



Congressional Budget Office

November 16, 2016

Pressures on DoD's Budget Over the Next Decade

Presentation at the Professional Services Council
2016 Vision Federal Market Forecast Conference

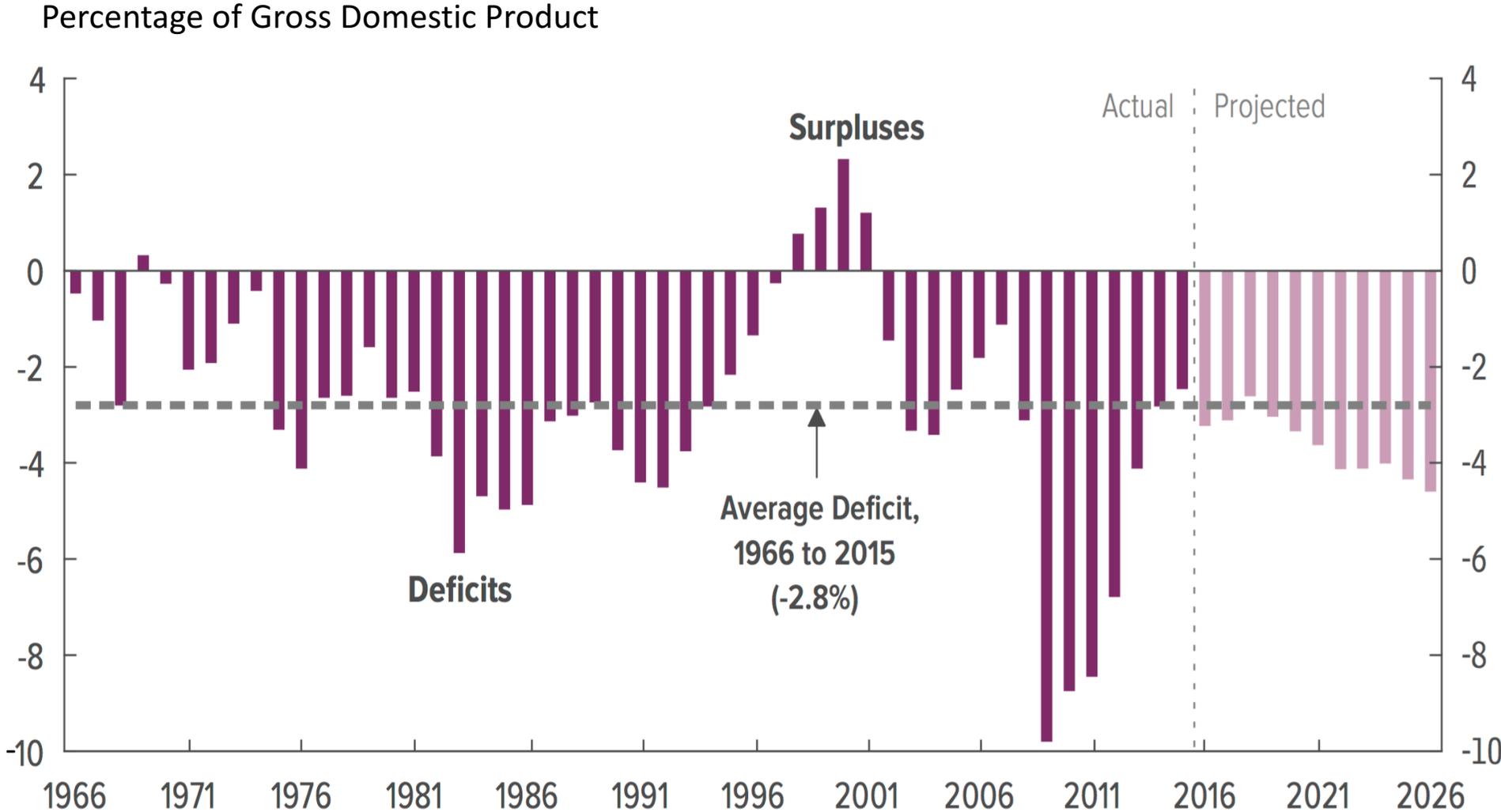
David E. Mosher

Assistant Director for National Security

Outline

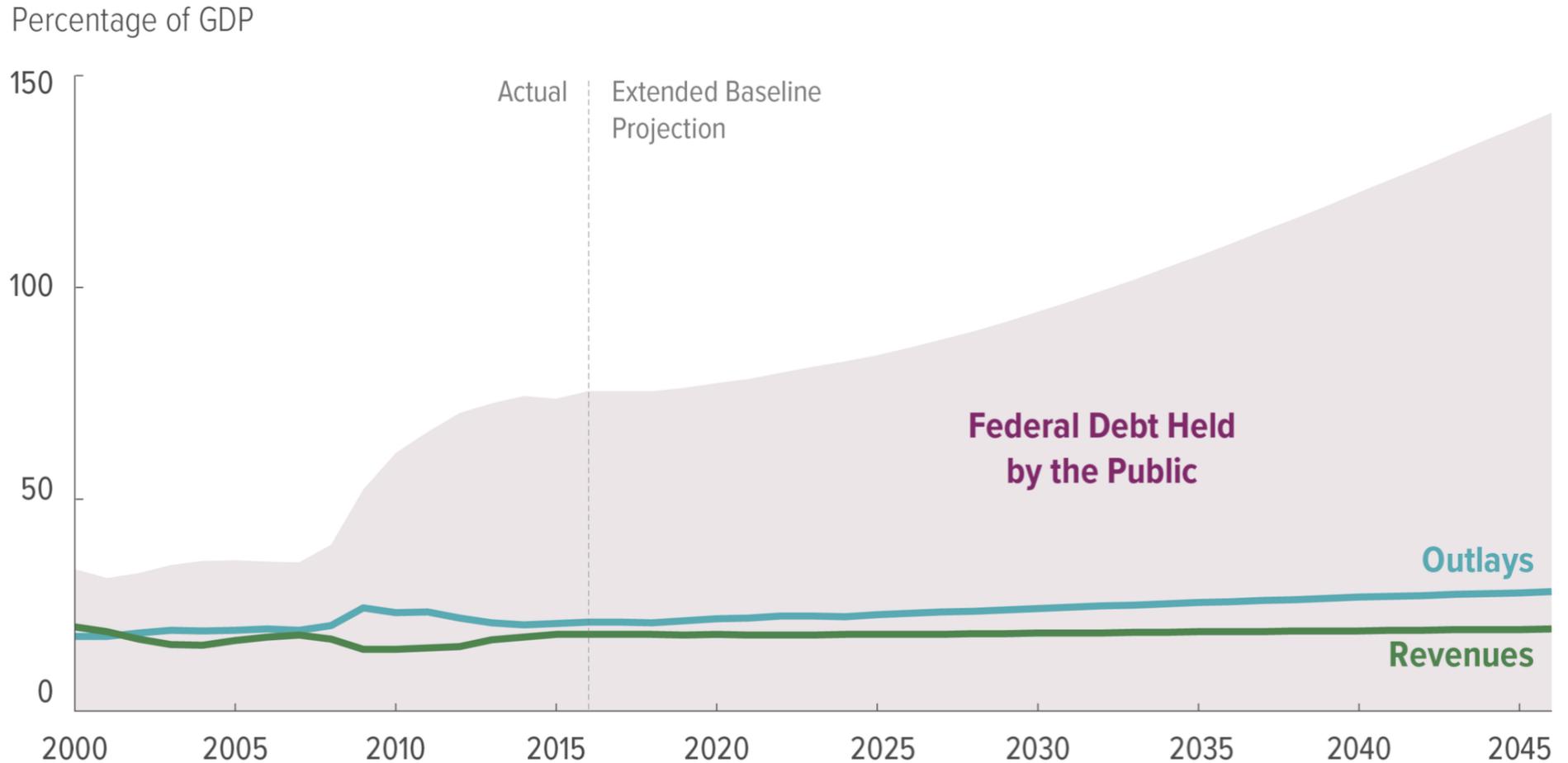
- Fiscal Situation
- Implications of Budget Control Act
- Internal Pressures on DoD's Budget

Deficits or Surpluses Under CBO's Baseline for FY 2016



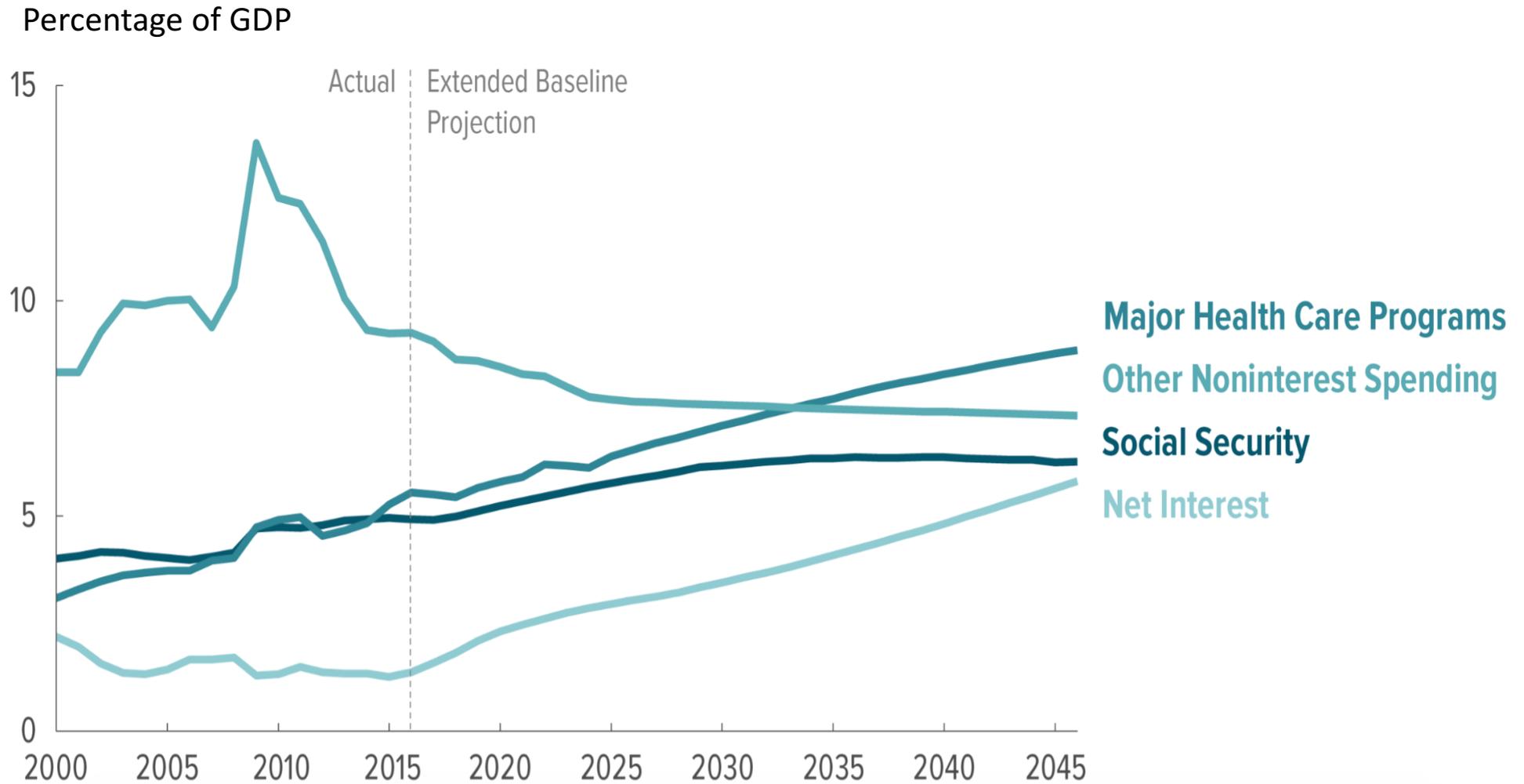
Source: Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2016 to 2026* (August 2016), www.cbo.gov/publication/51908.

Federal Debt, Spending, and Revenues Under CBO's Extended Baseline for FY 2016



Source: Congressional Budget Office, *The 2016 Long-Term Budget Outlook* (July 2016), www.cbo.gov/publication/51580.

Components of Federal Spending Under CBO's Extended Baseline for FY 2016

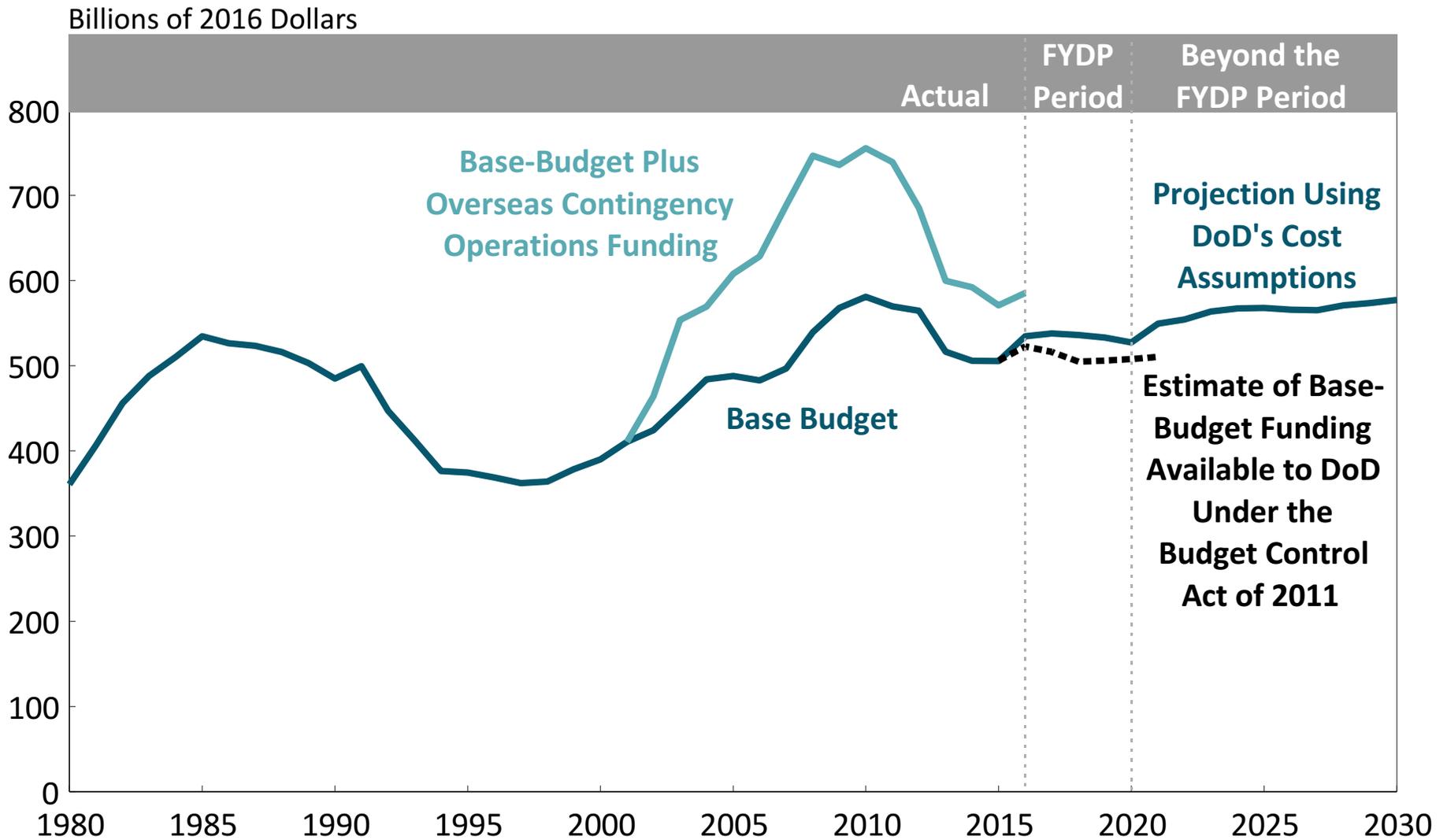


Source: Congressional Budget Office, *The 2016 Long-Term Budget Outlook* (July 2016), www.cbo.gov/publication/51580.

Outline

- Fiscal Situation
- Implications of Budget Control Act
- Internal Pressures on DoD's Budget

Costs of DoD's 2016 Plans in the Context of the Budget Control Act, as Amended



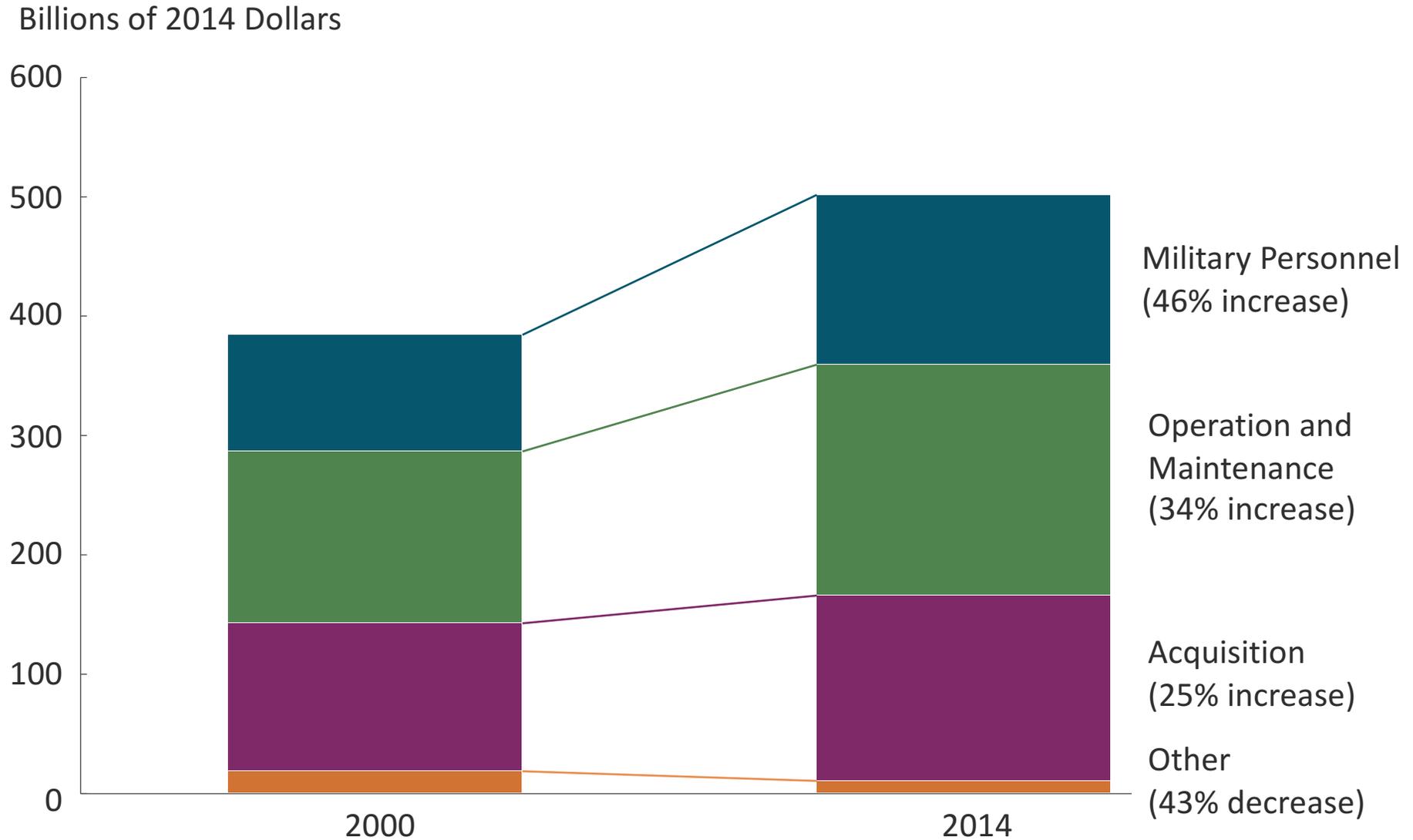
FYDP = Future Years Defense Program.

Source: Congressional Budget Office, *Long-Term Implications of the 2016 Future Years Defense Program* (January 2016), www.cbo.gov/publication/51050.

Outline

- Fiscal Situation
- Implications of Budget Control Act
- Internal Pressures on DoD's Budget

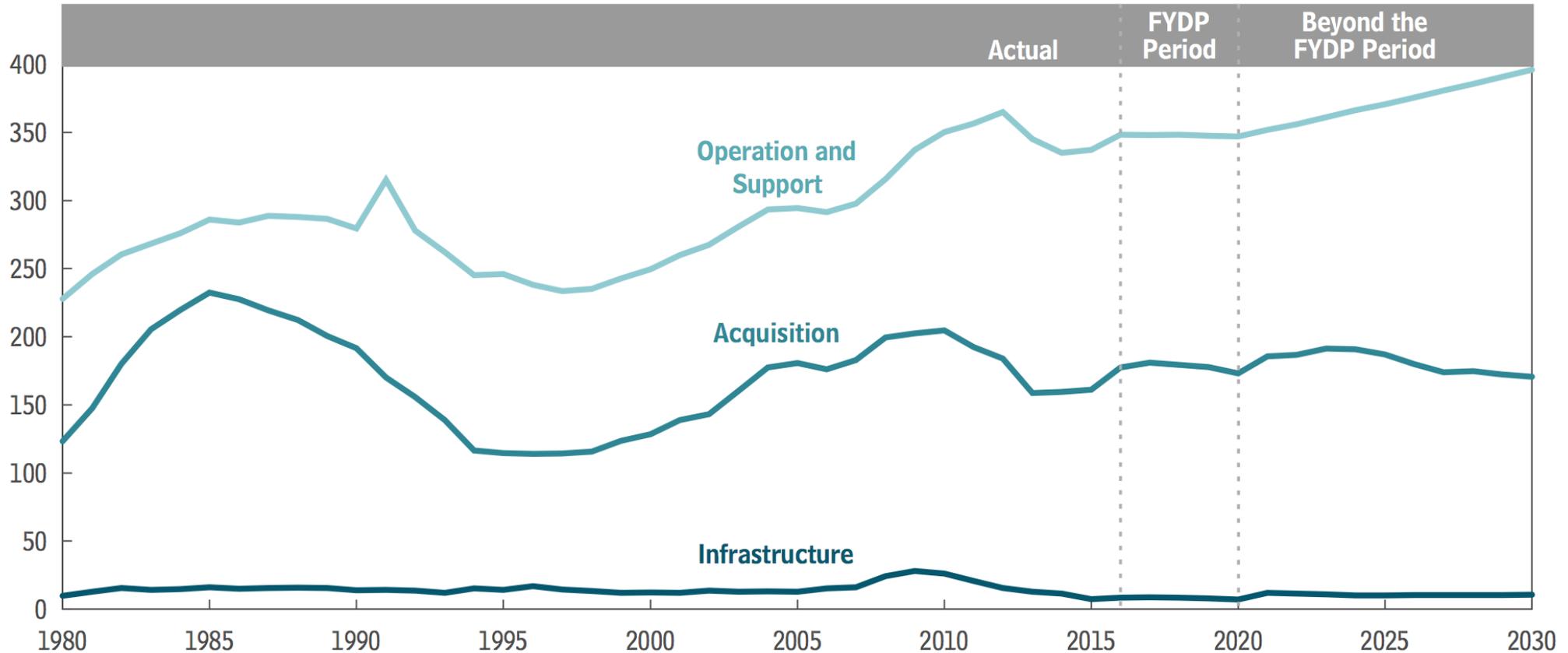
Growth in DoD's Inflation-Adjusted Base Budget, Fiscal Years 2000 and 2014



Source: Congressional Budget Office, *Growth in DoD's Budget From 2000 to 2014* (November 2014), www.cbo.gov/publication/49764.

Costs of DoD's 2016 Plans by Appropriation Category

Billions of 2016 Dollars



FYDP = Future Years Defense Program.

Source: Congressional Budget Office, *Long-Term Implications of the 2016 Future Years Defense Program* (January 2016), www.cbo.gov/publication/51050.

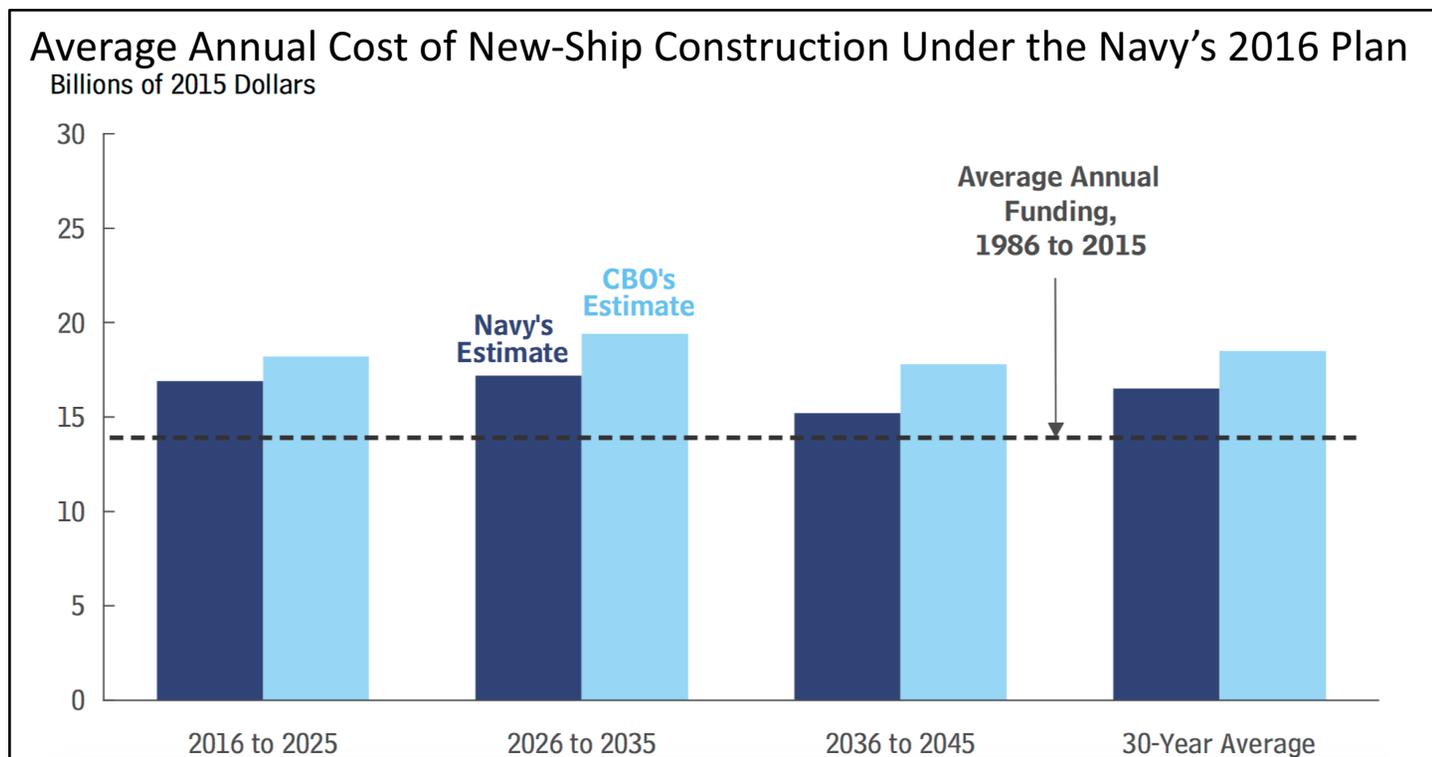
Pressure in Each of the Three Major Categories of the Defense Budget

- Costs of developing and buying weapons have been, on average, 20 percent to 30 percent higher than DoD's initial estimates
- Costs for compensation of military personnel—including their active and retired health care benefits—have been rapidly increasing since 2000
- Costs of operation and maintenance per active-duty service member have been steadily increasing since at least 1980, without including the cost of the wars in Iraq and Afghanistan

The mismatch between DoD's FYDP plans and the Budget Control Act caps is exacerbated by these internal pressures in DoD's budget

Example of Budgetary Pressure in Acquisition: The Navy's Shipbuilding Program

- CBO estimates that the 2016 shipbuilding plan will cost more than the Navy estimates
- The Navy's 2016 plan would fall short of meeting the service's inventory goal for some types of ships
- Historical average funding would be insufficient to pay for the 2016 plan

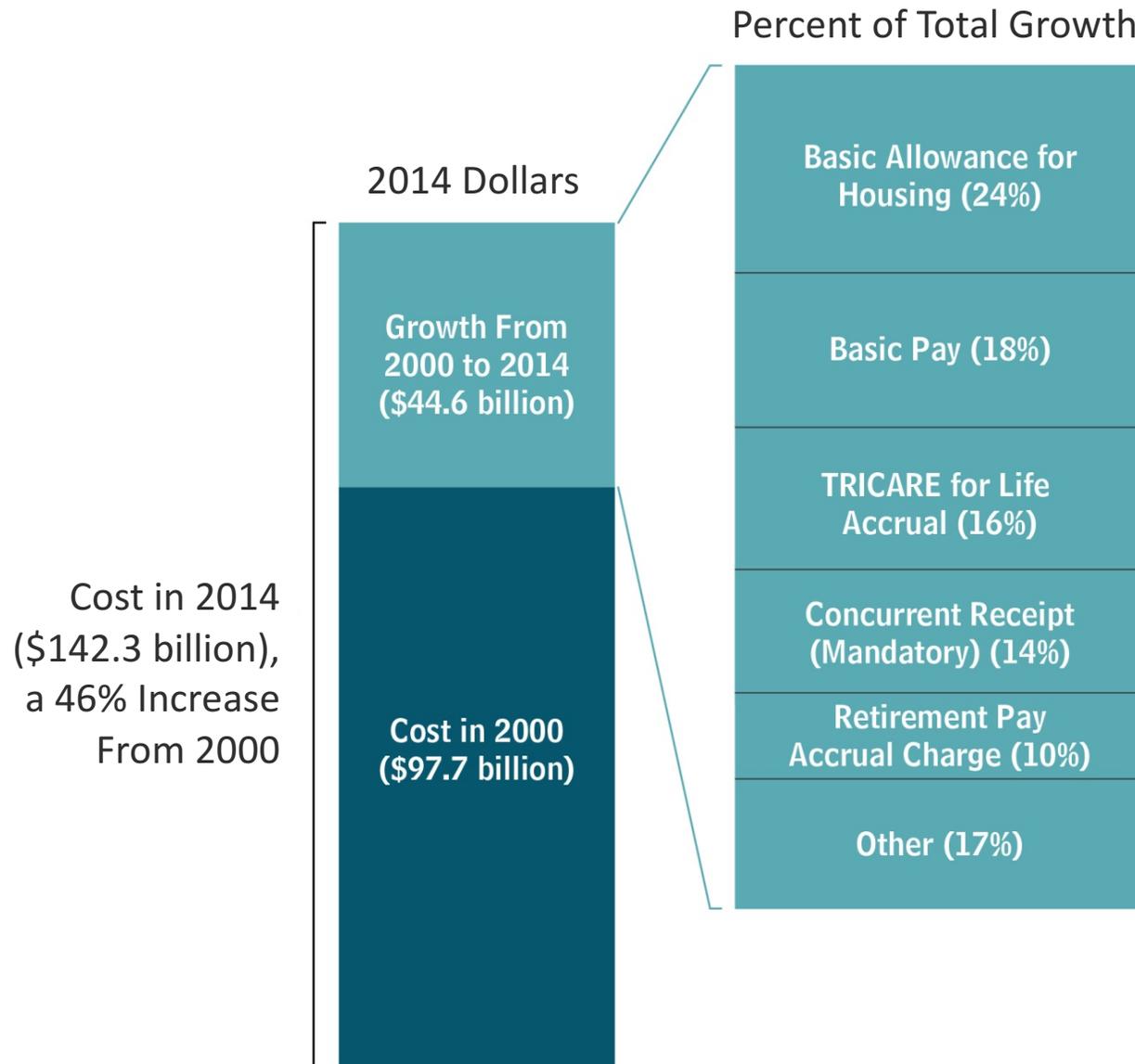


Source: Congressional Budget Office, *An Analysis of the Navy's Fiscal Year 2016 Shipbuilding Plan* (October 2015), www.cbo.gov/publication/50926.

Example of Budgetary Pressure in Military Personnel: Pay and Benefits

- Annual increases in military basic pay exceeded the percentage increase in the employment cost index (ECI) by at least 0.5% for each of the years between 2001 and 2010
 - Basic pay raises then equaled ECI for 2011 through 2013
 - In the last three years (2014–2016) basic pay raise was below the ECI
- DoD estimates that cash compensation for enlisted military personnel exceeds that of 90 percent of workers with similar education and years of experience
 - Noncash compensation (including health care and other) makes that gap larger

Sources of Growth in Military Personnel Costs, Fiscal Years 2000 to 2014



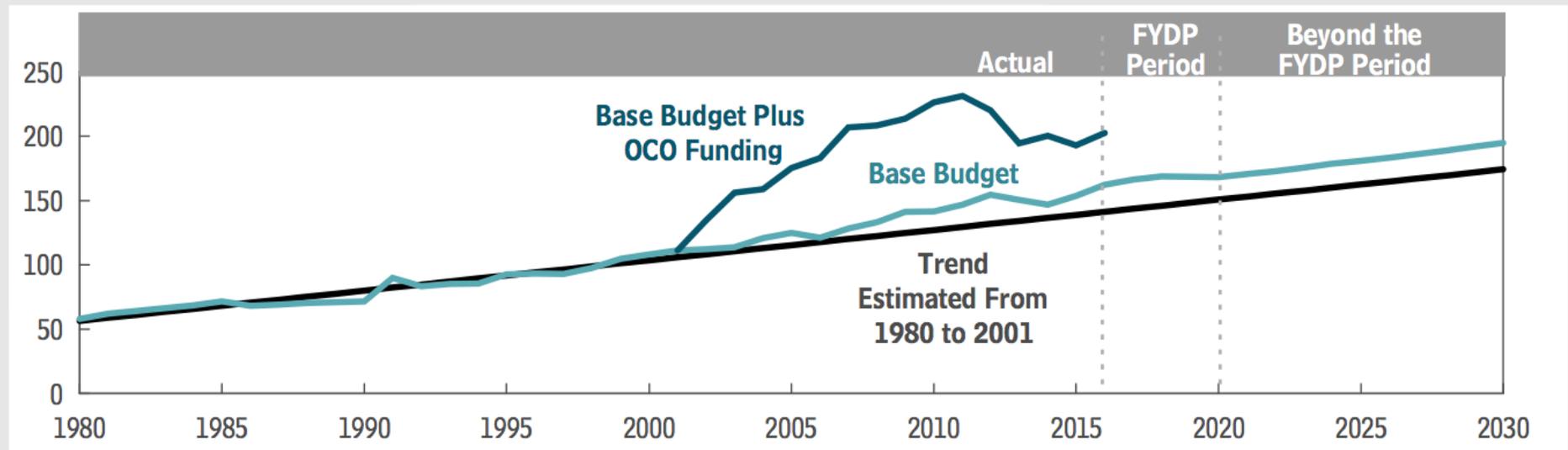
Source: Congressional Budget Office, *Growth in DoD's Budget From 2000 to 2014* (November 2014), www.cbo.gov/publication/49764.

Example of Budgetary Pressure in Operation and Maintenance: O&M per Active-Duty Service Member

- O&M pays for most DoD civilians' salaries, goods and services (below procurement thresholds), fuel, maintenance, contractor services, etc.
- Compared with the prewar (1980–2001) trend, DoD's 2016 FYDP:
 - Rises \$300 per year faster
 - Is \$20,000 per person higher in 2020

Costs of Operation and Maintenance per Active-Duty Service Member

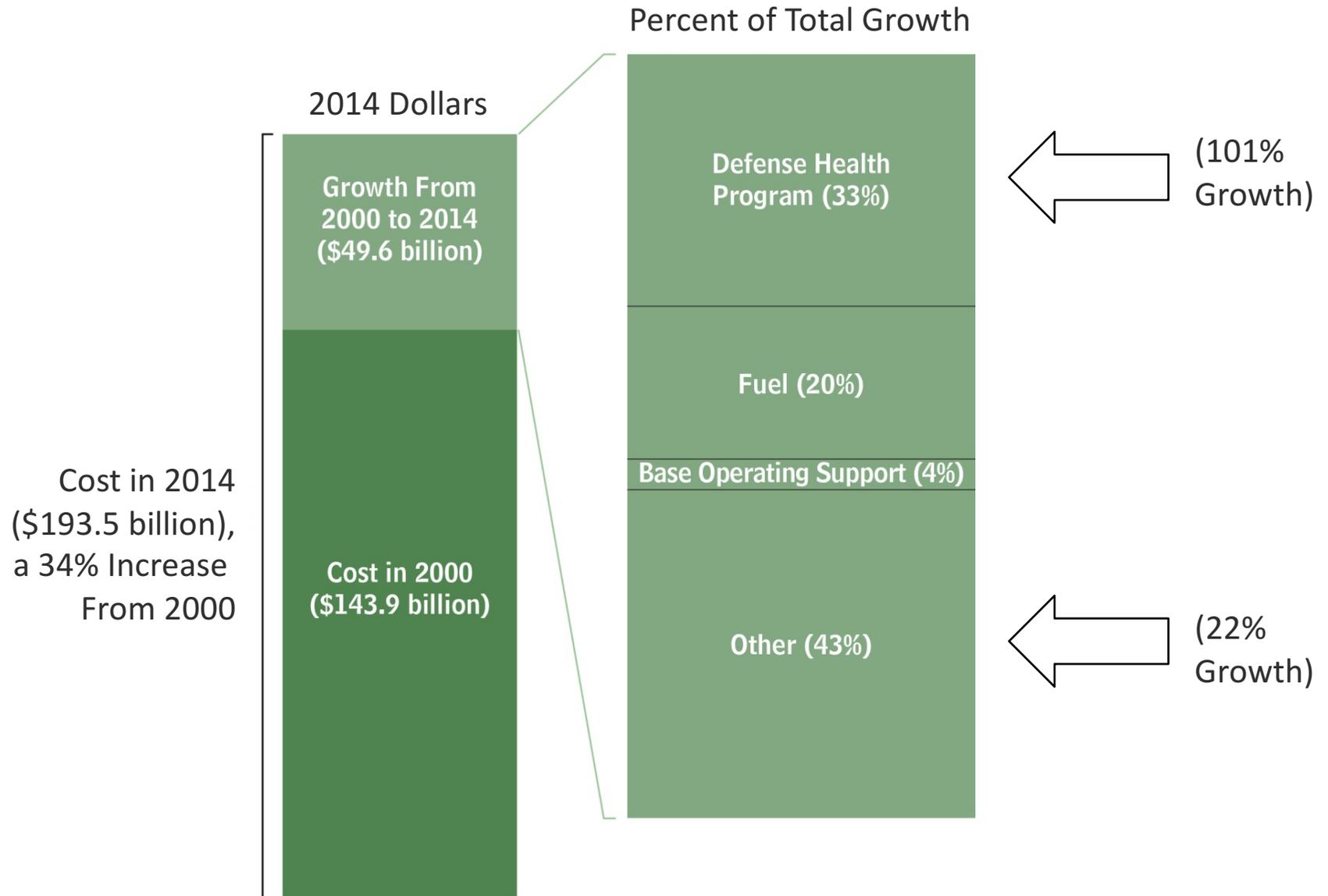
Thousands of 2016 Dollars



FYDP = Future Years Defense Program.

Source: Congressional Budget Office, *Long-Term Implications of the 2016 Future Years Defense Program* (January 2016), www.cbo.gov/publication/51050.

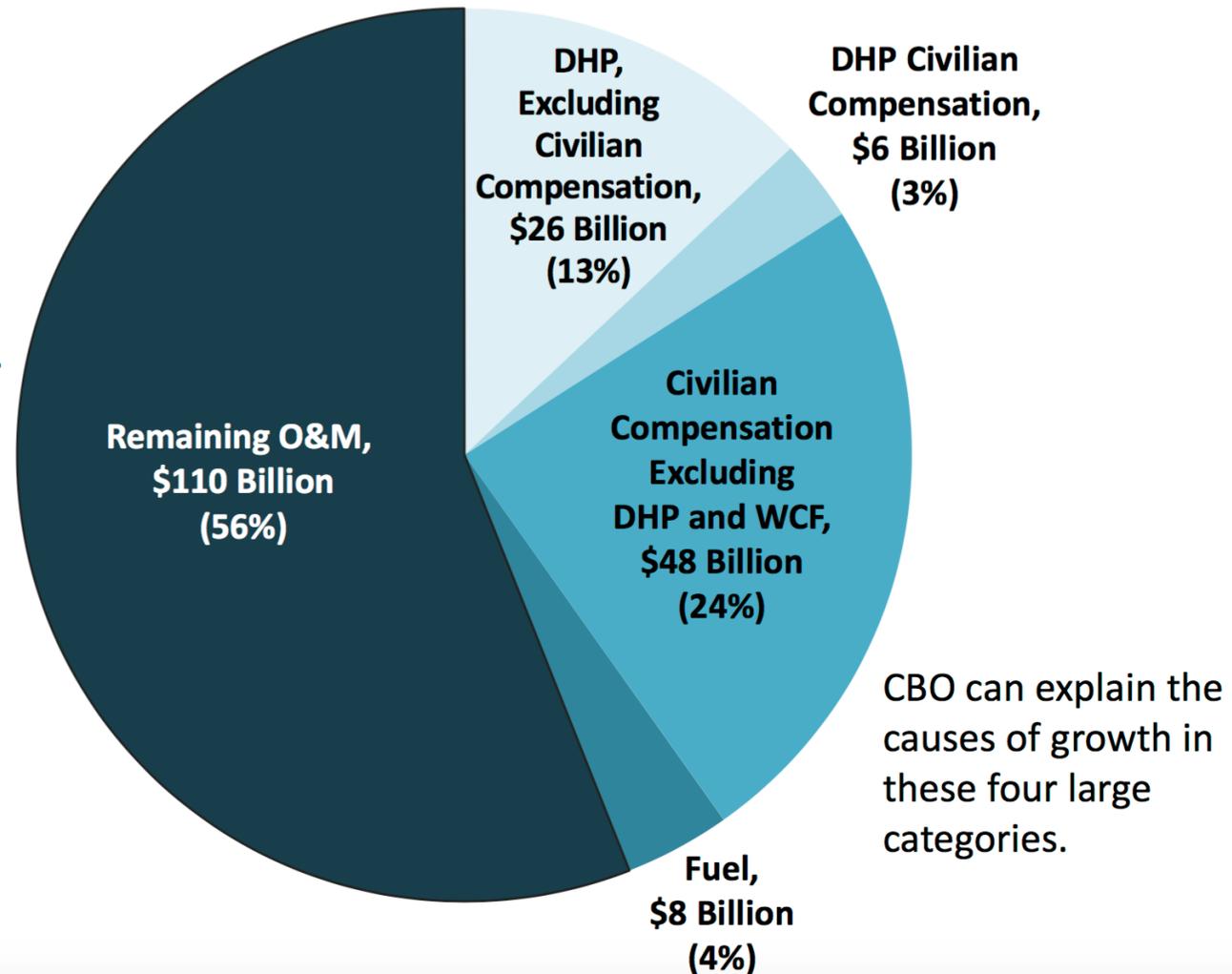
Sources of Growth in Operation and Maintenance Costs, Fiscal Years 2000 to 2014



Source: Congressional Budget Office, *Growth in DoD's Budget From 2000 to 2014* (November 2014), www.cbo.gov/publication/49764.

Operation and Maintenance (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.



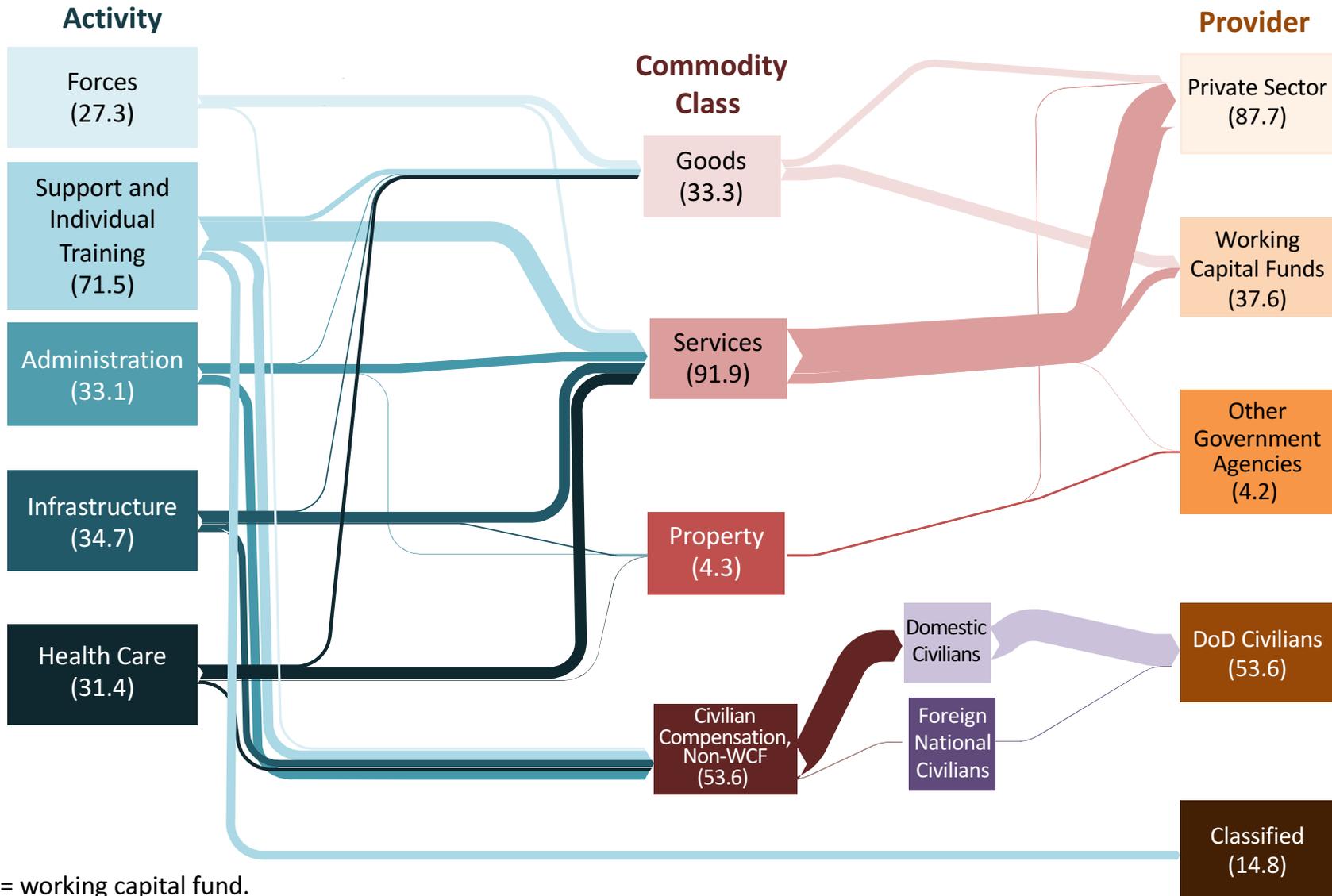
DHP = Defense Health Program; WCF = working capital fund.

Source: Derek Trunkey, Analyst, Congressional Budget Office, "Trends in Operation and Maintenance Spending by the Department of Defense" (presentation to the 91st Annual Conference of the Western Economic Association International, Portland, Oregon, July 1, 2016), www.cbo.gov/publication/51731.

Purchases Funded Through Operation and Maintenance (O&M) in the 2012 Base Budget

Billions of 2012 Dollars

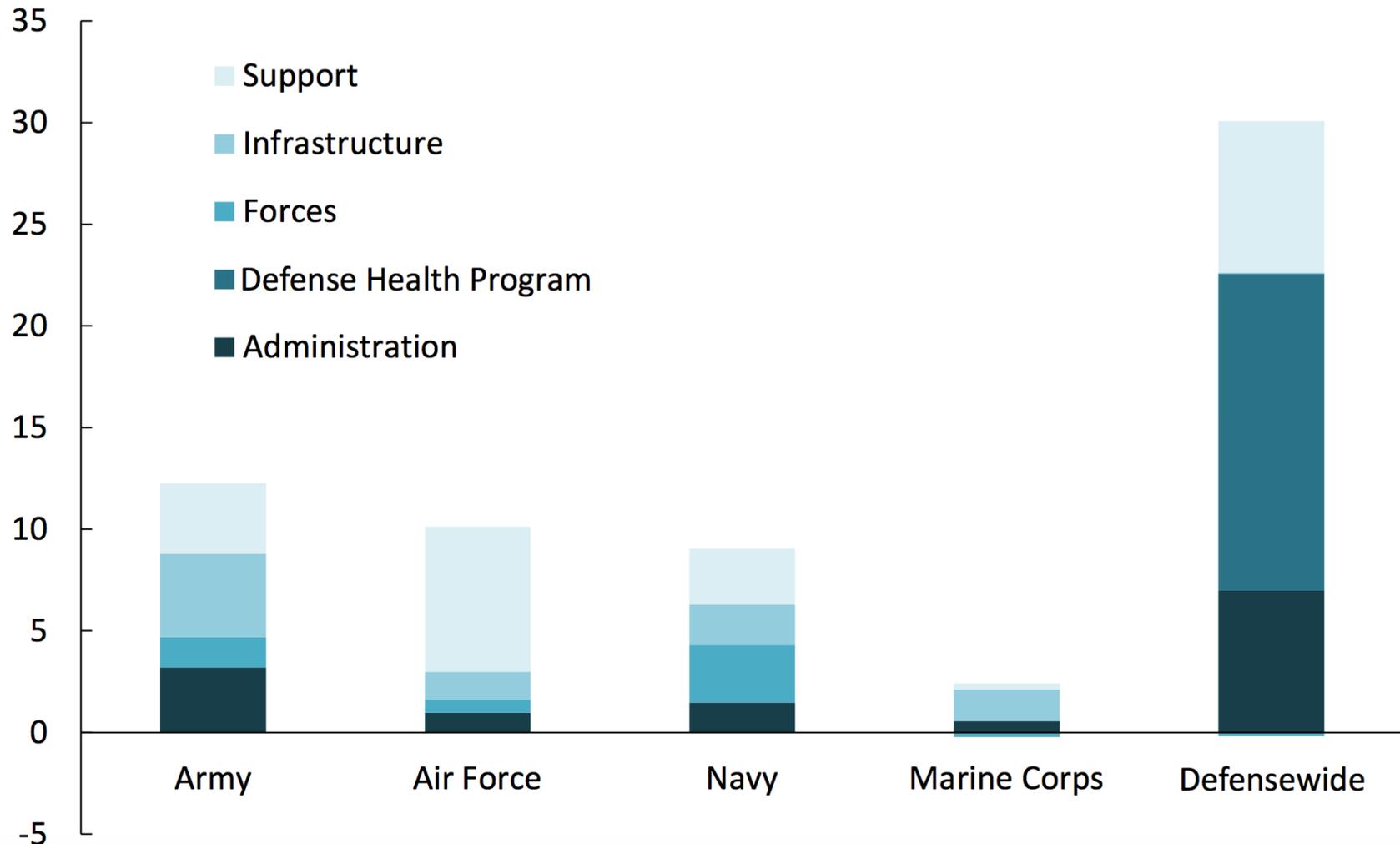
Total Base-Budget O&M: \$198 billion



WCF = working capital fund.

Growth in Operation and Maintenance Funding for “Activities” in Base Budget from 2000 to 2012, by Service

Billions of 2012 Dollars



Source: Derek Trunkey, Analyst, Congressional Budget Office, “Trends in Operation and Maintenance Spending by the Department of Defense” (presentation to the 91st Annual Conference of the Western Economic Association International, Portland, Oregon, July 1, 2016), www.cbo.gov/publication/51731.