

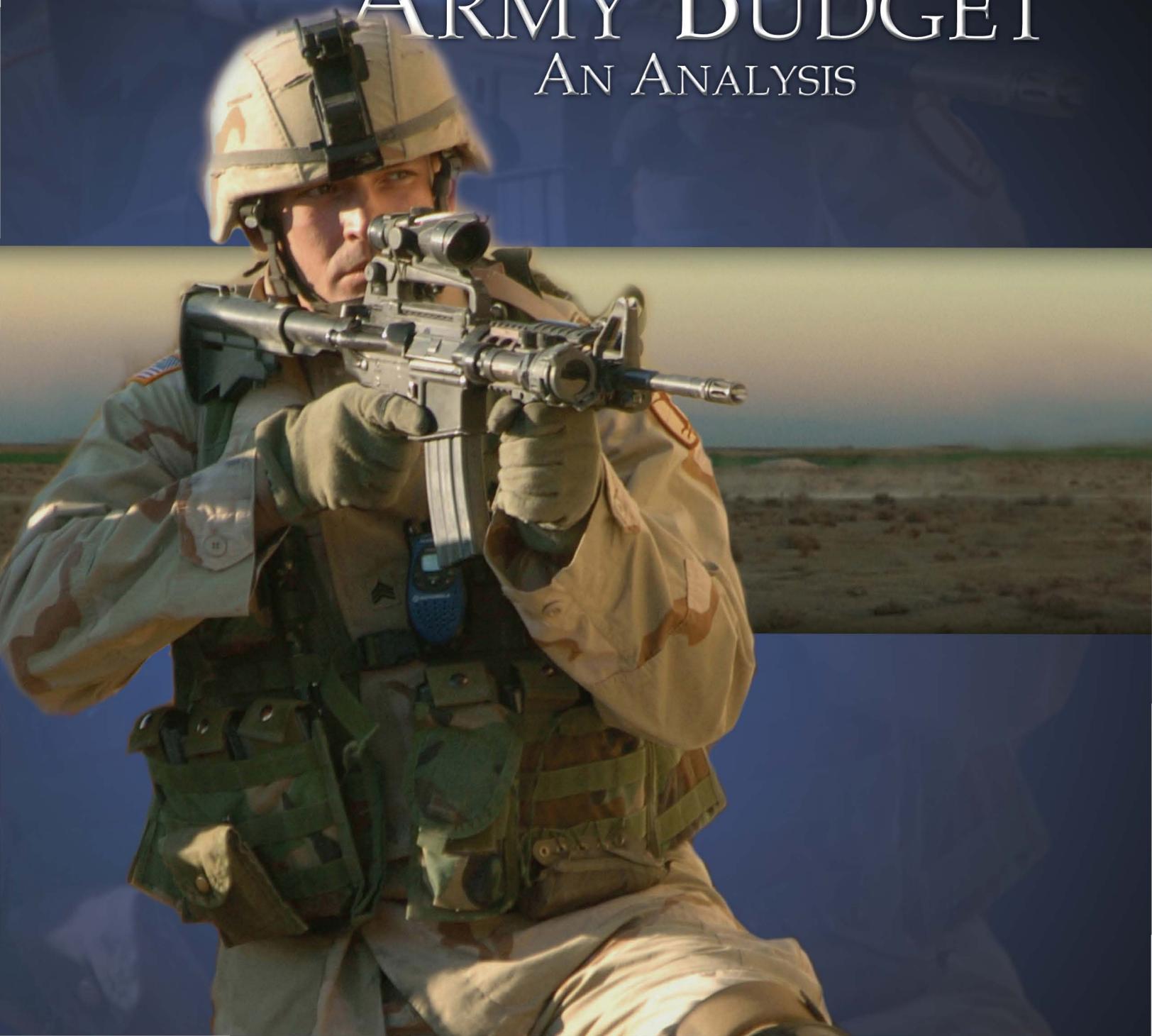
THE ASSOCIATION OF THE UNITED STATES ARMY

FISCAL YEAR

2006

ARMY BUDGET

AN ANALYSIS



FISCAL YEAR
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ARMY BUDGET
AN ANALYSIS

THE INSTITUTE OF LAND WARFARE
ASSOCIATION OF THE UNITED STATES ARMY



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FOREWORD

The U.S. Army is facing many challenges. It is fighting the Global War on Terrorism (GWOT), with large commitments to ongoing operations in Afghanistan and Iraq as well as to homeland security. It is in the middle of a historic reorganization, its corps, divisions and battalions transforming to modular units, all without any diminishment in operational tempo. It is repositioning its forces, pulling units back from overseas bases under the Integrated Global Presence and Basing Strategy and anticipating the relocation of Soldiers and families under the Base Realignment and Closure process.

Even with all of today's challenges, the Army is keeping a firm focus on the future. It is pursuing the Future Combat Systems, developing new weapons, communication, surveillance and security technologies, and recapitalizing facilities for Soldiers and their families.

The Fiscal Year 2006 President's Budget submitted to Congress supports the Army's needs in establishing the following priorities for the nation's military:

- supporting the GWOT;
- restructuring U.S. forces;
- managing demand on the force;
- restructuring America's global defense posture;
- developing and fielding joint military capabilities; and
- taking care of our forces.

The *Fiscal Year 2006 Army Budget—An Analysis* provides a full accounting of what the Army needs to accomplish its missions today and tomorrow. It examines the Army's proposed budget in the context of the federal and Department of Defense budgets and breaks down requests according to funding authority and programs, from Soldiers' pay to research and development. The *Analysis* explains budget terminology and procedures, including the supplemental funding process that could increase the Army's initial budget submission by more than 50 percent.

At this point we can't begin to measure the impact of Hurricane Katrina on the federal, defense and Army budgets and on support for Army transformation. This year's budget and assuredly that of Fiscal Year 2007 will be affected by the storm and its devastating and expensive aftermath.

The Association of the United States Army fully supports the Army—active, Army National Guard, Army Reserve, Army civilians and the families and communities who stand behind them all—as it faces its many challenges. *Fiscal Year 2006 Army Budget—An Analysis* is just one of many ways we speak out on issues important to the American Soldier, American landpower and the security of the nation and the world.

GORDON R. SULLIVAN
General, United States Army Retired
President, AUSA

September 2005

THE BUDGET MESSAGE OF THE PRESIDENT OF THE UNITED STATES

To the Congress of the United States:

Over the previous four years, we have acted to restore economic growth, win the War on Terror, protect the homeland, improve our schools, rally the armies of compassion, and promote ownership. The 2006 Budget will help America continue to meet these goals. In order to sustain our economic expansion, we must continue pro-growth policies and enforce even greater spending restraint across the Federal Government. By holding Federal programs to a firm test of accountability and focusing our resources on top priorities, we are taking the steps necessary to achieve our deficit reduction goals.

Our Nation's most critical challenge since September 11, 2001, has been to protect the American people by fighting and winning the War on Terror. Overseas and at home, our troops and homeland security officials are receiving the funding needed to protect our homeland, bring terrorists to justice, eliminate terrorist safe havens and training camps, and shut down their financing.

In Afghanistan and Iraq, we are helping establish democratic institutions. Together with our coalition partners, we are helping the Afghan and Iraqi people build schools, establish the rule of law, create functioning economies, and protect basic human rights. And while the work is dangerous and difficult, America's efforts are helping promote societies that will serve as beacons of freedom in the Middle East. Free nations are peaceful nations and are far less likely to produce the kind of terrorism that reached our shores just over three years ago.

To ensure our security at home, the 2006 Budget increases funding for anti-terrorism investigations; border security; airport and seaport security; nuclear and radiological detection systems and countermeasures; and improved security for our food supply and drinking water.

This Budget also promotes economic growth and opportunity. We must ensure that America remains the best place in the world to do business by keeping taxes low, promoting new trade agreements with other nations, and protecting American businesses from litigation abuse and overregulation. To make sure the entrepreneurial spirit remains strong, the Budget includes important initiatives to help American businesses and families cope with the rising cost of health care. This Budget funds important reforms in our schools, and promotes homeownership in our communities. In addition, the 2006 Budget supports the development of technology and innovation throughout our economy.

The 2006 Budget also affirms the values of our caring society. It promotes programs that are effectively providing assistance to the most vulnerable among us. We are launching innovative programs such as Cover the Kids, which will expand health insurance coverage for needy children. We are funding global initiatives with unprecedented resources to fight the HIV/AIDS pandemic, respond to natural disasters, and provide humanitarian relief to those in need. The 2006 Budget continues to support domestic programs and policies that fight drug addiction and homelessness and promote strong families and lives of independence. And in all our efforts, we will continue to build working relationships with community organizations, including faith-based organizations, which are doing so much to bring hope to Americans.

In every program, and in every agency, we are measuring success not by good intentions, or by dollars spent, but rather by results achieved. This Budget takes a hard look at programs that have not succeeded or shown progress despite multiple opportunities to do so. My Administration is pressing for reforms so that every program will achieve its

intended results. And where circumstances warrant, the 2006 Budget recommends significant spending reductions or outright elimination of programs that are falling short.

This Budget builds on the spending restraint we have achieved, and will improve the process by which the Congress and the Administration work together to produce a budget that remains within sensible spending limits. In every year of my Administration, we have brought down the growth in non-security related discretionary spending. This year, I propose to go further and reduce this category of spending by about one percent, and to hold the growth in overall discretionary spending, including defense and homeland security spending, to less than the rate of inflation. I look forward to working closely with the Congress to achieve these reductions and reforms. By doing so, we will remain on track to meet our goal to cut the deficit in half by 2009.

Our greatest fiscal challenges are created by the long-term unfunded promises of our entitlement programs. I will be working with the Congress to develop a Social Security reform plan that strengthens Social Security for future generations, protects the benefits of today's retirees and near-retirees, and provides ownership, choice, and the opportunity for today's young workers to build a nest egg for their retirement.

In the past four years, America has faced many challenges, both overseas and at home. We have overcome these challenges not simply with our financial resources, but with the qualities that have always made America great: creativity, resolve, and a caring spirit. America has vast resources, but no resource is as abundant as the strength of the American people. It is this strength that will help us to continue to prosper and meet any challenge that lies before us.

GEORGE W. BUSH
The White House

February 7, 2005

THE FEDERAL BUDGET

INTRODUCTION

The President's Budget for Fiscal Year (FY) 2006 proposes outlays of \$2.4 trillion that represents a 3 percent increase over FY 2005. In his budget message, President George W. Bush highlights a number of policy considerations that significantly influence the size and content of the budget:

Our Nation's most critical challenge since September 11, 2001, has been to protect the American people by fighting and winning the War on Terror. Overseas and at home, our troops and homeland security officials are receiving the funding needed to protect our homeland, bring terrorists to justice, eliminate terrorist safe havens and training camps, and shut down their financing. . . .

This Budget also promotes economic growth and opportunity. We must ensure that America remains the best place in the world to do business. . . .

It promotes programs that are effectively providing assistance to the most vulnerable among us. . . .

In every year of my Administration, we have brought down the growth in non-security related discretionary spending. This year, I propose to go further and reduce this category of spending by about one percent, and to hold the growth in overall discretionary spending, including defense and homeland security spending, to less than the rate of inflation. . . .

[W]e are measuring success not by good intentions, or by dollars spent, but rather by results achieved. And where circumstances warrant, the 2006 Budget recommends significant spending reductions or outright elimination of programs that are falling short. . . .

[O]ur goal [is] to cut the deficit in half by 2009.¹

These policy considerations provide the framework for the plans, programs and activities and the related resource requests in the budget. The President's Budget reflects these policies by:

- increasing defense funds by 4.8 percent between FY 2005 and FY 2006, which continues the trend and results in a 41 percent increase since 2001;
- increasing homeland security funds by 3 percent;
- holding the increase in overall discretionary spending to 2.1 percent, which is lower than the 2.3 percent expected rate of inflation, and actually reducing non-security discretionary funds by nearly 1 percent;
- proposing more than 150 reductions, reforms, and eliminations in non-defense discretionary programs, saving about \$20 billion in 2006 and more in the out years.

In the *Overview of The President's 2006 Budget*, the Office of Management and Budget (OMB) provides a specific list of enhancements to defense and homeland security. These include, with all dollar increases above the 2005 enacted levels:

- \$35 billion more between now and 2011 to reorganize the total Army force and increase the number of active Army combat brigades by 30 percent;
- \$3.5 billion more between 2006 and 2011 to implement the Global Posture Initiative, which will increase U.S. responsiveness and allow for the return of 70,000 U.S. troops from Cold War bases overseas;
- \$1.7 billion for unmanned vehicles, which perform hazardous tasks without risking the lives of Soldiers, Sailors, Airmen and Marines;
- \$3 billion, an increase of \$1.5 billion, to expand the Millennium Challenge Account for foreign assistance,

¹ President's Budget Message, 7 February 2005, available online at <http://www.whitehouse.gov/omb/budget/fy2006/pdf/budget/message.pdf>.

to encourage sound economic and governance policies in the developing world;

- \$4.2 billion for the Department of Health and Human Services (HHS), a \$154 million increase, to address the threat of bioterrorism;
- \$600 million for a Targeted Infrastructure Protection Program in the Department of Homeland Security (DHS) to assist state and local governments in reducing the vulnerability of critical infrastructure, such as chemical facilities, ports and transit systems;
- \$581 million, a 45 percent increase, for research and development of radiological and nuclear detection systems and countermeasures at DHS, the Department of Energy and HHS; and
- an increase of \$555 million for the Federal Bureau of Investigation (FBI), an 11 percent increase over 2005 levels and a 76 percent increase since 2001.

In addition to the specific program increases above, the defense budget for FY 2006 shows an increase of 4.8 percent. By contrast, the President's Budget for FY 2006, in total, grows 3 percent, i.e., 1.8 percent less than defense. The total increase of 3 percent is also down from the 4 percent increase in the President's Budget for FY 2005. In summary, the President's Budget for FY 2006 is growing more slowly than in FY 2005, but the defense share of the budget is growing more rapidly.

The budget achieves this overall lower rate of growth primarily by reducing the non-security discretionary funding by nearly 1 percent. This reduction adds to the dissatisfaction of members of Congress, the American people and public interest groups who believe domestic programs require more resource support, not less.

Dissatisfaction or concern with the President's Budget ripples to the Department of Defense (DoD) budget (which is more than half of the discretionary portion of the budget); and ultimately to the Army budget (23.4 percent of the DoD budget proposal). The President's Budget proposal is for \$2,547 billion in obligational authority; the DoD budget proposal is for \$421.1 billion; and the Army budget proposal is for \$98.5 billion.

The federal budget overall, as well as the individual budgets of the departments and agencies, supports the policies and fiscal guidance from the office of the President. However, many participants influence the ultimate

appropriations. A review of the basic process is important because it provides a context and significantly aids in understanding the federal, DoD and Army budgets. Therefore, this analysis begins with a review of the federal budget process and the President's Budget proposal.

PROCESS OVERVIEW

The President's Budget and all budgets are plans. Budgets propose courses of action for an organization at a specific time in the future and include an estimate of the funds to implement the plan. Budgets are the results of deliberate processes.

In the federal budget process, OMB provides funding control guidance to the Executive departments and other agencies. The agencies prepare and submit budget proposals to OMB.

For the Army, budgeting begins with issuing guidance to and collecting budget proposals from subordinate commands; integrating these requests with policy and fiscal guidance; and formulating, submitting and justifying its budget estimate to DoD and OMB jointly. After DoD accepts the Army budget, the Secretary of Defense submits the DoD budget proposal to OMB. OMB reviews and integrates the budget proposals from across the federal government and makes recommendations to the President.

With the approval of the President, OMB directs the departments to finalize their section of the President's Budget, and OMB submits the President's Budget to Congress. Various congressional committees review the proposal, conduct hearings and make recommendations to the entire House and the entire Senate. The two chambers establish a joint committee to reconcile their differences. Then, Congress passes and presents their appropriation and authorization acts to the President. The President approves and signs the acts into law.

The sum of the appropriation acts is the actual federal budget, subject to later supplemental acts and rescissions. The timeline for the congressional process begins with the President's Budget message to Congress in February and ends, ideally, with the appropriation acts before the beginning of the fiscal year on 1 October.

However, members of Congress and the President have different opinions about national priorities and related funding; if they are unable to reach a common agreement, acceptable to a majority of the members,

Congress may not send an act to the President by 1 October. When this happens—and it does happen—Congress almost always passes a Continuing Resolution Act (CRA) that provides funds with restrictions to keep the government open, i.e., to continue operations at a specified level for some period of time, until the permanent legislation is passed. (Without a CRA, the federal government closes and all but essential activities cease—and this, too, happens on occasion.)

After a fiscal year begins, the President may request supplemental funds for contingencies that were not included in the original budget proposal. Congress may provide supplemental funds and may also include rescissions to prior appropriations.

The discussion above provides a context for the subsequent review and analysis of the President's Budget for FY 2006, submitted to Congress in February 2005. In addition to the process, the reviewer needs to understand a few essential federal budget terms that appear in the budget.

ESSENTIAL BUDGET TERMS

The federal budget documents include budgetary terms that have very definite meanings. The three most important terms are the definitions of the categories of dollars: Budget Authority (BA), Total Obligational Authority (TOA) and outlays. Each term conveys different information for the same year, and all three are significant. In general, the BA or TOA provides government officials with the financial resources to implement decisions, i.e., these put the “money in the checking account.” The outlays reflect the subsequent drawing on the checking account.

- **Budget Authority (BA)** is the authority provided by law to incur financial obligations that will result in outlays.
- **Total Obligational Authority (TOA)** is the sum of (a) budget authority provided for a given fiscal year, plus (b) balances of budget authority brought forward from prior years that remain available for obligation and (c) amounts authorized to be credited to a specific fund or account during that year, including transfers between funds or accounts ($TOA = a + b + c$).
- **Outlays** are the amount of money the federal government actually spends in a given fiscal year. Outlays

occur when funds are transferred, checks are issued or cash is distributed to liquidate obligations. Outlays may be for payment of obligations incurred in the current year or prior years.

Clearly, these three definitions of dollars apply to the same fiscal year and have different dollar amounts for the same fiscal year. The President's Budget overall and the DoD and Army budgets all use these three definitions of dollars for the same year. Understanding these definitions is important to avoid confusion and to understand more clearly the meaning of the dollars. In the federal section of this budget analysis document, figures and tables generally display dollars in term of outlays and sometimes BA. In the DoD and Army sections, figures and tables generally display dollars in terms of BA or TOA.

The Glossary of Budget Terms (appendix I) provides an explanation of frequently used federal budget terms.

BALANCING THE BUDGET

The federal government—like other governments, corporations and individuals—requires income or revenue to finance spending. In the short term, income and spending may be out of balance; but in the long term, spending cannot exceed income or individuals, corporations and local governments will go bankrupt. For national governments, there is no “bankruptcy,” *per se*, but hard times for the nation, including declining government services, declining investments in infrastructure, falling standards of living and currency devaluation.

For the reasons outlined above, discussion of the federal budget always includes balancing the budget—achieving equilibrium between receipts (i.e., income) and outlays (i.e., spending). When receipts exceed outlays, the government is generating a surplus; conversely, when outlays exceed receipts, the government is operating at a deficit. The sum of annual deficits over any number of years is the Gross Federal Debt.

The need to balance the budget over some number of years, or at least reduce the size of the annual deficit, drives policies to stimulate the economy and to hold down total federal outlays. In his message, President Bush emphasized that the FY 2006 budget, focused on both of these strategies, “promotes economic growth and opportunity” and “recommends significant spending reductions or outright elimination.”

The President's Budget estimates receipts of \$2.205 trillion and proposes outlays of \$2.473 trillion for FY 2006—the fifth annual deficit in a row. The FY 2006 deficit estimate is more than \$0.2 trillion, i.e., \$268 billion. The good news is that the deficit estimate is down for the third year in a row.

The United States Gross Federal Debt at the end of FY 2004, the last year for actual data, is \$7.486 trillion. With the addition of deficit estimates for FY 2005 (\$.4 trillion) and FY 2006 (\$.2 trillion), the Gross Federal Debt rises to \$8.7 trillion by the end of FY 2006.

Federal statute requires receipt and outlay forecasts for the four years beyond the budget year. The President's Budget forecasts deficits in each year from FY 2007 to FY 2010; however, the amount decreases each year. The cumulative result is a Gross Federal Debt estimate of \$11.1 trillion by the end of FY 2010—a 93 percent increase since the last surplus year, FY 2001.

At the national level, the annual deficit is a concern because the government (a) borrows money to cover the difference between spending and receipts, and (b) pays interest on the Gross Federal Debt from prior years. The Gross Federal Debt hurts the economy by diverting capital from productive uses to servicing debt.

Growth in the economy produces a larger tax base and greater revenues, with the potential for reducing or eliminating the annual deficit. The Gross Domestic Product (GDP) is the measure of the health and growth from year to year of the U.S. economy. GDP is the total market value or output of the goods and services produced by labor and capital located within the United States, regardless of nationality, during a year. The Bureau of Economic Analysis (BEA) has produced the GDP figures since GDP became the unit of measure in 1991.

The President's Budget forecasts a decrease in the annual deficit for each year from FY 2005 to FY 2010, but that still leaves a deficit that will increase the Gross Federal Debt to \$11.1 trillion by FY 2010. The President's Budget forecasts growth in the GDP to \$15.6 trillion by FY 2010. From FY 2006 to FY 2010, the forecast is for GDP to increase by 23 percent and the Gross Federal Debt to increase by 28 percent—the debt increases more than the economy grows. See table 1 for details.

The FY 2006 Budget spending and deficit projections fully reflect the outlay effects of the \$25 billion enacted and the additional supplemental request of approximately \$81 billion for FY 2005 but do not reflect the effect of undetermined but anticipated supplemental

Table 1

Gross Domestic Product and Annual Deficit
(\$ billions ¹)

	FY90 ²	FY95 ²	FY00 ²	FY03 ²	FY04 ²	FY05	FY06	FY07	FY08	FY09	FY10
Gross Domestic Product	5,735	7,325	9,710	10,839	11,553	12,227	12,907	13,617	14,349	15,111	15,906
Gross Federal Debt	3,206	4,920	5,629	6,760	7,487	8,133	8,726	9,318	9,931	10,564	11,137
Annual Federal Deficit	(221)	(164)	(236)	(375)	(521)	(364)	(268)	(241)	(239)	(237)	(207)
Gross Debt as Percentage of GDP	56%	67%	58%	62%	64%	66%	68%	69%	69%	70%	70%
Annual Deficit Surplus as Percentage of GDP	-3.9%	-2.2%	2.4%	-3.5%	-4.5%	-3.0%	-2.1%	-1.8%	-1.7%	-1.6%	-1.3%

¹ Numbers may not add due to rounding.

² Actual spending; remaining years are estimates.

Source: Budget of the United States FY06 Historical Tables 1-1, 7-1, 10-1

requests for ongoing operations in Iraq and Afghanistan beyond FY 2005.

The government finances the federal debt by borrowing from other federal accounts (e.g., Social Security) and from the public through the use of debt instruments. The debt gives rise to justifiable concerns that the funds borrowed from the other federal sources will not be available when needed for those programs; that the large portion of the public debt held by foreign governments increases America's dependency on other nations; and that the amount of interest paid to service the debt further reduces annual funds available for programs.

The President's Budget estimates a downward trend in annual deficit from FY 2005 to FY 2010. However, with the continuing growth of the debt, the estimate for interest payments rises from \$211 billion in FY 2006 to \$314 billion in FY 2010, or from 8.5 percent to 10.4 percent of the budget outlays.

A summary of the Gross National Debt and the funding sources is at table 2.

Congressional Budget Office Estimate

In addition to the President's estimates of receipts and spending, federal statute also requires the Congressional

Budget Office (CBO) to estimate future budget outcomes for the President's Budget proposal. The statutory intent is for the CBO to provide a neutral benchmark that lawmakers can use to measure the effects of proposed changes to taxes and spending. The President and the CBO use different assumptions, so their estimates vary.

The CBO forecasts growth in both receipts and spending outlays but estimates larger deficits than in the President's Budget. The CBO's estimate of the deficit for FY 2006 is \$332 billion, or 8 percent more than the President's Budget estimate of \$268 billion. Additionally, the CBO notes that the FY 2006 estimate excludes any supplemental for the war in Afghanistan and Iraq and estimates that "to keep the operations at roughly the same level as expected for 2005 would add about \$40 billion to the 2006 deficit, bringing it to between \$370 billion and \$375 billion, or 2.9 percent of GDP."²

With regard to all federal outlays, the CBO estimates spending growth for entitlements and other mandatory programs at an average rate of 5.9 percent a year, and spending growth for discretionary outlays at an average rate of 1.2 percent a year. With regard to the GDP and revenue, CBO projects GDP growth at 4.9 percent annually and revenues remaining relatively low by historical

Table 2

Gross Federal Debt by Source (\$ billions¹)

	FY90 ²	FY95 ²	FY00 ²	FY03 ²	FY04 ²	FY05	FY06	FY07	FY08	FY09	FY10
Gross Federal Debt	3,206	4,920	5,629	6,760	7,487	8,133	8,726	9,318	9,931	10,564	11,137
Amount in Federal Government Accounts	795	1,316	2,219	2,846	3,066	3,341	3,652	3,985	4,342	4,720	4,926
Percentage Held by Federal Government	25%	27%	39%	42%	41%	41%	42%	43%	44%	45%	44%
Amount Held by Public	2,411	3,604	3,410	3,914	4,421	4,792	5,074	5,333	5,589	5,844	6,212
Percentage Held by Public	75%	73%	61%	58%	59%	59%	58%	57%	56%	55%	56%

¹ Numbers may not add due to rounding.

² Actual spending; remaining years are estimates.

Source: Budget of the United States FY06 Historical Table 7-1

² Congressional Budget Office, "CBO's Estimates of the President's Budget for 2006," Chapter 1, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2006*, March 1, 2005, Section 2 of 8.

standards, rising from 16.8 percent of GDP in FY 2005 to 17.1 percent in 2006 and to 18.0 percent by 2015.

Table 3 presents the difference in the deficit estimates between the President's Budget and the CBO. These and others estimates of the deficit are part of the debate by political leaders as they formulate future programs.

As noted earlier, the Gross Federal Debt is the sum of multiyear deficits; deficits are a function of receipts and spending. While most of the subsequent analysis will focus on spending, some comments on receipts are important since receipts give rise to some bounds on spending. Receipts are mainly a function of the robustness of the economy and tax policy, i.e., what is taxed and at what rates.

Receipts

Receipts have declined dramatically as a share of GDP since their peak in 2000 as a result of weak income growth due to the recession, a collapse in capital gains due to the stock market downturn, and the policy changes in personal income tax. Receipts reached a low of 15.6 percent of GDP in FY 2004 and then began rising as the economy recovered. With economic growth, the President's Budget estimates receipts of 17.1 percent in FY 2006 and climbing to 17.7 percent of GDP in FY 2010 (almost matching the post-World War II average).

The President's Budget for FY 2006 estimates federal receipts of nearly \$2.2 trillion from four specific sources

and "all other" sources. Individual income taxes account for 44 percent, and corporate income taxes account for another 10 percent of the general revenue. Social Security receipts, which fund current and future entitlements, account for 38 percent of receipts. See table 4 for estimates of receipt by sources.

Spending

Spending is the focus of most budget analyses and of the rest of this document. In the broadest terms, federal spending is for either discretionary or mandatory expenses:

- **Discretionary** spending is what the President and Congress decide to spend through annual appropriations bills. Examples include money for such activities as defense, homeland security, FBI, foreign aid, housing and education, highway construction and space exploration.
- **Mandatory** spending is for entitlement programs that do not require annual appropriation bills. Once a law creates an entitlement program, the federal government is legally obligated, until the law is amended or repealed, to make payments or provide aid to any person who meets the legal criteria for eligibility. Examples include Social Security, Medicare and Medicaid.

The President's Budget estimates discretionary spending of \$922 billion and mandatory spending of \$1,621 billion in FY 2006. Defense is 46 percent of discretionary

Table 3

Receipts, Outlays and Surplus or Deficits

(\$ billions*)

	Actuals					Estimates					
	FY90	FY95	FY00	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
President's Budget											
Receipts	1,032	1,352	2,025	1,782	1,798	2,036	2,205	2,351	2,485	2,616	2,821
Outlays	1,253	1,516	1,789	2,157	2,319	2,400	2,473	2,592	2,724	2,853	3,028
Surplus/Deficit (-) ¹	(221)	(164)	236	(375)	(521)	(364)	(268)	(241)	(239)	(237)	(207)
Congressional Budget Office Estimates											
Surplus/Deficit (-) ²	(221)	(164)	236	(378)	(412)	(368)	(295)	(261)	(235)	(207)	(189)

* Numbers may not add due to rounding.

Sources: ¹ Budget of the United States FY06 Historical Table 1-1

² CBO, The Budget and Economic Outlook: Fiscal Year 2006 to 2015, January 2005 Appendix F, Table F-1

Federal Receipts
Fiscal Year 2006 Estimate
(\$ billions*)

Individual Income Taxes	966.9
Social Security Receipts	818.8
Corporate Income Taxes	220.3
Excise Taxes	75.6
All Other	96.0
Total	2,177.6
* Numbers may not add due to rounding.	
Source: Office of Management & Budget FY06 Budget, Summary Table S-8	

spending; all other departments and agencies account for 54 percent of discretionary spending.

Attempting to balance the budget or reduce the annual deficit without modifying the entitlement programs requires reductions in discretionary spending. With the Defense Department accounting for 46 percent of discretionary dollars and conducting the Global War on Terrorism (GWOT), defense spending is increasing and not declining. Therefore, spending reductions to balance the budget must come from the non-defense departments and must also offset any additions to defense spending. This is a very real federal budgeting dilemma. See table 5.

Discretionary spending is a somewhat misleading term because a large proportion pays for compensation of civilian employees and military servicemembers, accrual for related personnel benefits and essential services such as utilities. Agencies, in fact, do not have a great deal of flexibility with a substantial portion of their discretionary funds.

- Actions that may produce large savings in discretionary funds generally require substantial planning, adequate leadtimes, prior congressional approval, and sometimes one-time implementation funding. These actions may include program cuts, closures of facilities, terminations of leases and personnel reductions. Agencies need to plan for and include these sorts of actions in their budget proposals.
- If Congress initiates substantial actions in the appropriation acts, the agency normally lacks adequate leadtime for achieving the significant savings in that fiscal year.

Federal Spending
Fiscal Year 2006 Estimate
(\$ billions*)

Discretionary	
National Defense	424.0
Nondefense	497.0
Subtotal	922.0
Mandatory	
Social Security	540.0
Medicare	340.0
Medicaid	199.0
Other entitlements	331.0
Net Interest	211.0
Subtotal	1,621.0
Total	2,543.0
*Numbers may not add due to rounding.	
Source:	

The FY 2006 receipts and spending estimates are expressed as percentages under the headings *Where It Comes From* and *Where It Goes*, respectively, in figure 1.

NATIONAL DEFENSE

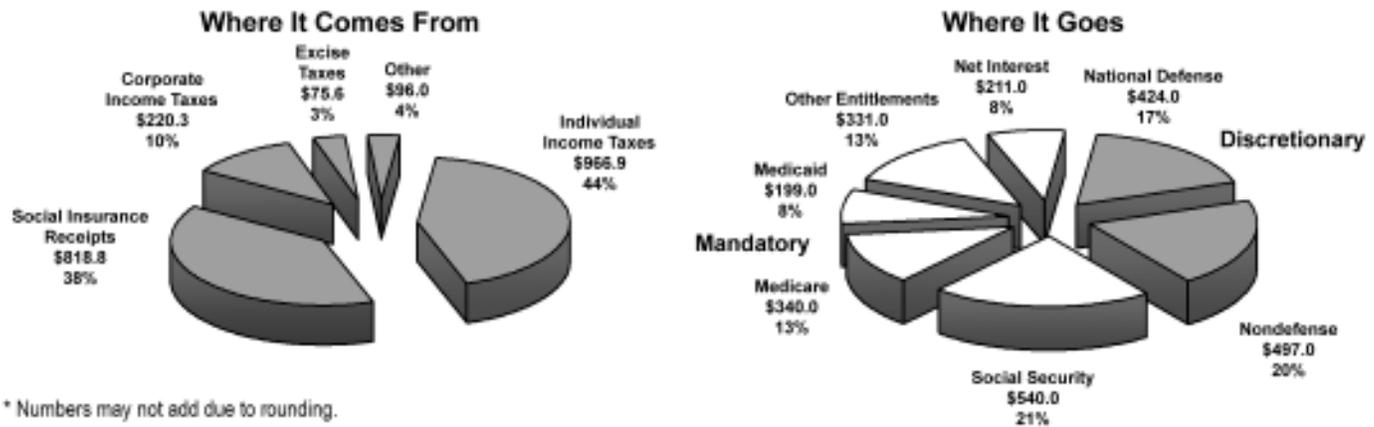
The President's Budget for FY 2006 proposes \$442 billion in BA for the functional classification 050 National Defense, which comprises more than the Department of Defense. The National Defense function includes three subfunctions:

- 051 Department of Defense–Military (\$421.1 billion);
- 053 Atomic Energy Defense Activities (\$17.5 billion);
- 054 Defense-Related Activities (\$3.2 billion).

The Department of Defense–Military line includes the DoD or “Pentagon’s” budget, which comprises the budgets of the services and all other organizations in DoD. Unless otherwise noted, discussions of the defense budget in this document refer to 051 Department of Defense–Military. See table 6 for BA data from FY 2004 to FY 2010.

Outlay estimates are higher than BA estimates for FY 2006. The 050 National Defense outlay estimate for FY 2006 is \$447 billion, or \$5 billion more than BA. In terms of percentage of federal spending and percentage of GDP,

The Federal Government Dollars Fiscal Year 2006 Estimates (\$ billions*)



* Numbers may not add due to rounding.

Source: Office of Management and Budget

Budget Authority by Function and Subfunction 050 National Defense (\$ billions*)

	FY04	FY05	FY06	FY07	FY08	FY09	FY10
051 Department of Defense—Military	471	402	421	445	464	484	494
053 Atomic Energy Defense Activities	17	18	17	17	16	16	16
054 Defense-related Activities	3	4	3	3	3	3	4
050 Total, National Defense	491	424	442	465	484	504	514

* Numbers may not add due to rounding.

Source: Budget of the United States FY06 Historical Tables, Table 5-1

the FY 2006 outlays for National Defense are down from FY 1989, the final year of the Cold War. The FY 2006 outlay estimates are 17.4 percent of federal spending, down from 24 percent in FY 1989; and 3.5 percent of GDP, down from 6 percent in FY 1989. See table 7 for outlay data from the President's Budget.

The FY 2006 outlay estimates do not include any future supplemental funds for the GWOT, Operation Iraqi Freedom (OIF) and Operation Enduring Freedom (OEF). The scope and duration of these continuing operations will affect the final outlay amounts for FY 2005, 2006 and probably for some years into the future. Figure 2 graphically illustrates the GDP trend.

The tall bar in figure 2 illustrates the growth in GDP; the small portion of the bar highlighted at the top, along

with the percentage, reflects the portion of GDP for National Defense. The figure illustrates the peak of National Defense spending as a percentage of GDP in the 1980s and the steady decline in the 1990s along with the growth in the economy, which continued through FY 2001. With the GWOT and combat operations, the trend for National Defense spending as a percentage of GDP increases began in FY 2002. The outlays for FY 2005 and beyond do not include equivalent supplemental funds which are included for FY 2004.

Relating defense spending to the overall economy provides a macro-level snapshot of defense compared to all other sectors of the economy but really does not provide any insights about whether the level is adequate or not. The subsequent paragraphs and the next sections

Outlays by Function and Subfunction
050 National Defense
(\$ billions*)

	FY04	FY05	FY06	FY07	FY08	FY09	FY10
051 Department of Defense—Military:	437	444	426	428	446	468	485
053 Atomic Energy Defense Activities	17	19	18	18	16	16	16
054 Defense-related Activities	3	3	3	3	3	3	4
050 Total, National Defense	456	466	447	449	466	488	505
050 National Defense as Percentage of All Outlays	19.9	18.8	17.4	16.9	16.9	16.9	16.7
050 National Defense as Percentage of Gross Domestic Product	3.9	3.8	3.5	3.3	3.2	3.2	3.2

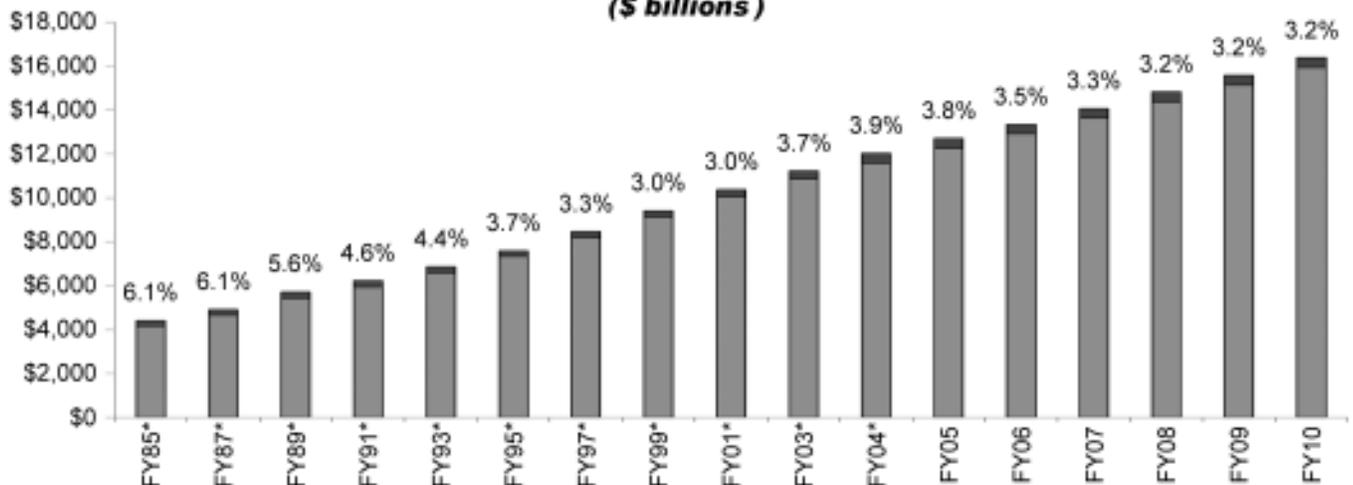
* Numbers may not add due to rounding.

Source: Budget of the United States FY06 Historical Tables, Table 3-1 and 3.2

Figure

2

National Defense as a Percentage of Gross Domestic Product
(\$ billions)



* Actual spending; remaining years are estimates.

Source: Office of Management and Budget

■ Gross Domestic Product ■ National Defense Outlays

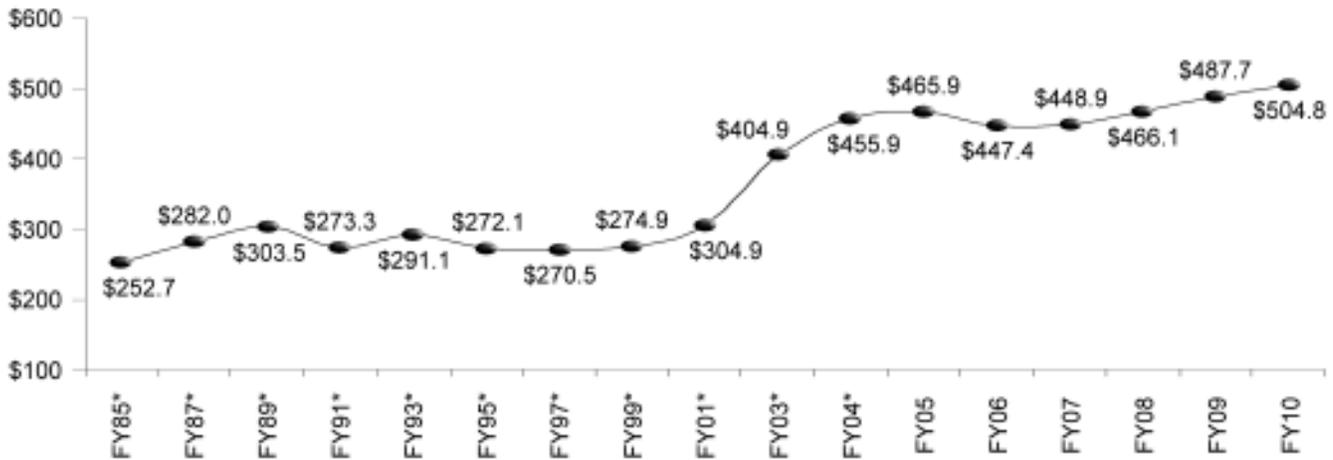
of this document examine more specifically the defense budget and what it buys, which is much more meaningful information.

The actual or estimates of National Defense outlays from FY 1985 (at the height of the Cold War buildup) through FY 2010 from the President's Budget are shown in figure 3. The amounts are somewhat misleading because the numbers have not been adjusted for inflation, e.g., real defense spending decreased from FY 1989 to 2003 by

nearly 11 percent. A substantial reason for this decrease was the drawdown in endstrength (e.g., active duty military strength decreased by 35 percent, and civilian employee strength decreased by 41 percent) and the decision to skip a generation of procurement.

The trend to increase National Defense spending began in FY 1999 with a modest 2.4 percent increase. In FY 2002, which began on 1 October 2001 (just weeks after the 11 September 2001 terrorist attacks on the U.S.

National Defense Spending Outlays (\$ billions)



* Actual spending; remaining years are estimates.

Source: Budget of the United States FY 2006, Historical Table 3-1

homeland), outlays increased by 10 percent over FY 2001. This included supplemental funds during the course of the year. Then FY 2003 experienced the largest increase with nearly 21 percent. As of the President's Budget submission in February 2005, and therefore without a request for supplemental funds for GWOT, the FY 2006 outlays are forecasted to be 4 percent below those of FY 2005.

Over the first decade of the new century, National Defense spending jumps from \$304 billion in FY 2001 (the pre-GWOT benchmark) to \$505 billion by the end of FY 2010. This is an increase of 66 percent in the span of 10 years. As you may recall from the earlier discussion on spending, defense spending is nearly 46 percent of all discretionary spending. This 66 percent increase in defense will require a substantial increase in discretionary spending and either an increase in revenue to avoid large deficits or a substantial offsetting decrease in non-defense spending to hold overall discretionary spending to a specified ceiling. These are not attractive options.

Determining the "correct" amount of discretionary spending for defense and non-defense is a difficult problem for every President and every Congress (particularly in election years).

This concludes observations on the overall federal budget. The other two principal sections of this analysis focus on the budget proposals for DoD and the Army.

DoD and the Army contribute substantially to homeland security; therefore, an overview of homeland security is appropriate.

HOMELAND SECURITY

The missions of the Department of Homeland Security and the Department of Defense are clearly complementary. DoD is responsible for deterring or defeating foreign enemies. DHS was created to better coordinate, focus and fund activities associated with protecting America from terrorist attacks. The mission of the DHS is to:

- prevent terrorist attacks within the United States;
- reduce the vulnerability of the United States to terrorism; and
- minimize the damage and assist in the recovery from terrorist attacks that do occur within the United States.

When DHS was established, Congress recognized that funding for homeland security would involve programs and functions in many government agencies. Consequently, the Homeland Security Act of 2002 requires the President to include an analysis of homeland security funding in the budget proposal. In fact, the FY 2006 budget includes federal homeland security funding in 33 agencies. The *Analytical Perspective* document, which accompanies the President's Budget, contains this analysis with budget authority data by agencies and by homeland security missions.

The President's Budget for FY 2006 increases funding for DHS and homeland security activities across the government. The budget includes \$49.9 billion for homeland security activities across all agencies, a \$3.9 billion increase over the 2005 level, excluding DHS's Project BioShield.³ This is an increase of \$2.9 billion (8.3 percent) in gross discretionary funding over the 2005 level, excluding mandatory funding, DoD activities and Project BioShield.

The FY 2006 budget proposal is more than 300 percent above FY 2001 funds, i.e., pre-9/11, for non-defense spending; and more than \$29 billion, or approximately 240 percent, above the 2002 level of \$20.7 billion.

The DHS proposal is \$27.3 billion, the largest amount among the agencies. The DHS proposal is the entire budget for the department; however, not all the funding in the DHS budget proposal is for homeland security, e.g., funding for Coast Guard search-and-rescue missions is in the DHS budget but not under homeland security.

Although 33 agencies participate in federal homeland security funding, the DHS and four other agencies account for approximately 92 percent of total funding in 2006. The other four agencies are the Departments of Defense (\$9.5 billion), Health and Human Services (\$4.4 billion), Justice (\$3.1 billion) and Energy (\$1.7 billion).

Table 8 displays the multiyear funding by agency.

The *National Strategy for Homeland Security* defines six critical mission areas for homeland security. The agencies categorize their funding data in the budget analysis according to these missions. See table 9 for the missions and funding.

The threats to homeland security are diverse—terrorists generally do not choose military targets. Therefore, homeland security requires detecting and deterring attacks on civilians and responding to emergencies. The responsibility for homeland security requires a national effort with cooperation among all government levels, the private sector and individual citizens.

DHS is breaking down the walls between law enforcement and terrorist investigations; improving intelligence gathering and analysis; acquiring biological weapons countermeasures; enhancing security at the borders and airports and in communities; and strengthening America's preparedness and response capabilities.

The President's 2006 Budget includes a wide range of programs and many different government partnerships. Among the major programs (based on funding proposals) are the following:

- \$100 million to the Department of the Treasury's efforts at detecting and stopping financial crimes, money laundering and terrorist financing;
- \$294 million for counterterrorism and counterintelligence initiatives and \$117 million in new funding to bolster the intelligence program of the FBI;
- \$344 million to improve and better coordinate screening of people, cargo and conveyances by consolidating several major initiatives within DHS, including: US-VISIT (\$50 million) and the Secure Flight Program (\$49 million);
- \$104 million for the multiagency Terrorist Screening Center (TSC)—a \$75 million increase over 2005—to increase development and management of a consolidated terror screening watch list;
- \$596 million, an increase of \$143 million, to improve the ability to detect and contain contamination to food and agriculture and \$58 million to support the establishment and maintenance of laboratories to analyze samples of potentially contaminated food as quickly as possible;
- \$416 million to help dismantle weapons of mass destruction infrastructure in the former Soviet Union to prevent the proliferation of nuclear weapons in DoD's Cooperative Threat Reduction program;
- \$343 million in Russia and other regions of concern to secure vulnerable nuclear weapons and weapons-usable material in the Department of Energy's National Nuclear Security Administration (NNSA);

³ The Department of Homeland Security Appropriations Act of 2004 provided \$5.6 billion for Project BioShield, to remain available through 2013. Pursuant to that Act, specific amounts became available in 2004 (\$0.9 billion) and 2005 (\$2.5 billion) that are intended to cover programmatic activities through 2008. The remainder will become available in 2009. Including this uneven funding stream can distort year-over-year comparisons. For more information about Project BioShield, go to <http://www.whitehouse.gov/infocus/bioshield/>.

Homeland Security by Agency
(Budget Authority, \$ millions ¹)

Agencies	FY03		FY04		FY05	FY06
	Actual	Supplement	Actual	Supplement	Enacted	Request
Department of Agriculture	300.0	110.0	411.0	—	600.0	704.0
Department of Commerce	112.0	—	125.0	—	167.0	183.0
Department of Defense—Military ²	8,442.0	—	7,024.0	—	8,570.0	9,513.0
Department of Energy	1,247.0	162.0	1,364.0	—	1,562.0	1,666.0
Department of Health and Human Services	4,002.0	142.0	4,062.0	—	4,230.0	4,407.0
Department of Homeland Security	18,652.0	4,411.0	22,834.0	—	24,871.0	27,331.0
Department of Interior	—	—	83.0	—	65.0	57.0
Department of Justice	1,893.0	457.0	2,165.0	—	2,678.0	3,104.0
Department of State	633.0	1.0	696.0	—	824.0	938.0
Department of the Treasury	80.0	—	90.0	—	101.0	111.0
Department of Transportation	383.0	—	284.0	—	182.0	192.0
Department of Veterans Affairs	154.0	—	271.0	—	280.0	299.0
Corps of Engineers	36.0	39.0	102.0	—	89.0	72.0
Environmental Protection Agency	133.0	—	131.0	—	107.0	184.0
General Services Administration	—	—	79.0	—	65.0	80.0
Social Security Administration	132.0	—	143.0	—	159.0	178.0
National Aeronautics and Space Administration	205.0	—	207.0	—	218.0	205.0
National Science Foundation	285.0	—	340.0	—	342.0	344.0
Other Agencies	429.0	7.0	317.0	—	888.0	375.0
Total, Homeland Security Funding excluding Project BioShield	37,118.0	5,329.0	40,728.0	107.0	45,998.0	49,943.0
Less Department of Defense—Military ²	-8,442.0	—	-7,024.0	—	-8,570.0	-9,513.0
Total, Homeland Security Funding, excluding Defense and BioShield³	28,676.0	6,329.0	33,704.0	107.0	37,428.0	40,430.0
Less Mandatory Homeland Security Funding ²	-1,760.0	—	-1,940.0	—	-2,225.0	-2,302.0
Less Discretionary Fee-Funded Activities ⁴	-3,414.0	705.0	3,289.0	—	3,941.0	-5,890.0
Net Nondefense Discretionary Homeland Security Budget Authority excluding Project BioShield	23,502.0	6,034.0	28,475.0	107.0	31,262.0	32,238.0
Plus Dept of Homeland Security BioShield	—	—	885.0	—	2,508.0	—
Net including Project BioShield	—	—	29,360.0	—	33,770.0	32,238.0

¹ Numbers may not add due to rounding.

² Mandatory homeland security programs include Agriculture Quarantine and Inspections, Border Protection and Immigration Enforcement.

³ Excludes \$107 million in supplemental appropriations in FY04 and \$16 million in FY05.

⁴ Discretionary free-funded homeland security programs include Visa Processing, Airport Security and Social Security physical and computer security.

Source: Budget of the United States FY06 Summary Table S-5

Homeland Security by Mission
(Budget Authority, \$ millions*)

	FY03 ¹		FY04 ²		FY05 ²	FY06 ²
	Enacted	Supplement	Enacted	Supplement	Enacted	Request
Intelligence and warning	125.1	86.0	242.0	—	349.8	431.9
Border and transportation security	15,170.8	1,859.0	15,840.8	90.7	17,550.2	19,285.8
Domestic counterterrorism	2,509.2	522.6	3,379.3	12.3	3,944.5	4,468.7
Protecting crucial infrastructure and key assets	12,893.1	388.3	12,279.1	2.5	14,939.4	15,632.2
Defending against catastrophic threats	2,428.4	201.1	2,974.2	0.7	3,399.2	3,898.3
Emergency preparedness and response	3,873.2	2,272.0	6,002.6	—	5,765.2	6,121.6
Other	118.3	—	9.6	—	49.8	104.5
Project BioShield	—	—	885.0	—	2,508.0	—
Total Homeland Security	37,118.2	5,329.0	41,612.7	106.2	48,506.2	49,942.9

* Numbers may not add due to rounding.

Sources: ¹ Budget of the United States FY05 Analytical Perspectives Table 3-2

² Budget of the United States FY06 Analytical Perspectives Table 3-2

- \$1.7 billion to support both basic research (which leads to breakthroughs in scientific knowledge) and applied research and development (which converts knowledge into effective countermeasures such as vaccines and treatments) at the National Institutes of Health;
- \$385 million, an increase of \$22 million, to the DHS Biological Countermeasures Office for developing vaccines to defend the food supply against intentional or accidental introduction of animal diseases into the country;
- \$107 million, including \$36 million in new spending on countermeasures to non-traditional chemical agent threats, which doubles the spending for chemical agent research and development conducted by DHS. This funding includes the creation of a state-of-the-art materials testing facility that will be housed within DoD's chemical countermeasures programs;
- \$223 million to DoD for boosting efforts in the areas of agent detection, early warning, decontamination and medical countermeasures for chemical and biological threats;
- \$150 million to DHS for aviation explosives detection research and continuing the deployment of more advanced equipment and systems at airports;
- \$110 million to DHS for continuing research on the viability of countermeasures for commercial aircraft against the threat of shoulder-fired missiles known as Man-Portable Air Defense Systems;
- \$2 billion to ensure the security of the nation's ports, primarily supporting the Coast Guard's ports, waterways and coastal security program (\$1.9 billion in discretionary funding), and the U.S. Customs and Border Protection (CBP) container security initiatives;
- \$600 million for Targeted Infrastructure Protection (TIP) grants to be allocated by the Secretary of DHS to state and local governments to assist in reducing the vulnerability of critical infrastructure such as chemical facilities, ports and transit systems;
- \$530 million for DHS' Information Analysis and Infrastructure Protection (IAIP) Directorate, which assesses threats, issues alerts and takes preventive action; and
- \$17 billion in grants to assist state and local homeland security efforts that will be allocated through the House-approved Faster, Smarter, First Responder Act, providing greater authority to allocate funds based on need, risk and the achievement of national preparedness goals instead of the previous formula approach.

As is evident from this list of programs, DoD and the Army are responsible for critical parts of the homeland security missions. Americans benefit from the interaction of DHS and DoD.

* * * * *

The subsequent sections of this analysis focus on the DoD and the Army budget proposals, and what the funds will provide to the nation.

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%						

* 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%						

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.

Table 16

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 \$ millions¹)

	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.

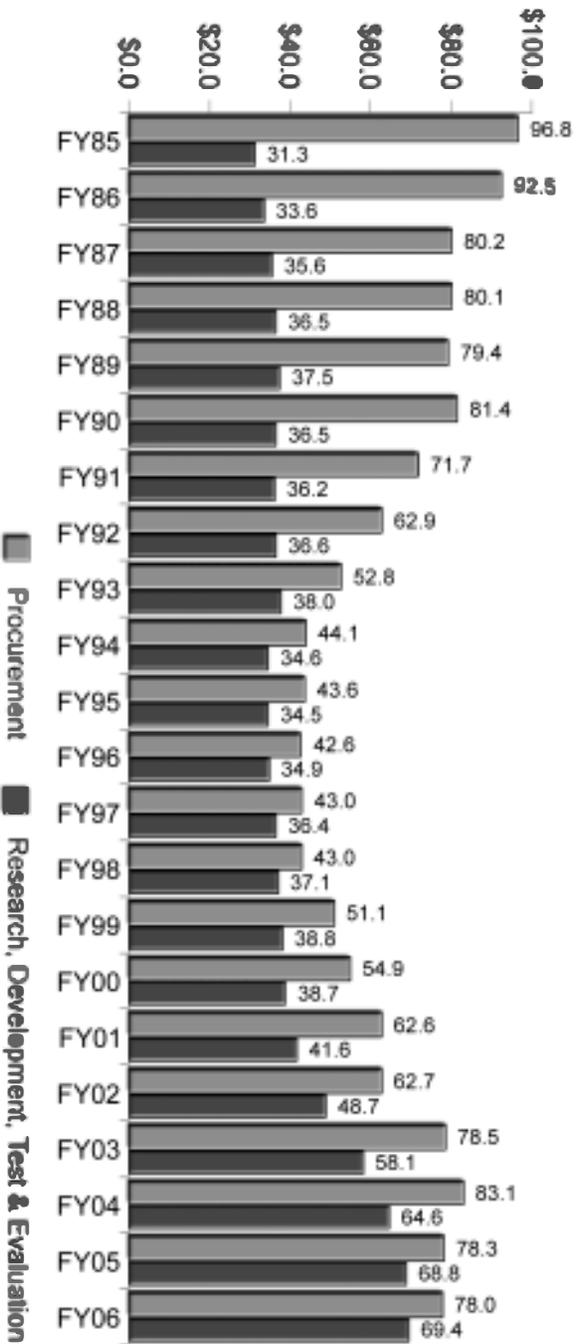
Procurement and RDT&E by Component

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 *)

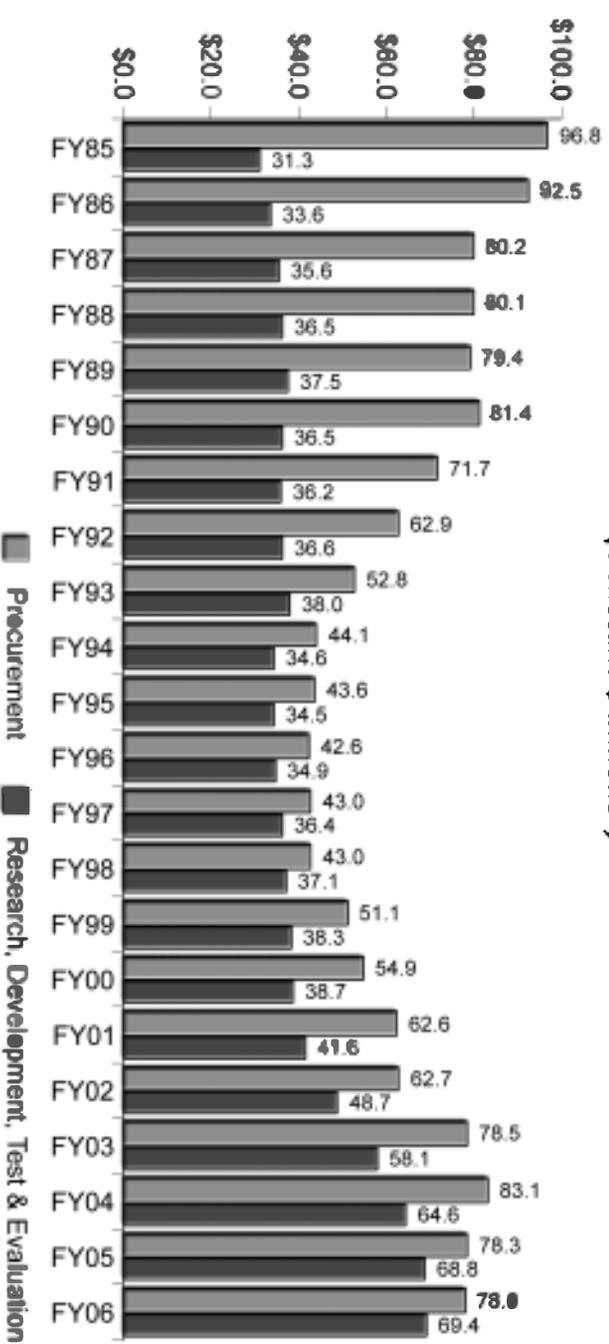


* Current dollars are the actual amounts spent at the year of execution (with no adjustments for price changes over time).

Source: National Defense Budget Estimates for FY 2007 (DoD Greenbook), Table 6-9

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 6-9

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)

		Procurement ¹	RDT&E
AIRCRAFT			
Army	AH64-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
	Air Force	B-2 Bomber	59.1
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
DoD/ Joint	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
Navy	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
Air Force	Sensor Fuzed Weapon (SFV)	120.4	0.0
	Wind Corrected Munitions (WCMD)	0.0	21.4
DoD/ Joint	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)	305.9	0.0

		Procurement ¹	RDT&E
MISSILES (continued)			
DoD/ Joint	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
	Interim Armored Vehicle (Stryker)	878.4	26.7
SPACE			
Army	DSGS Ground Systems	55.0	11.5
Navy	Mobile User Objective System (MUOS)	0.0	470.0
Air Force	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	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
RD&E²	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 (\$ millions¹)

	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 (\$ millions¹)

	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.

THE ARMY BUDGET

The President's Budget for Fiscal Year 2006 includes a request for \$98.6 billion in FY 2006 and \$110.1 billion in FY 2007.¹⁰ The budget provides the Army with the Total Obligational Authority to accomplish its mission of providing forces and capabilities to combatant commanders of joint forces to deter aggression or, if deterrence fails, to defeat America's enemies.

The Army Budget for FY 2006 recognizes the post-9/11 security environment and the demands placed on America's Army. The nation and its Army, as part of the joint force, are engaged in a Global War on Terrorism to defeat America's enemies. In this war, the enemy uses non-traditional means, conducts terrorist operations worldwide with a total disregard for human life, and is not a nation-state with territorial assets. This produces a great deal of uncertainty about the enemy and the threat. It also suggests a security environment that is quite different from that of the previous century, and, unfortunately, is likely to continue for the foreseeable future.

The Army Budget prioritizes resources for the forces fighting and winning the war and for the transformation of the Army as mandated by the current and foreseeable security environments. Successful transformation requires understanding, planning, resources and implementation. The Army Budget includes resources for continuing near-term transformation to support the Army in the GWOT and for long-term transformation to provide essential capabilities for future national security.

The Army, as part of the joint force, is conducting warfighting operations in Iraq and Afghanistan, as well as operations in some 120 other countries. However, the Army Budget for FY 2006 does not include funds for conducting the warfighting operations—those funds will be in a supplemental budget request. The rationale for warfighting operations in a supplemental request is described below:

- Congress does not appropriate funds that may or may not be required by the requesting department or organization. One reason for this policy is the fact that if Congress appropriates funds for *possible* requirements, such an action may result in denying funds to another department that has a firm requirement.
- The scope of "current operations" in a future year is contingent upon the situation at that time. This uncertainty about the future situation and therefore the requirement during budget preparation and submission, some 15 months before the beginning of the year of execution, makes justifying funding too uncertain.
- Therefore, budget proposals for warfighting operations in a future year are within the policy restriction. The Army Budget does not include funds for warfighting operations in a future year. Rather, the President submits a supplemental budget request when the scope of the operations allows for a more definitive budget proposal.

The Army Budget includes funding for organizing, recruiting, equipping, training, supplying and maintaining the force; for construction, maintenance and repair of facilities; and for mobilizing and demobilizing units. This is the statutory mission of the Army as stated in Title 10, United States Code (USC).

In his testimony to the House Armed Services Committee hearings accompanying the budget, the Secretary of the Army discussed four overarching and interrelated strategies, along with 20 implementing initiatives:

In order to accomplish our mission of providing the necessary forces and capabilities to the Combatant Commanders in the support of the National Security and Defense Strategies we have developed and are executing four overarching and

¹⁰ Includes Base Realignment and Closure (\$0.1 billion); Environmental Restoration, Army (\$0.4 billion); and Army Working Capital Fund (\$0.1 billion).

interrelated strategies supported by 20 different initiatives. Transformation is ingrained in all of these strategies as well as in all of the supporting initiatives. These strategies are:

- First, providing relevant, ready landpower to the combatant commanders;
- Second, training and equipping our Soldiers to serve as warriors and growing adaptive leaders;
- Third, attaining a quality of life for our Soldiers and their families that matches the quality of their service;
- And finally, providing the Infrastructure to enable the force to fulfill its strategic roles and missions.¹¹

The Secretary went on to say that he and the Chief of Staff of the Army (CSA) are confident that the Army base budget with supplemental “can accomplish [the Army’s] mission and reach the strategic goal of being ready and relevant both today and tomorrow.”

The Army Budget for FY 2006 is essentially the same as that submitted in FY 2005 and about 5 percent higher than that submitted in FY 2004. However, the FY 2004 budget grew 49 percent with the passage of the supplemental request for the warfighting operations in Iraq and Afghanistan. For FY 2005, a small supplemental was enacted and a larger supplemental is still being considered by Congress, but will likely increase the initial budget submission by more than 50 percent. See table 35.

The budget summary in table 35 gives rise to various observations. First, the Army Budget submissions for FY 2005 and FY 2006, i.e., the basic budgets, are essentially the same. The FY 2006 budget includes both pay raises and inflation, and therefore has less in program dollars. The Army’s total budget, which includes the supplemental(s) for current operations, differs significantly from the basic budget. If the war on terrorism continues at about the same level of operation in FY 2006, the budget proposal will require a significant supplemental.

Table 35				
Army Budget Summary				
Total Obligational Authority				
(\$ billions)				
	FY04	FY05	FY06	FY07
President's Budget ¹	93.9	98.5	98.6	110.1
Supplemental and Adjustments	47.7	16.5	—	—
Total²	141.6	115.0	98.6	110.1
¹ President's Budget proposal as initially submitted to Congress.				
² Total for FY04 is actual and for FY05 is enacted; includes Title IX.				
Source: Army FY06 President's Budget Highlights				

NOTES:

- *Total Obligational Authority refers to the sum of Budget Authority for a given fiscal year plus unobligated balances from prior years, offsetting collections and transfers that are available for obligation in the fiscal year. All departments actually manage budget execution using TOA.*
- *Unless otherwise noted, all dollar amounts and analyses in this chapter are in terms of TOA.*
- *The tables and figures in this section generally provide dollar data across three or more fiscal years. Budget data across a series of fiscal years are in current dollars, i.e., then-year dollar, unless specifically noted otherwise.*
- *A Glossary of Budget Terms is at the final section of this document.*

INTRODUCTION

Budget documents are planning documents that describe future actions and related resources. In the public sector, the executive requests future funding for specific actions from the legislature. The President’s Budget, a comprehensive plan for every department of the Executive Branch of the federal government, describes objectives, programs and actions along with a request for related resources. As part of the President’s Budget, the Army

¹¹ Secretary of the Army Francis J. Harvey, Opening Statement (As Prepared), Before the House Armed Services Committee, Honorable Francis J. Harvey and General Peter J. Schoomaker, Washington, D.C., 9 February 2005.

Budget requests resources for specific actions in future fiscal years using the congressionally mandated data structure, e.g., appropriation, budget activity, program, function, component and many other types and levels of detail.

The Army budget presents the integration, balancing and prioritizing of funding data for activities, functions and programs for the next fiscal year—or the next two fiscal years when the first is an even year, e.g., FY 2006. The various data provide decision support information for the authorizing or appropriating committees of both houses of Congress. When appropriate, the funding authority often includes restrictions on the use of the various types of money.

Army Goal and Budget

The Army's goal is to provide ready and relevant forces to meet both immediate and future national security needs. For the GWOT and the challenges of the 21st century, a ready and relevant Army requires capabilities not generally anticipated before the 9/11 attacks. The Army recognizes that the national security challenges require continuing the intellectual and organizational transformation begun for the GWOT.

The Army Budget continues to advance the goal by providing for aggressive restructuring:

- *from* a force designed for contingency operations in the post-Cold War era
- *to* a modular force designed for continuous operations.

This budget balances immediate force needs with the development of future force enhancements. The principal themes for accomplishing this are to:

- generate and sustain a force to prevail in the Global War on Terrorism;
- transform and improve Army capabilities:
 - restructure to a modular design
 - rebalance active and reserve forces
 - stabilize units
 - improve effectiveness and identify efficiencies;
- recruit and retain the all-volunteer force;
- accelerate promising technology to improve force protection and to enhance fighting capability;

- repair, reset and recapitalize equipment.

The American Soldier—trained and motivated—is the key to the Army forces and systems. The budget emphasizes manning the force, taking care of Soldiers and families and sustaining the quality of the force through training, equipping and leadership development.

The readiness of Army units is essential for maintaining responsive forces capable of conducting warfighting operations whenever and wherever in the world. Readiness requires training, mobility and sustainment. The budget retains the Army's commitment to funding ground operating tempo (OPTEMPO) and flight training for the units not participating in Operation Iraqi Freedom (OIF) or Operation Enduring Freedom (OEF). However, with the uncertainties of rotational deployments and therefore the units available for readiness training, the Army took some risk with readiness. The Army plans to evaluate these units during the year of execution and mitigate any risks to readiness, as necessary.

Army installations are power-projection platforms, essential to maintaining the premier Army in the world. Soldiers work, train, mobilize and deploy from installations, reaching back to them for support in wartime; Soldiers and their families live on or near installations. The Army Budget provides for selective maintenance of and improvements to this infrastructure.

Transformation initiatives are focusing on organizing, equipping and training Soldiers for the current fight and on producing the premier land force for the future. In response to the current war, the Army continues to adapt to meet the threat, and to identify and accelerate technical and materiel solutions.

The Future Combat Systems program continues to be the materiel centerpiece of the transformation of the Army. In July 2004, the Army restructured the FCS program to accelerate fielding of crucial capabilities to the current force while continuing to work to develop the full FCS capability. The acceleration for the current force involves spiraling the most promising technologies into the force much faster than was previously programmed. This includes providing the current force with advanced capabilities from 18 manned and unmanned ground and air platforms that are linked through a network. This linkage brings unprecedented situational awareness and understanding.

In addition, the Army is pursuing two programs to respond to current warfighting needs:

- The Rapid Fielding Initiative (RFI), which focuses on filling individual Soldier equipment shortfalls quickly by fielding commercial off-the-shelf technology rather than waiting for the standard acquisition process to address the shortages; and
- The Rapid Equipping Force (REF), which focuses on providing operational and technical solutions to the combatant commanders' requirements more quickly than through the normal acquisition cycle. Many of the REF initiatives address force protection requirements for Soldiers; examples include robots, unmanned aerial vehicles (UAVs) and methods to counter improvised explosive devices (IEDs).

The Army Budget reflects a balancing of resources for current operations, readiness, individual development and quality of life for Soldiers and for research, development and acquisition for transformation of the future force. The Army is balancing resources within and across appropriations to ensure that it will be ready to advance the nation's security in peace and war, now and in the decades ahead.

ARMY BUDGET AND TRENDS

Congress requires that the President's Budget include financial data on the prior and current fiscal years as well as the proposal for the next fiscal year. Congress requires this data in terms of appropriations and a great deal of other detail within the appropriations.

A review of this multiyear data in terms of dollars or percentages provides insights. However, any multiyear review requires consideration of what is included in the dollars for the various fiscal years. The prior-year execution data column of the President's Budget, e.g., FY 2004, includes substantial supplemental dollars that cannot be disaggregated from other execution-year dollars. The current-year dollars for FY 2005 include initial, limited supplemental funds that are displayed separately. The budget proposal for FY 2006 does not include funds for contingency operations because the Army was uncertain of the scope of the operation when preparing the budget.

Therefore, multiyear trend data may be misleading with supplemental funds for contingency operations in some years and not in other years.

Budget by Appropriation Grouping

Appropriations are the consolidations of funds for like-type functions. The three components of the Army—active Army, Army National Guard and Army Reserve—have some similar appropriations that are sometimes bundled into appropriation groupings for overall consideration, i.e., Military Personnel, Operation and Maintenance, and Military Construction. The groupings provide an overview of how Army funds are distributed among appropriation functions.

See table 36 for appropriation groupings for the Army's FY 2006 budget.

In peacetime, the Army's Military Personnel appropriations consume the largest amount of dollars followed by Operation and Maintenance; traditionally the two equal nearly 70 percent of the entire budget. In wartime, the O&M expenses for supporting and sustaining the troops exceed MILPERS, as is evident in the FY 2004 column, which includes the supplemental for warfighting operations. Using the FY 2004 data as a model, the O&M group for FY 2005 and FY 2006 will require substantial supplemental funding.

Appropriation Grouping Percentages

A comparison of funding data using percentages instead of actual dollars provides insights into the relative growth and reductions. An important baseline for a multiyear percentage comparison is the FY 1989 budget, which was the last year of the Cold War and does not include supplemental dollars for a war. Interestingly, a comparison of the FY 1989 actual and FY 2006 budget proposal (which does not include warfighting operations) reveals a similar distribution among appropriation groups. Note also that the Defense Working Capital Fund and the Environmental Restoration Army appropriations, which consume .5 percent of the current budget, did not exist in FY 1989. See figure 6.

Figure 6 presents relative dollar data at two points in time. However, the Army budget trend from the end of the Cold War in 1989, except for Operation Desert Storm in 1991, was downward until 2000. The budget was reduced by about 34 percent in the 1990s in real terms, i.e., after adjustments for inflation and mission changes. The Army's endstrength was similarly reduced between FY 1989 and FY 2000. Active Army military

Army Summary
Total Obligational Authority by Appropriation Grouping
(\$ billions ¹)

Appropriation Groupings	FY04 Actuals	FY05 Appropriated ³	FY06 PB ² Request	FY07 PB Request
Military Personnel	49.0	40.0	41.4	43.3
Operation and Maintenance	62.4	45.4	31.8	33.1
Procurement	14.7	13.1	11.8	13.5
Research, Development, Test & Evaluation	10.2	10.6	9.7	10.3
Military Construction/BRAC ⁴	2.1	2.6	2.0	3.3
Army Family Housing	1.5	1.4	1.4	1.1
Environmental Restoration, Army ⁵	—	0.4	0.4	0.4
Chemical Demilitarization ⁶	1.5	1.4	—	—
Defense Working Capital Fund ⁷	0.2	0.2	0.1	—
Other	—	—	—	5.0
Total	141.6	115.0	98.6	110.1

¹ Numbers may not add due to rounding.
² President's Budget.
³ Includes Title IX funds.
⁴ Base Realignment and Closure.
⁵ ERA is executed in Operation and Maintenance, Army (FY04) but is budgeted separately in FY05, FY06 and FY07.
⁶ Chemical Demilitarization became an Army appropriation in FY99.
⁷ DWCF, Army became an Army appropriation in FY00.

Source: Army FY06 President's Budget Highlights

strength decreased by 38 percent, reserve component endstrength decreased by 28 percent and the civilian workforce decreased by about 47 percent.

After the reductions of the 1990s, the dollars and endstrengths were leveling off in 2000. The 9/11 attacks and the subsequent GWOT reversed the funding trend. The FY 2003 budget, with supplemental appropriations, was more than 25 percent higher than FY 2001 and FY 2002 levels. The FY 2004 budget with supplemental appropriation was 10 percent greater than the FY 2003 budget. The FY 2005 budget supplemental is still pending, so the final amount is uncertain.

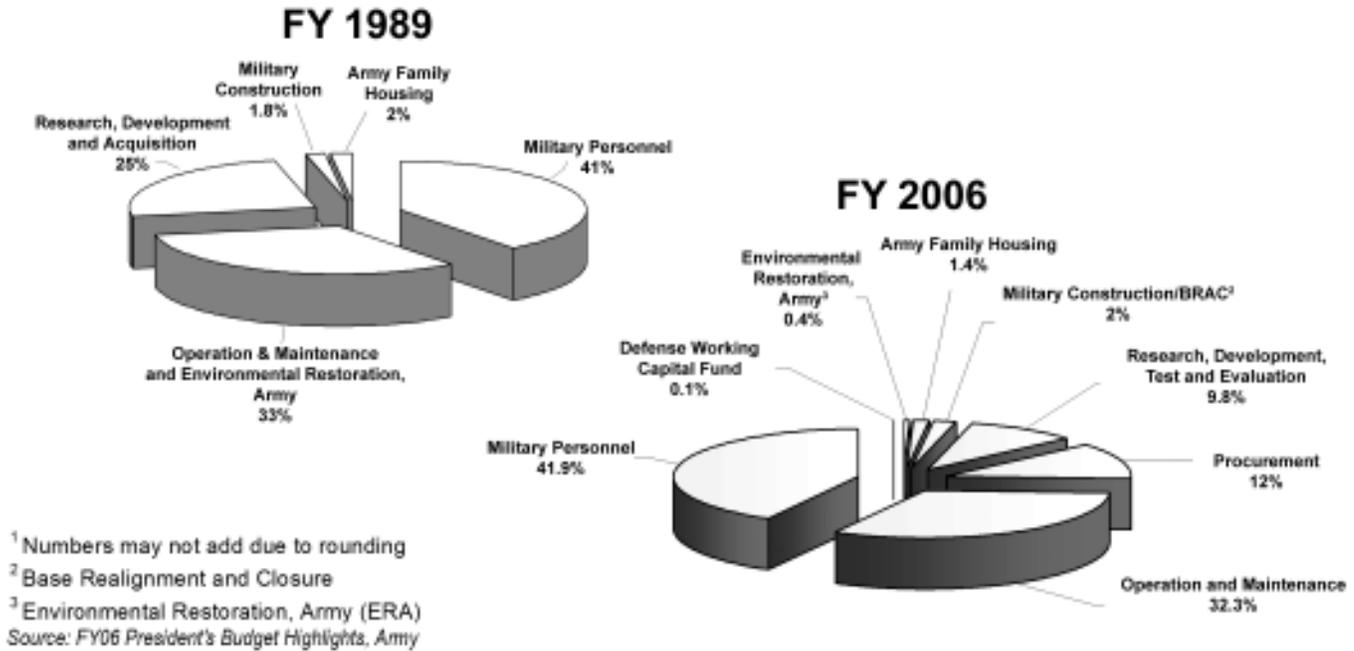
Army Appropriations

The Army appropriations, listed below, are discussed in the subsequent paragraphs.

- Military Personnel, Army
- Reserve Personnel, Army

- National Guard Personnel, Army
- Operation and Maintenance, Army
- Operation and Maintenance, Army National Guard
- Operation and Maintenance, Army Reserve
- Aircraft Procurement, Army
- Missile Procurement, Army
- Procurement of Weapons and Tracked Combat Vehicles, Army
- Procurement of Ammunition, Army
- Other Procurement, Army
- Research, Development, Test and Evaluation, Army
- Military Construction, Army
- Military Construction, Army National Guard
- Military Construction, Army Reserve

**Army Appropriation Groups
(Percentage of Distribution ¹)**



- Family Housing Construction, Army
- Family Housing Operations, Army
- Chemical Agents and Munitions Destruction, Army
- Environmental Restoration Fund, Army
- Defense Working Capital Fund, Army

NOTE: In addition, the Army receives specifically allocated funds for Base Realignment and Closure.

Budget Process Overview

In the 1960s, the Department of Defense initiated a Planning, Programming and Budgeting System (PPBS) to establish a deliberate, sequential process for integrating the various program and resource decisions from across the military departments. The concept was to go from long-term and general planning, to mid-term and programmatic, to near-term and appropriation-functional level of detail. In the 1980s, the Army explicitly added Execution to the title to emphasize the equal importance of reviewing the actual use of the budget data for management insights.

In the past 40 years, the Army and DoD systems have changed a great deal and, arguably, have become too

bureaucratic and nonresponsive for the current security environment. The Secretary of Defense initiated the Joint Defense Capabilities Study (Aldridge Study) in 2003 and is implementing actions to improve business processes within the department. The budget formulation process produces data and reports required by Congress, and these will probably not change. The internal process for producing the data may change.

The budget process involves bringing together the strategic objectives and programs decisions within budget funding controls. The DoD budget controls have their roots in the dollar guidance from OMB. DoD distributes the guidance, or controls, among the services—including the Army—and the DoD agencies.

The Army and other federal departments prepare their budgets using the appropriation structure. The Army submits its budget proposal to the Office of the Secretary of Defense (OSD) for concurrent review with OMB. As approved, the Army budget becomes part of the federal budget the President submits to Congress in February.

The Congressional Budget Office controls the federal budget. The various appropriation and authorization committees and subcommittees of Congress review the budget

proposal within the controls and make their recommendations. Ultimately, the House and Senate form a joint committee to reconcile the differences for approval by both chambers. If all works according to the schedule, Congress sends appropriation acts to the President before the beginning of the fiscal year on 1 October. However, if an agreement on the budget has not been reached by 1 October, Congress passes a Continuing Resolution Act, which allows the departments to continue to operate within stipulated restrictions.

When Congress provides and the President signs the appropriation acts into law, then the Treasury, DoD and next the Army receive funds for execution. Funds are provided by appropriation and carry restrictions. For example, funds generally cannot be moved across appropriations without prior congressional reprogramming approval, and various appropriations expire at the end of one, three or five fiscal years.

Budget Documents

The Army's budget is a formidable document, or more accurately, a formidable set of many documents that include a great deal of data. The many documents with their many different internal forms are complex. There are about 25 documents at the Army website with perhaps 10,000 pages of detail.¹² This chapter peels away some of the complexity by organizing the review for the reader.

The chapter begins with a discussion of the overall budget and subsequently examines appropriation, selected programs and functional data. This review should help the reader understand the Army's intention as well as the resource proposal.

ARMY LAND FORCES

The Army provides land forces to the joint team in support of the National Security and Defense Strategies.

Quadrennial Defense Review and Defense Strategy

After the end of the Cold War, the initial assumption was that the defense establishment could be reduced. In the mid-1990s, after some years of drawdown, Congress directed the Secretary of Defense to conduct a comprehensive examination of national defense strategy, force

structure, force modernization, infrastructure and defense policy, programs and budget plans. This became the first Quadrennial Defense Review in 1997.

The QDR set the strategy and the force-sizing guidance that was implemented by the services. The second QDR was completed in 2001—after 9/11—and set the strategy and the force-sizing guidance for the next four years. The GWOT and the extended national security environment, along with DoD transformation, also significantly influence the FY 2006 budget. The GWOT and the national security environment are also influencing the next (third) QDR that will be completed later in 2005. The 2005 QDR will be a driver in the next budget.

The 2005 QDR expresses four goals—to which the Army contributes—for DoD:

- Assure allies and friends;
- Dissuade future military competition;
- Deter threats and coercion against U.S. interests; and
- If deterrence fails, decisively defeat any adversary.

The 2005 QDR also discusses DoD strategy for pursuing the defense goals (the Army provides land forces for implementing the defense strategy):

- Defend the United States and project U.S. military power;
- Strengthen alliances and partnerships;
- Maintain favorable regional balances; and
- Develop a broad portfolio of military capabilities.

The 2005 QDR will certainly take into account the GWOT and the related security environment that suggests a protracted war and the blurring of the distinctions between war and peace. DoD and the Army have applied these lessons in the FY 2006 budget.

Army Implication

The Army contributes strategic landpower to each element of the strategy. Land forces are essential for wresting control of land and people from hostile forces. Land forces, as operations in Iraq and Afghanistan demonstrate, are essential for restoring civilian control in a hostile

¹² FY 2006–2007 Budget Materials, available online at <http://www.asafm.army.mil/budget/fybm/fybm.asp>.

environment. Forward presence elsewhere in the world is a significant contributor to stability, and land forces make unique contributions to homeland security as well.

The Army recognizes that to implement the Defense strategy successfully in this dangerous security environment, it must transform its capabilities. The Army must be more expeditionary, joint, rapidly deployable and adaptive; it must possess the capacity to be successful across the entire range of military operations from major combat to post-conflict stability. The Army must provide ready and relevant forces to meet the challenges of the 21st century. This requires continuing the intellectual, organizational and equipping transformation.

The Army is responding by aggressive restructuring forces:

- from a design for *contingency operations* in the post-Cold War era
- to a modular design for *continuous operations*.

Army Forces

The Army consists of the active component (AC), the reserve component (RC), i.e., U.S. Army National Guard and U.S. Army Reserve forces, and the civilian work force.

In prior years, a discussion of the Army forces began with the quantity of the corps, active component and National Guard divisions, armored cavalry regiments and enhanced Separate Brigades in the National Guard. The types and quantities of these units were a general way of expressing the capability of the Army. As evidenced in the FY 2006 budget, this is no longer the case.

Initiative: Modular Force

The Modular Force Initiative is one of nine initiatives under the Army Strategy, providing relevant and ready landpower to combatant commanders. The Army strategy and the harsh realities of the strategic environment are driving the most significant redesign of forces in the past 50 years. The redesign began in FY 2004, and the scope and pace of the changes over the next few years is unprecedented.

The Army is converting from a division-centric structure to a modular brigade combat team structure, i.e., the brigade combat teams (BCTs). The FY 2006 budget

supports the aggressive conversion of the Army to 43 BCTs by the end of the fiscal year. Each new modular brigade is a stand-alone, self-sufficient and standardized tactical force of 3,500–4,000 Soldiers. The BCTs are more rapidly deployable, more capable of independent action and more responsive to regional combat commanders.

In his testimony on the Modular Force before the House Armed Services Committee, the Secretary of the Army stated:

By larger, we mean that we will grow the Operational Army from 33 to 43 Brigade Combat Teams. Let me note here that because the Brigade Combat Team is a much more capable and powerful unit, it is not particularly useful to only talk about the mandated endstrength of the Army. It is more useful to talk about the number of units as well as the combat power of those individual units. Because, at the end of the day, it is the total combat power of the Operational Army that counts.

Consequently, these brigades are more strategically responsive across the broad spectrum of operations required by the 21st century security environment. Furthermore, because of the standardization, a Heavy Brigade Unit of Action in, say, the 3rd Infantry Division, will be exactly the same as any other Heavy Brigade, thus aiding in planning and logistics. Additionally, we are developing standardized Support Brigades and higher headquarters.

This transformational effort will result in a force with a number of key advantages. First, there will be a 30 percent increase in our active component's combat power by 2007, an increase from 33 to 43 Brigade Combat Teams as I previously stated. Second, the number of useable Brigade Combat Teams in the rotational pool will be increased from 48 to 77. Third, the headquarters will be joint-capable and organized the way it will operate in theater. Fourth, future network-centric developments can be readily applied to the modular force design. Finally, and very importantly, when complete, modularity in combination with rebalancing the type of units in both the Active and Reserve Components will significantly reduce the stress on

the force because of a more predictable rotational cycle for all components of the force, coupled with a much longer dwell time at the home base.¹³

To generate additional military personnel for the BCTs and the operational forces, some military billets will be converted to civilian jobs in institutional parts of the Army.

Initiative: Rebalancing Active and Reserve Component Units and Skills

Rebalancing is another of the nine initiatives under the Army Strategy, providing relevant and ready landpower to combatant commanders. During the past 30 years, the Army deliberately assigned responsibility for certain capabilities to the reserve component, e.g., about 66 percent of combat support and 72 percent of combat service support in general, and 98 percent of civil affairs and psychological operations in particular. As the current and foreseeable security environment suggests, the active component needs more of certain capabilities for early deployment, and the reserve component needs more of some types of units and fewer of others.

The ultimate objective is to increase infantry and high-demand units in the active component and reduce the need to immediately mobilize reserve units. Therefore, the Army is rebalancing the mix of units between and also within the components to generate a relevant and versatile force for the GWOT and future threats.

The Army is addressing high-demand unit shortages first, e.g., military police, military intelligence, Special Forces, chemical civil affairs and psychological operations. Approximately 30,000 force structure spaces across all components will be affected initially, and more than 100,000 positions will be altered between FY 2004 and FY 2009.

Initiative: Stabilizing Soldiers and Units

Stabilizing is a third of the nine initiatives under the Army Strategy, providing relevant and ready landpower to combatant commanders. Stabilizing involves both the way the Army assigns Soldiers to units and the management of the force structure for deployments.

In general, Soldiers will be assigned to their posts for greater periods of time compared to the typical tour lengths

today, and Soldiers' assignments to BCTs will be synchronized with the operational cycle of the unit.

As the number of BCTs in the force increases, the operational cycles of the units should be more predictable, with the goal being one deployment every three years for the active component and one deployment every six years for the reserve component. After a deployment, the unit will be in a "reset" status for a year or more and then will be in the pool of ready forces for potential deployment for some number of years.

For the warfighting mission, the combination of the longer time at a post and the predictability of deployments should foster more training proficiency and unit cohesion. For the quality of life for Army families, the stability and predictability should allow more opportunity for deeper roots within a community, continuity of schooling and health care, home ownership and employment.

Forces Engaged in Operations

The Army is conducting operations in Iraq, Afghanistan, and some 120 other countries around the world today and anticipates similar operational levels in FY 2006. As part of the joint and coalition team, the Army is conducting wartime operations in Afghanistan and Iraq, and peacetime operations with allies and friends around the world. As a result of the war and worldwide commitments, current organizations, systems and facilities are and will continue to be stressed.

The Army is executing:

- homeland defense operations (Operation Noble Eagle);
- stability and support operations in the Balkans (Stabilization Force/Kosovo Force);
- peacekeeping operations in the Sinai as part of the Multinational Force and Observers (MFO);
- combat operations in Afghanistan and elsewhere (Operation Enduring Freedom) and in Iraq (Operation Iraqi Freedom); and
- peacetime operations in forward-stationed locations including Korea, Europe and elsewhere.

¹³ Secretary of the Army Francis J. Harvey, Opening Statement (As Prepared) of Honorable Francis J. Harvey and General Peter J. Schoomaker Before the House Armed Services Committee, Washington, D.C., 9 February 2005.

Endstrength

Endstrength refers to the number of personnel spaces *authorized* by Congress and the *actual* number of Soldiers and civilians in the Army at a point in time. Both authorized and actual endstrength are managed for each of the components: active Army, Army National Guard, Army Reserve and Army civilians. However, budgets and appropriations for people are clearly identifiable for only the military components and not the civilian component.

During the 1990s, endstrength for each of the components was reduced and each reached new, lower levels by FY 2000. The FY 2006 budget proposes endstrengths consistent with those levels—482,400 in the active Army, 350,000 in the Army National Guard, 205,000 in the Army Reserve and 233,000 civilians.

See figures 7, 8 and 9 for endstrength trends for the active, reserve and civilian components from the end of the Cold War to the proposals for FY 2006.

NOTE: The FY 1989–2004 numbers are actual endstrength, the FY 2005 numbers are authorized levels, and the FY 2006/07 numbers are proposed in the President’s Budget submitted to Congress.

The actual endstrength of the active Army is currently about 650,000, which includes 30,000 in emergency authorizations and about 140,000 mobilized Army National Guard and Army Reserve Soldiers.

PERSONNEL BUDGETS

The MILPERS group of appropriations includes all military pay and allowances, i.e., Military Personnel, Army (MPA), National Guard Personnel, Army (NGPA) and Reserve Personnel, Army (RPA). Civilian pay is not centralized in a single appropriation; the majority is in Operation and Maintenance appropriations, but some is included in eight other appropriations.

Military Personnel

The MILPERS appropriations are single year-specific and centrally managed. The appropriations include funds for pay and allowances, benefits and incentives, subsistence and permanent changes of station for Soldiers. Entitlements, overseas strength and numbers of married Soldiers also impact on these appropriations.

Military Personnel appropriations for the active Army, Army National Guard and Army Reserve are summarized

in table 37. These appropriations comprise about 42 percent of the Army Budget request for FY 2006 prior to any supplemental; civilian pay comprises an estimated 16 percent more of the Army budget.

All the military pay appropriations include a 3.1 percent pay raise in FY 2006, effective on 1 January 2006.

Military Personnel, Army for FY 2006 includes the following:

- 26.4 percent for officer pay;
- 57.1 percent for enlisted pay;
- >1 percent for cadet pay;
- 4.5 percent for subsistence of enlisted personnel;
- 3.6 percent for permanent change of station (PCS) travel;
- >1 percent for other military personnel costs; and
- 7.4 percent for the Medicare-Eligible Retiree Health Fund Contribution.

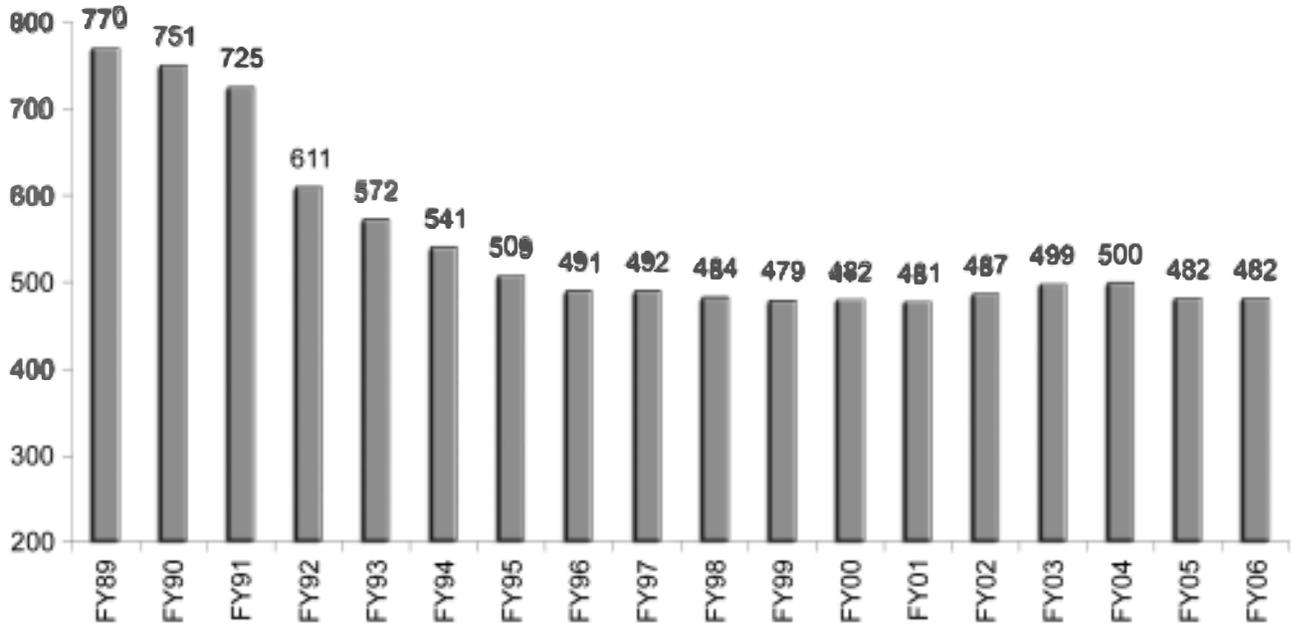
Substantial portions of MPA are for the Basic Allowance for Housing (\$3.9 billion), military retired pay accrual (\$4 billion) and the Medicare-Eligible Retiree Health Fund Contribution (\$2.6 billion). The Basic Allowance for Housing maintains zero out-of-pocket housing costs for military personnel living in nongovernment housing, which as recently as 2001 was 18 percent of the cost for private housing.

The National Guard Personnel, Army appropriation for FY 2006 finances the costs to train, educate and prepare Army National Guard military personnel for their federal missions:

- This includes basic pay, incentive pay, basic allowances for subsistence and housing, clothing, tuition, education benefits, travel and per diem, other pay and allowances, permanent changes of station, hospitalization and disability, death gratuities, retired pay accrual, the government’s share of FICA (Federal Insurance Contributions Act, better known as Social Security contributions), schools, (e.g., career development, refresher training, pilot training, military occupational specialty qualification training, new equipment training) and special training including missions to support combatant commanders’ initiatives to reduce Army personnel tempo (PERSTEMPO).

Figure 7

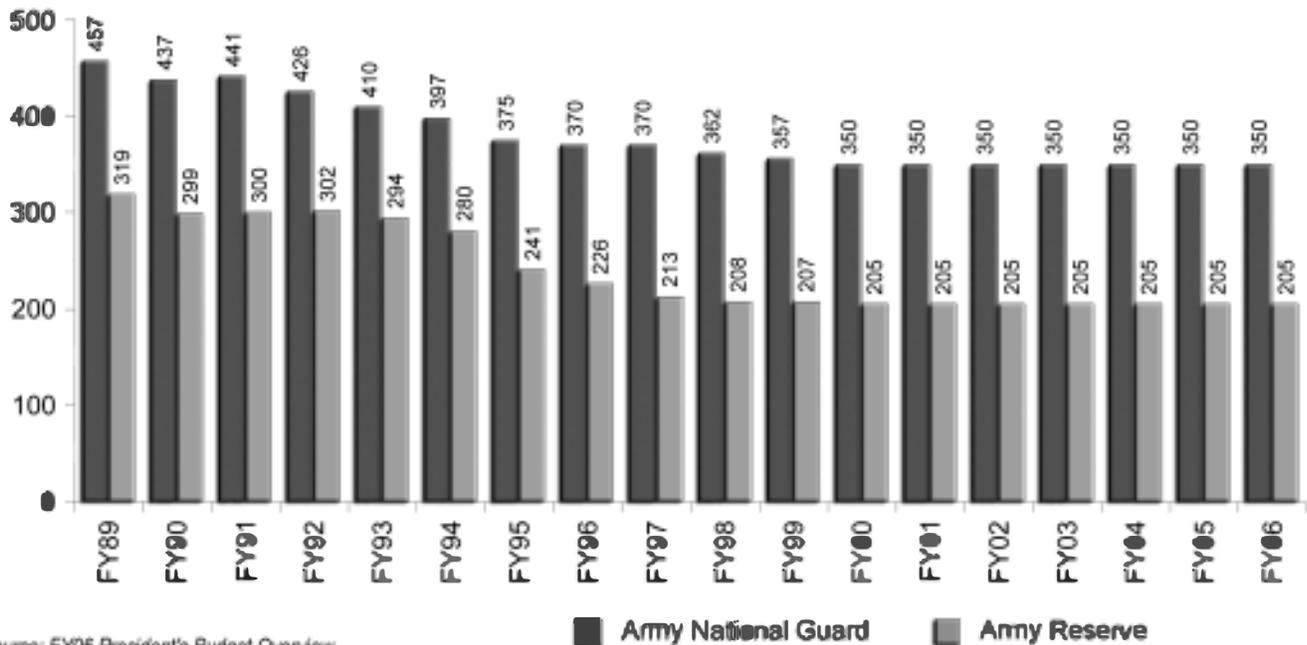
**Active Component Personnel Endstrength
(Thousands)**



Source: DoD Greenbook Table 7-5

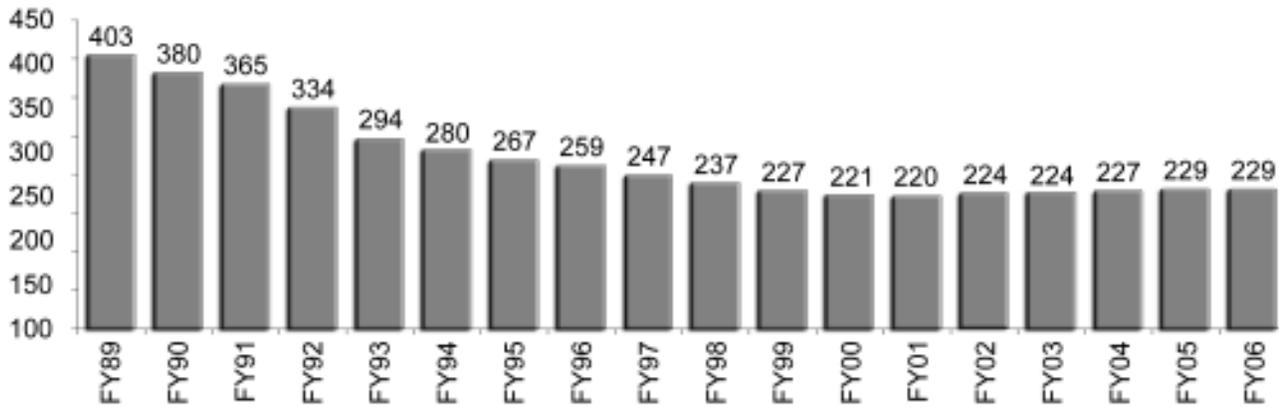
Figure 8

**Reserve Component Personnel Endstrength
(Thousands)**



Source: FY06 President's Budget Overview

**Civilian Personnel Endstrength
(Thousands)**



Source: DoD Greenbook Table 7-5

**Military Personnel Appropriation
(\$ billions*)**

	FY04	FY05	FY06	FY07
Military Personnel Army (MPA)	40.4	30.3	31.1	32.2
National Guard Personnel Army (NGPA)	5.2	6.0	6.3	6.9
Reserve Personnel Army (RPA)	3.4	3.7	4.0	4.2
Total	49.0	40.0	41.4	43.3
* Numbers may not add due to rounding.				
Source: Army FY06 President's Budget Highlights				

- Additionally, the NGPA appropriation supports homeland defense efforts by providing Active Guard and Reserve (AGR) members for the Ground-Based Midcourse Defense (GMD) mission, and Soldiers for 55 Civil Support Teams (CSTs) and 12 Chemical, Biological, Radiological, Nuclear and Explosive (CBRNE) Enhanced Response Force Package (CERFP) teams. At least one CST is in each state and territory as directed in the FY 2003 National Defense Authorization Act. The final 11 Civil Support Teams, established in FY 2005, are on track for certification by 30 September 2007. The 12 CERFP teams consist of 78 members, 80 percent Army National Guard.

These Soldiers are members of M-day (the first day of mobilization) units with the weapons of mass destruction (WMD) response mission as an additional duty. The CERFP teams respond following CSTs and before the full federal response. The teams provide capabilities for casualty extraction, casualty decontamination, limited medical triage and security.

- The NGPA appropriation includes a reduction in Annual Training (AT) and Inactive Duty Training (IDT) due to mobilization. Through FY 2005, the budget includes Defense Health Program Accrual (DHPA); subsequently, it displays the Medicare-Eligible Retiree Health Fund Contribution.

The FY 2006 NGPA is distributed as follows:

- 30.6 percent (\$1.9 billion) for unit and individual training paid drill strength;
- 19.4 percent (\$1.2 billion) for the Medicare-Eligible Retiree Health Fund Contribution;
- 4.8 percent (\$0.3 billion) for school training;
- 3.2 percent (\$0.2 billion) for special training;
- 38.7 percent (\$2.4 billion) for administrative support; and
- 3.2 percent (\$0.2 billion) for education benefits.

The Reserve Personnel, Army appropriation for FY 2006 finances pay, benefits and allowances for Army Reserve Soldiers while on Annual Training, while performing Inactive Duty for Training (weekend drills), while on active duty for school training, special training and special work, and payment for participation in Military Funeral Honors.

- The appropriation also provides funding for 15,270 Army Reserve members serving on active duty in an Active Guard and Reserve status. The AGR Soldiers provide full-time support that enables Army Reserve units to achieve readiness.
- The RPA also provides funds for the Health Professions Scholarship Program (HPSP), the Chaplain Candidate Program (CCP) and College First Program. The budget request fully funds most programs, but it contains a measured/calculated risk in the funding levels for Inactive Duty for Training of Troop Program Units (TPUs).

The FY 2006 RPA appropriation is distributed as follows:

- 32.5 percent (\$1.3 billion) for unit and individual training paid drill strength;
- 17.5 percent (\$0.7 billion) for the Medicare-Eligible Retiree Health Fund Contribution;
- >.1 percent (\$0.02 billion) for Individual Mobilization Augmentees (IMAs) and mobilization training;
- 5.0 percent (\$0.2 billion) for school training;
- 37.5 percent (\$1.5 billion) for administrative support;
- 5.0 percent (\$0.2 billion) for special training; and
- 2.5 percent (\$0.1 billion) for education benefits.

Civilian Personnel Pay

Civilian personnel compensation, unlike military personnel pay, is in the various appropriations where the civilian employees work. The Army Budget for FY 2006 includes about \$15.6 billion for civilian compensation—nearly 16 percent of the budget. The civilian component includes both direct and indirect hires (direct hires are employees on the Army's payroll, and indirect hires are individuals who work for the Army but are on the payroll of other organizations, e.g., a host nation).

The Army Budget for FY 2006 includes 233,000 civilian employees who work in the following appropriations:

- Direct hires:
 - 54.5 percent (127,000) in Operation and Maintenance, Army (OMA);
 - 12 percent (28,000) in Operation and Maintenance, Army National Guard (OMNG);
 - 5.2 percent (12,000) in Operation and Maintenance, Army Reserve (OMAR);
 - 7.7 percent (18,000) in Research, Development, Test and Evaluation (RDT&E);
 - 2.1 percent (5,000) in Military Construction (MILCON);
 - 0.4 percent (1,000) in Family Housing; and
 - 10.7 percent (25,000) in Defense Working Capital Fund.
- Indirect hires:
 - 6.9 percent (16,000) in OMA; and
 - 0.4 percent (1,000) in Other.

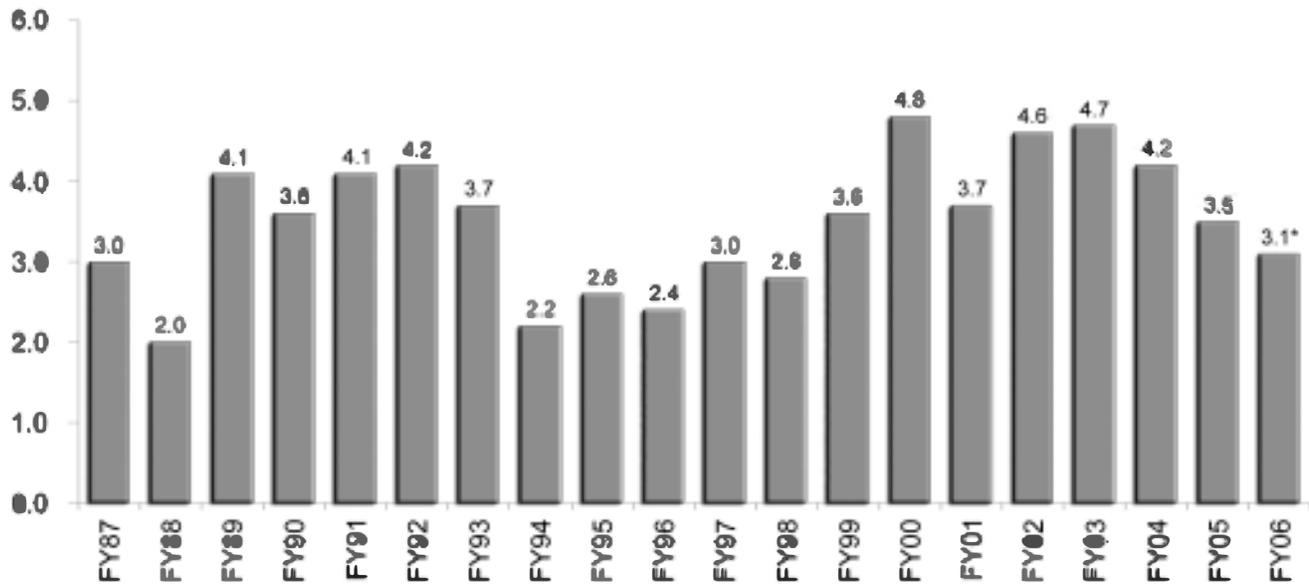
Nearly 72 percent of all Army civilians (direct and indirect hire) are in the O&M group—OMA, OMNG and OMAR. The Army civilian workforce brings knowledge, skills and experience to ensure continuation of operations. Army civilians work side-by-side with Soldiers in more than 50 countries. Army civilians are essential to the readiness of the force and the sustainment of operations in the United States and overseas. Attracting and retaining dedicated and quality civilian employees is both challenging and essential.

Pay Rates

The Army's budget for FY 2006 includes a military pay raise of 3.1 percent and a civilian pay raise of 2.3 percent beginning on 1 January 2006. Military compensation is the major factor in the MILPERS appropriations; civilian compensation is a major factor in the O&M group of appropriations. Therefore, pay-raise rates are basic indicators of how much those appropriations will increase over time. Figures 10 and 11 show the military and civilian pay raise rates since 1987.

Figure 10

Military Pay Raise Profile (Percentage)

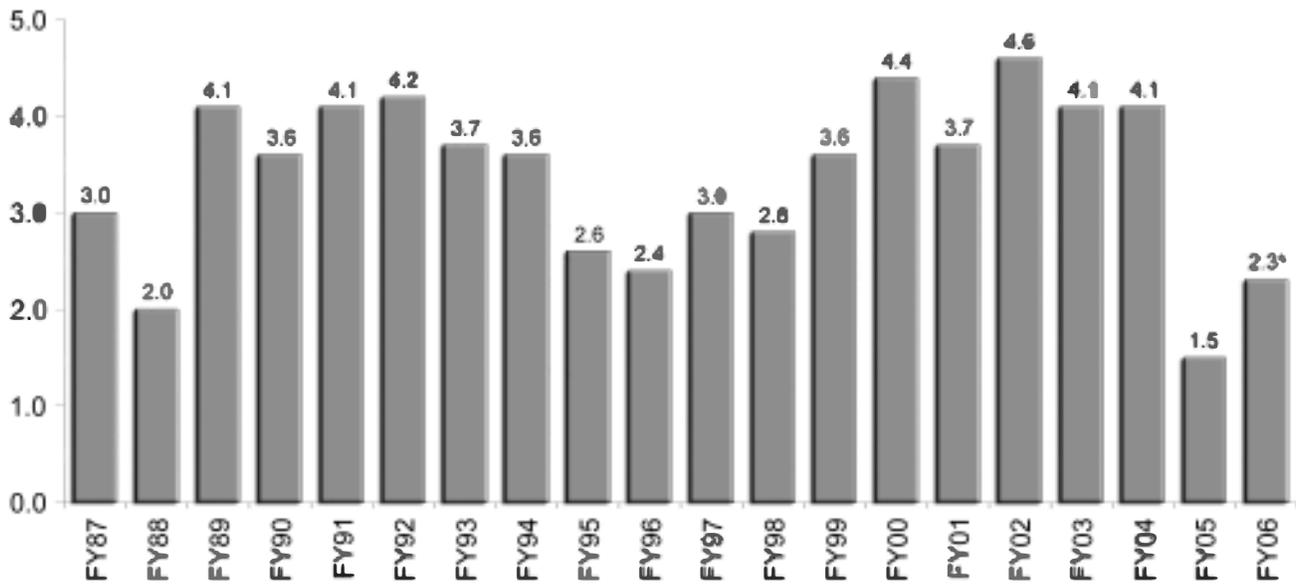


* FY06 is President's Budget request.

Source: National Defense Budget Estimates FY06, Table 5-3

Figure 11

Civilian Pay Raise Profile (Percentage)



* FY06 is President's Budget request.

Source: National Defense Budget Estimates FY06, Table 5-3

OPERATION AND MAINTENANCE

The Operation and Maintenance appropriations support readiness by funding:

- ground and air operating tempo;
- institutional and collective training;
- recruiting;
- mobilization operations;
- installation management;
- logistics; and
- servicewide support.

O&M also supports programs that benefit Soldiers' families and includes pay and benefits for 72 percent of the Army's civilian component.

In FY 2006, the O&M appropriations account for 32 percent of the Army Budget; by comparison, O&M appropriations with the supplemental dollars for the GWOT in FY 2004 account for 44 percent of Army expenditures. A comparison of FY 2006 and FY 2005 O&M budget appears to show no change, but FY 2006 includes real reductions when pricing adjustments, e.g. inflation and pay raises, are considered. The reductions are for future efficiencies from an examination and reengineering of existing processes and from reductions in OPTEMPO related to unit rotations.

A substantial portion of O&M goes toward preparing for warfighting readiness, i.e., OPTEMPO. The OPTEMPO strategy focuses on those units not participating in Operation Iraqi Freedom or Operation Enduring Freedom. The highly dynamic environment creates uncertainties about rotational deployments, but units preparing to deploy, deployed and returning from deployments are not available for readiness training. Therefore, the Army took some risk in OPTEMPO based on rotations and will evaluate these units during the year of execution and mitigate, as necessary, any risks to readiness.

The O&M group includes three appropriations:

- Operation and Maintenance, Army (OMA) for the active component;
- Operation and Maintenance, Army National Guard (OMNG); and
- Operation and Maintenance, Army Reserve (OMAR).

The O&M appropriations include four Budget Activities (BAs):

- BA1, Operating Forces;
- BA2, Mobilization;
- BA3, Training and Recruiting; and
- BA4, Administration and Servicewide Support.

The active Army OMA uses all four BAs, but the reserve component appropriations use only BA1 and BA4. O&M appropriation, BA and subactivity data are in table 38.

Operation and Maintenance, Army (OMA) Overview

The OMA budget reflects the Army's commitment to focus resources on warfighting capabilities and value-added functions and to maximize efficiency. The appropriation supports active Army ground OPTEMPO at an overall rate of 850 training miles and a flying hour program at 13.1 flying hours per crew per month.

Overall, the FY 2006 budget includes a \$761.3 million increase for pricing adjustments (e.g., inflation and pay raises) and a \$734.4 million decrease in programmatic adjustments. A large part of the decrease is for savings from the examination and business reengineering initiatives of existing processes, rather than broad decrements to programs. The Army may require congressional action to implement some of these initiatives.

The OMA budget supports modularity through the military-to-civilian conversion initiative. The budget also supports ongoing operations in Kosovo but relies on a supplemental for OIF and OEF.

Budget Activity 1, Operating Forces

The BA1 includes \$15.3 billion or 15 percent of the entire Army Budget—more than most appropriations. The amount of the budget and the significance of the activities to the Army's mission require a substantial discussion of this Budget Activity. The Operating Forces BA includes three budget activity groups:

- Land Forces—provides resources for distinct facets of the operating forces (e.g., divisions, corps combat forces, corps support forces and echelon above corps forces) and special force-related training activities (i.e., Combat Training Centers, or CTCs).

Army Operation and Maintenance
(*\$ millions* *)

	FY04	FY05	FY06	FY07
Operation and Maintenance, Army (OMA)				
BA1: Operating Forces				
Land Forces	3,945	4,564	3,861	4,086
Land Forces Readiness	4,307	3,519	3,715	3,756
Land Forces Readiness Support	35,777	21,236	7,726	7,792
BA1 Subtotal	44,029	29,319	15,302	15,634
BA2: Mobilization				
Mobility Operations	536	412	357	452
BA2 Subtotal	536	412	357	452
BA3: Training and Recruiting				
Accession Training	422	393	443	434
Basic Skills and Advanced Training	1,663	1,746	1,930	1,918
Recruiting and Other Training and Education	1,067	1,123	1,161	1,154
BA3 Subtotal	3,152	3,262	3,534	3,506
BA4: Administration and Servicewide Support				
Security Programs	915	957	920	881
Logistics Operations	4,002	1,851	1,895	2,105
Servicewide Support	2,895	2,868	2,978	3,146
Support of Other Nations	342	310	330	334
BA4 Subtotal	8,154	5,986	6,123	6,466
Total OMA	55,871	38,979	25,316	26,058
Operation and Maintenance, Army National Guard (OMNG)				
BA1: Operating Forces				
	4,107	4,157	4,170	4,432
BA4: Administration and Servicewide Support				
	352	293	340	376
Total OMNG	4,459	4,450	4,510	4,808
Operation and Maintenance, Army Reserve (OMAR)				
BA1: Operating Forces				
	1,796	1,828	1,824	2,047
BA4: Administration and Servicewide Support				
	239	160	163	171
Total OMAR	2,035	1,988	1,987	2,218
* Numbers may not add due to rounding.				
Source: Army FY06 President's Budget Highlights and O-1 exhibits				

- Land Forces Readiness—includes key activities essential to operational readiness, such as depot maintenance, participation in joint exercises and combat development.
- Land Force Readiness Support—provides for infrastructure maintenance and support, management headquarters, unified command support and special activities of the operating forces to include contingency operations.

The BA1 supports OPTEMPO and readiness-related initiatives, i.e., the Army Modular Forces Initiative, Rapid Fielding Initiative (e.g., improved protection for Soldiers) and the aviation restructure. The budget reduces both ground and air OPTEMPO funding by 15 percent between FY 2005 and FY 2006 to support other readiness-related initiatives. The OPTEMPO reduction relates to a decrease in both ground and air training events due to nonavailability of units participating in OIF and OEF, i.e., units preparing to deploy, deployed or

recovering from deployment and not available for training events. The Army will evaluate the units' training during the execution year to reassess and mitigate risks to readiness as necessary.

- Ground OPTEMPO encompassing actual miles driven for home station training (HST) and Combat Training Center rotations, as well as virtual miles associated with using simulators, such as the Close Combat Tactical Trainer (CCTT) and the Unit Conduct of Fire Trainer (UCOFT). The mileage metrics for the active Army in FY 2006 are 765 live miles (HST and CTC) and 85 virtual miles (CCTT and UCOFT) for a total of 850 miles.
- Flying Hour Program continues to be funded to achieve recent historical execution levels of 13.1 live flying hours per aircrew per month (h/c/m) for the active component.

The budget supports a rigorous annual program of tough, realistic combat training with Combat Training Center rotations:

- 11 brigade rotations (10 active component and one Army National Guard) through the National Training Center;
- 11 brigade rotations (nine active component and two Army National Guard) through the Joint Readiness Training Center; and
- four brigade rotations through the Combat Maneuver Training Center.

The Battle Command Training Program will conduct three Corps Warfighter exercises and train seven division-level command and staff groups. Additionally, the Army will provide the same realistic combat training for five attack aviation battalions through the Joint Air Ground Center of Excellence program. This program is executed in Europe (Victory Strike Exercise) and at the Western Army National Guard Aviation Training Site.

Other programs grew with the reduction and redistribution of OPTEMPO, including:

- improvements in force protection and survivability for Soldiers through RFI sustainment and improved Organizational Clothing and Individual Equipment (OCIE) (\$123.0 million);

- moving maintenance workload from tactical units to depots and/or contractors through the use of Contractor Logistics Support (CLS) contracts (\$95.6 million);
- air and ground systems Class IX repair parts (\$72.7 million);
- improvements in the Army's capability to train modular brigades, commanders and their staffs through the CTCs and Battle Command Training Program (BCTP) (\$31.7 million); and
- Flying Hour Program (FHP) restructuring that increases the number and mix of pilots and aircraft in aviation units (\$27.7 million).

The FY 2006 budget includes five deep-attack rotations for AH-64 Apache helicopter battalions at the Joint Air Ground Center (JAGC); the goal is six deep-attack rotations per year to provide all AH-64 battalions with the same tough, realistic combat training every two years.

Critical Training Enablers funding increases by \$140.7 million from FY 2005 to FY 2006. This includes a variety of upgrades, improvements and enhancements to individual ranges at the five Army Training Centers (ATCs) where basic training takes place and supports Army Modular Forces and the Task Force Soldier (TF Soldier) initiative.

BA1 increases funds for management and maintenance of land associated with strengthening combined/joint warfighting training capabilities to meet combatant commanders' ground force needs, to support pre- and post-mobilization training by the reserve component, and to support the expansion of 10 brigade combat teams and the addition of two Stryker Brigades by FY 2006.

The FY 2006 budget expands operational capabilities for the Guardian Brigade/CBRNE Command by \$35.1 million. The CBRNE operational headquarters provides technical operations to detect, identify, assess, render safe, dismantle, transfer and dispose of CBRNE incident devices/materials/unexploded ordnance (UXO), and/or improvised explosive devices (IEDs).

BA1 provides funds for developing the Future Force. In FY 2006, the U.S. Army Futures Center will validate science and technology priorities, spiral successful technologies into the current force, lead future force experimentation and synchronize and integrate Army capabilities with joint, interagency and multinational capabilities.

This activity includes funds for essential improvements to mission-critical command and control communications in support of the high tempo of ongoing global military operations. Improvements include systems such as Secure/Nonsecure Internet Protocol Router Network (SIPRNet/NIPRNet), mission-specific voice and data circuits and related engineering and installation. Improvements also include support of worldwide server consolidation, in conjunction with the Global Information Grid Bandwidth Expansion (GIG-BE) program. Additionally, the funding procures commercial satellite airtime to augment military satellite capacity, ensuring uninterrupted support to ongoing operations.

The Depot Maintenance Program increases by \$200 million from FY 2005 to FY 2006 but is funded at 73 percent of requirement. The Depot Maintenance requirements continue to grow with the continual and harder operational flying and driving, and with training under more realistic conditions. The Recapitalization (RECAP) program, to bring equipment to a zero-mileage state, continues to be a major driver of the Depot Maintenance Program and remains fully funded in FY 2006, although the number of systems budgeted in Operation and Maintenance decreases from 11 to 10 in FY 2006 because the High-Mobility Multipurpose Wheeled Vehicle (HMMWV) program transfers to the Procurement Appropriation.

As the Army becomes a modular force, technical support of the systems currently used by the Soldier must be sustained. Sustainment Systems Technical Support (SSTS) pays for the sustainment of 48 additional transitioning weapon systems, based on Army decisions to accelerate fielding of items that directly support mobility, deployment and sustainment.

Installations are platforms for projecting military power, supporting tough, realistic training and providing support to Soldiers, their families and civilians. The budget focuses on four essential installation management tasks: (1) posturing crucial installations as power-projection platforms with robust reachback capabilities; (2) adjusting installation support to meet the needs of an Army at war; (3) providing the required infrastructure to support training and mobilization of active and reserve component Soldiers; and (4) supporting the well-being of Soldiers and their families.

The budget also supports the Army's long-term focus to transform its installations into quality Information Hubs, Combat Preparation and Sustainment Support Centers, Deployment Platforms and Secured Holistic Communities. The activity provides Base Operation Support (BOS) for the day-to-day operations of Army installations at 71.6 percent of requirements; and Sustainment, Restoration and Modernization (SRM) for the sustainment, renovation and modernization of facilities on installation at 91 percent of requirements. Within SRM, the budget provides 91.3 percent of facilities sustainment requirements. BOS and SRM together comprise a network of integrated support services that directly impact Soldier readiness and quality of life.

Additionally, BA1 provides funds to support the cost of repositioning units as a result of the Integrated Global Presence and Basing Strategy (IGPBS) and, beginning in FY 2005, BA1 includes funds for day-to-day operations of forces deployed to Kosovo.

Budget Activity 2, Mobilization

BA2, Mobilization, accounts for less than 2 percent of O&M at \$0.36 billion in FY 2006, down from \$0.41 billion in FY 2005. Although small, mobilization remains essential to Army deployment capability. Most of the funds are for Strategic Mobilization (69.5 percent), with almost all of the balance in Army Prepositioned Stocks (28 percent), and only 2.5 percent in Industrial Preparedness.

- Strategic Mobilization provides the capability to immediately deploy a combat-capable brigade along with a warfighting division and associated force structure to any emergency crisis worldwide. This subactivity group includes the activation and upload of large, medium speed roll-on/roll-off (LMSR) ships for the prepositioned afloat set and container procurements. This subactivity group also funds the Oman Access and the Bahrain Lease for critical storage space. Overall, the Army Power Projection Program (AP3) decreases by \$60 million in FY 2006. This program decrease is primarily the result of two ships being taken out of service and the elimination of maintenance costs for stocks that will not be used in current operations.
- The Army Prepositioned Stocks (APS) subactivity group represents the Army's capability to power-project brigade and unit sets, operational projects and sustainment supplies, immediately from the

continental United States (CONUS), Europe, South-west Asia, South Korea, Japan or Hawaii to trouble spots anywhere in the world. The Army Prepositioned Stocks Program decreased \$4 million due to reduced cost of Care of Supplies in Storage (COSIS) and reduced cyclic maintenance cycles of ships.

- Industrial Preparedness finances industrial analysis to help the Army obtain end item and repair part support (excluding ammunition), and weapon system acquisition. Industrial Preparedness Operations decreased by \$4.7 million due to the elimination of one-time FY 2005 congressional increases for Industrial Mobilization capacity and for the purchase of specialty containers.

Budget Activity 3, Training and Recruiting

BA3, Training and Recruiting, proposes \$3.5 billion in FY 2006, up from \$3.3 billion in FY 2005. This BA includes three activity groups:

- Accession Training—produces trained Soldiers and officers to meet force structure requirements;
- Basic Skill and Advanced Training—produces technically competent leaders; and
- Recruiting, Other Training and Education—ensures recruiting quality Soldiers and provides continuing education for Soldiers and civilians.

The Senior Reserve Officer Training Corps (SROTC) produces more than 70 percent of all U.S. Army officers through scholarships and other support. In FY 2006, the Army consolidates all SROTC scholarships under one account, transferring funds from the Operation and Maintenance Accounts of the Army National Guard and the Army Reserve along with funds from Reserve Personnel, Army to facilitate the management of the SROTC scholarship program.

Increases in FY 2006 include:

- \$59.1 million for the Defense Language Institute (DLI) to achieve greater proficiency across the force, to reduce the backlog of students awaiting language instruction, and to establish a four-week crash course for servicemembers prior to deployment;
- \$46.9 million increase in flight training for changes to the Program of Instruction at the Aviation Center and

School (part of the Army Aviation Flight Training Transition program), along with reducing the size of the student backlog for flight training and training for over-water flight emergencies;

- \$65.1 million in the Basic Skill and Advanced Training subactivity group for increases in demand for repair parts resulting from increases in student throughput and the aging of parts and equipment. The development of training doctrine and materials for the Warrior Ethos curriculum in Initial Entry and Noncommissioned Officer Education System (NCOES) training also drives this increase.
- \$51.7 million for the Army's Civilian Intern Program to bolster its entry-level programs in anticipation of projected losses to the civilian workforce due to retirements beginning in FY 2006.

Budget Activity 4, Administration and Servicewide Support

BA4, Administration and Servicewide Support, proposes \$6.1 billion or 24 percent of all OMA. This BA includes four activity groups:

- Security Programs—supports intelligence and security efforts through the National Foreign Intelligence Program and the Joint Military Intelligence Program;
- Logistics Operations—supports movement of Army materiel worldwide and manages end items, ammunition and logistics support activities;
- Servicewide Support—provides for Army Management Headquarters Activities, the Army Claims program, the Defense Finance and Accounting System (DFAS), telecommunications, information systems, personnel programs and commissaries; and
- Support of Other Nations—fulfills the U.S. commitment to the North Atlantic Treaty Organization (NATO) and supports combatant commanders' security cooperation strategies.

The Global War on Terrorism requires deployments and sustainment of operations over great distances, simultaneously, in multiple locations, at a fast pace and over a long and indeterminate period of time. This type of operations requires a CONUS-based virtual-combat infrastructure to provide real-time support to active Army, Army National Guard and Army Reserve units. BA4

provides funds for centralized programs, including the CONUS-based virtual-combat infrastructure.

Communication and connectivity are essential for the virtual-combat infrastructure, interoperability and maneuverability—and to the success of the Army Modular Force. The budget provides for key readiness enablers for the war and knowledge-based future force, including satellite communications, long-haul communications, the “Connect the Logistician” program computer security and consolidation initiatives such as a single Microsoft Enterprise Agreement.

The Sustainment System Technical Support (SSTS) program provides vital engineering and technical support to postproduction weapon systems. This service is a major readiness factor as the Army modifies and enhances the existing inventory of equipment. Conventional Ammunition Management increases relate directly to increases in combat and training requirements

Army Contracting Agency increases reflect the growth generated by two current pressures: the Global War on Terrorism and the President’s Management Agenda push to outsource. These two pressures increase the number, size and complexity of CONUS-based contracting activities.

OMNG Overview

The Operation and Maintenance, Army National Guard (OMNG) appropriation provides for the needs of Army National Guard Soldiers both on and off the battlefield. OMNG provides for the day-to-day operational and readiness training activities of Army National Guard forces in the 50 States, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, the Territory of Guam and the District of Columbia. The FY 2006 budget leverages resources to enhance units, training, and warfighting and homeland security capabilities.

The Army National Guard is and will remain engaged in state missions, homeland defense and security, and multiple and extended overseas deployments. The goal is to have about 25 percent of each state’s Army National Guard force engaged in the warfight, another 25 percent training to replace those already deployed, and at least 50 percent available to the governors for state missions. Additionally, the goal is to have no more than one substantial deployment every six years for Army National Guard Soldiers.

To achieve these goals, the Army National Guard is rebalancing forces nationwide to more evenly distribute the burden and to enhance capabilities in each state. Additionally, the Guard is focusing on readiness—the result of adequate resources to train and relevant training to produce reliable and accessible forces—which is paramount to accomplish the mission.

The Army National Guard is also creating 12 CBRNE Enhanced Force Response Packages (CERFPs). These CERFPs will have civil support teams trained to detect chemical, biological and nuclear agents; ground combat personnel to be used for security missions; engineers trained for search and rescue missions; and medical units equipped to perform mass decontamination and triage. In addition, the Guard’s weapons of mass destruction Civil Support Teams operate daily in civilian communities, providing emergency response when needed. These CSTs have the communications technology capability to communicate immediately with local, state and federal agencies.

OMNG provides funding in two Budget Activities: BA1, Operating Forces, and BA4, Administrative and Servicewide Activities.

Budget Activity 1: Operating Forces

The Operating Forces funds support the same three subactivity groups as the OMA: Land Forces, Land Forces Readiness and Land Forces Readiness Support OPTEMPO. Ground OPTEMPO decreases slightly (2 percent) from FY 2005 to FY 2006 in recognition of the significant number of Soldiers and units mobilized and deployed, i.e., “CONOPS (Concept of Operations) Off-Set.” Current funding is at 96 percent of requirements.

- The Ground OPTEMPO mileage metrics in FY 2006 are 190 live miles (HST and CTC) and 57 virtual miles (CCTT and UCFT) for a total of 247 tank miles.
- The Air OPTEMPO program increases 18 percent from FY 2005 to FY 2006 but is funded at only 78 percent of requirements. The revised funding is based on Army leadership decisions and supports 7.6 hours per crew per month versus the Combined Arms Training Strategy (CATS) of 9.9 hours per crew per month. Mobilization of Army National Guard aviation units beginning in FY 2003 reduced the home station flying hours requirement; but modernization and transformation drive up the cost of home station training.

Readiness increases from FY 2005 to FY 2006 include \$9 million in critical Training Enablers that support Army Modularity with the Task Force Soldier initiative. This increase is a result of the additional operation and maintenance costs to execute training and a variety of upgrades to training ranges.

Institutional Training increases from FY 2005 to FY 2006 by \$24 million. The majority of this increase supports the Army Distance Learning Program for courseware development for Military Occupational Specialty Qualified (MOSQ) courses.

The Depot Maintenance Program increases by \$40 million, or 79 percent of requirements, from FY 2005 to FY 2006, with the majority of the growth supporting Tactical Wheeled Vehicle Maintenance in direct support of Army Modular Forces transformation. The Army National Guard depot maintenance program is based on a “repair and return to user” premise as opposed to an equipment maintenance “float” system. Unlike the active component, the Army National Guard does not have a quantity of selected end items authorized to use as immediate replacements by units when critical equipment is returned to the depot for repair.

For the past several years, risks taken in the budget for Base Operations Support resulted in funds migrating from other mission-essential programs to cover basic services during the year of execution. Between FY 2005 and FY 2006, BOS increases by \$60 million (10 percent) plus other redistributions for 73 percent of requirements, as follows:

- \$26 million for contracted security guards to replace Soldiers for protection of personnel and facilities at designated critical installations;
- \$7 million for Soldier well-being initiatives in the areas of Family Programs and Child and Youth Development Services, including a new program to provide a child-care cost stipend to offset the difference between civilian child-care costs and the cost of using child-care services on an active duty installation;
- \$19 million for Base Communications and Audio Visual;
- \$19 million in Base Operations (BASOPS);
- \$23 million in Real Property services; and

- a decrease of \$35 million in the Environmental Program as part of the Assistant Chief of Staff for Installation Management’s (ACSIM’s) initiative to transfer traditional environmental requirements (Conservation and Compliance) and their associated funding to the responsible proponent.

Additionally, the Facilities Sustainment, Restoration and Modernization program increases a modest \$27 million (7 percent) from FY 2005 to FY 2006. This increase supports the Army National Guard’s Facilities Sustainment program at 93.8 percent of validated requirements for preventive maintenance of utility systems, exterior maintenance of buildings, roof repairs and road repairs.

Budget Activity 4, Administrative and Servicewide Activities

This activity provides funds for Staff Management, Servicewide Communications, Manpower Management and Other Personnel Support. The FY 2006 budget includes some increases in this activity.

The Army National Guard recruiting effort failed to meet endstrength for the first time in eight years in FY 2004. Additionally, the Guard failed to meet the accession goal of a 50/50 ratio of non-prior service/prior service (NPS/PS). The ratio was 65/35 NPS/PS with training of NPS Soldiers straining limited Army National Guard resources.

The FY 2006 budget increases recruiting advertising by \$32.5 million (49 percent) to remedy the recruiting and retention problems. The budget also provides \$7.6 million for recruiting support to provide command leadership training geared toward monitoring unit attrition and developing viable courses of action to deter high attrition rates in units returning from OIF and OEF deployments. The budget also increases Tuition Assistance by \$14 million (71 percent) from FY 2005 to FY 2006; based on the high cost of education, Soldiers see this as an important benefit in their decision to enlist or reenlist.

The budget increases Base Information Management by \$7 million from FY 2005 to FY 2006. This increase supports the information technology (IT) requirements of the Army National Guard’s alternate, secure sites that will be occupied during periods of national or state emergencies as part of the Continuity of Operations Plan (COOP).

OMAR Overview

The Operation and Maintenance, Army Reserve appropriation provides funds for operational, logistical, administrative, engineering and management support for the Army Reserve. This includes installation management, maintenance of real property, record maintenance and personnel support to retirees, veterans and their families. The appropriation provides for civilian pay, information systems, networks, telecommunications, supplies, fuel, equipment and base operations support.

The FY 2006 OMAR budget request is \$1.987 billion to support the force of 205,000 Army Reserve Soldiers; this includes 11,621 civilian employees, 8,344 of them military technicians.

Funding is provided in two Budget Activities: BA1, Operating Forces, and BA4, Administrative and Servicewide Activities.

- BA1, Operating Forces, consists of the following Budget Activity Groups (BAGs): Land Forces, Land Forces Readiness and Land Forces Readiness Support. BA1 includes funds for Operations and Force Readiness Support, Land Forces Systems Readiness and Depot Maintenance, Base Operations Support, Facilities Sustainment, Restoration and Modernization, and Management and Operational Headquarters.
 - BA1 is the primary readiness account providing direct support funds for air and ground OPTEMPO for POL (petroleum, oil and lubricants), repair parts (Class IX) and depot level reparable; and indirect by funding contractor services and supplies. The BA also pays for travel and transportation for units during training and for maintenance and military technicians.
 - BA1 also provides funding for Base Operations Support and Facilities Sustainment, Restoration, and Modernization activities that provide and maintain state-of-the-art, community-based installations and training sites.
- BA4, Administration and Servicewide Activities, provides funds for Administration, Servicewide Communications, Personnel and Financial Administration, and Recruiting and Advertising.

Budget Activity 1: Operating Forces

The Operating Forces funds support the same three subactivity groups as the OMA: Land Forces, Land Forces

Readiness and Land Forces Readiness Support OPTEMPO. The funding level is essentially unchanged from FY 2005 to FY 2006. The budget supports ground OPTEMPO of 189 tank-equivalent miles and aviation at 6.4 live flying hours per aircrew per month.

The activity includes the transfer to the Army National Guard of \$46.4 million for Fort Buchanan, Puerto Rico, and a number of increases and decreases. The largest dollar increases include \$31.5 million for Base Operations, \$25.1 million for Depot Maintenance and \$9.1 million for Medical and Dental Readiness. The greatest decreases include \$134.7 million for Business Reengineering, \$58.6 million for Land Forces Initiatives and \$7.1 million for Real Property Management.

Budget Activity 4, Administrative and Servicewide Activities

This activity provides funds for Staff Management, Servicewide Communications, Manpower Management and Other Personnel Support. The FY 2006 budget contains transfers, increases and decreases, including a transfer out of \$6.2 million for Senior ROTC Scholarships, an increase of \$4.9 million for Recruiting and a decrease of \$2.3 million for the Army Marketing Program.

RESEARCH, DEVELOPMENT AND ACQUISITION

The Research, Development and Acquisition (RDA) portion of the budget refers to equipping Soldiers and units with superior materiel that provides the Army with combat overmatch to defeat the enemy quickly, decisively and with minimum casualties. Equipping the force is one of the key elements of transformation.

During the decade after the end of the Cold War, a commonly held view was that the nation had entered a less threatening security environment and therefore could reap a peace dividend. A part of the dividend was realized from skipping a generation of material systems. Unfortunately, the events of 9/11 radically altered the security environment—and confirmed the Army's decision to transform its capabilities.

The overall capability of the U.S. Army—or any army—is generated from a combination of various types of capabilities. These start with the men and woman who join the Army; the doctrine for dealing with the expected and coping with the unexpected; the individual training and

skill of the Soldiers and leaders; the equipment of Soldiers and units; the collective training of the units as part of the Army and joint team; and the sustainment of the force. Clearly, these capabilities are interrelated.

The modernization and recapitalization program continues the transformation of the materiel systems to ensure decisive and comprehensive full-spectrum ground combat capabilities in support of the National Military Strategy. The FY 2006 budget supports a fully integrated modernization and recapitalization program, plus the following:

- continues research and development of the Future Combat Systems, a strategically responsive and networked system-of-systems that will ensure “position advantage” over the enemy;
- spirals mature FCS capabilities to the current force in two-year increments;
- includes funding to purchase Stryker vehicles for a sixth Stryker Brigade Combat Team; and
- accelerates acquisition and fielding of Soldier items to provide deployed troops the latest available equipment, enhancing their combat capability.

Budget for Top Ten Systems

A small number of Army materiel systems account for a great deal of the RDA dollars. The top 10 programs by

dollar value consume \$9 billion, or 41 percent, of all Army RDA, i.e., the sum of RDT&E and Procurement (\$21.5 billion) in FY 2006. The RDA budget increased by \$0.8 billion from FY 2005, but the amount for the top 10 increased by \$1.3 billion; i.e., the amount for the top 10 increased more than the RDA appropriations. In FY 2005, the top 10 accounted for \$7.6 billion, or 37 percent. The top 10 RDA programs are listed in table 39.

The total dollars for all Army RDA is \$21.5 billion, or 22 percent of the Army budget proposal for FY 2006; the DoD RDA is 35 percent of the DoD budget. The Army RDA portion of the Army budget is smaller than the DoD RDA portion of the DoD budget. This suggests that systems development and acquisition is less dominant in the Army than across DoD.

Army RDT&E increases slightly as a portion of DoD RDA from 13.4 to 14 percent in FY 2006; however, Army Procurement decreases slightly—from 15.3 to 15.1 percent—as a percentage of all DoD Procurement.

Specific procurement and RDT&E data on each of the top systems in the FY 2006 budget are in table 40. While FCS is by far the most costly system, it is still in RDT&E and not yet in Procurement.

The next two sections provide more information on the Army Procurement and RDT&E budget requests.

Table 39

Research, Development and Acquisition Programs Army Top Ten by Dollar Value FY 2006 (\$ millions *)

Future Combat Systems (FCS)	3,404.80
Interim Armored Vehicle - Stryker	905.1
Patriot	856.1
Apache Longbow Attack Helicopter	793.6
Black Hawk Utility Helicopter (AH-64)	733.1
Chinook Cargo Helicopter Modernization (CH-47)	695.7
Abrams Tank Upgrade (Maneuver Control System)	495.8
Family of Medium Tactical Vehicles (FMTV)	449.6
High-Mobility Artillery Rocket System (HIMARS)	414.0
High-Mobility Multipurpose Wheeled Vehicle (HMMWV)	224.2
Total	8,972.00

* Dollars include Research, Development, Test & Evaluation plus Procurement.

Source: Army FY06 President's Budget Highlights

Selected Army Systems
(\$ millions)

	Procurement ¹				RDT&E				RDA ²
	FY04	FY05	FY06	FY07	FY04	FY05	FY06	FY07	FY06
Future Combat Systems (FCS)	—	—	—	—	1,624.5	2,800.7	3,404.8	3,741.0	3,404.8
Interim Armored Vehicle - Stryker (IAV)	962.7	1,524.2	878.4	719.0	57.6	49.7	26.7	13.0	905.1
Chinook Cargo Helicopter Modernization (CH-47)	510.3	857.4	676.0	622.0	14.1	12.4	19.7	—	695.7
Apache Longbow Attack Helicopter	824.8	687.3	683.9	820.0	1.7	—	109.7	122.1	793.6
Patriot ³	841.9	575.0	567.1	1,131.0	51.3	61.5	289.0	326.0	856.1
Family of Medium Tactical Vehicles (FMTV) ⁴	324.7	593.6	449.6	634.0	—	—	—	—	449.6
Black Hawk Utility Helicopter (UH-60)	286.5	531.4	618.1	876.0	155.0	108.4	115.0	59.2	733.1
High-Mobility Artillery Rocket System (HIMARS)	228.5	380.5	299.7	437.0	83.1	105.4	114.3	80.0	414.0
Abrams Tank Upgrade (Maneuver Control System)	297.3	418.1	450.9	412.0	31.7	23.4	44.9	15.0	495.8
High-Mobility Multipurpose Wheeled Vehicle (HMMWV) ⁵	1,338.4	432.9	224.2	331.0	—	—	—	—	224.2
Javelin Advanced Antitank Weapon System-Medium (AAWS-M)	133.0	117.3	57.6	66.0	0.9	0.9	—	—	57.6
Family of Heavy Tactical Vehicles (FHTV) ⁶	218.8	207.6	207.1	292.0	16.3	19.6	3.4	7.5	210.5
Aerial Common Sensor (ACS)	—	—	—	—	102.8	121.1	164.6	239.4	164.6
Defense Satellite Communications System (DSCS)	94.7	101.5	55.0	52.5	13.3	9.0	11.5	11.8	66.5
Unmanned Aerial Vehicle (UAV)	121.6	131.5	46.0	125.7	43.0	23.0	115.0	102.3	161.0
Bradley Base Sustainment (MEAS)	348.0	226.0	44.0	5.0	—	—	—	—	44.0
Kiowa Warrior Helicopter (Armed OH-58D)	51.0	39.0	24.0	43.0	—	—	—	—	24.0
Utility Fixed-Wing Aircraft (C-37, UC-35)	52.0	12.0	5.0	108.0	—	—	—	—	5.0

¹ Procurement numbers do not include spares.

² Research, Development & Acquisition (RDA) equals Procurement plus RDT&E.

³ Patriot = PAC-3 and Modifications in FY04/05 and Patriot/MEADS Combined Aggregate Program in FY06/07.

⁴ FMTV is a series of 2.5- and 5-ton trucks/trailers on a common chassis with varied payloads & missions.

⁵ HMMWV totals do not include supplemental appropriations to be requested.

⁶ FHTV funding purchases Palletized Load System and associated trailers, flat racks and tracking system.

Source: Army FY06 President's Budget Highlights

PROCUREMENT APPROPRIATIONS

The Army procurement appropriations support the acquisition of material systems, in particular, transformational capabilities to meet current and future threats.

The procurement appropriations include five specific appropriations:

- Aviation Procurement, Army
- Missiles Procurement, Army
- Weapons and Tracked Combat Vehicles Procurement, Army
- Ammunition Procurement, Army
- Other Procurement, Army.

The five Army procurement appropriations include \$11.8 billion in FY 2006, or 11.9 percent of the budget; in FY 2007, the total is \$13.5 billion, or 12.3 percent of the Army budget.

The funding profile for total Army procurement appropriations from FY 1989 through the current budget proposal is shown in figure 12.

The program dollars in figure 12 clearly show a second year of reductions in procurement funding in FY 2006. Even though the procurement appropriations are down, the Army continues to make difficult choices to accelerate the acquisition of technologies to reduce the risk to Soldiers in combat.

In July 2004, the Army restructured the Future Combat Systems (FCS) program to accelerate crucial capabilities to the current force while continuing to work to develop the full FCS capability. By accelerating FCS, the most promising technologies will be spiraled into the force much faster than previously programmed. FCS acceleration will provide the current force advanced capabilities, including 18 manned and unmanned ground and air platforms linked through the network. This linkage brings unprecedented situational awareness and understanding. Adding these and other technologies to the current force now reduces risk to the front-line Soldier.¹⁴

The Army budget proposal for each procurement appropriation is shown in table 41.

The distribution of procurement dollars among the five appropriations does not significantly change between FY 2005 and FY 2006:

- 26 percent Aviation Procurement, Army—up from 23 percent in FY 2005;
- 10 percent Missiles Procurement, Army—down from 12 percent;
- 11 percent Weapons and Tracked Combat Vehicles Procurement, Army—down from 14 percent;
- 14 percent Ammunition Procurement, Army—no change; and
- 38 percent Other Procurement, Army—up from 37 percent.

However, only the Ammunition appropriation increases between FY 2005 and FY 2006. The others are reduced, with the Weapons and Tracked Combat Vehicles and Other Procurement appropriations experiencing double-digit reductions:

- -0.5 percent Aviation Procurement, Army;
- -2.4 percent Missiles Procurement, Army;
- -32.5 percent Weapons and Tracked Combat Vehicles Procurement, Army;
- 8.6 percent Ammunition Procurement, Army; and
- -12.1 percent Other Procurement, Army.

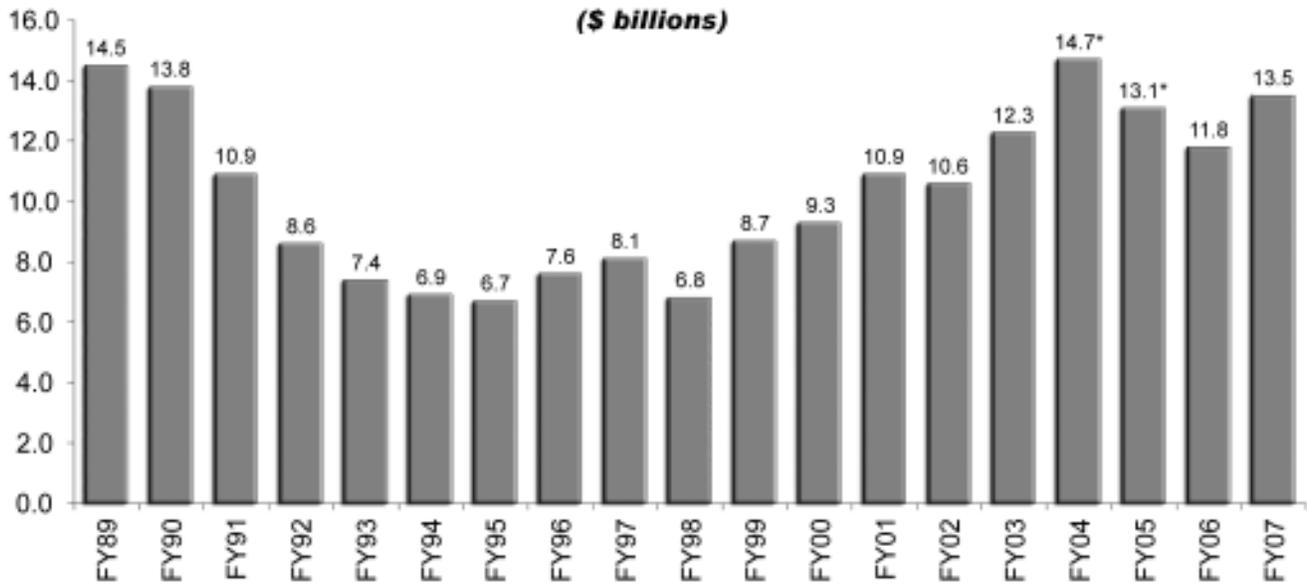
Each Procurement appropriation includes budget activities, such as,

- procuring end items, e.g., Apache Longbow Weapon System;
- modifying existing systems, typically to enhance capability, reduce operating cost and extend system life, e.g., upgrading engines for Kiowa Warrior OH-58D;
- acquiring spares, which are typically depot-level repairables (DLRs); and
- improving facilities that support manufacture and modifying systems.

Additionally, within each appropriation, systems are identified by Budget Line Item Numbers (BLINs). A

¹⁴ U.S. Army News Release, Army Public Affairs, 7 February 2005, subject: The Army Budget – Fiscal Years 2006 and 2007.

Army Procurement Funding Profile
Total Obligational Authority
 (\$ billions)



* FY04 included congressional adds and supplemental funding. FY05 includes Title IX funding.
 Source: Army FY06 President's Budget Highlights

Table 41

Procurement Summary
by Appropriation
 (\$ millions¹)

	FY04	FY05 ²	FY06	FY07
Aircraft	2,172	2,815	2,801	3,553
Missiles	1,517	1,302	1,271	1,386
Weapons & Tracked Combat Vehicles	1,998	2,458	1,660	1,488
Ammunition	1,482	1,585	1,721	1,949
Other Procurement	7,525	4,897	4,303	5,146
Total	14,694	13,057	11,756	13,522

¹ Numbers may not add due to rounding.
² FY05 includes congressional adds and supplemental funding.
 Source: Army FY06 President's Budget Highlights and P-1 exhibits

Aircraft Procurement, Army

The aviation appropriation includes the procurement of aircraft, aircraft modifications, spares and repair parts, and support equipment and facilities. The Army budget requests more than \$2.8 billion for FY 2006. The funding profile for aircraft procurement since FY 1989, in current dollars, is shown in figure 13.

The aircraft procurement appropriation includes the acquisition of 41 Black Hawk helicopters (\$510 million) in FY 2006 and 45 in FY 2007; 10 Armed Reconnaissance Helicopters (\$70 million); and two new and 21 remanufactured "F" model CH-47 Chinooks (\$469 million).

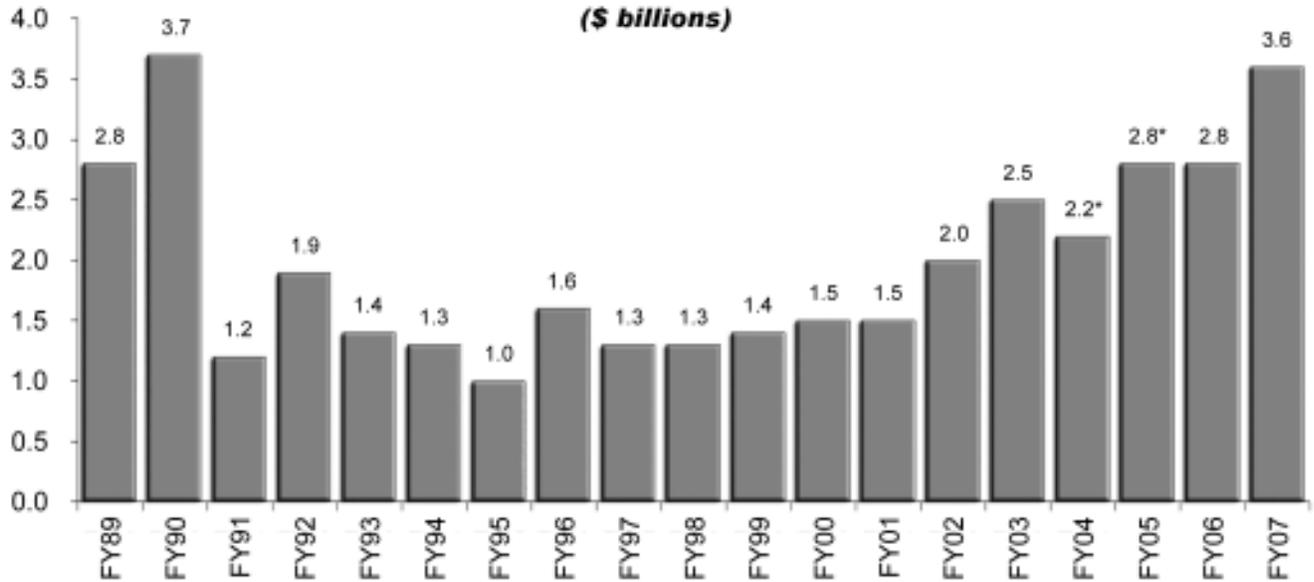
This budget also provides for Apache upgrades/conversions to provide Target Acquisition Designation Sight (TADS)/Pilot Night Vision Sensors (PNVS) and other safety and reliability modifications (\$684 million); 28 Light Utility Helicopters (LUHs) (\$108 million); and aircraft survivability equipment (\$222 million).

See table 42 for Aircraft Procurement data including budget activities and programs.

system may, in fact, be a system of systems, such as the Army Data Distribution System (ADDS), which includes three radio systems.

The next five subparagraphs provide information on each of the Army procurement appropriations.

Aircraft Procurement Profile
Total Obligational Authority
 (\$ billions)



* FY04 included congressional adds and supplemental funding. FY05 includes Title IX funding.
 Source: Army FY06 President's Budget Highlights

Aircraft Procurement, Army
 (\$ millions¹)

	FY04	FY05 ²	FY06	FY07
Aircraft	306	502	768	1,344
Modification of Aircraft	1,542	1,784	1,570	1,676
Spares & Repair Parts	11	11	4	4
Support Equipment & Facilities	313	518	459	529
Total	2,172	2,815	2,801	3,553

¹ Numbers may not add due to rounding.
² FY05 includes congressional adds and supplemental funding.
 Source: Army FY06 President's Budget Highlights and P-1 exhibit

Missile Procurement, Army

This appropriation includes missiles, missile modifications, spares and major parts, and support equipment and facilities. The FY 2006 budget requests \$1.3 billion, about 2.4 percent less than FY 2005 and 16 percent less than FY 2004. The funding profile for missile procurement since FY 1989, in current dollars, is shown in figure 14.

The three-year trend is downward for missile procurement, but it starts to grow in FY 2007. By far the largest program is the procurement of Patriot Advanced Capability 3 (PAC-3) missiles or modifications of Patriot—\$567 million or 46 percent of the appropriation.

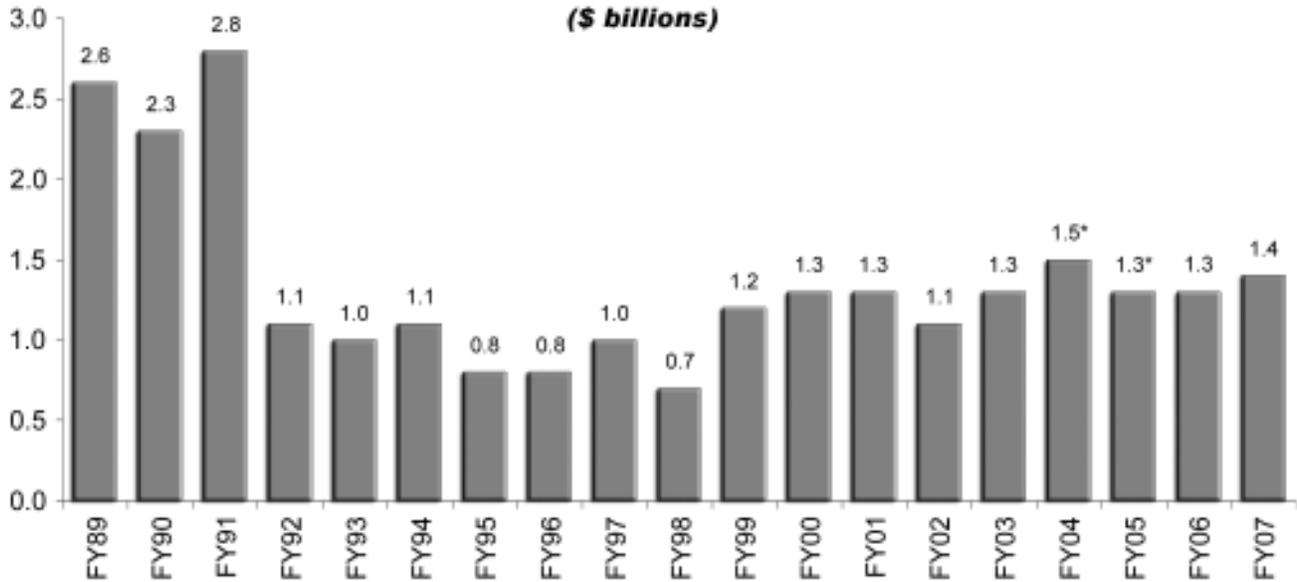
The Missile Procurement appropriation with budget activity and program level of detail is in table 43.

Weapons and Tracked Combat Vehicles Procurement, Army

The Weapons and Tracked Combat Vehicles (WTCV) appropriation includes three budget activities: Tracked Combat Vehicles, Weapons and Other Combat Vehicles, and Spares and Repair Parts. The funding profile for WTCV procurement since FY 1989, in current dollars, is shown in figure 15.

The WTCV proposal for FY 2006 is 32 percent below the actual appropriation for FY 2005. The Stryker and M1 programs account for 82 percent of the total appropriation. The proposal includes the procurement of 240 Stryker vehicles for the sixth Stryker Brigade Combat Team (SBCT), fielding of the fifth SBCT and sustainment of

Missile Procurement Profile
Total Obligational Authority
 (\$ billions)



* FY04 included congressional adds and supplemental funding. FY05 includes Title IX funding.
 Source: Army FY06 President's Budget Highlights

Table 43

Missile Procurement, Army
 (\$ millions ¹)

	FY04	FY05 ²	FY06	FY07
Missiles	1,186	1,132	1,108	1,253
Modification of Missiles	273	129	124	97
Spares & Repair Parts	49	34	30	25
Support of Equipment & Facilities	7	9	9	11
Total	1,517	1,302	1,271	1,386

¹ Numbers may not add due to rounding.
² FY05 includes congressional adds and supplemental funding.
 Source: Army FY06 President's Budget Highlights and P-1 exhibit

Table 44

Weapons and Tracked Combat Vehicles, Army
 (\$ millions ¹)

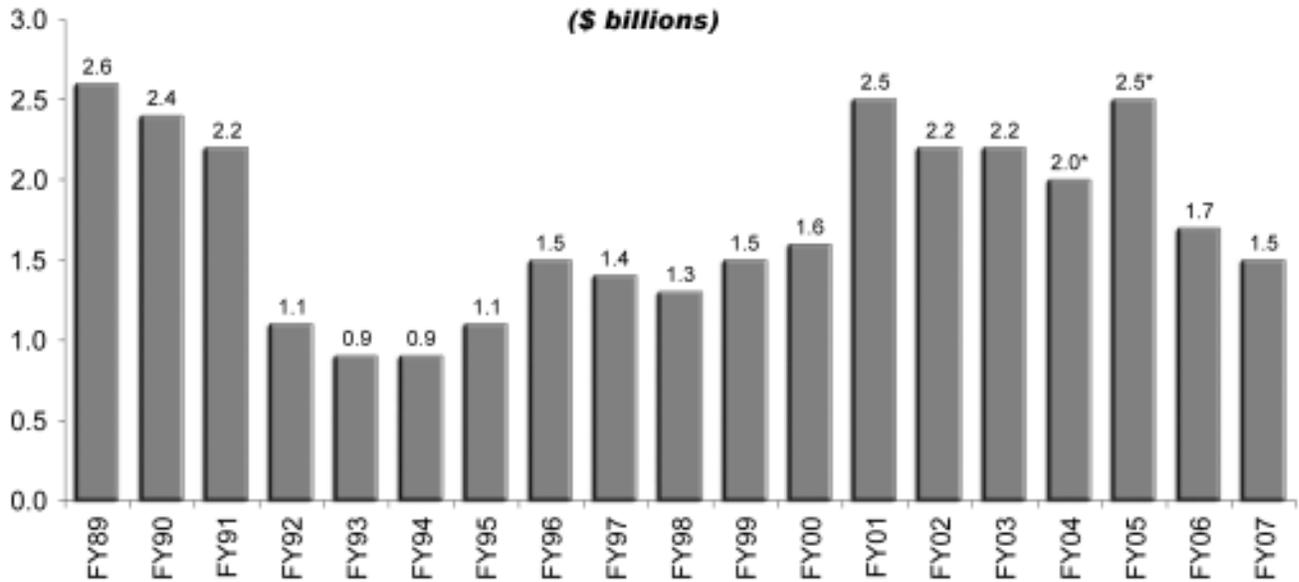
	FY04	FY05 ²	FY06	FY07
Tracked Combat Vehicles	1,317	1,761	929	726
Modification of Tracked Combat Vehicles	470	528	520	528
Weapons & Other Combat Vehicles	59	94	124	186
Modification of Weapons & Other Combat Vehicles	103	31	69	35
Spares & Repair Parts	18	20	3	0
Support of Equipment & Facilities	31	24	15	13
Total	1,998	2,458	1,660	1,488

¹ Numbers may not add due to rounding.
² FY05 includes congressional adds and supplemental funding.
 Source: Army FY06 President's Budget Highlights and P-1 exhibit

previously fielded SBCTs (\$905 million, or 56 percent of all WCTV). The proposal also includes M1 Abrams Modifications (\$443 million, or 26 percent), which procures 399 AGT-1500 Tiger engines for increased reliability, availability and maintainability.

The WTCV procurement appropriation with budget activity and program level of detail is in table 44.

Weapons and Tracked Combat Vehicles Procurement Profile Total Obligational Authority



* FY04 included congressional adds and supplemental funding. FY05 includes Title IX funding.

Source: Army FY06 President's Budget Highlights

Ammunition Procurement, Army

This Ammunition Procurement appropriation includes funding for the acquisition of ammunition end items and for ammunition production base support. The FY 2006 budget requests \$1.7 billion (up 11 percent over FY 2005); the FY 2007 budget requests \$1.9 billion. Except for FY 2003, these are the highest ammunition budgets since FY 1991. The increases relate to ammunition consumption in the current war and intense, realistic training.

The funding profile for ammunition procurement since FY 1989, in current dollars, is shown in figure 16.

Ammunition procurement is summarized by various subcategories. In addition to the budget subcategories, ammunition usage is also important. Small- and medium-caliber rounds are the least expensive per round, but the volume is so large that it accounts for 30 percent of the appropriation, up from 27 percent in FY 2005.

An alternative view to the appropriation is in terms of ammunition usage, specifically training ammunition and war reserves. In peacetime, most ammunition procurement is for training. The FY 2006 budget funds training ammunition at 82 percent overall and small arms at 100 percent.

See table 45 for ammunition procurement and table 46 for ammunition usage by category.

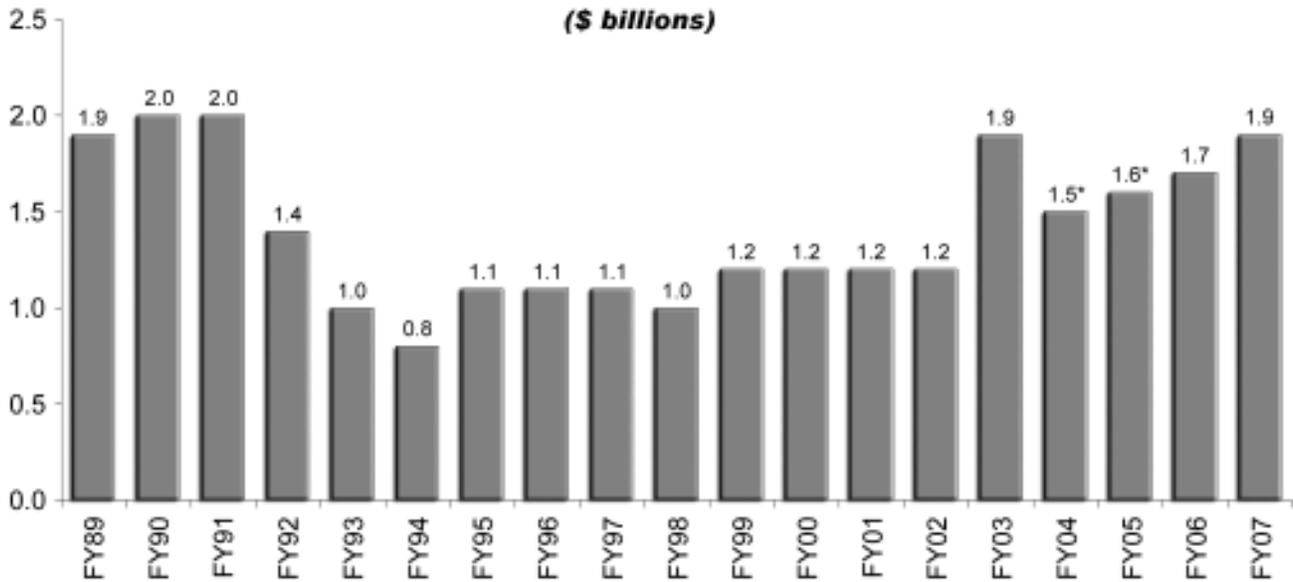
Other Procurement, Army

The Other Procurement, Army (OPA) includes three distinct budget activities—tactical and support vehicles (OPA1), communications and electronics equipment (OPA2) and other support equipment (OPA3)—plus spare and repair parts. The funding profile for OPA since FY 1989, in current dollars, is shown in figure 17.

The OPA proposal for FY 2006 is 12 percent lower than FY 2005 and nearly 43 percent lower than FY 2004. Interestingly, OPA increases by nearly 19 percent in FY 2007. This sort of swing is generally not a good business practice since it likely involves layoffs and the loss of skilled employees, followed a couple of years later by recruiting and hiring.

The most substantial part of the decrease is in OPA1, tactical and support vehicles, which goes from 39 to 24 percent between FY 2004 and FY 2006. In part, this is a function of the dramatic increase in armoring tactical wheeled vehicles. In his testimony, the Secretary of the Army noted that the fleet went from 250 armored tactical

Ammunition Procurement Profile
Total Obligational Authority
(\$ billions)



* FY04 included congressional adds and supplemental funding. FY05 includes Title IX funding.

Source: Army FY06 President's Budget Highlights

Table 45

Ammunition Procurement, Army
(\$ millions¹)

	FY04	FY05 ²	FY06	FY07
Small Arms	562	433	523	654
Mortars	135	97	162	134
Tank	190	216	227	212
Artillery	168	233	262	270
Artillery Fuzes	46	41	23	4
Mines & Countermines	22	21	37	154
Rockets	55	144	165	166
Other	87	132	119	125
Miscellaneous	41	52	58	67
Production Base Support	176	216	145	163
Total	1,482	1,585	1,721	1,949

¹ Numbers may not add due to rounding.

² FY05 includes congressional adds and supplemental funding.

Source: Army FY06 President's Budget Highlights

wheeled vehicles in Iraq in the fall of 2003 to 32,500 protected vehicles in the Iraq and Afghanistan theaters in the spring of 2005.

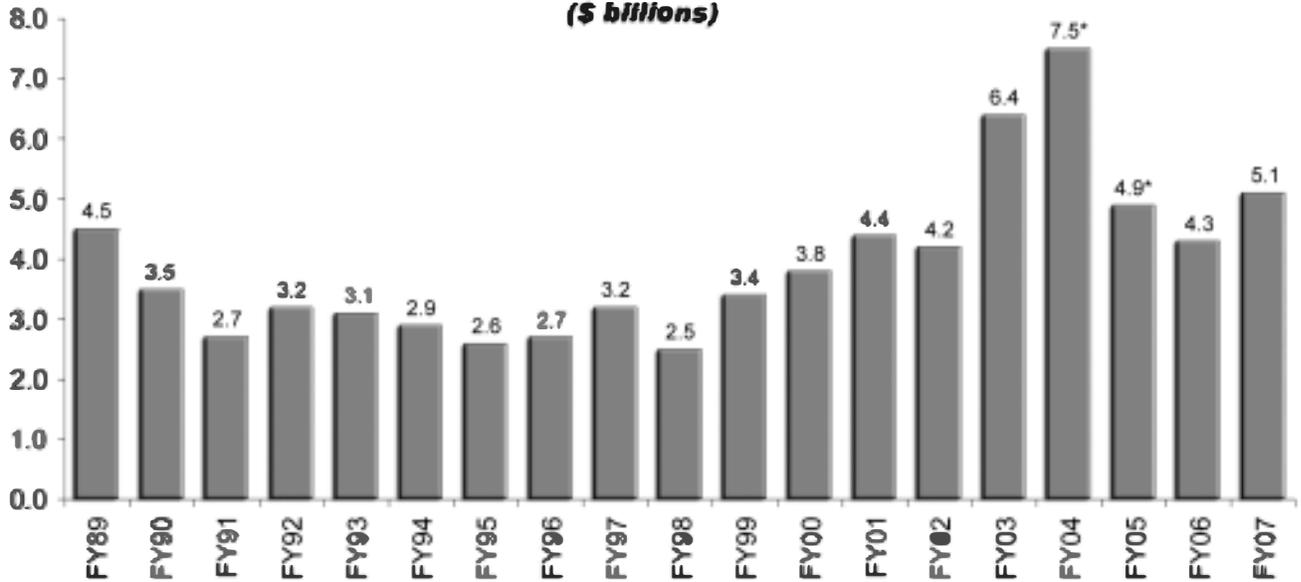
Additionally, the FY 2006 budget includes acquiring 360 up-armored HMMVWs and 1,705 heavy-chassis HMMVWs for \$244 million.

OPA2, communications and electronics, accounts for the most substantial increase, from 43 to nearly 54 percent of all OPA between FY 2004 and FY 2006. OPA2 includes command, control and communications capabilities, automation support and enhanced digitization.

In FY 2006, OPA2 includes a new program to procure low-rate initial production (LRIP) quantities of Warfighter Information Network-Tactical (WIN-T) at \$122 million. These first WIN-Ts are for production verification testing (PVT) and subsequent initial operational testing (IOT). WIN-T is a tactical digital communication system that will provide advanced, commercial based networking capability to the future force.

See table 47 for the multiyear trends by budget activity and programs.

Other Procurement Profile
Total Obligational Authority
(\$ billions)



* FY04 included congressional adds and supplemental funding. FY06 includes Title IX funding.

Source: Army FY06 President's Budget Highlights

Army Ammunition Usage
by Category
(\$ millions¹)

	FY04	FY05 ²	FY06	FY07
Training	992	1,134	1,317	1,423
War Reserves	286	200	227	334
Other	28	35	32	29
Production Base Support	176	216	145	163
Total	1,482	1,585	1,721	1,949

¹ Numbers may not add due to rounding.

² FY05 includes congressional adds and supplemental funding.

Source: Army FY06 President's Budget Highlights

Other Procurement, Army
(\$ millions¹)

	FY04	FY05 ²	FY06	FY07
OPA1, Tactical & Support Vehicles	2,903	1,353	1,025	1,497
OPA2, Communications & Electronics Equipment	3,234	2,432	2,309	2,485
OPA3, Other Support Equipment	1,343	1,066	934	1,128
Spares & Repair Parts	45	46	35	35
Total	7,525	4,897	4,303	5,145

¹ Numbers may not add due to rounding.

² FY05 includes congressional adds and supplemental funding.

Source: Army FY06 President's Budget Highlights and P-1 exhibit

RESEARCH AND DEVELOPMENT

The Research, Development, Test and Evaluation appropriation funds the exploration and examination of new technologies that normally precede procurement for operational use. The Army balances the RDT&E programs to satisfy the high-payoff needs of the future force while

seeking and developing critical capabilities for the current force. The Army is applying transformational business practices with the transformation of the force to get technology into the hands of Soldiers in the field at a much more accelerated rate.

The RDT&E proposal is \$9.7 billion for FY 2006, \$10.3 billion for FY 2007. While down slightly in FY 2006, RDT&E remains essentially the same as in the prior two years and 25 to 50 percent higher than at any time in the preceding decade. The Army funding profile for RDT&E from FY 1989 to FY 2007, in current dollars, is displayed in figure 18.

The RDT&E appropriation includes seven Budget Activities:

- BA1, Basic Research;
- BA2, Applied Research;
- BA3, Advanced Technology Development;
- BA4, Advanced Component Development & Prototypes;
- BA5, System Development & Demonstration;
- BA6, Management Support; and
- BA7, Operational Systems Development.

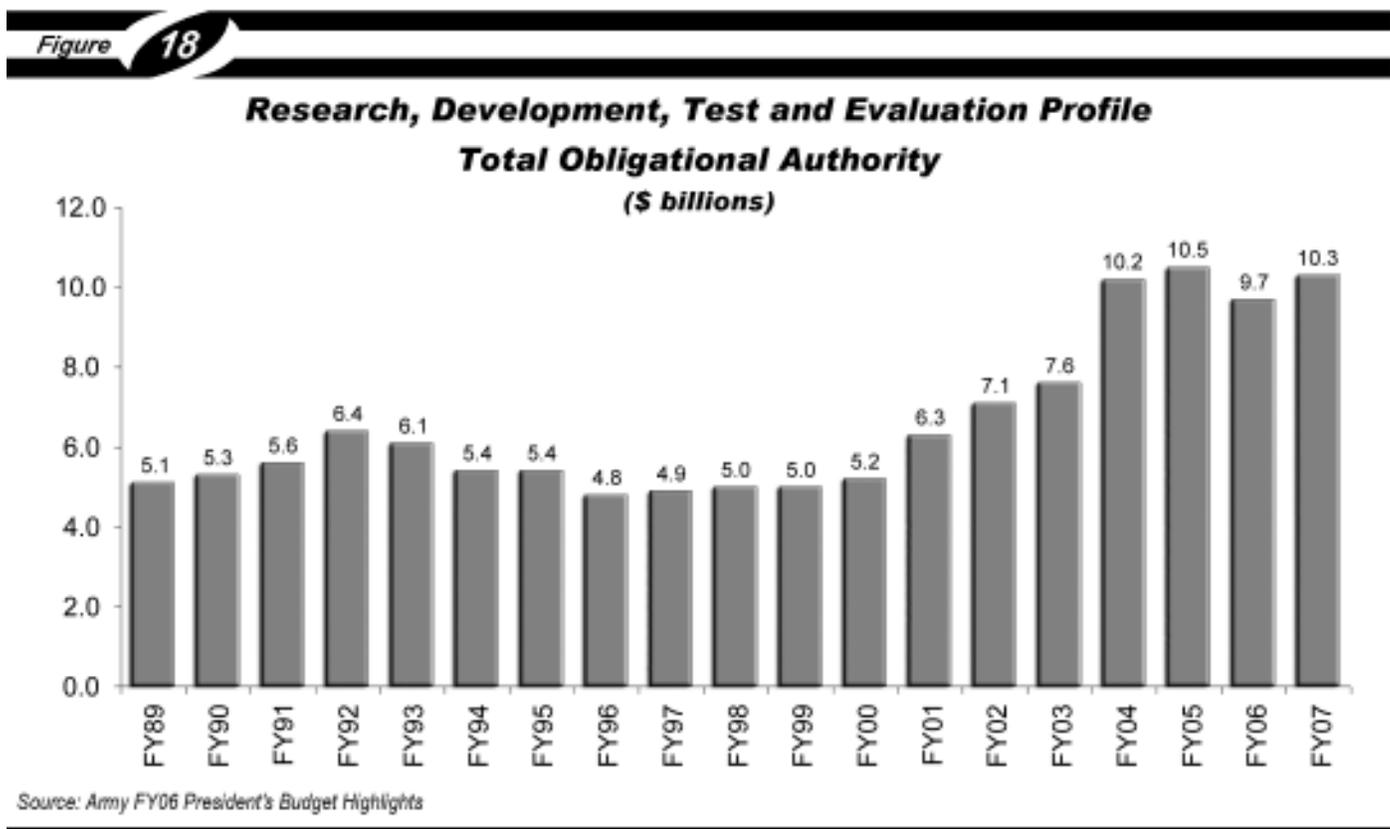
Between FY 2005 and FY 2006, RDT&E is down, but Systems Development & Demonstration (BA5) and Operational Systems Development (BA7) activities are

up. Overall, the RDT&E proposal for FY 2006 is 9.9 percent of the total Army budget and only 14 percent of all DoD RDT&E. The four-year trend for RDT&E funding by Budget Activity is displayed in table 43 above.

Each RDT&E Budget Activity includes Program Elements (PEs), which contain one or more projects. The breadth and scope of the projects is amazing: independent laboratory research; avionics, ballistics, engineering, information, medical and warfighter technologies; test ranges and facilities; and product improvement programs. Information on the Budget Activities and programs is in table 48.

Science and Technology

The Science and Technology (S&T) Program refers to RDT&E Budget Activities 1 (Basic Research), 2 (Applied Research) and 3 (Advanced Technology Development) collectively. The S&T Program focuses on stimulating high-quality, innovative research and leveraging research into weapon systems for both the Army and the joint team. The S&T Program capitalizes on technology developments from all sources, including the other services, defense agencies, commercial industry and the international community.



**Research, Development,
Test and Evaluation**
(*\$ millions*¹)

	FY04	FY05 ²	FY06	FY07
Basic Research ³	369	393	308	318
Applied Research ³	1,046	1,118	671	700
Advanced Technology Development ³	1,186	1,385	756	743
Advanced Component Development & Prototypes	875	874	365	425
System Development & Demonstration	4,500	4,580	5,226	5,592
Management Support	1,140	1,174	1,093	1,171
Operational Systems Development	1,086	1,034	1,315	1,384
Total	10,202	10,558	9,734	10,333
¹ Numbers may not add due to rounding.				
² FY05 includes congressional adds and supplemental funding.				
³ Basic Research, Applied Research and Advanced Technology Development together are summarized as Science & Technology and account for almost 18 percent of FY06 RDT&E.				
Source: Army FY06 Presidents Budget Highlights and R-1 exhibit				

The S&T involves investments in research as well as maturing technologies with promising capabilities to accelerate the transition into the current force. These technologies include networked battle command and logistics systems, networked precision missiles and gun-launched munitions, improved intelligence sensors, active and passive protection systems, unmanned ground and air systems and low-cost, multispectral sensors. Already, many are being integrated into the equipment of front-line Soldiers to dramatically improve their capabilities.

The S&T technology initiatives include exploring ways to detect and neutralize mines and IEDs; to improve combat identification; to produce medical technology for self-diagnosis and treatment; and to develop hostile-fire indicators, survivability equipment, training systems and robotics. The Science and Technology community is investigating how to defeat opponents more easily during irregular warfare in complex environments, which include urban terrain, triple-canopy jungle conditions, mountainous locales and caves.

The S&T program accounts for 18 percent of RDT&E in FY 2006—down 40 percent from FY 2005.

Advanced Component Development and Prototypes

Budget Activity 4, Advanced Component Development and Prototypes, involves examining technologies for Future Combat Systems and Soldiers and assessing advantages and disadvantages of each technology as well as the costs and implementation impacts. If successful, the technology can move into further development or into production. The BA4 program is down to less than 4 percent of the FY 2006 RDT&E. The largest programs include:

- Tactical Warfighter Information Network Demonstration/Validation (DEM/VAL) (\$131 million);
- Air & Missile Defense Systems Engineering (\$83 million); and
- Advanced Tank Armament System (ATAS) (\$27 million).

The Advanced Component Development and Prototypes activity accounts for only 4 percent of RDT&E in FY 2006—down 58 percent from FY 2005.

System Development & Demonstration

Budget Activity 5, System Development & Demonstration, is by far the largest RDT&E activity with \$5.226 billion, or 54 percent of all RDT&E funds. BA5 increases by 14 percent over FY 2005. The most important programs include:

- Armored Systems Modernization (ASM)—Engineering Development is the primary subsystem of the Future Combat Systems and, by far, the largest RDT&E program at \$3.066 billion. FCS is a family of advanced, networked air- and ground-based maneuver, maneuver support and sustainment systems. FCS will include manned and unmanned platforms networked via a C4ISR architecture, including networked communications, network operations, sensors, battle command systems and manned and unmanned reconnaissance and surveillance capabilities. The Initial Operational Capability (IOC) of an FCS-equipped Unit of Action is in 2014.
- Non-Line-of-Sight Cannon (NLOS-C) is a subsystem of the Future Combat Systems. It will provide a

combined high-rate, sustained volume of long-range precision fire in all weather conditions. Funding for NLOS-C is \$107.6 million.

- Non-Line-of-Sight Launcher (NLOS-L), also a sub-system of FCS, will provide the maneuver commander with immediately responsive, precision fires on high-payoff targets and is coupled with real-time target acquisition and battle damage assessment capabilities. Funding for NLOS-L is \$231.6 million.
- Joint Tactical Radio System (JTRS) program will provide DoD with software programmable, reconfigurable digital radio systems to meet the requirements for interoperability, flexibility, adaptability and information exchange. The program will acquire a family of affordable, scaleable, high-capacity, interoperable Line-of-Sight (LOS) and Beyond-Line-of-Sight (BLOS) radios to support simultaneous networked voice, data and video transmissions with low probability of intercept. Funding for JTRS is \$156.7 million.

Management Support

Budget Activity 6, Management Support, provides for a wide variety of support activities, but two Program Elements account for 48 percent of all the BA6 dollars: Army Kwajalein Atoll (\$155 million) and Army Test Ranges (\$370 million).

- The U.S. Army Kwajalein Atoll/Ronald Reagan Ballistic Missile Defense Test Site (USAKA/RTS), in the Republic of the Marshall Islands, is a remote, secure activity of the Major Range and Test Facility Base (MRTFB). The RTS consists of a number of sophisticated, one-of-a-kind, radar, optical, telemetry, command/control/communications and data reduction systems. This PE also provides funds for the contractors to accomplish installation operation and maintenance but does not pay for program-specific test costs that are billed to test customers.
- The Major Range and Test Facility Bases PE includes funding to operate a series of test sites, including:
 - White Sands Missile Range (WSMR), New Mexico (including the Electronic Proving Ground, or EPG, at Fort Huachuca, Arizona);
 - Aberdeen Test Center (ATC), Aberdeen Proving Ground (APG), Maryland;

- Yuma Proving Ground (YPG), Arizona (to include management of Army natural environmental testing at Cold Regions Test Center at Forts Greely and Wainwright in Alaska, and Tropic Regions Test Center at Schofield Barracks, Hawaii).
- Aviation Technical Test Center, Fort Rucker, Alabama, and Redstone Technical Test Center, Redstone Arsenal, Alabama, which provide the Army's developmental test capability.

BA 5 accounts for 11 percent of all RDT&E; this BA is down by 9 percent from FY 2005.

Operational System Development

BA7, Operational System Development, is the final RDT&E Budget Activity. This BA provides support for all BAs by leveraging technology to enhance performance and increase capability. The technology enhancements may be in the form of new systems or product improvement programs for existing systems. BA7 is the second largest BA at \$1.315 billion, or 14 percent of RDT&E; this activity is down by 27 percent from FY 2005.

Three systems and two product improvement programs (PIPs) account for 64 percent of BA7:

- Tactical Unmanned Aerial Vehicles (TUAVs) provide the Army with dedicated day/night reconnaissance, surveillance and target acquisition (RSTA) and intelligence and the tactical warfighting commander with critical battlefield information in the rapid cycle time for success. Near-term RDT&E includes C4I (command, control, communications, computers and intelligence) interoperability and testing, Built-In-Test/Built-In-Test Equipment (BIT/BITE) integration and testing, and initiation of a Small UAV Program. Future initiatives will focus on the transition of technologies that directly support the Army's future force, such as counter-camouflage and other specialty payloads. The Advanced Payload Development & Support efforts will establish the infrastructure to evaluate the maturity of the technology efforts and transition an employable TUAV capability. BA7 includes \$139.6 million for TUAV in FY 2006.
- The Distributed Common Ground System-Army (DCGS-A) will serve as the primary ground system of systems for airborne and ground sensor

platforms defined as Future Force systems. DCGS-A will enable the commander to achieve situational understanding, by leveraging multiple sources of data, information and intelligence, to synchronize the elements of joint and combined-arms combat power. The core functions of DCGS-A are receipt and processing of space, airborne, ground and maritime intelligence, surveillance and reconnaissance (ISR) sensor data; control of select Army and joint ISR sensor systems; intelligence synchronization; ISR planning, reconnaissance and surveillance (R&S) integration; fusion of sensor information; and direction and distribution/dissemination of sensor information. DCGS-A, a key component of Transformation, is funded at \$91.6 million in FY 2006.

- The Joint Land Attack Cruise Missile Defense Elevated Netted Sensor System (JLENS) uses advanced sensor and networking technologies to provide precision tracking and 360-degree, wide-area, over-the-horizon surveillance of land attack cruise missiles. JLENS is a joint program involving a multiservice effort, with the Army as the lead service and program responsibility assigned to the JLENS Project Office (PO) for Land Attack Cruise Missile Defense (LACMD). The JLENS program is funded at \$106.4 million in FY 2006.
- The Aircraft Mod/Product Improvement Program provides for development of modifications and improvements for the Aerial Common Sensor; the Improved Cargo Helicopter (ICH) Chinook CH-47; UH-60 Black Hawk Recapitalization/Modernization; and the Apache Longbow Block III AH-64. The Aircraft Mod/PIP is funded at \$409.0 million in FY 2006.
- The Multiple Launch Rocket System (MLRS)-High Mobility Artillery Rocket System (HIMARS) PIP is a self-propelled rocket system designed to attack deep targets with precision strike capability. The HIMARS, rocket-launcher mounted on a Family of Medium Tactical Vehicles (FMTV) chassis, is C-130 transportable. The HIMARS is capable of firing either six MLRS Family of Munitions (MFOM) rockets or two Army Tactical Missile System (ATACMS) Family of Munitions (AFOM) missiles. The MLRS-HIMARS PIP is funded at \$114.3 million in FY 2006.

This completes the RDA section of the report.

INSTALLATIONS

Army installations are an essential building block in generating, maintaining and sustaining the premier Army in the world. Installations include the facilities where Soldiers train, where they and their families live, and where Soldiers and Army civilians work. Installations serve as power-projection platforms for mobilizing and deploying forces and for sustaining operations through reachback.

In his 9 February 2005 testimony to Congress on the budget, the Secretary of the Army discussed the Army leadership's four overarching and interrelated strategies to transform the Army, and some of the 20 supporting initiatives. Army installations enable all four strategies by

- providing relevant, ready landpower to the combatant commanders;
- training and equipping Soldiers to serve as warriors and growing adaptive leaders;
- attaining a quality of life for Soldiers and their families that matches the quality of their service; and
- providing the infrastructure to enable the force to fulfill its strategic roles and missions.

The Secretary's remarks on both the "quality of life" and "infrastructure" strategies recognized the importance of installations:

We are implementing our strategy of attaining a quality of life for our Soldiers and their families that match the quality of their service. . . . Actions such as [the Residential Communities Initiative] sustain our combat power because we enlist Soldiers, but we reenlist families.

The Secretary requested continuing strong congressional support.

This section discusses the appropriations for constructing, renovating and disposing of facilities and infrastructure—Military Construction, Family Housing and Homeowners Assistance, and Base Realignment and Closure (BRAC) appropriations. This section does not include a discussion of Base Operations Support, which is included in the Operation and Maintenance appropriations.

The Army has three Military Construction appropriations: Military Construction, Army (MCA) for the active Army; Military Construction, Army National Guard

(MCARNG); and Military Construction, Army Reserve (MCAR). The military construction projects in each appropriation include modernizing barracks and renovating and constructing new facilities to improve training opportunities, support functions and strategic mobility. MCA also includes new construction, and operation and maintenance for Army Family Housing (AFH).

The MILCON funds remain available for obligation for five years, i.e., FY 2006 dollars can be obligated until September 30, 2010. The MILCON proposal and current- and prior-year data in the President's Budget for FY 2006 are in table 49.

The FY 2006 budget is 24 percent less than that of FY 2005; the FY07 budget is 22 percent greater than that of FY 2006. An important note to remember is that the FY 2004 and FY 2005 totals include congressional additions, the final supplemental for FY 2004 and the initial supplemental appropriation for FY 2005.

The MILCON budget focuses on improving living conditions for Soldiers, support facilities for Soldiers and their families, training facilities to support readiness and facilities to support the stationing of Stryker Brigade Teams. Three key construction categories account for 90 percent of all MILCON:

- Barracks modernization program (\$716 million) to improve quality of life for single Soldiers;
- Army readiness (\$763 million) including maintenance, training, deployment and infrastructure revitalization projects for the active Army; and
- construction for active and National Guard Stryker Brigade Combat Teams in Hawaii and Pennsylvania (\$221 million).

The following subparagraphs discuss MCA, MCNG, MCAR and AFH.

Military Construction, Army (MCA)

The MCA dollars are requested and appropriated for three types of activities: Major Construction, Minor Construction and Planning and Design. Specific statutory restrictions apply to each activity.

- Major Construction provides funding for military construction projects in the United States and overseas,

Table 49

Military Construction (\$ millions ¹)

	FY04	FY05 ²	FY06	FY07
Military Construction, Army	1,646	1,981	1,480	1,700
Military Construction, Army National Guard	312	447	327	466
Military Construction, Army Reserve	88	101	106	164
Total	2,046	2,529	1,913	2,330
¹ Numbers may not add due to rounding.				
² FY05 includes congressional adds and supplemental funding.				
Source: Army President's FY06 Budget Highlights and DoD Finance Summary Table 1-C				

as authorized in currently effective Military Construction Acts and in this year's request for Authorizations and Appropriations. The Major Construction budget invests primarily in facilities required for people, current readiness and future readiness, such as troop housing, Stryker Brigade Combat Teams and training ranges, along with construction necessary for environmental, revitalization and mission-essential requirements.

- Minor Construction provides for construction of future unspecified projects that have not been individually authorized by law but are determined to be urgent requirements and do not cost more than the amounts specified in 10 USC 2805. Projects awarded with these funds may not exceed \$1.5 million, or \$3.0 million if there is a threat to life, health, or safety.
- Planning & Design provides for necessary planning of military construction projects, including design, host nation support, standards, surveys, studies and other related activities. In general, design funds requested in FY 2006 will be used to design projects in the Army's FY 2007 and FY 2008 programs.

The MCA budget for FY 2006 is 25 percent less than that of FY 2005; the FY 2007 budget is 15 percent greater than that of FY 2006. A summary of the budget by categories is in table 50.

**Military Construction, Army
Facility Categories
(\$ millions ¹)**

	FY04 ²	FY05	FY06	FY07
Operation & Training	348	505	322	330
Maintenance & Production	129	166	113	81
Research & Development	19	56	0	0
Supply & Administration	27	143	40	3
Medical Center/Hospitals	0	0	0	25
Troop Housing/ Community Support	803	834	764	967
Utilities/Real Estate	154	99	60	42
Minor Construction	33	21	20	23
Planning & Design	133	157	161	229
Total	1,646	1,981	1,480	1,700

¹ Numbers may not add due to rounding.

² FY04 and FY05 include congressional adds and supplemental funding.

Source: Army FY06 President's Budget Highlights

Military Construction, Army National Guard (MCARNG)

The FY 2006 Army National Guard Military Construction appropriation totals \$327 million and focuses on current readiness and transformation to the Future Force. The budget continues the goal of providing state-of-the-art, community-based installations and training sites. Projects address mission needs that facilitate communications, operations, training and equipment sustainment for stationing, sustaining and deploying the force.

The FY 2006 budget provides for facilities to meet Soldiers' needs as they train, mobilize and deploy. The facilities include Readiness Centers, maintenance facilities, training projects and a wetlands crossing. The funds also provide for projects to transform from the Current to Future Force. These include projects for the Army Division Redesign Study, Aviation Transformation, the Range Modernization Program and the Stryker Brigade Combat Team initiative.

The MCARNG budget for FY 2006 is 27 percent less than for FY 2005; the FY 2007 budget is 43 percent greater than that of FY 2006. A summary of the budget by categories is in table 51.

**Military Construction,
Army National Guard (MCNG)
Facility Categories
(\$ millions ¹)**

	FY04 ²	FY05 ²	FY06	FY07
Operation and Training	132	188	163	152
Maintenance & Production	110	195	102	240
Administrative	0	0	3	0
Infrastructure	24	16	5	5
Minor Construction	8	9	8	9
Planning & Design	38	39	46	60
Total	312	447	327	466

¹ Numbers may not add due to rounding.

² FY04 and FY05 include congressional adds and supplemental funding.

Source: Army FY06 President's Budget Highlights

Military Construction, Army Reserve (MCAR)

The FY 2006 Army Reserve Military Construction appropriation totals \$106 million. The MCAR budget provides resources for the Reserve Component Force Support package units, repair of facility deterioration, modernization of the total facilities inventory and management of Army Reserve installations. The program focuses on facility projects to improve readiness and quality of life, preserve and enhance the Army's image across America and conserve and protect the facilities, resources for which the Army Reserve is responsible.

The MCAR budget for FY 2006 is 5 percent greater than for FY 2005; the FY 2007 budget is 55 percent greater than that of FY 2006. A summary of the budget by categories is in table 52.

Army Family Housing

The Army Family Housing budget supports the quality of life of Soldiers and their families with funding for more than 120,000 military family housing units worldwide. The support includes operation, maintenance, leasing, privatization and construction of Army family housing and the implementation of the Army Family Housing Master Plan.

The Army's goal is the elimination of inadequate family housing units in 2007 for U.S. installations (including

**Military Construction,
Army Reserve (MCAR)
Facility Categories
(\$ millions ¹)**

	FY04 ²	FY05 ²	FY06	FY07
Facility Strategy	37	55	44	112
Revitalization	40	26	32	24
Training Ranges	0	4	13	5
Minor Construction	3	3	3	3
Planning and Design	8	13	14	20
Total	88	101	106	164
¹ Numbers may not add due to rounding.				
² FY04 and FY05 include congressional adds and supplemental funding.				
Source: Army FY06 President's Budget Highlights				

Alaska, Hawaii and Puerto Rico) and in 2008 overseas. The FY 2006 budget uses a combination of traditional AFH operations, maintenance and construction funds, Military Personnel Allowance (MPA) Basic Allowance for Housing (BAH) and privatization to support the goal. The AFH budget request is \$1.363 billion.

The AFH budget is based on three major assumptions:

- Global restationing will begin in FY 2006 and continue through FY 2008; therefore, foreign inventory begins to decrease in FY 2006;
- Privatization will continue on schedule; therefore, the Army-owned housing inventory will decline; and
- Independent Duty Leases will decline by one-third in FY 2006.

The combination of global restationing and privatization assumptions is particularly important. As the AFH-owned inventory in the United States decreases with privatization, the ratio of AFH-owned units in foreign countries to those in the United States grows. In FY 2005 the U.S. portion (CONUS plus U.S. overseas) represented 59 percent of the AFH-owned inventory. By FY 2006, the U.S. portion will have decreased to 52 percent of the total owned inventory due to privatization. Because U.S.-owned units in foreign countries are more expensive to operate and are increasing as a percentage of the inventory, the average cost per unit increases.

Privatization provides Soldiers and their families with modern, quality and well-maintained housing. Privatization occurs through the Residential Communities Initiative (RCI) Program. The FY 2006 budget includes privatizing an additional five projects comprising more than 7,900 homes. With privatization, the AFH-owned inventory of housing units decreases, and the MPA budget increases a Soldier's BAH pay for the privatized housing.

The AFH appropriation includes two separate programs or accounts: (1) family housing construction and (2) family housing operations. See table 53.

AFH Construction

The AFH construction program provides for building new units where analysis indicates such construction will be more economical than revitalizing existing Army housing or when adequate off-post housing is not available.

**Army Family Housing
(\$ millions ¹)**

	FY04 ^{2,3}	FY05 ³	FY06	FY07
Construction				
New/Replace Construction	221	395	232	243
Improvement	146	212	300	221
Planning & Design	32	29	18	14
Privatization Investment ³	-119	-168	-138	-22
Subtotal	399	468	550	478
Operations				
Operation & Utilities	365	282	270	207
Maintenance	481	402	309	192
Leasing	206	218	214	215
Privatization	29	26	20	25
Subtotal	1,081	928	813	639
Total AFH	1,480	1,396	1,363	1,117
¹ Numbers may not add due to rounding.				
² FY04 includes congressional adds.				
³ FY04 and FY05 Residential Communities Initiative equity transferred to DoD Family Housing Investment Fund.				
Source: FY06 President's Budget Highlights				

The construction program also includes site preparation, demolition and initial outfitting with fixtures and integral equipment, along with associated facilities such as roads, driveways, walks, utility systems and community facilities.

In FY 2006, the Army is seeking authorization to construct 709 family housing units and demolish 914 existing family housing units that are not economical to revitalize. The budget requests \$231.7 million for the construction of the 709 family housing units. Table 54 provides a list of construction locations and costs.

AFH Operations

The AFH operating account provides for expenses in the following sub-accounts and includes both direct and indirect support, as applicable:

- Management – provides for family housing management, installation administrative support and services provided by Community Homefinding, Relocation and Referral Services.
- Services – provides basic installation service support functions such as refuse collection and disposal, entomology and pest control, snow removal and street cleaning, as well as the family housing’s proportional share of fire and police protection.
- Furnishings – provides for procurement, management, control, moving and handling of furnishings and household equipment; plus maintenance, repair and replacement of existing furnishings and equipment inventory.
- Miscellaneous – provides payments to non-DoD agencies for housing units occupied by Army personnel.
- Utilities Account – provides for the costs of heat, air conditioning, electricity, water and sewage for family housing units and for utilities for privatized housing at Fort Carson, Colorado.

The AFH operating account includes funds for leasing housing in the United States and at foreign locations when a housing deficit exists and the local economy cannot provide adequate support. The leasing program provides for the payment of rent and operating and maintenance costs of privately owned quarters assigned to military families as government quarters plus services such as utilities, refuse collection and maintenance when these services are not part of the contract agreement.

Table 54

Army Family Housing New Construction

	Units	\$ millions ¹
FY04		
Fort Wainwright, AK	140	64.0
Fort Huachuca, AZ	220	41.0
Fort Riley, KS	62	16.7
Fort Knox, KY	178	41.0
White Sands Missile Range, NM	58	14.6
Fort Sill, OK	120	25.4
Fort Lee, VA	90	18.0
Total	868	220.7
FY05		
Fort Richardson, AK	92	42.0
Fort Wainwright, AK	100	41.0
Fort Wainwright, AK	60	37.0
Fort Wainwright, AK	86	46.0
Fort Huachuca, AZ	205	41.0
Yuma, AZ	55	14.9
Fort Riley, KS	126	33.0
White Sands Missile Range, NM	156	31.0
Fort Sill, OK	247	47.0
Fort Lee, VA	218	46.0
Fort Monroe, VA	68	16.0
Total	1,413	394.9
FY06		
Fort Richardson, AK	107	49
Fort Wainwright, AK	96	49
Fort Wainwright, AK	84	42
Fort Huachula, AZ	131	31
Yuma, AZ	35	11.2
Fort Sill, OK	129	24
Fort Lee, VA	96	19.5
Fort Monroe, VA	21	6
Total	709	231.7
FY07		
Fort Richardson, AK	105	45
Fort Richardson, AK	57	24
Fort Wainwright, AK	90	49
Fort Wainwright, AK	90	48
Fort Huachuca, AZ	119	30
Fort Lee, VA	58	13.4
Fort Wainwright, AK	54	27
Pine Bluff, AR	10	2.6
Fort McCoy, WI	13	4.3
Total	596	243.3

* Numbers may not add due to rounding.

Source: Army FY06 President's Budget Highlights

Privatization Program

The Military Housing Privatization Initiatives (MHPI) Act authorizes privatization and the Army's Residential Communities Initiative (RCI) program implements the legislation to improve the well-being of Army families by providing quality, affordable family housing in the United States. Privatization refers to agreements with private developers that typically include a ground lease of the family housing footprint, conveyance of housing units and other facilities to the developer, and an operating agreement describing the partners' responsibilities. Partnership agreements are for a 50-year period with a 25-year option. The Army maintains oversight of housing privatization projects through a portfolio and asset management (PAM) program.

When complete, the RCI program is projected to include about 83,700 family housing units—more than 92 percent of the family housing inventory in the United States. As of January 2005, the Army has transitioned family housing to privatized operations at 21 locations, with a total projected end state of more than 50,300 houses. The Army invested \$291 million in government equity or scoring for these projects, with a scope of work valued at \$5.9 billion during the initial development period. The initial development period refers to the time frame for renovating or replacing (to eliminate inadequate housing) all housing; the period varies from three to 10 years per project. The initial development period also may include new construction to reduce the housing deficit.

The number of housing units entering the inventory is displayed in table 55.

Homeowners Assistance Fund

This fund reduces the losses incident to the disposal of homes for military, federal civilian personnel and Non-Appropriated Fund employees who are required to relocate as a result of or during the closure or reduction in the scope of operations at the military installations where they are serving or employed. Congress established this fund in recognition of the fact that base closure and reduction actions can have serious economic effects on local communities. In turn, servicemembers and employees frequently cannot dispose of their homes under reasonable terms and conditions and suffer severe financial hardship.

To determine the effect of the realignment or closure action on local communities, a Market Impact Study (MIS)

Table 55

Army Family Housing Privatization (Residential Communities Initiative)

Fiscal Year	Location	Units
FY04	Fort Sam Houston, TX	925
	Fort Bliss, TX	2,752
	Fort Drum, NY	2,809
	Carlisle Barracks, PA	747
Total		7,233
FY05	Fort Benning, GA	3,959
	Fort Rucker, AL	1,516
	Fort Gordon, GA	876
	Fort Knox, KY	3,099
	Fort Leavenworth, KS	1,586
	Redstone Arsenal, AL	459
Total		11,495
FY06	Fort McPherson, GA	112
	Fort Riley, KS	3,042
	White Sands Missile Range, NM	452
	Fort Campbell, KY (Increment)	200
	Fort Irwin/Moffett Federal Airfield/ Parks Reserve Forces Training Area, CA (Increment)	120
Total		3,926
FY07	U.S. Military Academy, NY	1,001
Total		1,001

Source: Army FY06 President's Budget Highlights

is performed. If the MIS demonstrates sufficient impact on the market and establishes a causal relationship, a program is implemented. Eligible applicants may be reimbursed for certain losses resulting from the sale of their home.

Although the program provides for acquisition of dwellings, the government does so only for the accommodation of the applicant. The homes are then resold by the government. Every effort is made to ensure that each applicant is treated equally and receives the maximum benefits under the law as rapidly as practicable, but with a minimum expenditure of time and money for administration.

The FY 2006 budget requests no additional authorization of appropriations and appropriations to fund Homeowners Assistance Fund program expenses. The total

program estimate for FY 2006 is \$7,439,336 and will be funded with revenue from sales of acquired properties and from prior-year unobligated balances.

Base Realignment and Closure

The Base Realignment and Closure funds, like the Military Construction and Army Family Housing appropriation, also impact Army installations. DoD has implemented four BRAC rounds, beginning with the Defense Base Realignment and Closure Act of 1988 (Public Law 100-526) and followed by additional rounds in FY 1991, FY 1993 and FY 1995. DoD has begun the process for stating a new round.

As of 13 July 2001, 112 closures and 27 realignments from all four rounds of BRAC were complete. On 14 July 2001, the Army began funding caretaking functions from the BRAC account at all remaining BRAC properties. Caretaking maintains real property assets at levels to protect against degradation during transition.

The FY 2006 budget submission represents the costs and savings of implementing all realignment and closure through FY 2001, and the costs to continue caretaking functions and environmental restoration at the remaining BRAC properties through FY 2007. The Army continues to clean up properties to support property disposal as quickly as available resources allow and to align cleanup resources with reuse schedules as well as commitments that protect human health and the environment. See table 56 for the BRAC request.

In addition to BRAC, the Army has also executed an aggressive overseas closure program, closing 680 installations since 1990. A majority of the closures are in Europe and are comparable to closing 12 of the Army's largest CONUS installations combined. More overseas closures will be implemented as the Army develops plans for repositioning units throughout the world consistent with the Integrated Global Presence and Basing Strategy.

ARMY ENVIRONMENTAL PROGRAM

The Environmental Restoration, Army (ERA) program focuses on reducing the risks to human health and the environment at active installations and Formerly Used Defense Sites (FUDS). Congress directed DoD to comply with federal, state and local requirements as well as applicable host-nation environmental standards. The

Table 56

Base Realignment and Closure¹ (\$ millions)

	FY04	FY05 ²	FY06	FY07
BRAC – Army portion	73	100	94	50
¹ BRAC is a DoD-centralized summary appropriation with budget year information passed from each DoD component.				
² FY05 includes congressional adds and supplemental funding.				
Source: DoD Base Realignment and Closure Account IV Army				

Environmental Restoration program includes compliance, restoration, prevention and conservation projects.

DoD has five Environmental Restoration appropriations: ER-Army, ER-Navy, ER-Air Force, ER-Defensewide and ER-FUDS. The ER appropriations have special transfer authority that allows the department to transfer funds from these appropriations to any other DoD appropriation to finance environmental restoration efforts.

The FY 2006 ERA funds meet all legal agreements and ensure compliance with DoD clean-up goals. The Army ERA data are in table 57.

The ERA program provides funds for

- identification, investigation and cleanup of past contamination (prior to 1986) from hazardous substances and wastes;
- correction of other environmental damage;
- detection of unexploded ordnance; and
- demolition and removal of unsafe buildings, structures and debris.

Table 57

Environmental Restoration, Army (\$ millions)

	FY04	FY05 ¹	FY06	FY07
ERA ²	—	400	408	427
¹ FY05 includes congressional adds and supplemental funding.				
² ERA is executed in OMA; therefore, no FY04 actual but \$400 million was in the President's Budget.				
Source: Army FY06 President's Budget Highlights.				

The Army cleanup program is essentially on schedule. The FUDS part of the program is unique in that there are no physical boundaries such as a military installation fence lines to establish a finite limit of potential contaminated sites.

ARMY WORKING CAPITAL FUND

The Army Working Capital Fund (AWCF), also known as the Defense Working Capital Fund, Army (DWCF, A) operates a number of commercial and industrial facilities in two activity groups under a revolving fund concept.

The two AWCF activity groups are Supply Management and Industrial Operations (the latter formerly known as Depot Maintenance and Ordnance). These activity groups provide supplies, equipment and ordnance necessary to project, sustain and reconstitute forces in peacetime and wartime. These support services are essential to the readiness and sustainability of the operating forces and are an integral part of the total Defense team.

The revolving fund structure encourages these activities to function in a more efficient and cost-effective manner and provides the additional flexibility to manage more effectively facilities under changing workload conditions. The concept supports full cost visibility and full cost recovery while protecting appropriated fund customer accounts from execution-year price changes.

The revolving fund concept involves maintaining a buyer-seller-relationship in which the activity group buys and maintains materiel for sale upon demand to its customers. The primary customer is the Army's current force; other customers include the other services, DoD, other federal agencies and Foreign Military Sales. The activity groups set rates to recover direct and overhead costs, stabilizing the rates during the year of execution to protect customer buying power from price swings.

The FY 2006 budget reflects the increased revenue and expenses associated with supporting the continued efforts in Iraq, Afghanistan and the GWOT. To meet this increased demand, the activities more than doubled expenditures above peacetime levels to purchase, replenish and repair inventory. These expenditures have been offset by substantially higher sales than projected in previous submissions, which were based solely on peacetime levels of execution.

Revenue and Expenses

Revenue is an indicator of the volume of work completed by the Army Working Capital Fund activity groups. In FY 2006, the ACWF will collect \$13.494 billion for the sale of repair parts, consumable supplies, depot maintenance services and ammunition and will disburse \$10.255 billion for expenses. See table 58 for revenue and expense data.

Table 58

**Army Working Capital Fund
Revenues and Expenses
(FY06 \$ millions ¹)**

	Revenues	Expenses
Supply Management	9,439	6,148
Industrial Operations ²	4,056	4,107
Total	13,494	10,255

¹ Numbers may not add due to rounding.
² Previously reported as Depot Maintenance and Ordnance.
Source: FY06-07 Budget Materials posted on ASAFMC website

Customer Rates

Customer rates are set by activity group to recover full costs, i.e., expenses, and adjust for accumulated operating results. In the Supply Management activity group, a surcharge percentage is added to sales to recoup overhead expenses. In the Industrial Operations activity group, customer rates, on a direct labor-hour basis, are adjusted to recover direct and overhead costs. The rates for both activity groups are stabilized so the customer's buying power is protected from price swings during the year of execution.

Table 59 shows the rate changes for both activity groups as a percentage change from the rate charged in the previous year.

Direct Appropriated Funds

The AWCF receives direct appropriated funds for activity groups to meet mobilization and wartime surge capability not directly related to the cost of doing business and to ensure peacetime customers of competitive stabilized rates. The budget request for direct appropriated funds is in table 60.

**Army Working Capital Fund
Customer Rate Changes**

	FY04	FY05	FY06	FY07
Supply Management	-0.8%	-1.4%	2.5%	3.2%
Industrial Operations*	—	—	0.7%	2.6%
* Previously reported as Depot Maintenance and Ordnance.				
Source: FY06–07 Budget Materials posted on ASAFMC website				

**Army Working Capital Fund
Direct Appropriation
(\$ millions*)**

	FY04	FY05	FY06	FY07
War Reserve Secondary Items	105.4	84.4	23.2	16.4
Industrial Mobilization Capacity	113.9	99.6	64.0	0.0
Inventory Augmentation	0.0	0.0	19.3	0.0
Total	219.3	184.0	106.5	16.4
* Numbers may not add due to rounding.				
Source: Current Year Budget Materials on ASAFMC website				

The direct appropriations are for:

- War Reserve Secondary Items (WRSI) to procure and store a war reserve inventory of secondary items. If costs to procure and maintain wartime requirements are not funded through a direct appropriation, readiness will be impacted as funding for replacement of peacetime inventory will have to be used for war reserve material.
- Industrial Mobilization Capacity (IMC) includes a request for direct funds for IMC, formerly known as Unutilized Plant Capacity (UPC). This represents funding necessary to compensate the Industrial Operations activity group for the fixed overhead costs of maintaining plant and equipment required by the Army to meet mobilization and wartime surge capability. These funds are not directly related to the cost of doing business.
- Inventory Augmentation supports initial inventory stocks of the new Army Combat Uniform (ACU) at

Military Clothing Sales Stores operated by the Army & Air Force Exchange Service (AAFES).

ARMY RESERVE COMPONENT

The Army National Guard and Army Reserve continue the tradition of citizen-Soldiers in the 21st century. These citizen-Soldiers voluntarily give of their time and expertise to serve the nation, and when called to arms they answer the call without hesitation. Today, the reserve component (RC) is contributing a little more than half of all the Soldiers deployed or forward stationed in support operations in Iraq, Afghanistan and other theaters, i.e., 113,000 Army National Guard and 47,000 Army Reserve Soldiers are serving with 155,000 active component (AC) Soldiers.

The combatant commanders rely on the Army to provide the forces and capabilities to win combat on land decisively and to conduct sustainment operations. The Army relies on the Army National Guard and Army Reserve to provide forces and capabilities to complement the active component. The nature of this reliance is transforming with the transformation of the combat forces to a brigade-based modular structure and with the current war. The protracted nature of the GWOT gives rise to the prospects of a prolonged or indefinite war, requiring sustainment of a campaign over any number of years—and even greater reliance on the reserve component.

The national security experience of the first few years of the 21st century is very, very different than the assumption about national security at the end of the Cold War. The prior assumption was of a new world order in which conflicts would be less frequent and less threatening to the United States. In turn, this suggested that a “peace dividend” was available, and it was taken. The Army contributed to that dividend with significant reductions in the active, Guard and Reserve endstrength while retaining the Cold War structure. Total Army endstrength was reduced by 33 percent to 1,037,000 soldiers in FY 2000, and has remained at that level. The active component comprises 46 percent and the reserve component 54 percent (34 percent Guard and 20 percent Reserve).

Within the Army endstrength, sustaining a long campaign requires a synchronized, progressive and focused schedule of deployments, engagements, regeneration, re-fitting and retraining to achieve serial, selective readiness. In a long campaign, the role of the reserve component is

more vital than ever before. To sustain long wars, the Army's goal is to have a rotational schedule with active units capable of deploying to the theater of operations once every three years and the Guard and Reserve capable of deploying once every six years.

A schedule with more predictable rotational cycles will significantly reduce the stress on the force. Along with a schedule, the Army is increasing the pool of rotating units—from 33 to 43 active brigade combat teams, a 30 percent increase in combat power by the end of FY 2006, and a total pool increasing from 48 to 77 combat teams across the active and reserve components. The Army—active, Guard and Reserve—is pursuing interrelated initiatives to enable the increase in the pool and the rotational cycle, including:

- modular forces that move the Army away from a division-centric structure to one built around brigade combat teams;
- restructuring of the active and reserve components to decrease force structure in lower-demand skills and increase high-demand skills and units with a goal of restructuring 44,000 positions by the end of FY 2006 and 100,000 positions by FY 2011; and
- rebalancing of the AC and RC unit mix so that certain early-deploying and high-demand units are in the active component, thus reducing the need to mobilize reserve units immediately.

The Army National Guard and the Army Reserve budgets for FY 2006 include funds to pursue these initiatives. The Army National Guard and the Army Reserve each have three discrete appropriations, and each receives additional support from other appropriations, e.g., Army procurement appropriations. The reserve component appropriations were discussed earlier in the context of the Military Personnel, Operation and Maintenance, and Military Construction appropriation grouping. The appropriations are summarized below.

Army National Guard

Army National Guard units are in more than 2,800 communities in 50 states, the District of Columbia, Guam, Puerto Rico and the Virgin Islands. The National Guard conducts both federal and state missions.

- During peacetime, the National Guard answers to the respective leadership of each of the 50 states, three

territories and the District of Columbia. The governor, through the state's Adjutant General, commands the National Guard and can call the Guard into action during local or statewide emergencies, such as natural disasters or other crises.

- The President can activate the National Guard for participation in federal missions. The combatant commander of the theater of operations commands the federalized Guard units.

For a list of the Army National Guard's key contributions to the Army, see table 61.

<i>Table</i> 61	
Army National Guard Role Within the Army	
The Army National Guard provides . . .	
	61 percent of field artillery
	48 percent of combat units
	42 percent of combat support
	35 percent of combat service support
	33 percent of air defense
<small>Source: National Guard Future Force Allocations</small>	

Following the 11 September 2001 terrorist attacks on the United States, more than 50,000 Guardsmen were activated by both their states and the federal government to provide security at home and to combat terrorism abroad. Currently, 113,000 National Guard Soldiers are supporting operations in Iraq, Afghanistan and other theaters, e.g. Kosovo, Bosnia and the Sinai.

Additionally, the Guard has initiated several dramatic new programs to further increase and improve homeland defense capability while at the same time enhancing warfighting ability. Currently, the Guard has 32 fully certified Weapons of Mass Destruction Civil Support Teams, with 12 more scheduled for the end of FY 2005 and 11 more teams scheduled to stand up in the next four years.

The Army National Guard is actively pursuing the following initiatives:

- organizing 12 Enhanced Response Force Packages to meet U.S. Northern Command's request for capabilities. These force packages will consist of a National

Guard Civil Support Team, an enhanced division medical company with a 150-person per hour decontamination and treatment capability, an enhanced engineer company with specialized search-and-recovery equipment, and a task-trained combat unit capable of supporting law enforcement.

- expanding National Guard involvement in Ground-based Mid-course Missile Defense, Cyber and Information Operations, Space, and Intelligence Operations for both the Army and Air Guard. One model is to emulate the Guard's experience in manning Nike missile batteries in the 1960s and 1970s with traditional and full-time Guardmembers serving together in units under state control and with self-activating orders that automatically brought them into a federal status when the enemy attacked.
- creating National Guard Reaction Forces with dual missions, i.e., training to meet warfighting missions and also training for homeland security missions in support of U.S. Northern Command. The units are already forward deployed throughout the United States and are immediately available to state and federal governments for homeland security purposes.

The Army National Guard budget request is in three appropriations: Military Personnel, Operation and Maintenance and Military Construction. Additionally, other Army appropriations include funds that support the Guard, e.g., the procurement appropriations for equipment acquisitions. Additionally, the Guard receives state funds for state-related functions.

The Army National Guard budget and personnel summaries are in tables 62 and 63.

The National Guard Personnel Army appropriation reduction between FY 2005 and FY 2006 is almost entirely a result of the transfer of funds for the Defense Health Program Accrual from NGPA to a separate appropriation for Medicare Retirement Contributions. The Operation and Maintenance budget for FY 2006 requests \$4.5 billion (\$4.2 billion for operating forces and \$.3 billion for administration and servicewide activities). The Military Construction budget decreases in FY 2006 but recovers in FY 2007.

Army Reserve

The Army Reserve is composed of citizen-Soldiers who carry their civilian-acquired skills and expertise with

Table 62

Army National Guard Budget Summary (\$ millions¹)

	FY04	FY05	FY06	FY07
National Guard Personnel, Army	5,249	5,967	5,123	5,626
Operation & Maintenance, Army National Guard	4,459	4,449	4,510	4,807
Military Construction, Army National Guard	312	446	327	466
Total²	10,020	10,863	9,960	10,899
¹ Numbers may not add due to rounding.				
² Total direct program; FY05 includes Title IX.				
Source: Army FY06 President's Budget Highlights				

Table 63

Army National Guard Personnel Highlights Military Endstrength (thousands)

	FY04	FY05	FY06	FY07
Selected Reserve	343	350	350	350
Paid Drill Strength	321	323	323	322
Full-time Active Strength	22	27	27	28
Pretrained Personnel/IRR ¹	2	2	2	3
Technicians				
Dual Status	20	25	26	26
Other Than Dual Status	2	2	2	2
Other Civilians ²	—	—	—	—
¹ Individual Ready Reserve.				
² Excludes technicians. Other civilians are fewer than 500.				
Source: Army FY06 Budget Materials, PB-30G & PB-31R				

them to meet the needs of the Army and the nation, then return home with even greater skills and expertise to make their communities better. The Army Reserve includes 1,600 units located in 1,100 Army Reserve Centers all across America.

The Army Reserve is a federal force that provides 30 percent of combat support (CS) and 45 percent of combat service support (CSS) capabilities for peacetime,

contingency and wartime operations. With only about 20 percent of the Army's organized units, the Army Reserve makes up about half of the Army's combat support and a quarter of the Army's mobilization base expansion capability.

Army Reserve units are increasingly part of the joint, interoperable team along with full-time uniformed men and women in the business of fighting and winning the nation's wars. The Army Reserve is no longer an add-on to military operations. Today and for the foreseeable future, Army Reserve Soldiers are engaged around the world in intelligence gathering, investigation, training, legal support, communications, postal and personnel support, engineering, mortuary services, logistic and transportation operations, medical support and civil affairs.

See table 64 for a list of the types of units exclusively or predominately in the Army Reserve.

The Army Reserve has been continuously mobilized since 1995. With the operations in Afghanistan and Iraq, the legacy force structure is being stressed in ways unanticipated or in unforeseen degree and frequency. The heavier-than-anticipated demands for specialized support services units have spread certain parts of the force thin.

The Army has initiated actions to develop a flexible, modular force structure with a proper force mix and depth to relieve the stress on certain high-demand/low-density units. The centerpiece of the change is the Army Reserve Expeditionary Force (AREF) providing expeditionary support force packages within an integrated rotational model. The AREF complements the campaign-quality combat forces.

The Army Reserve accomplishes the mission primarily through the Ready Reserve, consisting of:

- **Selected Reserve.** The Selected Reserve is the most readily available group of Army Reserve soldiers, i.e., the 205,000 endstrength ceiling in the Troop Program Units, Active Guard and Reserve Soldiers and Individual Mobilization Augmentees (IMAs).
- **Individual Ready Reserve.** The IRR includes about 115,000 trained Soldiers who may be called upon, if needed, to replace Soldiers in active and Reserve units. Many in the IRR have left active duty recently and still have a Reserve commitment; others have chosen to remain in the Army Reserve but not as a unit member or IMA.

Table 64

Army Reserve Role Within the Army

<p>The Army Reserve provides . . . 100 percent of the Army's Chemical Brigades Internment Brigades Judge Advocate General Units Medical Groups Railway Units Training and Exercise Divisions Water Supply Battalions</p>
<p>more than two-thirds of the Army's Chemical Battalions Civil Affairs Units Hospitals Medical Brigades Motor Battalions Psychological Operations Units Theater Signal Commands Transportation Groups</p>
<p>nearly half of the Army's Adjutant General Units Petroleum Battalions Petroleum Groups Public Affairs Units Terminal Battalions Transportation Command</p>
<p><i>Source: Army Reserve Homepage (http://www.armyreserve.army.mil/usar/mission/role.aspx)</i></p>

The Army Reserve budget request is in three appropriations: Military Personnel, Operation and Maintenance and Military Construction. Additionally, other Army appropriations include funds that support the Reserve, e.g., procurement appropriations for equipment acquisitions.

The Army Reserve budget and personnel summaries are in tables 65 and 66.

The Reserve Personnel Army (RPA) appropriation reduction between FY 2005 and FY 2006 is almost entirely a result of the transfer of funds for the Defense Health Program Accrual from RPA to a separate appropriation for Medicare Retirement Contribution. The Operation and Maintenance budget for FY 2006 requests of nearly \$2 billion includes \$1.8 billion for operating forces and nearly \$.2 billion for administration and

Table 65

Army Reserve Budget Summary
(*\$ millions*¹)

	FY04	FY05	FY06	FY07
Reserve Personnel, Army	3,328	3,706	3,249	3,470
Operation & Maintenance, Army Reserve	2,035	1,988	1,987	2,217
Military Construction, Army Reserve	88	101	106	164
Total²	5,451	5,795	5,342	5,851
¹ Numbers may not add due to rounding.				
² Total direct program; FY05 includes Title IX.				
Source: Army FY06 President's Budget Highlights				

Table 66

Army Reserve Personnel Highlights
*Military Endstrength (thousands)**

	FY04	FY05	FY06	FY07
Selected Reserve	204	205	205	205
Paid Drill Strength	190	190	190	189
Full-time Active Strength	14	15	15	16
Individual Ready Reserve	117	134	132	131
Technicians	8	8	8	9
Dual Status (Military/Civilian)	7	7	8	8
Other Than Dual Status (Civilian)	1	1	1	1
Other Civilians	4	3	3	3
* Excludes technicians. Numbers may not add due to rounding.				
Source: Army FY06 Budget Materials				

servicewide activities. The Military Construction budget remains essentially unchanged.

BUDGET REVIEW SUMMARY

The President's Budget includes a request of \$98.6 billion in FY 2006 and \$110.1 billion in FY 2007 for the Army; the FY 2005 proposal was \$99.6 billion prior to the "bridge" supplemental Emergency Wartime Appropriation (Title IX of the Conference Report). The FY 2004

data in the President's Budget is actual expenditures and therefore includes supplemental appropriations.

The Secretary of the Army summed up his opinion of the FY 2006 budget submissions to the House Armed Services Committee as follows:

With these four overarching strategies and twenty supporting initiatives in conjunction with a fully funded base budget request and supplemental, the Chief and I are confident that the Army can accomplish its mission and reach our strategic goal of being ready and relevant both today and tomorrow.¹⁵

The Army Budget, like all budgets, is a plan. The budget presents future activities, programs and operations, along with an estimate of the resources necessary to implement the plan. In the federal budgeting system, a statutory directive prohibits including requests for contingency operations in the budget. Contingency operations are unexpected, unstable or evolving situations. Budgets for contingency operations are submitted in a supplemental request during the year of execution.

The uncertainty of Operation Enduring Freedom in Afghanistan and Operation Iraqi Freedom qualify them as contingency operations. Therefore, the President's Budget for FY 2006 and FY 2007 excludes funds for OEF and OIF because these are contingency operations.

However, the current and prior-year columns of the President's Budget include all appropriated funds—including supplemental funds. The FY 2005 current-year column of the President's Budget includes the basic appropriation and the supplemental "bridge" appropriation provided by Congress, but not the larger supplemental for FY 2005 that is still pending. The FY 2004 prior-year column includes the very large supplemental. In summary, the dollars identified to the various years are not easily compared.

Table 67 provides the President's Budget for FY 2006 with the FY 2005 "bridge" supplemental separated from the initial, base appropriations.

The Army's goal is to provide ready and relevant forces to meet both immediate and future security needs. The GWOT and the uncertainty of future security challenges

¹⁵ Secretary of the Army Francis J. Harvey, Opening Statement (As Prepared) of Honorable Francis J. Harvey and General Peter J. Schoomaker, Before the House Armed Services Committee, Washington, D.C., 9 February 2005.

President's Budget FY 2006—Army
 (\$ billions ¹)

	FY04 Actuals	FY05 Appropriated	FY05 with Title IX ²	FY06 PB ³ Request	FY07 PB Request
Military Personnel (MILPERS)	49.0	39.0	40.0	41.4	43.3
Operation and Maintenance (O&M)	62.4	31.8	45.4	31.8	33.1
Procurement	14.7	13.1	13.1	11.8	13.5
Research, Development, Test & Evaluation (RDT&E)	10.2	10.5	10.6	9.7	10.3
Military Construction (MILCON)	2.0	2.2	2.5	1.9	2.4
Army Family Housing (AFH)	1.5	1.6	1.4	1.4	1.1
Chemical Demilitarization	1.5	1.4	1.4	—	—
Other	—	—	—	—	5.0
Total⁴	141.3	99.6	114.4	98.0	108.7

¹ Numbers may not add due to rounding.
² Emergency Wartime Appropriation (Title IX of the Conference Report).
³ President's Budget.
⁴ Totals exclude BRAC, ERA and Army Working Capital Fund.

Source: Army FY06 President's Budget Highlights

require land forces capabilities that were not generally anticipated before the 9/11 attacks. The Army recognizes the national security challenges and the importance of transformation. The Army Budget continues to support the intellectual as well as the organizational transformation of the Army—even as the Army wages war.

The FY 2006 budget requests funds for the Army to provide ready and relevant forces and capabilities to combatant commanders as part of joint forces now as well as in the future. The budget provides funds for developing, acquiring, assimilating, training and using next-generation capabilities—spiraling those capabilities into current systems as soon as available. The budget includes infrastructure initiatives to enable the force to fulfill its strategic roles and missions.

The FY 2006 budget includes funds for quality-of-life initiatives for Soldiers and their families. The budget also reflects cost reductions in infrastructure resulting from plans to streamline organizations; reengineer manufacturing, repair and administrative processes; outsource if appropriate; apply information technology; and empower leaders to make the required changes and hold them accountable.

In actual dollars, the FY 2006 budget requests \$1.6 billion, or 1.6 percent less than the FY 2005 appropriated level. Additionally, the FY 2006 request will have less buying power as a result of price adjustments for the 3.1 percent military pay raise, the 2.3 percent civilian pay raise, inflation and program growth. The program growth refers to program changes that result in the requirement for additional funds to implement changes in program levels.

At the budget group level, Military Personnel increases from FY 2005 to FY 2006 by more than 6 percent, which includes funds for pay raises and program growth, including Basic Allowance for Housing associated with Residential Communities Initiative program shifting from government-owned (and Army Family Housing-funded) to contractor housing. The Operation and Maintenance amount is the same for both years, which means the appropriations are absorbing the civilian pay raise and inflation. The other four appropriation groups are all down for a total of \$2.6 billion, i.e., Procurement is off by 9.9 percent, RDT&E is off by 7.6 percent, Military Construction is off by 13.6 percent and AFH is off by 12.5 percent.

All of this suggests that implementing the cost reduction plans in the baseline budget is very important.

CONCLUSION

America is at war and will likely remain at war for some years to come. The nation, the joint forces and the Army are fighting an unconventional enemy in a Global War on Terrorism. The future strategic environment is uncertain, but it will likely include state and non-state aggressors that are willing to wage unconventional and continuous war against the United States.

The Army's statutory mission is to prepare, maintain and sustain relevant and ready land forces for the combatant commanders. Currently, the Army is fielding a significant portion of the forces to the combatant commanders for conducting the GWOT. In the future, the Army will likely provide a significant portion of the forces for unconventional and sustained operations.

To accomplish its mission, the Army is developing and executing four overarching and interrelated strategies supported by 20 different initiatives. These strategies are:

- providing relevant, ready landpower to the combatant commanders;
- training and equipping Soldiers to serve as warriors and growing adaptive leaders;
- attaining a quality of life for Soldiers and their families that matches the quality of their service; and
- providing the infrastructure to enable the force to fulfill its strategic roles and missions.

Transformation is integral to the strategies and supporting initiatives. The Army Budget for FY 2006/2007 simultaneously supports the transformation toward the Future Force and sustains the Army at war. This includes pursuing transformational capabilities for the Future Force and, as soon as possible, spiraling next-generation capabilities into the current force.

The Army is rapidly adapting the force to fight in uncertain and largely unforeseeable circumstances against state and non-state enemies that are willing to use whatever means available to them. The Army is recreating itself into a joint and expeditionary force with campaign qualities; this includes improving its agility, its versatility, its range of capabilities and its ability to sustain operations over a long period of time.

The Army is conducting wartime operations and aggressively pursuing a number of interrelated initiatives to produce a joint and expeditionary force with campaign qualities, including

- modular forces built around brigade combat team units of action;
- restructuring 100,000 positions by FY 2011 to increase high-demand skills and units; and
- rebalancing the AC and RC unit mix to move early-deploying units and more of certain high-demand units into the active component to reduce the need to mobilize reserve units early in a conflict.

With these actions, the Army is increasing the pool of BCT units from 33 to 43 active, a 30 percent increase in combat power by the end of FY 2006. The Army is increasing the total force pool (active and reserve components) from 48 to 77 BCTs. This large pool of BCT units permits a rotational schedule with active units capable of deploying to a theater of operations once every three years and reserve component units capable of deploying once every six years.

The Army budget substantially improves capability to mount smaller, shorter-duration operations routinely as well as larger or more protracted campaigns.

Appendix I

GLOSSARY OF BUDGET TERMS

Appropriation is the specific authority to obligate and expend funds provided for in appropriation bills, which are prepared by the appropriation committees, passed by Congress and signed into law by the President. Appropriations are provided in line-item detail. The time over which monies may be obligated is specified, varying from one year for personnel and operation and maintenance to two years for research, development, test and evaluation and three years (normally) for procurement and construction (extended to five years for shipbuilding).

Authorization is substantive legislation that provides the authority for an agency to carry out a particular program. Authorization may be annual, for a specified number of years, or indefinite. Most national defense activities require annual authorization before Congress may appropriate funds.

Budget authority (BA) is the authority to enter into obligations that will result in the payment of government funds. Budget authority is normally provided in the form of appropriations. The defense budget as presented to Congress is expressed in terms of budget authority.

Constant dollars measure the value of purchased goods and services at price levels that are the same as the base or reference year. Constant dollars do not reflect adjustments for inflationary changes that have occurred or are forecast to occur outside the base year.

Current or “then year” dollars are the dollar figures in the budget (or in the accounting records) actually associated with the stated date (past, present or projected). When a price or cost is stated in current dollars, it contains all inflationary increases expected to occur in a program over the duration of the spendout of an appropriation. Current dollars are also called “then year” dollars or “budget” dollars.

Deficit is the amount by which outlays exceed receipts. The reverse is called “surplus.”

The Department of Defense (DoD) Budget, which carries the Federal Account Number 051, includes funding of DoD itself. The budget that comes under the jurisdiction of the Secretary of Defense, it is frequently referred to as the “Pentagon budget.”

Discretionary spending is what the President and Congress must decide to spend for the next fiscal year through 13 annual appropriation bills. Two of the annual appropriation bills (the Department of Defense Appropriation Bill and the Military Construction Appropriation Bill) pertain to the Department of Defense.

Emergency spending is spending which the President and Congress have designated as an emergency requirement. Such spending is not subject to limits established on discretionary spending or “pay-as-you-go” rules established for direct (mandatory) spending.

Entitlement authority is a provision of law that legally obligates the federal government to make specified payments to any person or government that meets the eligibility requirements established by that law. Example: Social Security.

Fiscal year (FY) is the federal government’s accounting period. It begins 1 October and ends 30 September, and is designated by the calendar year in which it ends.

Gross domestic product (GDP) measures the market value of all goods and services produced during a particular period by individuals, businesses and government in the United States, whether they are U.S. or foreign citizens or American-owned or foreign-owned firms. GDP is currently used as the most reliable indicator of U.S. economic activity.

Gross national product (GNP) measures the market value of all goods and services produced during a particular period by U.S. individuals, businesses and government, including income earned by U.S.-owned corporations overseas and by U.S. residents working abroad but excluding income earned in the United States by residents of other nations.

National Defense Budget, which carries the Federal Account Number 050 as a designator, includes not only the Department of Defense (military) budget, but also funding for defense-related activities of the Department of Energy (primarily weapons activities and related support) and miscellaneous military activities of federal agencies.

Obligations are binding agreements that will result in outlays, immediately or in the future.

Outlays are the measure of government spending. They are the payments actually made for goods and services and interest payments during a particular year. These payments (outlays) lag obligations because of the sequential cycle of congressional appropriations, contracting, placing orders, receiving goods or services and (finally) making payments.

Receipts are collections from taxes or other payments to the federal government.

Supplemental appropriation is enacted subsequent to a regular annual appropriations act when the need for funds is too urgent to be postponed until the next regular annual appropriation act.

Total Obligational Authority (TOA) is a DoD term that includes the total value of the direct program regardless of the method of financing. As a practical matter TOA totals in the aggregate do not differ significantly from budget authority (BA). TOA is used in managing the service budgets, as it is the most accurate reflection of program value. The differences are attributed principally to offsetting receipts, such as recoveries from foreign military sales, and financing adjustments. For example, application of sales receipts will increase TOA but not BA. Legislation transferring unobligated funds for which the purpose has changed are reflected in the BA with no effect on TOA.

Appendix II

THE BUDGET PROCESS

This appendix provides a summarized description of the budget process at the national (federal) level.

The overall process has three fundamental phases: formulation; subsequent actions by Congress and the President to provide a legally executable budget; and actual execution.

The entire cycle is a continuum. While the last approved budget is being executed, the next budget is undergoing review and approval in Congress. When passed by Congress and signed by the President, it becomes the Budget of the United States for the following fiscal year. Concurrently, formulation of the next budget for submission to Congress is taking place within the departments and agencies.

For purposes of this paper, we will focus primarily on formulation and the review and approval aspects of the cycle.

The Budget of the United States

First is a review of the overall process at the national level, followed by a description of actions within the Department of Defense (DoD) providing the DoD part of the President’s Budget.

From an overall perspective, this process has a lead time of at least nine months before formal submission to Congress and 18 months before the fiscal year actually begins. In the spring, the President establishes general budget and policy guidelines while the Office of Management and Budget (OMB), working with federal departments and agencies, establishes policy directives and levels covering the budget year plus the four following years.

The budget calendar for major budget events during the review and approval process is summarized in the figure below.

Most agencies submit budget requests to OMB in the fall, followed by a review of details and resolution of issues. For the Department of Defense, the OMB review is concurrent with the review in the

Budget Calendar	
Date	Action
Between first Monday in January and first Monday in February	Transmission of the President's Budget to Congress
April 15	Action on the congressional budget resolution scheduled for completion
May 15	House consideration of annual appropriations bills may begin
June 15	Action on reconciliation scheduled for completion
June 30	Action on appropriations by the House scheduled for completion
Throughout this period	Hearings; committee reports; reconciliation by conference committees; floor votes; appropriate bills; more floor votes; more floor votes; signature or veto by the President
October 1	Fiscal year begins
Post-October 1	Continuing resolution if all appropriations bills not yet signed

Office of the Secretary of Defense (OSD) during the September-to-December period. By the end of December, all decisions are complete, including issues requiring involvement by the President or other White House policy officials. The budget is then finalized and budget documents prepared. This is now the President's Budget.

Transmittal to Congress is scheduled by law on or after the first Monday in February of each year. As a practical matter, this has been an early February event, and additional delays sometimes occur in special cases such as a new President.

Congress receives the budget proposals and approves, modifies or disapproves them. Through the process of a budget resolution, it agrees on levels for total spending, receipts and other matters. This resolution provides the framework for congressional committees to prepare the required appropriations bills. In so doing, Congress votes on budget authority—the authority to incur legally binding authorizations of the government. In a separate process, Congress usually enacts legislation that authorizes agencies to carry out particular programs and may limit the amounts that can be appropriated for various programs. Normally, authorizations precede appropriations, but this is not always the case.

The Congressional Act of 1994 requires that Congress consider budget totals before completing action on the separate appropriations. To do this, the budget committees formulate a budget resolution setting levels for budget authority, both in total and by functional areas (such as national defense, energy, transportation, etc.). The budget resolution is scheduled for adoption by the whole Congress by April 15, but delays are frequent. This resolution allocates amounts to the appropriations committees that have jurisdiction over the programs, and these committees are required, in turn, to allocate amounts to their respective subcommittees. Budget resolutions are not laws and do not require presidential approval.

The appropriations committees in both the House and Senate are divided into subcommittees that hold hearings and review detailed budget justification in their jurisdictional areas. Appropriations bills are initiated in the House. After a bill has been approved by the committee and the whole House, it is forwarded to the Senate, where a similar review takes place. When disagreements occur between the two houses of Congress, a conference committee meets to resolve these differences. The report of the conference committee is returned to both houses for approval. It then goes to the President as an enrolled bill for approval or veto.

If actions on one or more appropriations bills are not completed by the beginning of the fiscal year (October 1), Congress enacts a continuing resolution to authorize continued operations at some designated level for a specified time, pending a regular appropriation. Continuing resolutions require presidential approval and signature.

So far, the actions described pertain to annual appropriations included in 13 separate appropriations bills. These apply to what is described as discretionary spending because of the need for annual budget authority by Congress. While the majority of federal programs are dependent on annual appropriations, the discretionary portion covers only about one-third of annual federal outlays. The rest of federal expenditures come from budget authority in permanent laws which do not need to be reenacted annually. This applies to the large entitlement programs and the interest on the public debt, which are funded by permanent law. Therefore, the majority of outlays in a year are not controlled through separate appropriations actions for the year. The terms used are “discretionary” for the annual appropriations and “direct spending” for those based on permanent laws.

Congress may enact new legislation or change existing legislation relating to direct spending, but need take no action on an annual basis, in which case the spending continues in accordance with existing law. Without legislative change, it is on automatic pilot.

For more information on the budget process at the federal level, see *A Citizen's Guide to the Federal Budget, Fiscal Year 2002* and *A Brief Introduction to the Federal Budget Process*, Congressional Research Report 96-912, updated October 20, 1997.

The Department of Defense Budget Process

Agencies of the U.S. government submit and justify budget packages for inclusion in the President's Budget. The Department of Defense budget is an important segment of the discretionary funding portion.

The DoD budget submitted for inclusion in the President's Budget is a product of its Planning, Programming and Budgeting System (PPBS). DoD prepares a Future Years Defense Program (FYDP) spanning six years; the FYDP is periodically updated. The first for the FYDP is the basis for the next budget requiring congressional action. Actually, a two-year budget is prepared in even-numbered years, but Congress acts on only one year at a time, and the second year's budget is updated and resubmitted the following year.

The specific calendar of events varies somewhat from year to year, but the basic cycle goes something like this:

Defense Fiscal Guidance (DFG) provided in March is followed by revised programs from the services. This is in the form of a Program Objective Memorandum (POM) each service provides to OSD in May or early June. The OSD review leads to a Program Decision Memorandum (PDM) in August/September. In the meantime, budgets for the next fiscal year are being prepared based on OSD guidance and directives. Budget Execution Submissions (BESs) are made to OSD by the beginning of October, and the DoD budget now undergoes a detailed review within OSD.

The October-to-December review is actually a joint review by OSD and OMB. Decisions are made through a series of Program Decision Memoranda under supervision of a senior review panel, the Defense Resources Board. After the Secretary of Defense makes final decisions on major issues, the budget is presented to OMB and the President for final review and incorporation into the President's Budget.

With OMB and presidential approval, the backup documentation for submission to Congress is completed and the DoD budget request (now part of the President's Budget) is delivered in early February.

Next comes the congressional justification, review and approval period, ending with the authorization and appropriations bills, passed by Congress and signed by the President. Ideally, all this is completed by the beginning of the fiscal year on October 1. If not, operations continue with an appropriate Continuing Resolution. A schematic of the basic flow is shown in the figure on page 98.

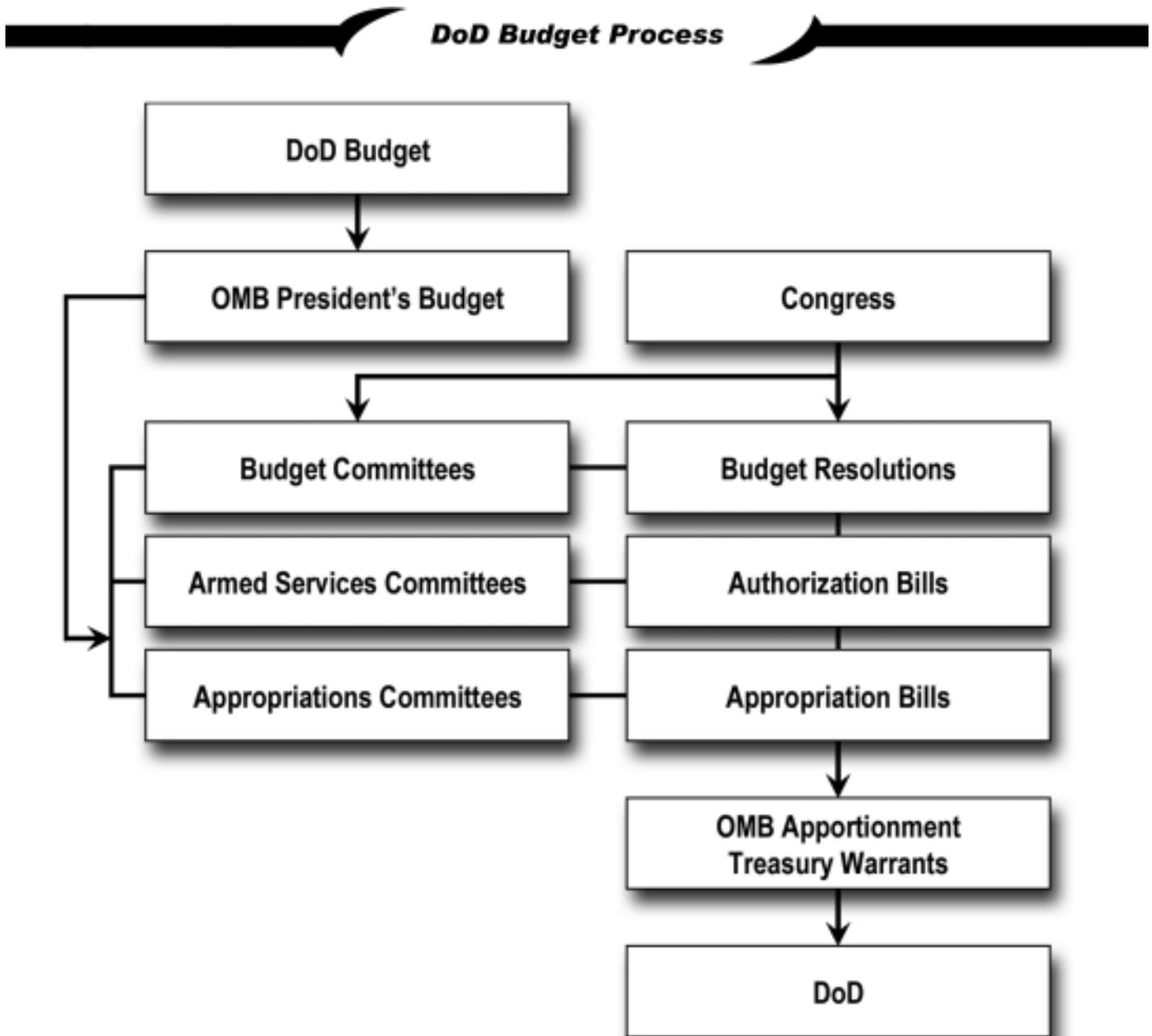
After a series of hearings, Congress provides both authorization and appropriations bills. While authorization is important for program approvals, it is the appropriations bills that provide DoD with the authority to obligate funds and make payments (outlays) against these obligations.

Appropriations for the Department of Defense are covered by two separate bills: the Military Construction Appropriations Bill, which addresses Military Construction and Family Housing, and the Department of Defense Appropriations Bill for all other DoD appropriations. These bills incorporate a number of individual appropriations covering Military Personnel, Operation and Maintenance, Procurement, RDT&E (Research, Development, Test and Evaluation), Military Construction and Family Housing. They are identified in the appropriations bills by title and military service.

At the start of the new fiscal year, providing the bills are passed and signed by the President, the execution phase begins. Before funds can be obligated, however, OMB must apportion the funds to DoD and Treasury warrants must be issued. DoD, in turn, subapportions for further allocation to operating agencies.

The services play a subordinate role to DoD in all of this, in both the formulation and justification of their respective portions of the DoD budget. All the services conform to the same calendar and procedures with respect to the DoD budget process.

At any one time a number of concurrent actions involving different budgets are occurring. Using the Department of the Army (DA) as an example, the present budget-related actions look something like this: DA is executing the FY 2005 budget that extends through September 2005 while concurrently justifying its portion of the FY 2006 Army budget in Congress. At the same time DA is also engaged in the Pentagon in updating the program through FY 2012 and getting ready for the next Army budget proposal to DoD. This remains a dynamic, ongoing process.



Appendix III

GLOSSARY OF ACRONYMS

AAFES	Army & Air Force Exchange Service	BCT	Brigade Combat Team
AAWS-M	Advanced Antitank Weapon System-Medium	BCTP	Battle Command Training Program
AC	Active Component	BEA	Bureau of Economic Analysis
ACS	Aerial Common Sensor	BES	Budget Execution Submission
ACSIM	Assistant Chief of Staff for Installation Management	BIT/BITE	Built-In Test/Built-In Test Equipment
ACU	Army Combat Uniform	BLIN	Budget Line Item Number
ADDS	Army Data Distribution System	BLOS	Beyond-Line-of-Sight
AEF	Air and Space Expeditionary Force	BMD	Ballistic Missile Defense
AFH	Army Family Housing	BOS	Base Operations Support
AFOM	Army TACMS Family of Munitions	BRAC	Base Realignment and Closure
AGR	Active Guard and Reserve	C4I	Command, Control, Communications, Computers, Intelligence
AIM	Abrams Integrated Management	C4ISR	Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance
AMD	Air Missile Defense	CA	Civil Affairs
AMSA	Area Maintenance Support Activities	CATS	Combined Arms Training Strategy
AMRAAM	Advanced Medium-Range Air-to-Air Missile	CBO	Congressional Budget Office
AP3	Army Power-Projection Program	CBP	Customs and Border Protection
APG	Aberdeen Proving Ground (Maryland)	CBRNE	Chemical, Biological, Radiological, Nuclear and Explosive
APS	Army Prepositioned Stocks	CCP	Chaplain Candidate Program
AREF	Army Reserve Expeditionary Force	CCIT	Close Combat Tactical Trainer
ASM	Armored Systems Modification	CERFP	CBRNE Enhanced Response Force Package
AT	Annual Training	CONOPS	Concept of Operations
ATACMS	(or Army TACMS) Army Tactical Missile System	CONUS	Continental United States
ATAS	Advanced Tank Armament System	COOP	Continuity of Operations Plan
ATC	Army Training Center or Aberdeen Test Center (Maryland)	COSIS	Care of Supplies in Storage
AWCF	Army Working Capital Fund	CRA	Continuing Resolution Act
BA	Budget Authority	CROP	Container Roll-in/Out Platform
BAH	Basic Allowance for Housing	CS	Combat Support
BASOPS	Base Operations	CSA	Chief of Staff, Army
		CSS	Combat Service Support
		CST	Civil Support Team

CTC	Combat Training Center	HHS	(Department of) Health and Human Services
DA	Department of the Army	HIMARS	High Mobility Artillery Rocket System
DBOF	Defense Business Operations Fund	HMMWV	(or Humvee) High-Mobility Multi-purpose Wheeled Vehicle
DCGS-A	Distributed Common Ground System-Army	HPSP	Health Professional Scholarship Program
DEM/VAL	Demonstration/Validation	HST	Home Station Training
DFAS	Defense Finance and Accounting Service	IAIP	Information Analysis and Infrastructure Protection
DFG	Defense Fiscal Guidance	IAV	Interim Armored Vehicle
DHP	Defense Health Program	ICH	Improved Cargo Helicopter
DHPA	Defense Health Program Accrual	IDT	Inactive Duty Training
DHS	Department of Homeland Security	IED	Improvised Explosive Device
DLI	Defense Language Institute	IGPBS	Integrated Global Presence and Basing Strategy
DLR	Depot-Level Repairable	IMA	Individual Mobilization Augmentee
DoD	Department of Defense	IMC	Industrial Mobilization Capacity
DSCS	Defense Satellite Communications System	IOC	Initial Operational Capability
DWCF,A	Defense Working Capital Fund, Army	IOT	Initial Operational Testing
EPG	Electronic Proving Ground	IPT	Integrated Project Team
ERA	Environmental Restoration, Army	IRR	Individual Ready Reserve
ESSM	Evolved Seasparrow Missile	ISR	Intelligence, Surveillance and Reconnaissance
FCS	Future Combat Systems	JAGC	Joint Air Ground Center
FHIF	Family Housing Improvement Fund	JASSM	Joint Air-to-Surface Standoff Missile
FHTV	Family of Heavy Tactical Vehicles	JDAM	Joint Direct Attack Munition
FICA	Federal Insurance Contribution Act, i.e., Social Security	JLENS	Joint Land Attack Cruise Missile Defense Elevated Netted Sensor System
FMTV	Family of Medium Tactical Vehicles	JPATS	Joint Primary Aircraft Training System
FRP	Fleet Response Plan	JSOW	Joint Standoff Weapon
FUDS	Formerly Used Defense Site	JTAMDO	Joint Theater Air and Missile Defense Organization
FY	Fiscal Year	JTRS	Joint Tactical Radio System
FYDP	Future Years Defense Plan	LACMD	Land Attack Cruise Missile Defense
GDP	Gross Domestic Product		
GIG-BE	Global Information Grid Bandwidth Expansion		
GMD	Ground-Based Midcourse Defense		
GNP	Gross National Product		
GWOT	Global War on Terrorism		

LCS	Littoral Combat Ship	NLOS-L	Non-Line of Sight Launcher
LMSR	Large, Medium-Speed Roll-on/ Roll-off	NNSA	National Nuclear Security Administration
LOS	Line-of-Sight	NPS	Non-prior Service
LUH	Light Utility Helicopter	NSPS	National Security Personnel System
MCA	Military Construction, Army	O&M	Operation and Maintenance
MCAR	Military Construction, Army Reserve	OCIE	Organizational Clothing and Individual Equipment
MCARNG	Military Construction, Army National Guard	OEF	Operation Enduring Freedom
MEADS	Medium Extended Air Defense System	OIF	Operation Iraqi Freedom
MFO	Multinational Force and Observers	OMA	Operation and Maintenance, Army
MFP	Major Force Program	OMAR	Operation and Maintenance, Army Reserve
MFOM	MLRS Family of Missiles	OMB	Office of Management and Budget
MHPI	Military Housing Privatization Initiatives	OMNG	Operation and Maintenance, Army National Guard
MILCON	Military Construction	OPA	Other Procurement, Army
MILPERS	Military Personnel	OPA1	Other Procurement, Tactical and Support Vehicles
MILSTAR	Military Strategic/Tactical Relay	OPA2	Other Procurement, Communications and Electronics
MIS	Market Impact Study	OPA3	Other Procurement, Other Support Equipment
MLRS	Multiple Launch Rocket System	OPM	Office of Personnel Management
MOS	Military Occupational Specialty	OPTEMPO	Operating Tempo
MOSQ	Military Occupational Specialty Qualified	OSD	Office of the Secretary of Defense
MPA	Military Personnel, Army or Military Personnel Allowance	PAC-3	Patriot Advanced Capability-3
MRTFB	Major Range and Test Facility Base	PAM	Portfolio and Asset Management
MTS	Movement Tracking System	PB	President's Budget
MUOS	Mobile User Objective System	PCS	Permanent Change of Station
NATO	North Atlantic Treaty Organization	PE	Program Elements
NAVSTAR	Navigation System Using Time and Ranging	PDM	Program Decision Memorandum
NCOES	Noncommissioned Officer Education System	PERSTEMPO	Personnel Tempo
NGPA	National Guard Personnel, Army	PIP	Product Improvement Program
NIPRNet	Nonsecure Internet Protocol Router Network	PNVS	Pilot Night Vision Sensor
NLOS-C	Non-Line of Sight Cannon	PO	Project Office
		POL	Petroleum, Oils and Lubricants
		POM	Program Objective Memorandum

PPBS	Planning, Programming and Budgeting System	SOF	Special Operations Forces
PS	Prior Service	SRM	Sustainment, Restoration and Modernization
PSYOP	Psychological Operations	SROTC	Senior Reserve Officer Training Corps
PT	Personnel Transformation	SSTS	Sustainment System Technical Support
PVT	Production Verification Testing	TADS	Target Acquisition Designation Sight
QDR	Quadrennial Defense Review	TF	Task Force
R&D	Research and Development	TIF	Targeted Infrastructure Protection
R&S	Reconnaissance and Surveillance	TOA	Total Obligational Authority
RAM	Rolling Airframe Missile	TPU	Troop Program Unit
RC	Reserve Component	TRICARE	Department of Defense Triple-option Health Care Program
RCI	Residential Communities Initiative, also known as the 1996 Military Housing Initiative	TSC	Terrorist Screening Center
RCOH	Refueling Complex Overhaul	TUAV	Tactical Unmanned Aerial Vehicle
RDA	Research, Development and Acquisition	UA	Unit of Action
RDT&E	Research, Development, Test and Evaluation	UAV	Unmanned Aerial Vehicle
RECAP	Recapitalization	UCOFT	Unit Conduct of Fire Trainer
REF	Rapid Equipping Force	UPC	Unutilized Plant Capacity
RFI	Rapid Fielding Initiative	USAKA/RTS	U.S. Army Kwajalein Atoll/Ronald Reagan Ballistic Missile Defense Test Site
ROTC	Reserve Officer Training Corps	USC	United States Code
RPA	Reserve Personnel, Army	USSOCOM	U.S. Special Operations Command
RSTA	Reconnaissance, Surveillance and Target Acquisition	USSTRATCOM	U.S. Strategic Command
RTS	Reagan Test Site	UXO	Unexploded Ordnance
RV	Reconnaissance Vehicle	WCMD	Wind Corrected Munitions Dispenser
S&T	Science and Technology	WIN-T	Warfighter Information Network-Tactical
SAMAS	Structure and Manpower Allocation System	WSMR	White Sands Missile Range (New Mexico)
SAW	Squad Automatic Weapon	WTCV	Weapons and Tracked Combat Vehicles
SBCT	Stryker Brigade Combat Team	YPG	Yuma Proving Ground (Arizona)
SDB	Small Diameter Bomb		
SEAL	Sea-Air-Land (Navy special operations)		
SFW	Sensor Fuzed Weapon		
SIPRNet	Secure Internet Protocol Router Network		

Appendix IV

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