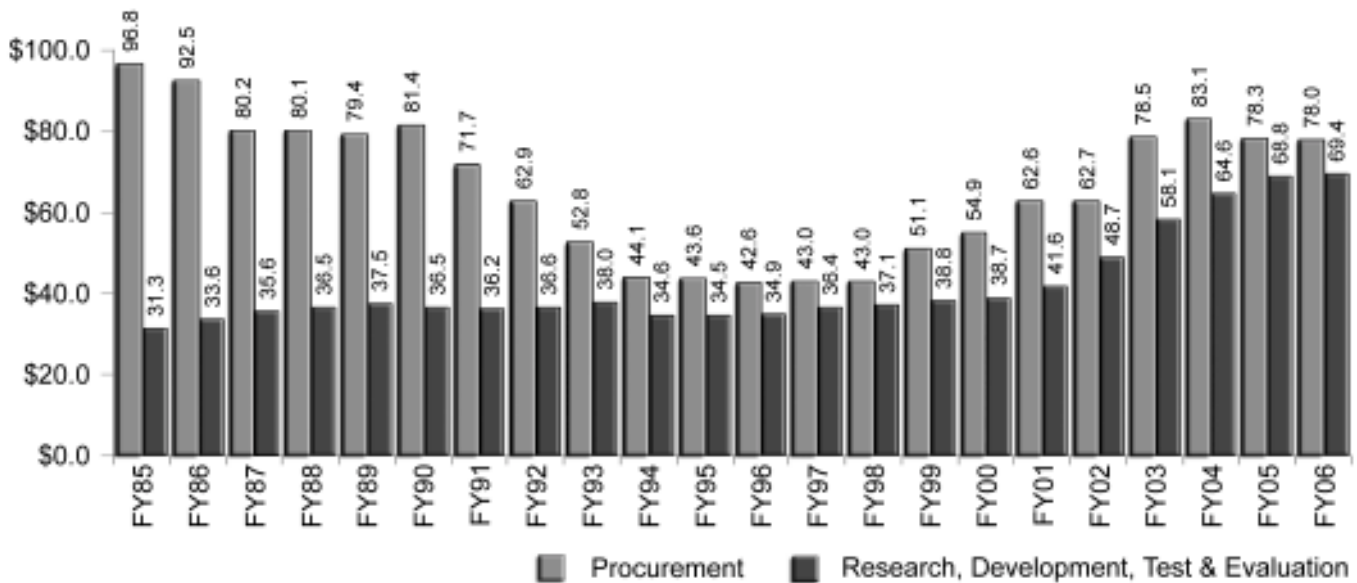
Procurement and RDT&E by Component

A review of the DoD procurement funding by service and Defensewide agencies reveals that Army funding is reduced by 27 percent between FY 2004 and FY 2006, while the Defensewide reduction is only 6 percent. The result is that Army procurement is only 15 percent of all DoD procurement.

A review of the RDT&E reveals a reduction to the Army of 5 percent, while the Navy increases by nearly 22

Figure 4

DoD Procurement and RDT&E Budget Activity Since 1985
(Current \$ billions*)

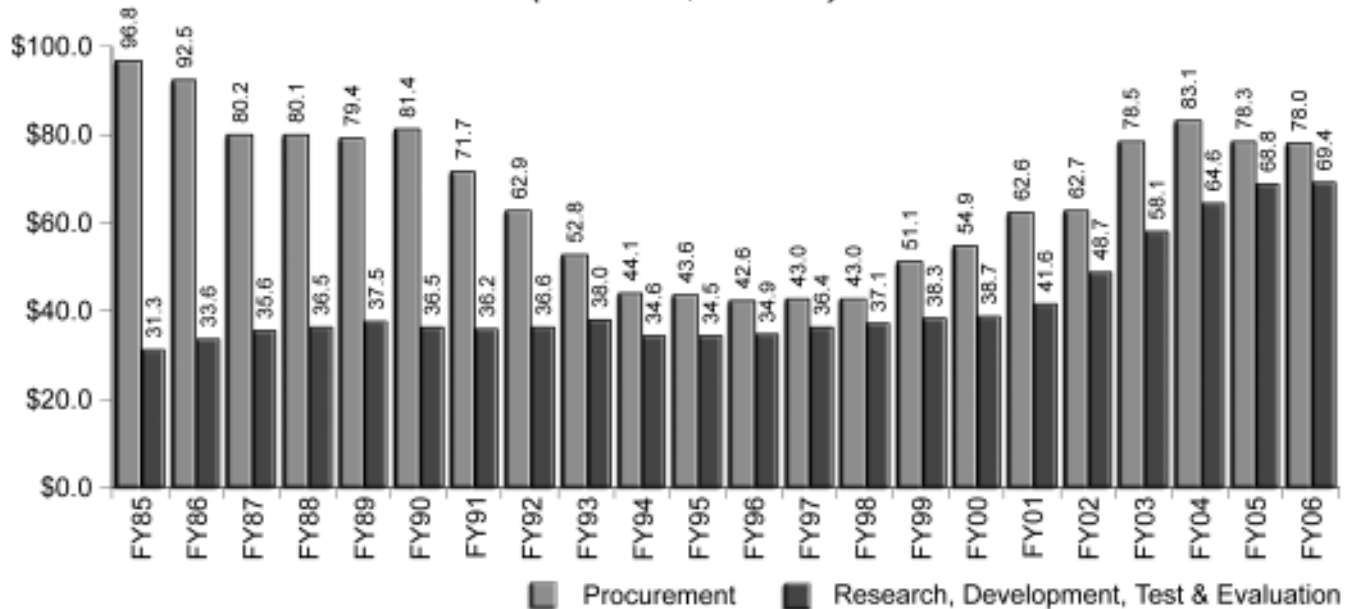


* Current dollars are the actual amounts spent at the year of execution (with no adjustments for price changes over time).

Source: National Defense Budget Estimates for FY 2006 (DoD Greenbook), Table 6-8

Figure 5

DoD Procurement and RDT&E Budget Activity Profiles Since 1985
(Constant \$ billions*)



* Constant dollars are current year dollars (at the year of execution) adjusted for annual changes in prices.

Source: National Defense Budget Estimates for FY 2006 (DoD Greenbook), Table 6-8

percent and the Air Force by 12 percent. The Army portion of RDT&E is 14 percent of all DoD RDT&E. See table 23 for the dollar data from the FY 2006 budget.

Table 23

**Research, Development
and Acquisition
(Procurement & RDT&E)
by Component
(\$ billions ¹)**

	FY04	FY05	FY06
Procurement			
Army	16.2	14.4	11.8
Navy (includes Marine Corps)	29.9	28.5	29.7
Air Force	32.4	33.3	32.5
Defensewide and Other	4.7	3.4	4.1
Total DoD²	83.2	79.6	78.1
Research, Development, Test and Evaluation			
Army	10.2	10.6	9.7
Navy (includes Marine Corps)	14.8	16.9	18.0
Air Force	20.2	20.8	22.6
Defensewide and Other	19.2	20.9	19.0
Total DoD²	64.4	69.2	69.3
¹ Numbers may not add due to rounding.			
² FY04 actual, FY05 enacted, FY06 proposal.			
Source: DoD Financial Summary Table FY06, P-1 & R-1			

Major Procurement and RDT&E Programs

A list of major procurement and RDT&E programs by dollar amounts in the FY 2006 budget is in table 24. Many of these systems are discussed in the earlier subsection “Priority: Develop and Field Joint Military Capabilities.”

MISSILE DEFENSE PROGRAM

The FY 2006 budget includes \$8.8 billion for the missile defense program, which continues the development, testing and fielding of missile defense technologies that can defeat ballistic missiles of any range during any phase of their flight.

The FY 2006 total dollars are decreasing from prior years, with a reduction of more than a billion dollars in RDT&E. See table 25 for the funding data.

The missile program aims at deploying a layered missile defense, which involves a mix of various missile systems. The Joint Theater Air and Missile Defense Organization and five programs account for virtually all the dollars in the missile program. More than 70 percent of the funds are for midcourse and ballistic missile defense. The FY 2006 budget adds five Ground-Based Interceptors for a total of 21 and 11 Standard Missile 3 missiles for a total of 22 at a cost of \$7.8 billion. The focus for the future is on the most promising technologies, e.g., kinetic and directed energy. See table 26 for details.

Space Forces

Space is a critical force multiplier for all U.S. forces. Space systems support all operations with products performing reconnaissance, surveillance, intelligence, command and control, communications, weather information and navigation. Space systems employ complex and expensive technologies. Therefore, space systems need to provide support across services.

In recognition of the strategic and cross-service applicability of space assets, in 2002 the Secretary of Defense merged U.S. Space Command with U.S. Strategic Command as a unified command under DoD. USSTRATCOM provides special program focus global strike, missile defense integration, DoD information operations and C4ISR (command, control, communications, computers, intelligence, surveillance and reconnaissance) technologies for all of DoD.

Space assets include a constellation of satellites and the associated ground-based systems and facilities to provide space support, force enhancement and space control.

- Space support involves operations to deploy and sustain military systems in space.
- Force enhancement involves space combat support operations, to include reconnaissance and surveillance, targeting, tactical warning and attack assessment, communications, navigation and environmental monitoring.
- Space control involves operations to ensure and enhance the ability of the United States and friendly forces to exploit space while limiting or denying adversaries’ ability to exploit space for hostile purposes.

The FY 2006 budget requests about \$2 billion in procurement and \$3.5 billion in RDT&E for space programs. See table 27.

Department of Defense—Selected Major Weapon Systems for Fiscal Year 2006
(\$ millions)

AIRCRAFT	Procurement ¹	RDT&E
Army		
AH-64-D Longbow Apache Helicopter	683.9	109.7
RCH-47 Chinook Helicopter	676.0	19.7
UH-60 Black Hawk Helicopter	618.1	115.0
Aerial Common Sensor	0.0	164.6
Navy		
E-2C Hawkeye	249.0	629.7
EA-6B Prowler	120.6	33.0
F/A-18E/F Hornet	2,822.0	89.0
H-1 USMC Upgrades	307.5	42.0
MH-60R Helicopter	554.5	48.1
MH-60S Helicopter	589.1	40.8
T-45TS Goshawk	0.0	239.2
Aerial Common Sensor	0.0	133.6
B-2 Bomber	59.1	285.2
C-17 Airlift Aircraft	3,497.1	165.8
F-15E Eagle Multimission Fighter	151.5	124.6
F-16 Falcon Multimission Fighter	381.0	155.7
F-22 Raptor	3,817.5	479.7
C-130J Airlift Aircraft	290.7	239.7
Joint Primary Aircraft Training System (JPATS)	335.7	0.0
Joint Strike Fighter (JSF)	152.4	4,867.8
Unmanned Aerial Vehicles (UAV)	599.6	912.2
V-22 Osprey	1,503.8	275.7
MISSILES		
Army		
High-Mobility Artillery Rocket System (HIMARS)	299.7	114.3
Javelin Advanced Antitank Weapon System-Medium (AAWS-M)	57.6	0.0
Evolved Seasparrow Missile (ESSM)	99.8	0.0
Rolling Airframe Missile (RAM)	86.9	0.0
Standard Missile (Air Defense)	145.7	145.6
Tomahawk Cruise Missile	353.4	20.3
Trident II Sub-Launched Ballistic Missile	932.7	90.0
Sensor Fuzed Weapon (SFW)	120.4	0.0
Wind Corrected Munitions (WCMD)	0.0	21.4
Navy		
AIM-9X Sidewinder	82.8	25.0
Advanced Medium-Range Air-to-Air Missile (AMRAAM)	202.2	36.9
Joint Air-to-Surface Standoff Missile (JASSM)	150.2	67.0
Joint Direct Attack Munition (JDAM)	306.9	0.0
AIRCRAFT		
MISSILES (continued)		
DoD/ Joint	Procurement ¹	RDT&E
Joint Standoff Weapon (JSOW)	145.4	13.5
Small Diameter Bomb (SDB)	59.1	96.0
VESSELS		
Navy		
CVN-21 Carrier Replacement Program	564.9	308.0
DD(X) Destroyer	716.0	1,084.7
DDG-51 Aegis Destroyer	225.4	0.0
Littoral Combat Ship (LCS)	36.8	576.4
LPD-17 Amphibious Transport Dock	1,344.7	11.4
Virginia-Class Submarine NSSN	2,401.5	155.8
CVN Refueling Complex Overhaul (RCOH)	1,513.6	0.0
SSGN Conversions	286.5	24.0
T-AKE Auxiliary Dry Dock Cargo Ship	380.1	0.0
COMBAT VEHICLES		
Army		
Future Combat Systems (FCS)	0.0	3,404.8
Abrams Tank Upgrade Program	450.9	44.9
Intram Armored Vehicle (Stryker)	878.4	26.7
SPACE		
Army		
DSGS Ground Systems	55.0	11.5
Mobile User Objective System (MUOS)	0.0	470.0
Navy		
Advanced Extremely High-Frequency Satellite	529.0	665.3
Defense Support System	42.7	0.0
Evolved Expendable Launch Vehicle	838.3	26.1
Medium Launch Vehicles	111.2	0.0
NAVSTAR Global Positioning System	318.1	401.5
Space-based Infrared Systems-High	0.0	756.6
Transformational Satellite Communications	0.0	835.8
Space-Based Radar	0.0	225.8
Wideband Gapfiller Satellite	72.5	93.9
OTHER		
Army		
Family of Heavy Tactical Vehicles (FHTV)	207.1	3.4
Family of Medium Tactical Vehicles (FMTV)	449.6	0.0
High-Mobility Multipurpose Wheeled Vehicles (HMMWV)	224.2	0.0
DoD/ Joint	Procurement ²	RDT&E
Missile Defense ²	572.0	8,160.9

¹ Procurement includes initial spares.

² Procurement includes \$ 4.9 million in Military Construction.

Source: DoD Budget, Program Acquisition Costs by Weapon System

Table 25

**Missile Defense Program
by Appropriation
(\$ millions ¹)**

	FY04	FY05	FY06
RDT&E ²	8,144.3	9,214.8	8,160.9
Procurement	841.9	575.0	567.1
Military Construction	22.0	22.3	4.9
Operations & Support	58.6	88.2	111.7
Total³	9,066.8	9,900.3	8,844.6

¹ Numbers may not add due to rounding.
² Research, Development, Test and Evaluation.
³ FY04 actual, FY05 enacted, FY06 proposal.

Source: DoD Budget, Program Acquisition Costs by Weapon System

Table 26

**Missile Defense Program
Overview (All Appropriations)
(\$ millions ¹)**

	FY04	FY05	FY06
JTAMDO ²	85.1	86.4	80.7
BMD ³ Midcourse Defense	3,711.7	4,501.5	3,234.4
BMD ³ Boost Defense	475.9	476.2	483.9
Other Ballistic Missile Defense	3,124.8	3,678.2	3,940.2
PAC-3 ⁴	887.5	607.1	583.3
MEADS ⁵	388.1	312.9	288.8
Other	393.7	238.0	233.3
Total⁶	9,066.8	9,900.3	8,844.6

¹ Numbers may not add due to rounding.
² Joint Theater Air and Missile Defense Organization.
³ Ballistic Missile Defense.
⁴ Patriot Advanced Capability 3 and Modifications.
⁵ Medium Extended Air Defense System.
⁶ FY04 actual, FY05 enacted, FY06 proposal.

Source: DoD Budget, Program Acquisition Costs by Weapon

Table 27

**Department of Defense Space Programs
(\$ millions)**

	FY 2006	
	Procurement ¹	RDTE
Defense Satellite Communications System (DSCS)	55.0	11.5
Mobile User Objective System (MUOS)	0.0	470.0
Advanced Extremely High-Frequency Satellite (AEHF)	529.0	665.3
Defense Support Program	42.7	0.0
Evolved Expendable Launch Vehicle (EELV)	838.3	26.1
Medium Launch Vehicles	111.2	0.0
NAVSTAR ² Global Positioning System (NAVSTAR-GPS)	318.1	401.5
Space-Based Infrared Systems-High (SBIRS-H)	0.0	756.6
Transformed Satellite Communications	0.0	835.8
Space-Based Radar	0.0	225.8
Wideband Gapfiller Satellite	72.5	93.9

¹ Procurement includes initial spares.
² Navigation System Using Time and Ranging.

Source: DoD Financial Summary Tables Fiscal Year 2006, Program Acquisition Costs by Weapon Systems

U.S. space forces provide the C4ISR backbone for military deployments and operations.

SPECIAL OPERATIONS FORCES

Major Force Program (MFP)-11 in the DoD budget is for special operations forces. In the FY 2006 budget, MFP-11 includes \$6.5 billion, of which \$2.2 billion resides in the technology, development and acquisition-related accounts. The \$6.5 billion equates to 1.6 percent of the total DoD budget—a small percentage of the budget in relation to the contribution made by special operations forces to the war on terrorism.

In 1987, Congress established the U.S. Special Operations Command. The primary role of USSOCOM was to serve as a “supporting command” that trained and equipped special operations personnel for the geographic combatant commanders.

Special operations forces have been critical in the fight against terrorism. The Secretary of Defense added a new role as a “supported command” with responsibility for planning DoD’s military effort in the war on terrorism. USSOCOM has been transformed to give it a prominent role in defeating terrorism.

USSOCOM is one of nine unified commands in the DoD combatant command structure. It is composed of Army, Navy and Air Force special operations forces. USSOCOM’s mission is to support the geographic combatant commanders, ambassadors and their country teams, and other government agencies by preparing SOF to successfully conduct special operations, including Civil Affairs (CA) and Psychological Operations (PSYOP).

USSOCOM is unique among the combatant commands because, under U.S. Code Title 10, Section 167, it exercises budget authority similar to the military departments. Specifically, USSOCOM has “service-like” responsibilities for consolidating and submitting program and budget proposals for MFP-11 and for developing and acquiring special operations-peculiar equipment, material, supplies and services.

The FY 2006 budget includes several initiatives, including:

- adding about 200 civilians and 1,200 military personnel, including four SEAL platoons;
- adding \$50 million for programs to boost SOF retention; and

- realigning SOF assets to facilitate their deployment.

See table 28 for MFP-11 as well as USSOCOM Procurement and RDT&E data.

Table 28			
U.S. Special Operations Command			
Major Force Program - 11			
(Budget Authority \$ millions)			
	FY04	FY05	FY06
Procurement ¹	2,075.4	1,273.6	1,242.3
RDT&E ^{1,2}	593.3	574.9	481.5
Other	3,842.3	4,726.5	4,791.2
Total MFP-11³	6,511.0	6,575.0	6,515.0
Sources: ¹ DoD Budget Estimates - USSOCOM R-1 & P-1			
² Research, Development, Test & Evaluation.			
³ DoD Budget Greenbook, Table 6-4, Total Obligational Authority by Program.			

RESERVE COMPONENTS

The reserve components make up 42 percent of the total military endstrength in the Department of Defense. The reserve components include the Army and Air Force National Guard and the Army, Navy, Air Force and Marine Corps Reserve.

Each of the reserve components prepares a budget that includes the standard appropriation titles. However, the reserve components do not submit budgets for RDT&E or procurement; rather, their respective active components include reserve component requirements in the service’s RDA accounts. On occasion, Congress has provided specific procurement appropriations for reserve components.

In FY 2006, the Military Personnel and O&M accounts for the reserve components are rising slightly. The O&M for the National Guard is down by 30 percent. In part, this may be due to the large number of Army National Guard Soldiers who are mobilized and receiving operational support from the active component’s O&M. See table 29 for a summary of the reserve components’ budget requests.

Since the 11 September 2001 terrorist attacks on America and the subsequent and continuing war on terrorism, DoD has relied upon the reserve components to

**Reserve Components'
Budget by Appropriations**
(\$ millions)

	FY04	FY05	FY06
Military Personnel			
Reserve ¹	7,194.2	7,912.9	8,205.3
National Guard ²	7,574.5	8,532.6	9,028.1
Operation and Maintenance			
Reserve ¹	5,453.9	5,649.3	5,934.7
National Guard ²	8,978.8	8,913.2	6,233.8
Military Construction			
Reserve ¹	195.9	269.2	492.2
National Guard ²	534.5	684.7	230.6
¹ Reserve includes Army, Navy, Marine Corps, Air Force.			
² National Guard includes Army and Air Force.			
Source: DoD Financial Summary Tables FY 2006, Part II			

meet force requirements at home and in the theaters of operation. DoD has mobilized more than 36 percent of the Selected Reserve.

The demands for certain types of units have been very high, while the demands for other types are low or nonexistent. For example, the demand for Army artillery and air defense units is low, while the demand for military police and transportation units is high.

Based on the demands and the future security environment, DoD has initiated actions to rebalance the force.

Rebalancing involves increasing the units and personnel skills that have been in high demand and reducing those that have been in low demand. Rebalancing applies to both the active and reserve components.

The reserve components are essential to the overall capability of DoD.

FACILITIES

The FY 2006 budget includes \$7.7 billion for Military Construction (up 26 percent over FY 2005) and \$4.3 billion for Family Housing (up by nearly 4 percent). The Military Construction (MILCON) funds and about half of the Family Housing funds are investment dollars that are used to provide quality work and living facilities for servicemembers, their families and the DoD

civilian workforce. Subsets of this priority include facilities and housing.

DoD operates facilities at 6,000 locations with more than 600,000 buildings and structures (most in the United States but many in other countries around the world). DoD's facilities are essential for producing force capability—facilities support individual and collective training, mobilization and deployment, sustaining operations via reachback and resetting the force after deployments.

Facilities also are places where servicemembers work with their DoD and contractor civilian counterparts and where servicemembers and their families live.

See table 30 for funding data.

**Military Construction
and Family Housing**
(\$ millions¹)

	FY04	FY05	FY06
Military Construction			
Army	1.9	2.6	2.0
Navy	1.4	1.2	1.2
Air Force	1.8	1.4	1.4
Defensewide	1.0	0.9	3.1
Total MILCON	6.1	6.1	7.7
Family Housing Operations			
Army	1,043.4	927.7	812.9
Navy	841.3	705.4	593.7
Air Force	823.1	864.8	766.9
Defensewide	49.4	49.5	46.4
Subtotal	2,757.2	2,547.4	2,219.9
Family Housing Construction			
Army	297.9	615.1	549.6
Navy	143.7	126.8	218.9
Air Force	617.6	801.8	1,251.1
Defensewide	0.3	0.0	0.0
Subtotal	1,059.5	1,543.7	2,019.6
Total Family Housing²	3,816.7	4,091.1	4,239.5
¹ Numbers may not add due to rounding.			
² Excludes Department of Defense Family Housing Improvement Fund.			
Source: Department of Defense Financial Summary Tables FY06, Part 1			

The FY 2006 budget continues the initiative begun in FY 2001 to replace older buildings. Previously, DoD facilities were replaced, i.e., recapitalized, at an average of once every 192 years. The department's goal is to reduce recapitalization to a rate of 67 years by FY 2008. Recapitalization is important because older facilities often are inadequate, consume greater amounts of resources to operate and require both increasing and more expensive maintenance.

The operation and maintenance costs for facilities other than family housing are included in the O&M appropriations. In FY 2006, facilities maintenance is funded at 92 percent. The operation and maintenance costs for family housing are included in the Family Housing appropriations.

Military Construction

Military Construction includes separate accounts for Army, Navy, Air Force and Defense agencies, for NATO infrastructure and for construction costs associated with base closures. The primary purpose for the funds is major construction; the majority is for construction inside the United States.

FY 2006 construction funds increase by 26 percent over FY 2005. Although DoD construction dollars increase, the Army amount is 23 percent less than in FY 2005. All of the increase is in the Defensewide activities.

Family Housing

The Family Housing appropriations include both construction and operations. In FY 2006, 52 percent of Family Housing dollars are in the operations accounts and 48 percent in the construction accounts. The operating accounts are down from FY 2005 by nearly 13 percent; the construction accounts are up by nearly 31 percent.

DoD owns more than 300,000 military housing units. The goal is to renovate family quarters on a 35-year cycle. The budget includes \$2.2 billion for operating and maintaining DoD family housing units and \$2 billion for constructing new units, improving the DoD family housing inventory and supporting housing privatization where feasible. The FY 2006 budget eliminates 67,000 inadequate housing units (out of a total of 136,000 government-owned units) by 2007 and continues the move toward eliminating all inadequate family housing units worldwide by FY 2009.

With construction funds limited, the department is also pursuing other means to achieve the 35-year renovation goal. The Housing Revitalization Act of 1997 (which authorizes using limited partnerships, making guaranteed loans and conveying DoD-owned property to stimulate private-sector participation) established a Family Housing Improvement Fund (FHIF). The bottom line is that the department is using private-sector capital to replace construction funds to provide adequate housing. With the FY 2006 budget, privatization will result in nearly 172,000 high-quality family housing units.

Servicemembers use their Basic Allowance for Housing to make their rent payments to the private sector developers.

DEFENSEWIDE PROGRAMS

The Defense budget includes a number of specific programs or appropriations. The most significant are described below.

Environmental Restoration Program

The Defense Environmental Restoration Program provides for the identification, investigation and cleanup of contamination resulting from past DoD activities. Beginning in FY 1997, Congress established five separate accounts: one for each military department, one for Defense agencies and one for Formerly Used Defense Sites (FUDS). The Army acts as the executive agent for the FUDS.

See table 31 for budget authority.

In addition to the restoration dollars shown in table 31, environmental funds to support compliance, pollution prevention, conservation and environmental technology are in military department and Defensewide budgets. These other environmental dollars are embedded in various appropriations, mostly in O&M but with some in RDT&E and Military Construction. The Base Realignment and Closure portions of the Military Construction budgets often include significant environmental funds.

Drug Interdiction and Counterdrug Activities

This is a special appropriation that supports the department's drug interdiction and counterdrug activities using reserve component personnel. Congress restricts use of these funds to that purpose.

Environmental Restoration Program (\$ millions ¹)

	FY04 ²	FY05	FY06
Army	0.0	399.9	407.9
Navy	0.0	266.2	305.3
Air Force	0.0	396.4	406.5
Defensewide	1.6	23.6	28.2
FUDS ³	0.0	265.9	221.9
Total	1.6	1,352.0	1,369.8

¹ Numbers may not add due to rounding.

² ERP funds are executed within Operation and Maintenance appropriations and do not show up separately in prior-year execution reports; Defensewide amount represents difference between appropriation and amount transferred (less than amount appropriated).

³ Formerly Used Defense Sites.

Source: Department of Defense Financial Summary Tables FY06, Part 1

In the year of execution, the DoD transfers the funds to the reserve components and in particular to the National Guard, who participate in a number of counterdrug programs in cooperation with law enforcement agencies. Therefore, no dollars are displayed in the prior-year column. See table 32.

Drug Interdiction and Counterdrug Activities Defense Program (\$ millions)

	FY04*	FY05	FY06
Total Obligational Authority	—	906.5	895.7

* FY04 appropriation adjusted for transfers out; therefore zero Total Obligational Authority/Budget Authority/Outlay totals.

Source: DoD Financial Summary Tables FY 2006, Part 1

Chemical Destruction Program

The Chemical Agent and Munitions Destruction Program identifies funds for the complete disposal of the U.S. chemical stockpile, including chemical weapons and any other chemical warfare materials. The Army is the executive agent and program manager.

In the past, a special DoD appropriation provided the funds for the destruction of chemical agents, munitions and any other chemical materials not in the stockpile. The budget now identifies the funding in the RDT&E, Procurement and O&M appropriations. However, the program execution is in Procurement for funding and accounting. See table 33.

Chemical Agents and Munitions Destruction Program (\$ millions ¹)

	FY04	FY05	FY06
RDT&E ²	251.9	202.5	47.8
Procurement	79.2	79.9	116.5
O&M ³	1,169.2	1,088.8	1,241.5
Total	1,500.3	1,371.2	1,405.8

¹ Numbers may not add due to rounding.

² Research, Development, Test and Evaluation.

³ Operation and Maintenance.

Source: DoD Financial Summary Tables FY 2006, Part 1

The task of disposing the total stockpile of some 30,000 tons of chemical agents, involving about 3.3 million weapons and storage vessels, has been technologically difficult and subject to much controversy with respect to safety and assurance of doing the job in a risk-free way.

Base Realignment and Closure

The first round of Base Realignment and Closure actions began with the Defense Base Realignment and Closure Act of 1988 (Public Law 100-526). This was the first of four rounds of BRAC (occurring in 1988, 1991, 1993 and 1997) that resulted in closing 97 DoD bases within the United States.

Congress authorized the convening of another BRAC Commission in FY 2005. DoD has already submitted its recommendations to the BRAC Commission. The commission will submit its own recommendations to the President and Congress in September 2005; if both approve the recommendations in their entirety, implementation will begin in FY 2006.

At the DoD budget hearings before the House Appropriations Committee, Subcommittee on Military Quality

of Life and Veterans Affairs, the Under Secretary of Defense (Comptroller) reiterated the President's Budget proposal for \$1.9 billion to implement BRAC 2005 decisions in FY 2006. DoD estimates that it will start realizing more than \$7 billion in annual savings by 2012.

Both Congress and DoD recognize that unneeded bases and facilities cost taxpayers billions of dollars annually in operational funds. However, the bases and facilities are sources of employment and, often, substantial contributors to the local economies. Therefore, base closures are always contentious. However, the BRAC experience clearly demonstrates that eliminating excessive facilities frees up money for other priorities.

The combination of BRAC and the Global Defense Posture Review will provide a solid foundation for adjusting domestic and overseas basing decisions.

MANAGEMENT AND REVOLVING FUNDS

DoD uses management and revolving funds to conduct certain business-like activities. A revolving fund is an account that collects money from customers for goods or services and retains that income to finance its continuing operations. The revolving fund recycles its income to pay for its own operations.

Using a fund generally provides more flexibility, responsiveness and stability over the appropriations process. Also, funds typically involve less complex finance and accounting requirements, particularly when two or more appropriations are involved.

The corpus of a fund usually receives initial financing from Congress and subsequently receives appropriated dollars intermittently to restore depleted capital or to expand the fund. Otherwise, the revolving fund produces something or provides supplies or a service and receives reimbursement from customers. Those funds are retained to finance future operations.

The Defense Working Capital Funds (formerly the Defense Business Operations Fund, or DBOF) are the most significant in DoD, although there are a number of lesser revolving and management funds for control and financial accounting purposes.

Defense Working Capital Funds

The Defense Working Capital Funds, established in 1996, include the Army Working Capital Fund, Navy

Working Capital Fund, Air Force Working Capital Fund and the Defensewide Working Capital Fund.

The military services and the Office of the Secretary of Defense determine the scope of their Working Capital Funds to best meet a particular requirement. The activities of the four Working Capital Funds include some mix of the activity groups listed below:

- supply management,
- depot maintenance,
- ordnance,
- information services,
- commissary operations,
- printing and publications,
- transportation,
- financial operations,
- distribution depots,
- research and development (Navy),
- industrial plant equipment services, and
- defense reutilization and marketing service.

A sample of some of the activities the Defensewide Working Capital Fund finances are the operations of the Defense Logistics Agency, Defense Finance and Accounting Service, Defense Commissary Agency, Defense Information Services Agency and Joint Logistics Systems Center commercial and support-type activities.

Each Working Capital Fund operates on a break-even basis over the budget cycle. Each Working Capital Fund establishes activity group rates to recover full costs and to adjust for prior-year operating results. Gross sales are 23 percent of the DoD budget in FY 2006.

See table 34 for gross sales data.

MAKING DOD MORE EFFECTIVE

DoD recognizes that transforming its business practices is just as critical as transforming military capabilities. Therefore, the department is pursuing an ambitious plan to overhaul its management processes and systems. The FY 2006 budget includes a number of management initiatives for making DoD more effective. In addition, the

Defense Working Capital Funds
Gross Sales
(\$ millions*)

	FY04	FY05	FY06
Army	14,199.3	15,294.1	13,494.3
Navy	24,398.8	23,756.3	24,789.9
Air Force	29,265.9	27,602.1	27,769.1
Defensewide	33,367.8	34,490.8	35,184.9
Total	101,231.8	101,143.3	101,238.2
* Numbers may not add due to rounding.			
Source: DoD, Army, Navy and Air Force Justification Materials			

department expects to identify and implement future management initiatives from the Quadrennial Defense Review (QDR) 2005.

Quadrennial Defense Review 2005

The Quadrennial Defense Review will consider the current and likely strategic environment, including the war on terrorism and a state of continuous war; set the defense priorities and identify the capabilities for bringing decisive military power to the battlefield rapidly; and introduce substantive innovations to DoD business processes. DoD is using six Integrated Project Teams (IPTs) to accomplish the review. The teams and their focus are:

- **IPT #1: Capability Mix** – examine issues that are expected to affect force structure and modernization plans.
- **IPT #2: Joint Capability Enablers** – examine capabilities not championed by any single service but essential to transform the U.S. military, such as airlift, sealift, logistics, C4ISR, information technology and intelligence.
- **IPT #3: Roles/Missions and Organizations** – examine the distribution of roles and missions and organizational issues.
- **IPT #4: Manning and Balancing the Force** – examine personnel issues, education and training, and human capital strategy.
- **IPT #5: Business Practices and Processes** – examine acquisition procedures, Planning, Programming,

and Budgeting (PPB) processes and other management practices.

- **IPT #6: DoD Authorities** – examine aspects of U.S. Code that might have to be changed to allow the Pentagon to implement proposed changes to the U.S. military.

Transforming Business Practices

Transfer of Background Checks to the Office of Personnel Management. DoD and the Office of Personnel Management signed a Memorandum of Agreement for the permanent transfer of approximately 1,800 DoD employees to OPM in early 2005. The employees augment OPM's contractors to perform the personnel background investigations required for federal employment and for granting security clearances for federal civil servants and military and contractor personnel.

Military-to-Civilian Conversions. Between FY 2004-06, the DoD will convert 38,000 military positions to civilian positions and reassign the military personnel to higher-priority military units, which increases the pool of available units for deployments and relieves some of the stress on the current pool of units.

National Security Personnel System. In November 2003, Congress passed legislation granting DoD the authority to establish a new civilian personnel management system, the National Security Personnel System (NSPS), to replace the rigid civilian pay schedule with pay bands and performance-based pay.

The budget advances implementation of the National Security Personnel System. The DoD plan is to implement the first phases of NSPS with the initial conversion of 300,000 in FY 2006.

Adopting Best Practices

DoD depots are adopting best practices from the private sector to save money and improve their ability to maintain our military's equipment.

DEFENDING AMERICA—NOW AND IN THE FUTURE

The events in the opening years of this century have proven that America has enemies who want to and are willing to harm America. These enemies are more

dangerous then before because they strike without warning, they strike at ordinary people—men, women and children—and they use whatever means they can to terrorize society. The terrorists are a non-states alliance of individuals, they use unconventional means, they are adaptable, and they are willing to continue their hostile acts indefinitely.

The world continues to be a dangerous place for the United States and its allies, and it will remain so for the foreseeable future. The budget recognizes the national security environment and challenges—and also the likely lack of a peer state to challenge the United States—in the early decades of the 21st century.

The DoD budget continues the aggressive transformation of the department to produce the capabilities for continuous operations against unconventional enemies. Transformation involves all aspects of defense—doctrine, tactics, organizations, capabilities, management and business processes.

Transformation includes restructuring the forces and adding new capabilities to all the services for warfighting and for homeland defense. Transformation also involves rebalancing the forces by increasing the units and personnel skills that are in high demand. Both the global posture

and BRAC realignments better support the agility and responsiveness of the transformational forces. Transformation of materiel capabilities is extensive and impressive, e.g., it includes the Future Combat Systems for the Army, advanced aircraft systems across the services, and the development and procurement of several types of unmanned systems. Transformation also includes privatization of family housing to produce large quantities of high-quality units.

The DoD budget request of \$421.1 billion in budget authority (an increase of 4.8 percent over FY 2005, and a cumulative increase of nearly 32 percent over FY 2001, the pre-9/11 budget⁹) and \$426.3 billion in outlays is designed to accomplish this and much more. The Defense budget is a sizeable sum in absolute terms and in relation to the federal budget—the FY 2006 outlays are 46 percent of discretionary spending for the entire federal government.

The budget identifies various initiatives to control and reduce costs and provide the taxpayers with the best defense possible. The budget balances immediate force needs with the development of future enhancements and proposes the resources necessary to produce the best trained, best equipped and most capable military in the world.

⁹ The President's Budget presents the administration's request for funds; what is enacted will differ, and what is enacted initially may change with supplemental and recessions in subsequent acts.