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Trends in Operation and Maintenance Spending by the Department of Defense

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Derek Trunkey

National Security Division

The research and analysis for this presentation was conducted in collaboration with Adebayo Adedeji (of CBO) and Dan Frisk (formerly of CBO).

The information in this presentation is preliminary and is being circulated to stimulate discussion and critical comment as developmental work for analysis for the Congress.

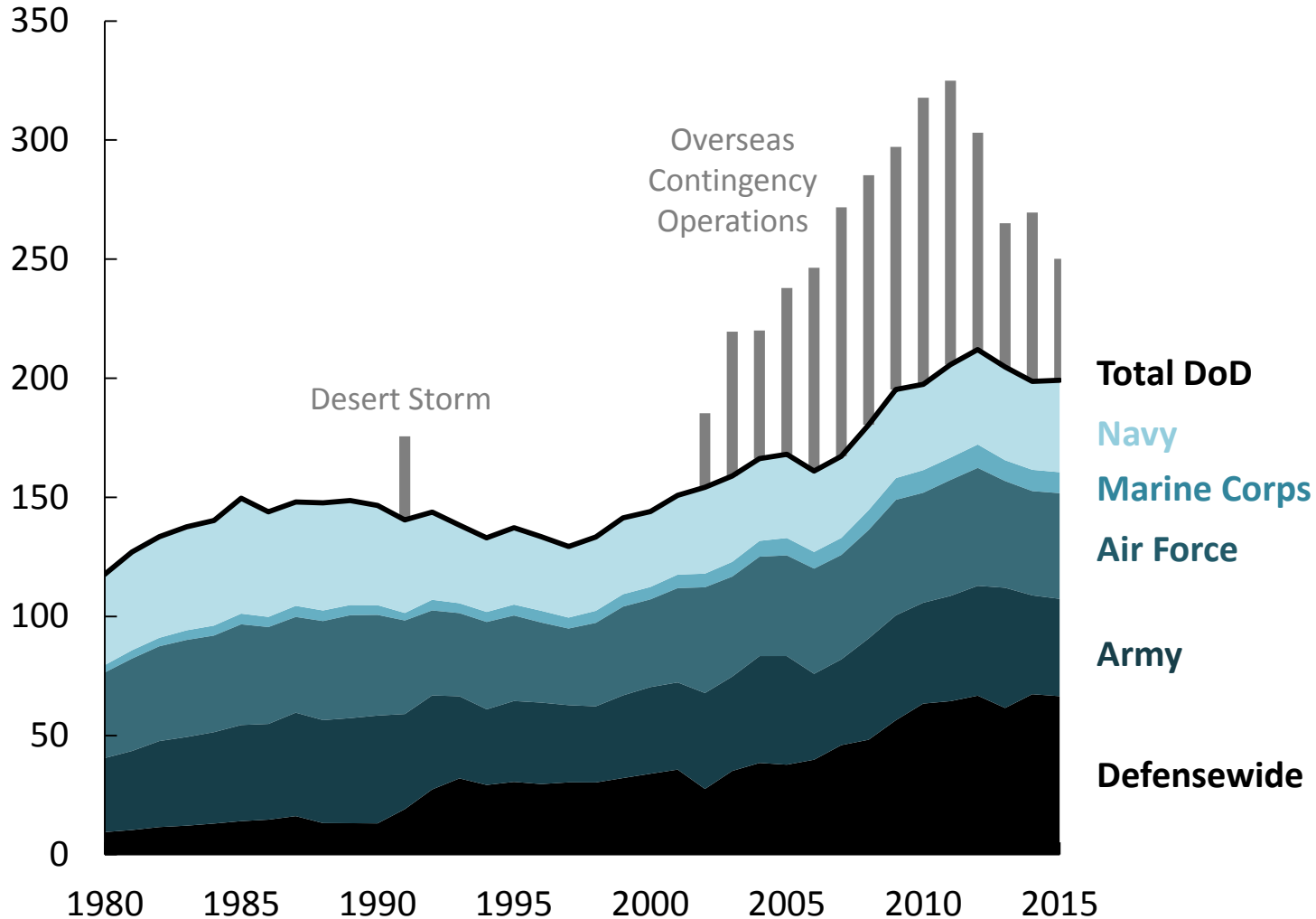
The Department of Defense's (DoD's) operation and maintenance (O&M) account, the largest single appropriation category, funds DoD's day-to-day operations, from equipment maintenance to health care.

Over the past few decades, funding for O&M has increased significantly, accounting for a growing share of DoD's budget.

O&M funding for defensewide agencies and programs has grown the most.

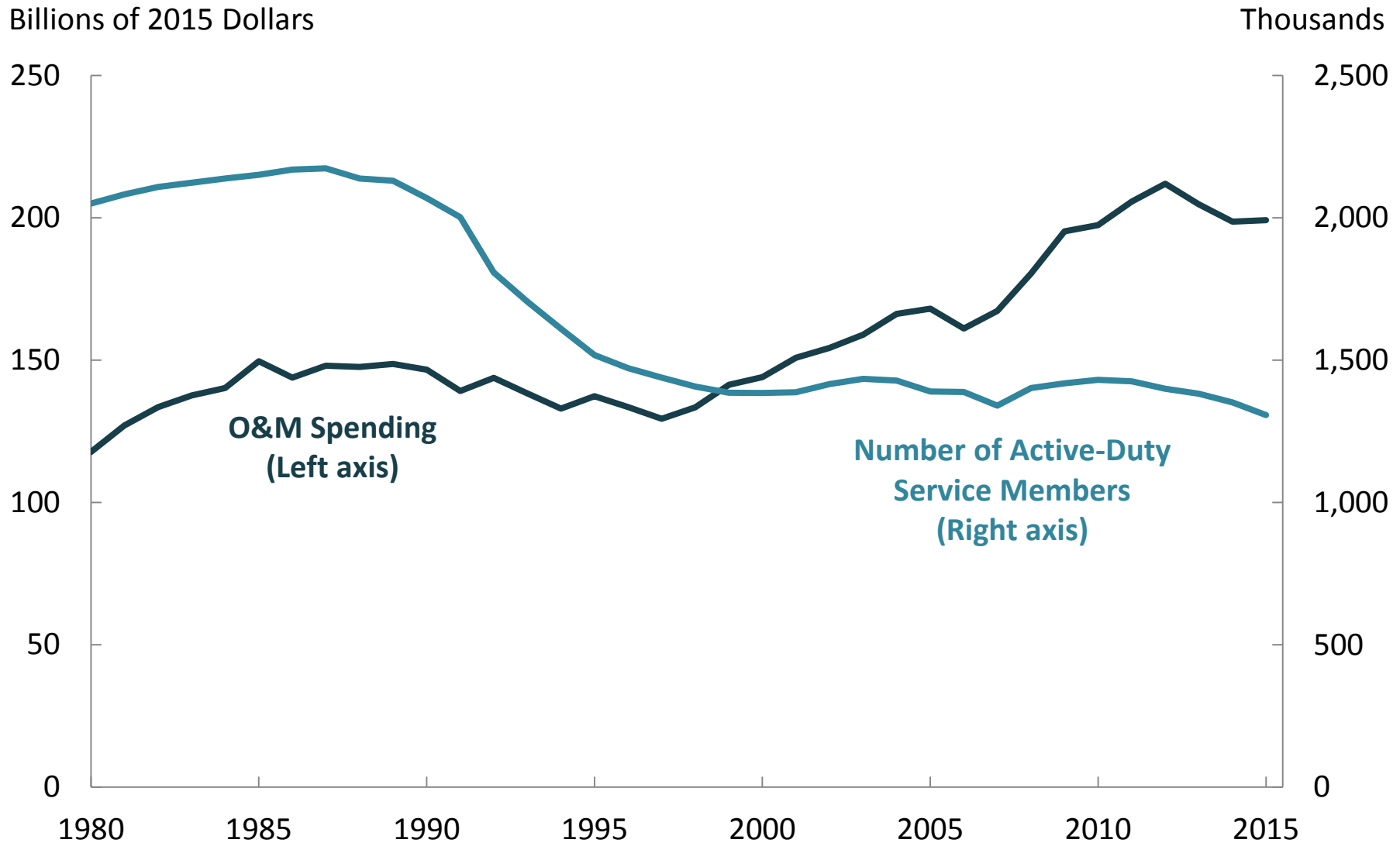
Trends in O&M Funding

Billions of 2015 Dollars



O&M funding has been increasing as measures of force size have been decreasing.

Trends in O&M Funding and Number of Active Duty Service Members



O&M funding is used to purchase thousands of different goods and services that are often purchased at relatively low cost per unit.

CBO used the subactivity groups (SAGs) in DoD's budget and their associated object class codes to group O&M funding into four categories.

The categories represent the activities supported, goods and services purchased, and source of those goods and services.

Categories CBO Used to Organize O&M Data

Category	Description	Examples
Activity or Function	The relation of the activity to combat forces	Combat forces, training, health care, administration
Commodity Class	The type of purchase	Goods, services, property-related management
Commodity	A more detailed description of the type of purchase	Maintenance, equipment, transportation, professional services
Provider	The source of the goods or services	Private sector, DoD working capital funds, nondefense government agencies and organizations, DoD's civilian employees

In the activity category, a relatively small portion of the \$198 billion in O&M funding in 2012 was for what CBO defined as forces (combat units)—\$24 billion, or 12 percent.

Nearly half of O&M funding in 2012 (\$91 billion) was for services.

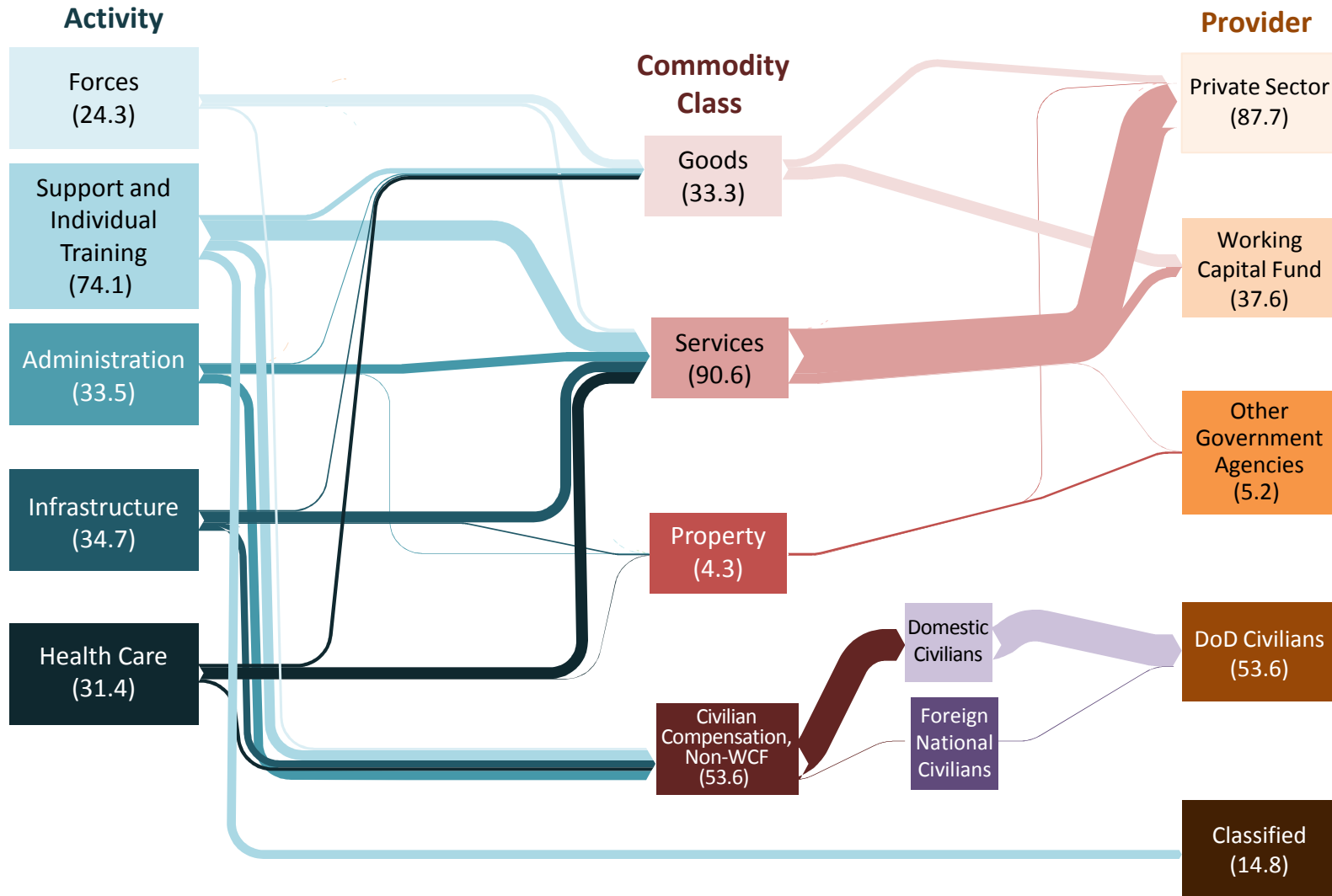
Those services include maintenance, medical services, technical and research services, and transportation.

Maintenance accounted for one-third of funding for services (\$32.4 billion).

Base Budget O&M Purchases, 2012

Billions of 2012 Dollars

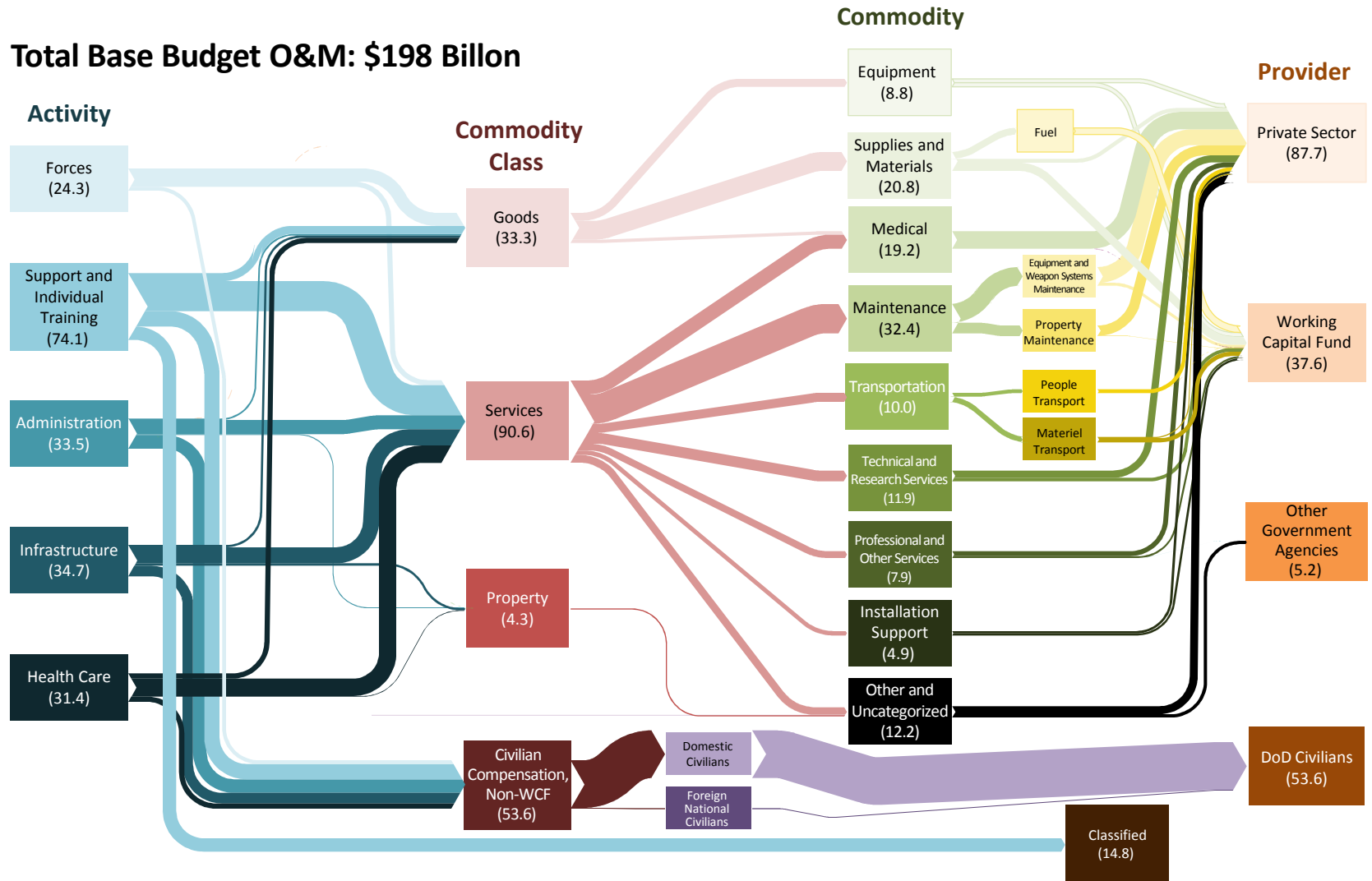
Total base budget O&M: \$198 billion



Base Budget O&M Purchases, Including Commodities, 2012

Billions of 2012 Dollars

Total Base Budget O&M: \$198 Billion



Working capital funds (WCFs), which DoD uses to carry out businesslike activities, provide a large amount of goods and services to DoD.

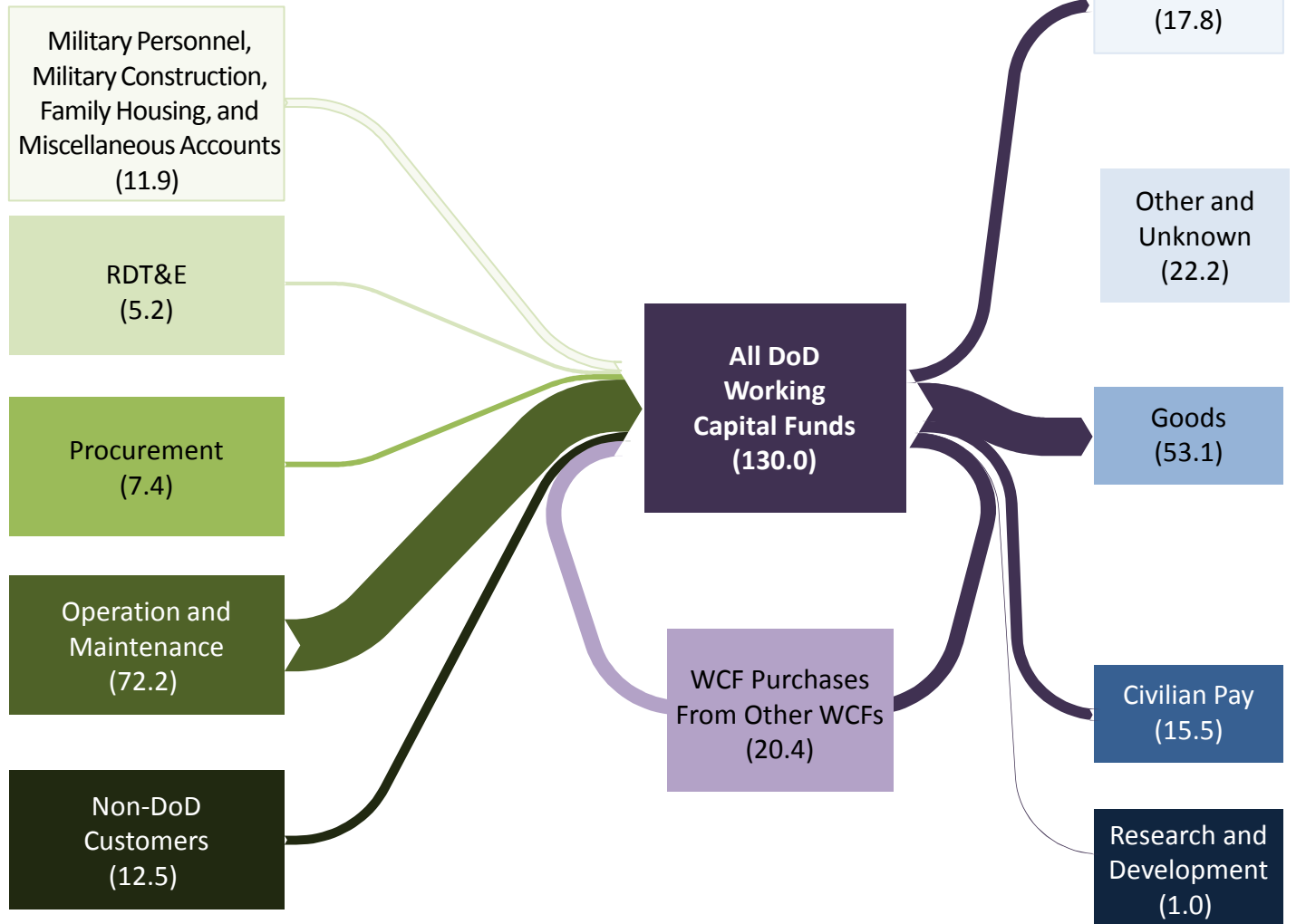
A significant portion of the revenue for WCF activities comes from O&M accounts.

In 2012, O&M accounts (including both base budget and OCO funding) provided \$72.2 billion, or 66 percent, of total WCF external revenues.

Flows of Working Capital Funds for All Appropriations, in Base Budget and OCO Funding, 2012

Billions of 2012 Dollars

Source of Revenue



CBO analyzed growth in O&M spending between 2000 and 2012.

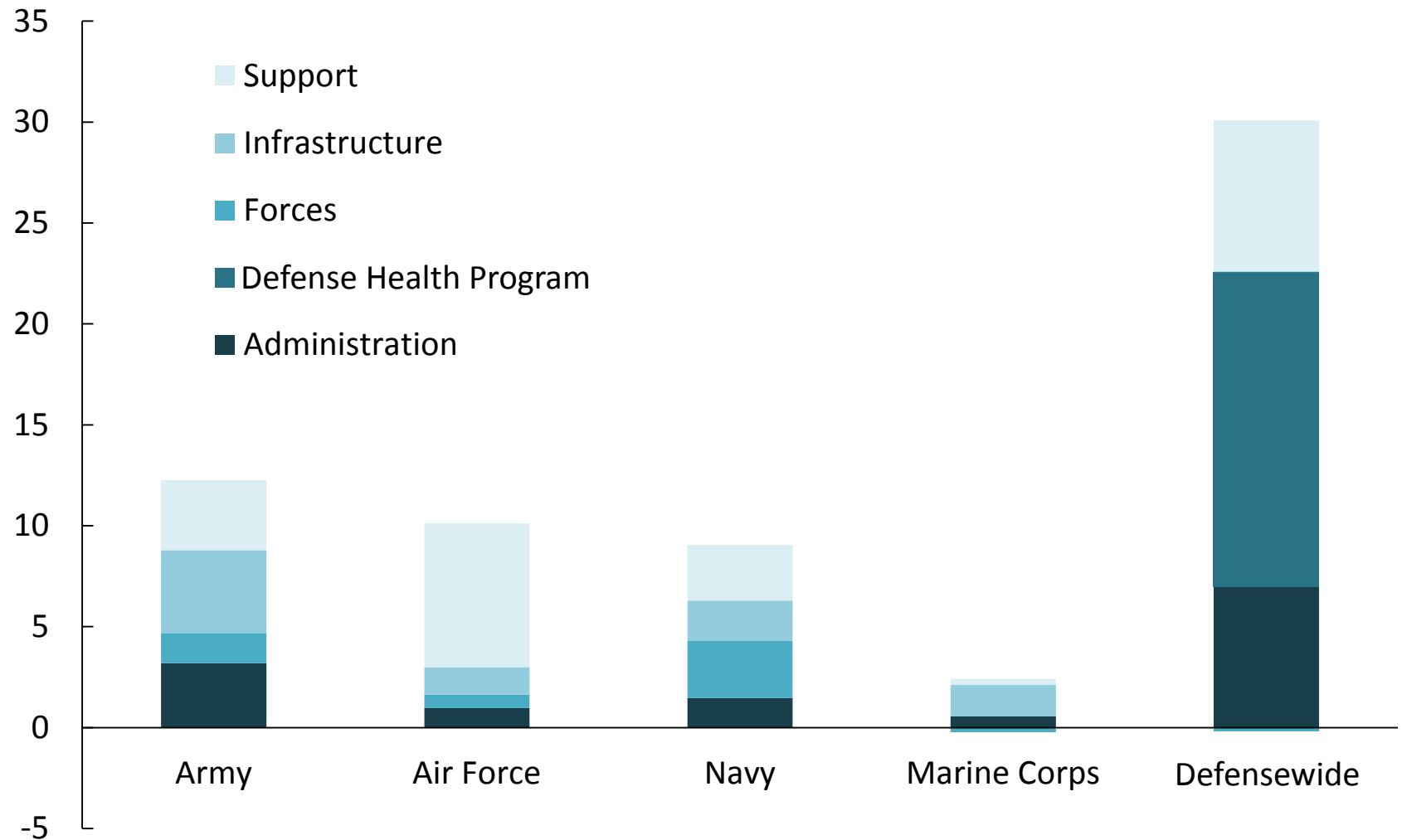
The total growth during that period was \$63 billion (47 percent), after removing the effects of inflation.

The two largest contributors to O&M growth were the Defense Health Program (DHP) and activities that support combat forces.

Among DoD's components, defensewide activities accounted for the largest share of the growth.

Growth in Base Budget O&M from 2000 to 2012 by Service, Defensewide Organizations, and Activity

Billions of 2012 Dollars

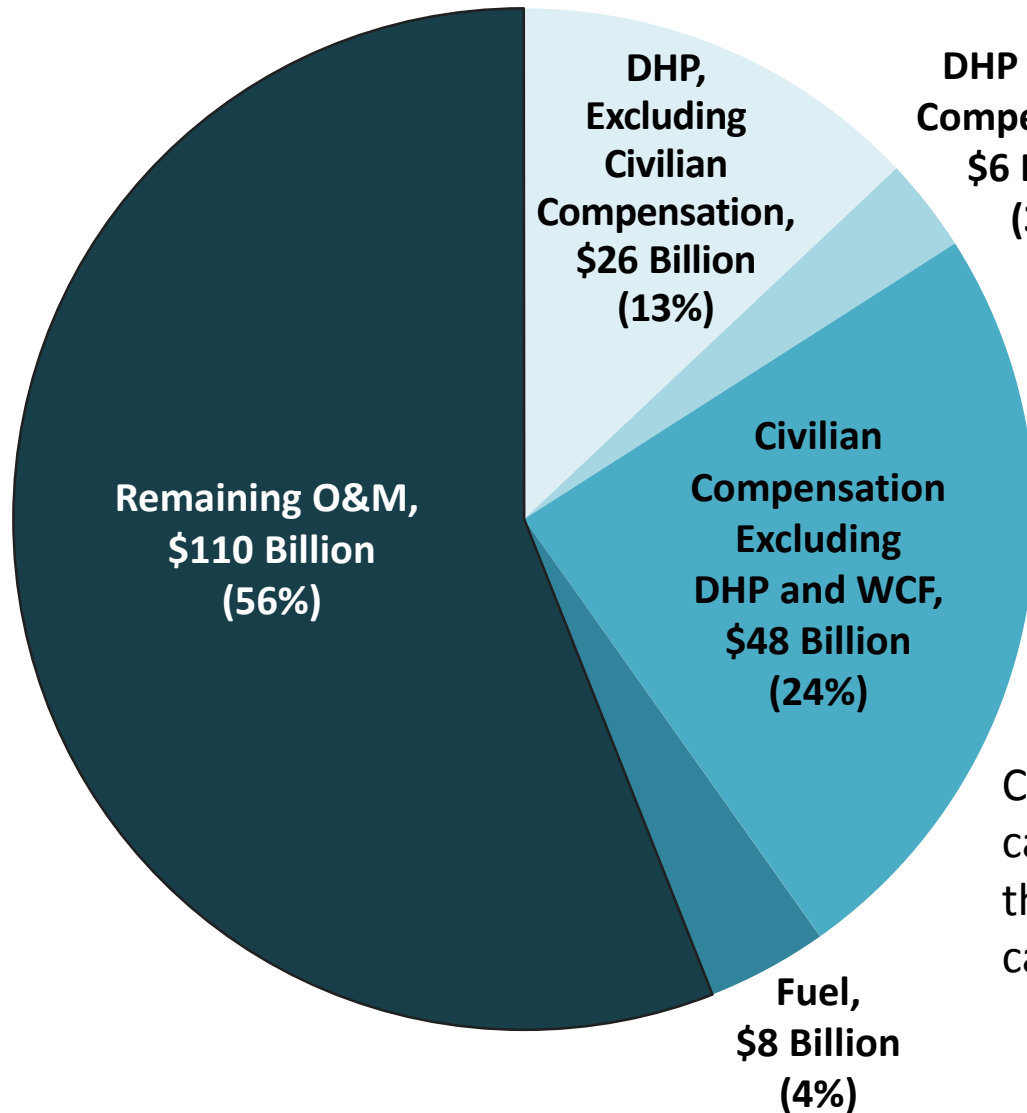


Identifying the causes of growth in O&M funding is complicated by the diverse nature of the programs and activities supported by that appropriation.

The O&M budget can be divided into a few large accounts and a collection of much smaller accounts that are more difficult to track.

O&M Funding in the 2012 Base Budget

Remaining O&M comprises many smaller categories. The causes of growth in those categories are difficult to track.



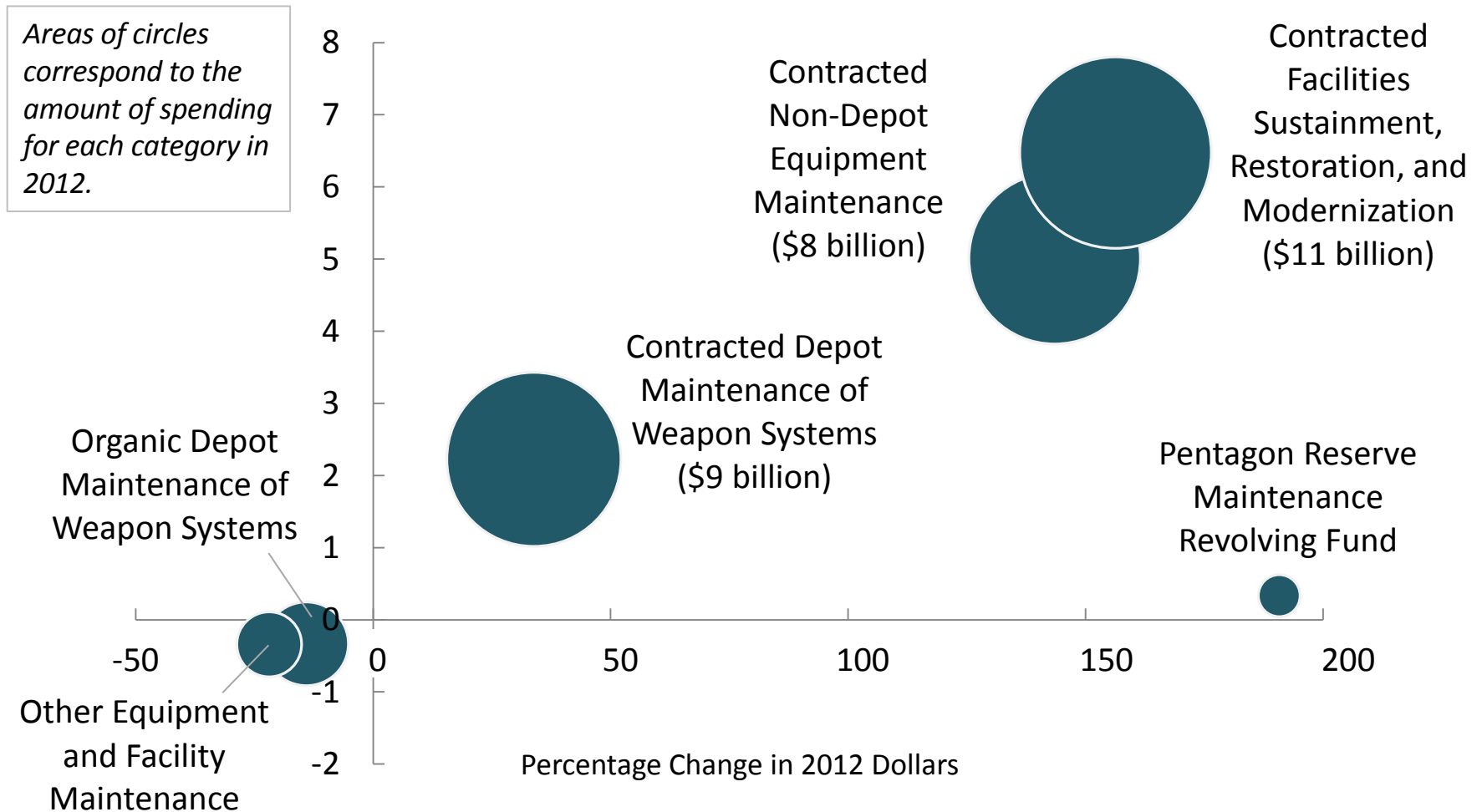
CBO can explain the causes of growth in these four large categories.

CBO can explain about half of the growth in O&M funding, including funding for the DHP and civilian compensation.

CBO is working to explain the causes of growth within the remaining O&M categories. Those with significant growth include contracted facilities maintenance and contracted equipment maintenance.

Growth in Base Budget O&M for Equipment Maintenance and Property Maintenance, 2000 to 2012

Change in Billions of 2012 Dollars



CBO's next step will be to focus on specific areas of growth such as WCFs, the cost of operating weapon systems, and training.

CBO is working with DoD to obtain better data on O&M spending for those follow-on analyses.