



AUSA BACKGROUND BRIEF



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SUMMARY: DEPARTMENT OF DEFENSE BUDGET AND DEPARTMENT OF THE ARMY FY96 BUDGET

Department of Defense Budget

The Department of Defense (DoD) or military budget (identified as Federal Account Number 051) represents 96 percent of the total national defense. The remaining percent includes other activities to include Department of Energy military activities, Federal Emergency Management Agency and other miscellaneous items.

The reader must differentiate between budget authority (the authority to enter into obligations, as appropriated by Congress) and outlays (actual spending, some of which flows from prior-year obligations).

The topline numbers for defense projected through the Future Years Defense Program (FYDP) are summarized in the two following charts:

NATIONAL DEFENSE TOPLINE Budget Authority (current \$ billions)

	FY95	FY96	FY97	FY98	FY99	FY00	FY01
DoD military - 051	252.6	246.0	242.8	249.7	256.3	266.2	276.6
DoE and other	10.9	11.8	10.6	9.9	9.9	9.9	9.9
Total national defense	263.5	257.8	253.4	259.6	266.3	276.0	286.5
% real change (after adjusting for inflation)	-1.9	-5.3	-4.1	-0.1	-0.2	+1.1	+1.2

The shaded portion pertains to the DoD (often called the military) budget.
Numbers may not add due to rounding.

NATIONAL DEFENSE TOPLINE
Outlays (current \$ billions)

	FY95	FY96	FY97	FY98	FY99	FY00	FY01
DoD military - 051	260.2	250.0	246.1	244.2	249.6	257.9	261.6
DoE and other	11.4	11.4	10.9	10.3	10.0	9.9	9.9
Total national defense	271.6	261.4	257.0	254.5	259.7	267.8	271.5
% real change (after adjusting for inflation)		-5.4	-6.6	-4.4	-3.6	-0.6	+0.6

The shaded portions pertain to the DoD (often called the military) budget.

The DoD budget request is shown in terms of budget authority (BA); for the rest of this paper, numbers will be expressed in BA. The DoD budget provides details for two fiscal years — FY96 and FY97.

The DoD Budget in Brief

The topline numbers are shown above. When adjusted for inflation, the FY96 and FY97 DoD totals show a continuation of the budget decline for these years.

The budget, as submitted, is geared to the defense strategy of the Bottom-Up Review. The overall force structure to be supported is shown on the next chart. Levels for the end of FY96 as well as projected goals are listed.

BOTTOM-UP REVIEW FORCE STRUCTURE

	Cold War Base 1990	1996	Projected Goal
Land Forces			
Army active divisions	18	10	10
Reserve component brigades	57	47*	42*
Marine Corps divisions (3 active/1 reserve)	4	4	4
Navy			
Battle force ships	546	365	346
Aircraft carriers			
Active	15	11	11
Reserve	1	1	1
Navy carrier wings			
Active	13	10	10
Reserve	2	1	1
Air Force			
Active fighter wings	24	13	13
Reserve fighter wings	12	7	7

*includes 15 enhanced readiness brigades (equivalent to 5+ divisions)

Associated personnel drawdown from a FY90 base through FY01 shows active personnel (all services) decreasing from 2,069,000 to 1,445,000 and civilian personnel from 1,073,000 to an estimated 729,000.

A breakout by budget title is shown below:

DOD BUDGET AUTHORITY BY TITLE						
(current \$ billions)						
	FY96	FY97	FY98	FY99	FY00	FY01
Military Personnel	68.7	67.5	68.2	69.6	70.9	72.3
Operation & Maintenance	91.9	90.6	89.9	92.7	94.8	98.1
Procurement	39.4	43.5	51.4	54.2	62.3	67.3
RDT&E *	34.3	32.7	31.7	30.9	30.2	30.6
Military Construction	6.6	4.5	4.6	4.4	3.7	3.9
Family Housing	4.1	4.3	4.1	4.4	4.5	4.6
Other	0.9	-0.2	-0.2	0.1	-0.2	-0.1
Total	246.0	242.8	249.7	256.3	266.2	276.6

Numbers may not add due to rounding.
 * Research, Development, Test and Evaluation

Focusing on Fiscal Years 1996 and 1997, it is apparent that military personnel and operations and maintenance (O&M) costs dominate total defense funding.

The much-publicized \$25 billion addition to the defense topline, announced before the budget submission, was spread across all the years of the six-year FYDP period. Unfortunately, the bulk — \$15 billion — was allocated against the last two years of the period, rather than in the early years when it would be most helpful in remedying observed needs. The rest was spread across the earlier years to specifically enhance readiness and quality of life and is reflected in the budget numbers submitted.

The FY95 supplemental request is also an important part of the overall budget equation. Approximately \$2.6 billion is needed to cover costs unbudgeted and not covered in FY95 for contingency operations ranging from Somalia, Rwanda, Bosnia and Southwest Asia to Haiti and Cuba. The lack of reimbursement to the services during FY94 or early FY95 caused a significant drawdown in the fourth quarter for training and other flexible O&M requirements. Recoupment is still needed and, if not enacted before the middle of the fiscal year, will cause a repeat of last year's problem.

Procurement in the FY96 budget is only 16 percent of the total DoD budget, down from 34 percent at its peak in FY85. Also, it has decreased in buying power some 70 percent over the same period. It will be noted, however, that modest recapitalization is planned during the mid to latter part of the FYDP period.

A listing of major items in the Research and Development (R&D) and Procurement portions of the FY96/97 budget is shown on the next chart.

SELECTED PROCUREMENT AND RDT&E WEAPON SYSTEMS IN THE DOD FY96 AND FY97 BUDGET (\$ millions)				
Item	Procurement		RDT&E	
	FY96	FY97	FY96	FY97
Army Longbow Apache Aircraft and Longbow Hellfire Missile (combined)	552	672	24	4
Navy F/A-18 E/F	237	2,325	845	304
Navy V-22 Osprey	48	693	763	581
Air Force C-17 Airlift Aircraft	2,520	156	86	16
Air Force E-8A Aircraft Joint Surveillance Target Attack Radar System (Joint STARS)	556	586	170	200
Air Force F-22 Advanced Tactical Fighter	—	91	2,139	1,957
Navy Aegis Destroyer	2,320	2,978	106	94
Navy Attack Submarine	705	300	455	512
Seawolf Attack Submarine	1,526	36	127	114
Army Abrams Tank Modernization	490	490	39	49
Army Armored System Modernization			202	268
Air Force MILSTAR	692	754	1	
Ballistic Missile Defense	454	546	2,442	2,484
Procurement total includes initial spares				

Additional Defense Notes for FY96 and FY97

- Personnel reductions budgeted for FY96 as compared with FY95 are -38,100 active military, -37,900 reserve components, and -38,300 DoD civilians.
- The increment, i.e., the \$25 billion addition to the defense topline, was applied for FY96 and FY97 increments to cover readiness, military pay increases and other quality-of-life items.
- The budget provides for and maintains high operation and training rates.
- Readiness and people come first; recapitalization is supported at a higher level in the later years.
- Pay raises are included for both military and civilian personnel — 2.4 percent in FY96 and 3.1 percent in FY97. Also, the budget includes a new allowance for military families living in high-cost areas and the first step in a phased plan to restore the Basic Allowance for Quarters to the objective level of 85 percent of average housing costs. It also includes funds for personal transition assistance.

THE ARMY FY96 BUDGET IN BRIEF

The Army portion of the Department of Defense's Fiscal Year 1996 budget submission is \$59.5 billion in total obligational authority.

The \$59.5 billion for FY96 is less than the FY95 number of \$61.8 billion which includes an anticipated supplemental for last year's contingencies. It represents a real decline of about 3 percent from the previous year. The projected FY97 level of \$58.1 billion is a further reduction.

While this budget, as structured, is geared to meet near-term readiness issues, it misses the mark with respect to Army equipment modernization and other recapitalization requirements for the future. Having said this, the Army budget is far better than the initial guidance figures of \$57 billion (or even less) being touted several months ago.

The budget totals and a breakout by appropriation title are summarized on the following chart. These numbers combine the budgets of the active Army, the Army National Guard and the U.S. Army Reserve for military personnel (MILPERS), operations and maintenance (O&M) and military construction (MILCON).

ARMY SUMMARY (Total Obligational Authority) (Current \$ billions)			
Appropriation Groupings	FY95	FY96	FY97
MILPERS	26.1	25.0	24.7
O&M	21.2	21.6	20.9
PROCUREMENT	6.9	6.3	5.9
RDT&E	5.5	4.4	4.2
MILCON	.8	.5	.6
AFH	1.2	1.4	1.4
BRAC*	.1	.3	.3
Total	61.8	59.5	58.1

Numbers may not add due to rounding.

*BRAC is a DoD Appropriation and not a portion of Army Appropriations during and after year of execution.

Included in the FY95 column is a pending supplemental request to recoup costs of contingency operations ranging from Somalia, Rwanda, Bosnia, Southwest Asia and Korea to Haiti and Cuba. These involved Army costs that were not covered in the budget as originally appropriated. It is assumed that about \$700 million will be added to the FY95 column after internal reprogramming. The failure to obtain this during the last congressional cycle resulted in the readiness problem that surfaced early this year. This funding is still required or the problem will resurface.

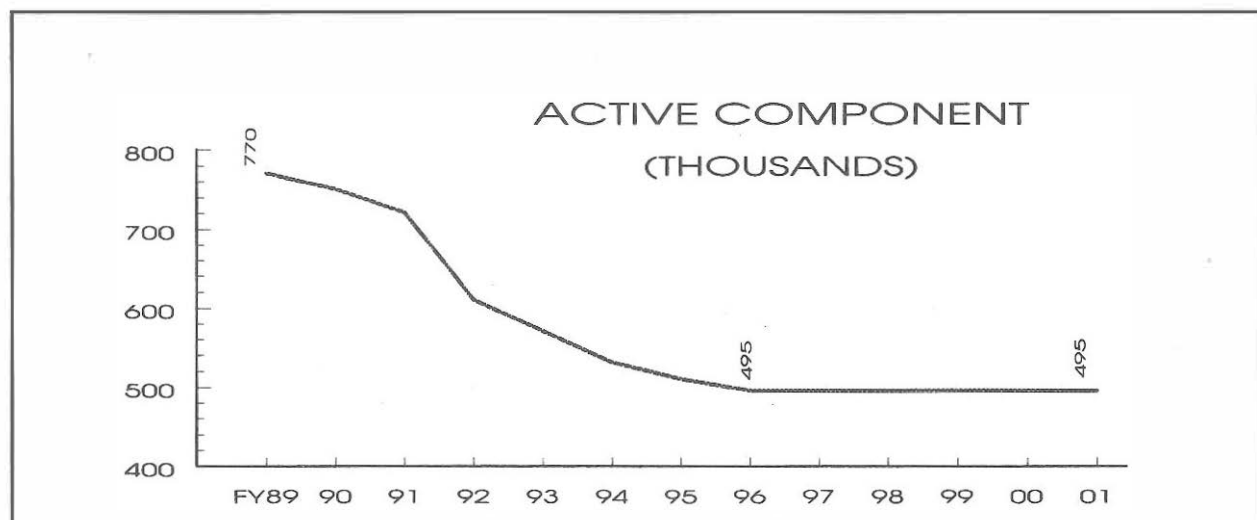
A quick scan of the appropriation table shows military personnel (MILPERS) and operation and maintenance (O&M) funding dominate Army spending. It's not that MILPERS or O&M are padded or out of line in any way — MILPERS pays for the people in the force and O&M is key to the readiness status of the force. Both are essential. However, this demonstrates how constrained the Army budget has become with respect to equipment modernization and other recapitalization.

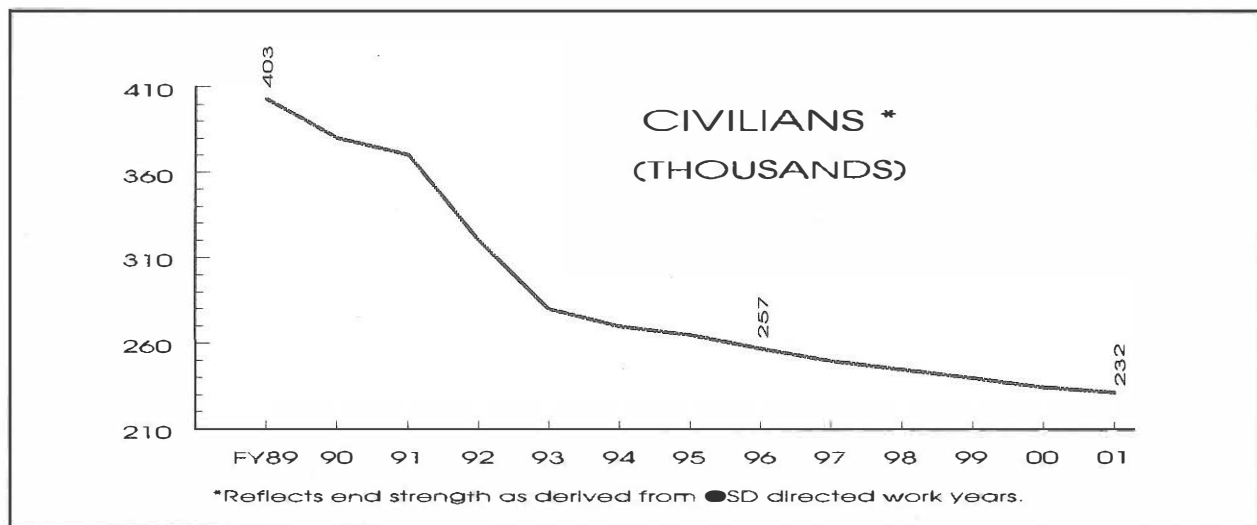
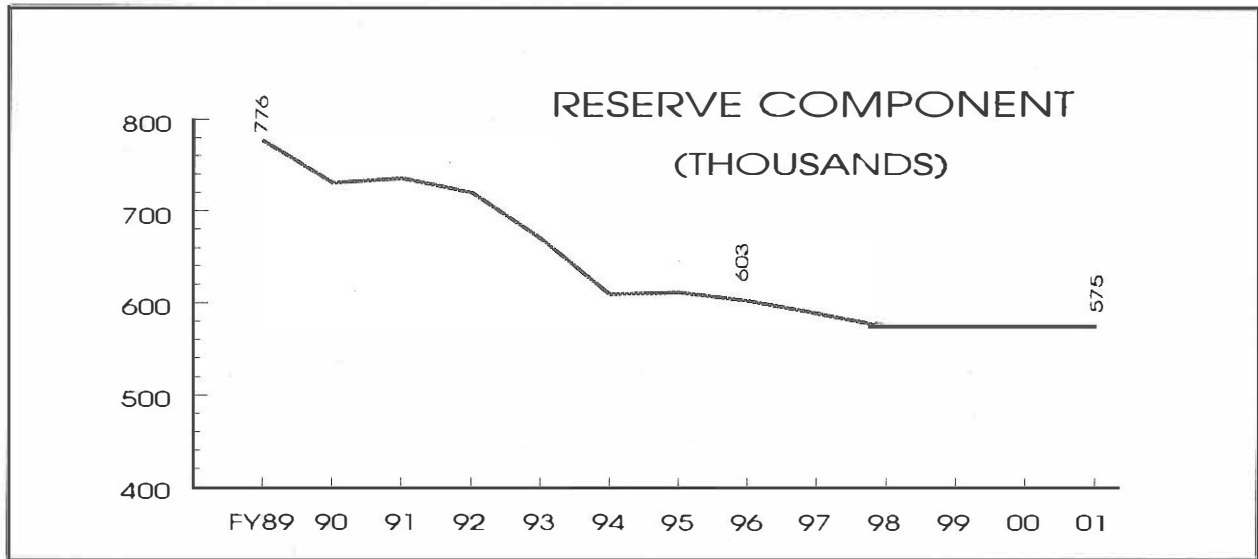
Personnel and Structure

Army structure and strength projections reflect defense guidance based on the strategic outlook of the Bottom-Up Review. Strength reductions since FY89 and projections through the six-year Future Years Defense Program (FYDP) period for the active component, the reserve components (RC) and civilian employees are reflected on the following graphs.

The active component will reach its end-state level of 10 divisions by the end of FY96, as well as its personnel objective end strength of 495,000. The RC are budgeted for a total personnel end strength of 603,000 in FY96 and should level out at 575,000 in FY98. DA civilian strength is budgeted for 257,000 in FY 1996 and will continue to be reduced through FY01.

The total cost of personnel compensation and benefits (both military and civilian) now represents about two-thirds of the Army budget. This means the other third must provide nonpay operating costs plus capitalization costs. This does not provide much flexibility. With protection of near-term readiness as the Army's top priority, the squeeze in formulating this year's budget came at the expense of procurement and research, development, test and evaluation (RDT&E).





Focus on Readiness and Quality of Life

The additional funds made available to the Army for Fiscal Years 1996 and 1997 from the \$25 billion increment added by the president in December 1995 to the FYDP through FY01 was applied to preserving near-term readiness, covering pay raises and providing improved quality of life for soldiers and families. Training is adequately funded, as is ground and air operating tempo.

Some of the pay and quality of life items include:

- covering military pay raises of 2.4 percent for FY96 and 3.1 percent for FY97. The same pay raises are provided for civilian employees;

- closing the Basic Allowance for Quarters to within 15 percent of average housing costs;
- funding for personnel transition assistance and incentives for early release.

By joint memorandum dated February 7, 1995, the Secretary of the Army and the Army Chief of Staff stated, "We have fixed near-term readiness to the extent possible, generally funding FY 96 operation and maintenance (O&M) accounts at FY 95 levels."

They also stated, "Though modernization was once again the principal 'billpayer,' we cannot continue this practice much longer without negative impact on battlefield capabilities of our future Army."

Modernization/Recapitalization

The budget provides the Army a total of \$10.7 billion — \$6.3 billion for procurement and \$4.4 billion for RDT&E — for modernization funding for FY96, and even less (\$10.1 billion) for FY97. This is a far cry from the combined \$30 billion (in constant FY95 dollars) in Army budgets of the mid-1980s. Fitting the modernization programs within the very tight dollar constraints required for Fiscal Years 1996 and 1997 led to very hard program curtailments.

Some of the major program cuts:

The RAH-66 Comanche armed reconnaissance helicopter funding (RDT&E) was reduced to \$199 million (RDT&E only) in FY96 and made a technical demonstration project with funding to build two flyable prototypes.

Procurement funds were cut drastically for the family of medium tactical vehicles program, leaving only \$39.4 million for termination.

(Note: The Army still wants and needs the Comanche as a key player in the future digitized battlefield, and will pursue the continuation of this important system.)

Some important new modernization programs which are included in the budget are the Longbow air-to-ground targeting and air detection millimeter-wave radar system for the AH-64 Apache attack helicopter; the Armored Gun System (AGS); the Advanced Field Artillery System (AFAS); and the Future Armored Resupply Vehicle (FARV).

Summaries of selected items in both procurement and RDT&E are shown in the following charts:

SELECTED ARMY PROCUREMENT PROGRAMS

(\$ millions/quantity)

(FY96 dollars)

	FY95	FY96	FY97
Abrams Tank Upgrade*	280/34	474/100	468/80
Blackhawk Utility Helicopter	329/60	364/60	18/0
Longbow Apache Mod*	79/0	355/18	410/26
SINCGARS Radio System	365/22,239	311/19,576	208/13,989
Paladin Howitzer Mod*	226/215	220/215	27/0
Longbow Hellfire Missile	42/0	198/352	263/1,056
Javelin Anti-tank Weapon	213/872	171/557	168/994
Armored Gun System	0/0	142/26	182/42
Bradley Upgrade Program	144/97	138/75	131/29
Army Tactical Missile System	115	107	99

*Mods of existing systems

SELECTED ARMY RDT&E PROGRAMS

(\$ millions)

PROGRAM	FY95	FY96	FY97
Armored Systems Mod (Advanced Field Artillery System and Future Armored Resupply Vehicle Ammunition)	234	240	289
Comanche Helicopter	489	199	299
Combat Vehicle Improvement Program	110	198	170
Brilliant Anti-armor Submunitions (BAT)	118	193	186
Digitization	83	89	81
MLRS Product Improvement	58	69	54

Military Construction and Family Housing

Military construction is included at a very modest funding level when compared with levels over the past decade. New construction will be carefully controlled until base realignment and force decisions are firm.

The family housing appropriation has held its own with even an uptick for Fiscal Years 1996 and 1997. This goes along with the added emphasis on quality of life. A considerable amount of funding is being devoted to rebuilding or improving existing housing as well as adding emphasis to maintenance and repair.

Bottom Line

The Army's FY96 budget is tough and lean. As indicated, it does provide essential readiness and operating funds. It does not provide for any unanticipated contingencies; should these occur, supplemental funding will be required.

It also mortgages the future in several respects, the most obvious being the lack of an adequate level of modernization support, addressed as recapitalization in the DoD presentation. In the sustainment area, it provides for only about 80 percent of debt maintenance and less than 70 percent of real property maintenance; it supports overall base operations at about the 90 percent level. It is also seriously short of adequate funding for infrastructure revitalization.

This begs the question on how much is enough. The big decisions for FY96 are already locked in place, with adjustments possible only at the margin. Last year the Army made a plea for stability and the need to move into FY96 at not less than the FY95 level. A level of \$62 billion (plus) would fill in some of the gaps in the present request. More is going to have to be pumped into future budgets, however, if the Army is to achieve the goals set for Force XXI in the next century.

ENCLOSURE

**ADDITIONAL STATISTICAL DATA ON THE ARMY
FISCAL YEARS 1996/1997 BUDGET SUBMISSION**

ECONOMIC ASSUMPTION: PAY AND INFLATION RATES (%)

	FY95	FY96	FY97
Military Pay	2.6	2.4	3.1
Civilian Pay	3.1*	2.4	3.1
O&M Fuel	-12.4	5.6	1.3
Medical	5.0	5.3	5.3
Other Purchases	2.7	3.0	3.0

*Includes locality pay increase

PERSONNEL (END STRENGTH BY CATEGORY)

Active Component Military Mix (thousands)			Army National Guard Mix (thousands)		
	FY95	FY96		FY95	FY96
Enlisted	424	410	Officer	40.1	38.5
Officers	70	70	Enlisted	323.2	311.1
Warrant Officers	12	11	Active Guard/Reserve	23.7	23.4
USMA Cadets	4	4	Total	387.0	373.0
Total	510	495			

Army Reserve Mix (thousands)			Civilian Manpower (thousands)			
	FY95	FY96		FY95	FY96	FY97
Officer	45.6	43.1	Total Direct Hire	245.9	237.9	230.3
Enlisted	184.5	175.4	Total Indirect Hire	23.8	19.2	18.5
Active Guard/Reserve	11.9	11.6	Total Civilians	269.7	257.1	248.8
Total	242.0	230.0				

Numbers may not add due to rounding

STATISTICAL OVERVIEW BY APPROPRIATION (\$ millions)

Military Personnel Overview (\$ millions)

Appropriation	FY95	FY96	FY97
Military Personnel - Army	\$ 20,610	\$ 19,721	\$ 19,483
Reserve Personnel - Army	2,161	2,101	2,021
National Guard Personnel - Army	3,340	3,218	3,230
Total	\$ 26,111	\$ 25,040	\$ 24,734

Operations and Maintenance Overview (\$ millions)

Appropriation*	FY95	FY96	FY97
O&M - Army	\$ 17,510	\$ 18,185	\$ 17,628
O&M - Army Reserve	1,243	1,069	1,034
O&M - National Guard	2,440	2,304	2,274
Total	\$ 21,193	\$ 21,558	\$ 20,936

*Does not include supplies or transfers

Includes National Board for Promotion of Rifle Practice

Procurement Overview (\$ millions)

Appropriation	FY95	FY96	FY97
Aircraft	\$ 1,063	\$ 1,223	\$ 843
Missiles	813	676	718
Weapons/Tracked Combat	1,152	1,299	1,262
Ammunition	1,181	795	831
Other Procurement	2,673	2,257	2,199
Total	\$ 6,883	\$ 6,250	\$ 5,853

RDT&E Overview (\$ millions)

FY95	FY96	FY97
\$ 5,521	\$ 4,444	\$ 4,241

Facilities Overview (\$ millions)

Appropriation	FY95	FY96	FY97
Military Construction - Army	\$ 550	\$ 473	\$ 492
Military Construction - Army Reserve	57	43	55
Military Construction - National Guard	188	18	14
Army Family Housing, Operations	1,014	1,338	1,228
Army Family Housing, Construction	170	44	172
Base Realignment and Closure 93/95	114	305	327

Numbers may not add due to rounding

ARMY BUDGET LEVELS AN AUSA POSITION ON WHAT THE ARMY NEEDS

What is the long-term requirement?

The Army's force structure, along with future programs and budgets, is geared to support the overall military strategy defined by the Bottom-Up Review.

This strategy includes being able to fight and win two nearly simultaneous major regional conflicts. It also envisions the capability to respond to and handle a variety of other contingencies short of war. These contingencies have proven to be more complex and more demanding than originally anticipated. The structure requirements developed from the Bottom-Up Review include an Army combat force of 10 active divisions plus 15 National Guard enhanced brigades. The 15 National Guard brigades are all to be properly trained, equipped and ready for deployment in 90 days. The assumption is that ongoing development and modernization would ensure technical superiority into the next century over any potential adversary. In fact, overwhelming technical superiority is essential to providing victory without the risk of major casualties.

The Army has now become a projection force, predominantly based in the continental United States. With the requirement to respond to missions short of war and to major regional conflicts — events which could happen with little advance notice — the Army must be flexible in its ability to tailor and deploy forces in a variety of configurations. It must be trained and ready now to respond to these requirements.

To have the best Army in the world, we must:

1. recruit and keep high-quality people;
2. maintain the force in a high state of training and equipment readiness;
3. have the ability to sustain the force;
4. modernize the force to ensure technical superiority.

All this sounds plausible, but the funding in the fiscal guidance falls short of what is necessary to achieve all four requirements listed above. Within the current budget, funding for items 1 and 2 is generally on the mark (except that supplementals are needed for unprogrammed contingencies); funding for item 3 needs help, particularly in the area of infrastructure and revitalization; and funding for item 4 — modernization — clearly falls short of assured superiority of Army forces into the next century.

Let's look at the present budget and then project the levels needed to properly support the Army under the Bottom-Up Review concept.

The FY96 Budget

We will start with FY96's requested level of \$59.5 billion. This generally funds operation and maintenance accounts to meet essential needs for near-term readiness. It leaves some important gaps, however in near- to mid-term needs. Modernization shortfalls are of special concern because modernization was sacrificed to protect near-term readiness. The modernization shortfall cannot be continued, however, without eroding battlefield capabilities in the future. In addition, other significant deficiencies exist in base support and infrastructure reconstitution. By filling in the most important gaps in the FY96 budget, many of which were simply items squeezed out by a rigid FY96 topline, a good case can be made for an Army FY96 budget level of \$62 billion.

A list of additions meeting these criteria follows (not in priority order):

	(\$ Millions)
Ammunition (high priority needs, particularly preferred ammunition such as 120mm tanks, sense-and-destroy submunitions, and wide-area mines)	150
Javelin Antitank	180
Avenger Air Defense	240
Truck Programs (Family of Medium Tactical Trucks, Family of Heavy Tactical Trucks, HMMWV)	500
Black Hawk Helicopter (to replace UH-60s lost in Iraq and to extend program to link additional buys needed through the decade)	80
C ⁴ I (including Force XXI, ADDS, SBIS)	100
Long-Haul Communications and ADP	100
RC Readiness and Title XI RC Support	95
Infrastructure Revitalization and Base Support (barracks revitalization, family housing construction, real property maintenance)	580
Depot Maintenance	160
Accelerate Warfighting Systems (Comanche RDT&E and increased Science and Technology funding to restore loss in real growth)	275
Total	<u>2,460</u>

AUSA endorses an FY96 budget level of \$62 billion.

Stability Needed

It can now be argued that since the Army is approaching its endstate in terms of stationing, combat structure and strength, the budget should also level out in real terms. Using FY95's \$61 billion as a baseline — with increases for inflation since what it has to buy also goes up with inflation — would provide this stability. The Army Chief of Staff stated this in testimony last year. However, the \$61 billion level does not recognize all the key modernization deficiencies facing the Army as it moves toward and into the next century.

Longer Term Budget Needs

Army studies have shown that the future Army — as it moves into the information age and makes optimum use of communications technology and precision weapons (in short, the digitized battlefield) — will need at least \$14 billion a year (in FY95 constant dollars) for modernization to meet year 2010 objectives. Spending on modernization is figured by adding together the Research, Development, Test and Evaluation (RDT&E) and the Procurement accounts.

The FY96 budget requests less money for modernization than does the FY95 budget. In fact, when adjusted for inflation, the request for \$4.4 billion in RDT&E is the lowest since 1958. If averaged over the FYDP period, more than \$3 billion a year should to be added to the FY95 base, raising the annual Army budget requirement to \$64 billion in real terms.

While a major increase on this order for the FY96 Army budget is not a realistic expectation, a strong case can be made for \$62 billion, just to fix near-term deficiencies.

For the long term, however, \$64 billion per year, adjusted for inflation, is what the Army should have. This is the AUSA position.

Summary

This paper identifies three budget levels:

\$59.5 billion: The FY96 Army Budget, as submitted to Congress; provides readiness but at the expense of RDT&E and procurement.

\$62.0 billion: Corrects major shortfalls in sustainment and acquisition in the FY96 budget, but would not fund all long-term modernization needs.

\$64.0 billion (in FY95 constant dollars): The average level needed to do all of the above and provide for a modernized Army with technical superiority over all potential adversaries into the next century.