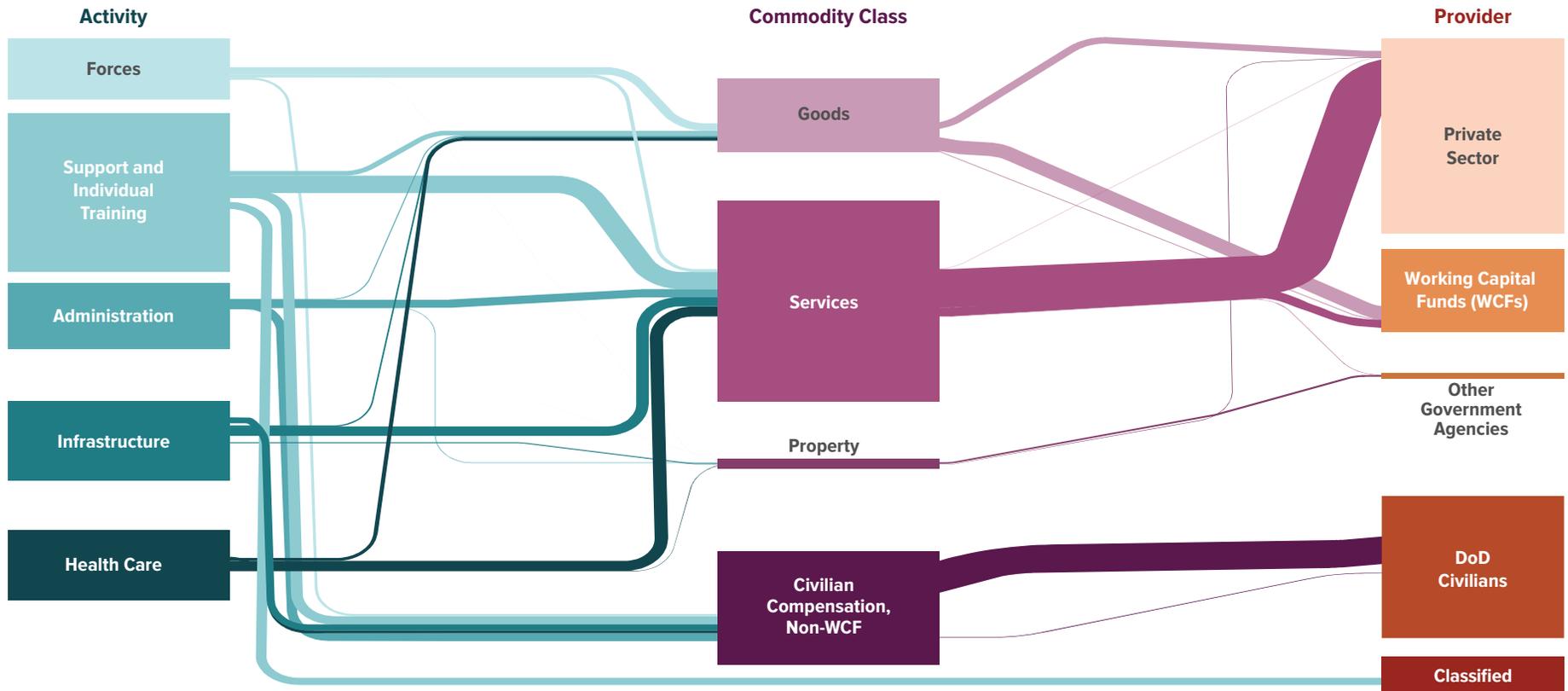


CBO

Trends in Spending by the Department of Defense for Operation and Maintenance



Uses of O&M Funding in 2012

JANUARY 2017

Notes

Unless otherwise indicated, the years referred to in this report are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

Numbers in the text and exhibits may not add up to totals because of rounding.

Additional data are posted with this report on the Congressional Budget Office's website.



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Trends in Spending by the Department of Defense for Operation and Maintenance

Summary and Introduction

The Department of Defense's (DoD's) budget consists of appropriations for the following purposes: compensating military personnel; developing and purchasing weapons; building bases, facilities, and housing; and supporting day-to-day operations. The largest single appropriation category in DoD's base budget is the operation and maintenance (O&M) account, which funds day-to-day operations ranging from health care to equipment maintenance.¹

Over the past few decades, funding for O&M has increased substantially, accounting for a growing

share of DoD's budget. That growth has occurred even as the number of active-duty military personnel has remained flat or declined. Consequently, Members of Congress and the defense community at large have expressed concerns about this portion of DoD's budget. However, efforts to identify the activities that have contributed significantly to the growth in spending are complicated by the diverse nature of the goods and services purchased with O&M funds and limitations associated with available data. Nevertheless, the Congressional Budget Office's analysis indicates that increased funding for large and familiar categories, such as the military health care system, civilian pay, and fuel, accounts for about 60 percent of the long-term growth in O&M funding; varied smaller and lesser-known activities, such as contracted services and the operations of small DoD agencies, account for the remaining 40 percent. Of those varied and lesser-known activities, funding increased significantly for the maintenance of equipment, weapon systems, and property; technical and research

services; professional and other services; and purchases of equipment not part of weapon systems.

How Much of DoD's Funding Is for O&M?

In 2015, about \$200 billion (40 percent) of DoD's base budget of \$500 billion was designated for operation and maintenance.² Funding in the base budget for each of the other major categories was much smaller—military personnel (27 percent); procurement (19 percent); research, development, test, and evaluation, or RDT&E (13 percent); military construction (1 percent); and family housing

1. DoD's base budget funds the department's peacetime activities; it does not include the funding for overseas contingency operations such as the current Operation Freedom's Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria. Unless stated otherwise, references to defense funding in this report pertain to DoD's base budget, excluding funding for overseas contingency operations.

2. Unless otherwise noted, all budget amounts in this document refer to funding in the respective fiscal years and are expressed in fiscal year 2015 dollars of total obligational authority (TOA). DoD uses TOA to measure the funding available for its programs each year. TOA in a particular year differs in several ways from the budget authority (the authority to incur financial obligations) provided in appropriation acts for that year; most notably, it incorporates unexpired budget authority from prior years (which increases TOA in the current year). Even so, TOA varies little from discretionary budget authority.

(0.2 percent).³ Although not part of DoD's base budget (and thus not the focus of this report), O&M funding for overseas contingency operations (OCO) also accounted for a significant share (\$51 billion, or 80 percent) of the \$64 billion the Congress appropriated to DoD for OCO in 2015, mostly for the wars in Iraq and Afghanistan. In total, funding for O&M (in the base budget and for OCO) accounted for about 50 percent of DoD's appropriations in 2015.

Funding for operation and maintenance is used to purchase a wide range of goods and services—numbering in the thousands—and those goods and services are often acquired in small quantities or at relatively small unit cost. DoD uses O&M funds to pay the salaries and benefits of most of its civilian employees and to purchase goods that range from jet fuel to paper clips and services that range from information technology to housekeeping.⁴ That diversity makes it difficult to determine

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3. The military personnel appropriation provides for the pay and allowances of service members and the funds DoD sets aside for their retirement. The procurement appropriation pays for the purchase of major weapon systems such as aircraft and combat vehicles and the weapons that they carry. The RDT&E appropriation funds various research activities aimed at creating new technologies and applying them to defense programs. The military construction and family housing appropriations provide for the construction of buildings and facilities and for housing units for service members.
 4. Other goods and services such as technology development, weapon systems, and buildings are funded from the accounts for RDT&E, procurement, and military construction or family housing, respectively.

why spending is rising and to formulate approaches to slow that growth. In contrast, growth in funding for larger programs, such as those pertaining to major weapon systems or military pay, is more easily understood. For instance, DoD's appropriation for procurement funds fewer than 100 major programs (as well as several hundred smaller programs), each of which has separate accounting and reporting procedures; consequently, problems with cost growth in each of those programs are easier to identify.

What Are the Trends in O&M Funding?

To provide context for the scale of growth in O&M funding, CBO examined trends in that appropriation for DoD's base budget between 1980 and 2015. To identify the activities responsible for most of that growth, CBO conducted a more detailed analysis of the growth in funding that occurred between 2000 and 2012—two years for which data with sufficient detail were available.

In real terms (that is, with adjustments to remove the effects of inflation), O&M funding has grown fairly steadily since 1980 and, over that time, taken up an increasing share of DoD's base budget.⁵ O&M funding in each of the service branches (including both the active-duty component and reserves) has also increased in the past several years; O&M funding in defensewide organizations has increased at an even faster pace. (Defensewide organizations include various defense agencies and smaller independent organizations, the

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5. Inflation adjustments in CBO's analysis were performed using the gross domestic product price deflator.

Defense Health Program, the Office of the Secretary of Defense, the Joint Chiefs of Staff, Special Operations Command, and other organizations that support the services.) The increase in O&M funding across DoD has occurred at the same time that the number of military personnel has either stayed relatively flat or fallen. As a result, O&M spending for each active-duty service member has risen even faster, on average, than the O&M budget; such spending accelerated after 1991. In general, growing O&M spending means that fewer resources are available for other defense needs, particularly in periods of fiscal constraint.

Which Activities Have Experienced Significant Growth in O&M Funding?

In its analysis, CBO was able to identify programs and activities that have experienced significant increases in O&M funding; but in many cases, the agency was not able to explain the reasons for that growth with the data DoD routinely provides the Congress. More detailed information about specific programs would be required for such analysis.

Funding for O&M in DoD's base budget increased by about \$64 billion between 2000 and 2012.⁶ From a detailed analysis of data for those two years, CBO determined that about 60 percent of that growth could be explained by changes in three large categories—medical care for service members, military retirees, and their families; civilian compensation; and fuel:

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6. Funding for O&M between 2000 and 2012 is expressed in fiscal year 2012 dollars using the gross domestic product price deflator.

- O&M spending for health care for military personnel and their families increased by about \$15 billion (from \$16 billion to \$31 billion), representing roughly 25 percent of the increase in the O&M budget.
- Spending for civilian compensation (excluding compensation for civilians who provide health care) increased by \$17 billion (from \$31 billion to \$48 billion).
- Spending for fuel increased by \$5 billion (from \$3 billion to \$8 billion).

Health care spending rose for several reasons, including expanded benefits authorized by the Congress in the early 2000s and the increased use of health care services, which has been encouraged by the relatively low out-of-pocket costs that military retirees and their families incur. Spending for civilian compensation grew largely because of increases in both the number of civilians employed by DoD and the cost per civilian (brought about in part by legislated pay raises).⁷ Finally, spending for

fuel increased because of the substantial increase in fuel prices during the period.

By contrast, the causes of the remaining 40 percent (or about \$25 billion) of the growth in O&M funding during the same period are not well understood. To help shed some light on the reasons for growth in those less-understood categories, CBO categorized O&M data for 2000 and 2012 in several different ways to identify some of the other sources of growth in O&M funding. CBO's analysis indicates that those other areas that experienced significant growth are not directly associated with combat forces and include administrative and infrastructure-related activities, such as the maintenance of equipment, weapon systems, and property; technical and research services; professional and other services; and purchases of equipment. However, CBO could not assess the causes of that growth in more detail because sufficient data were not available.

CBO's Approach to Analyzing the Growth in O&M Funding

Conducting the more detailed analysis of the growth in funding for O&M that occurred between 2000 and 2012 involved two main steps.

First, using the budget data that DoD provides to the Congress with its annual budget request, CBO grouped the data elements into broad categories to help identify trends. The categories CBO defined focus on activities performed or functions provided, goods and services purchased with O&M funds (including a further breakdown of specific

commodities), and providers of the goods and services.

Second, CBO calculated the growth in funding for O&M during that period and apportioned that growth into the relevant categories. The exhibits that follow provide more details on how much of the growth in funding is attributable to each category.

Data from the O&M budget justification books for each service provided a starting point for developing the CBO-defined categories.⁸ In those books, the services report their O&M spending using a common set of four budget activities (BAs): Operating Forces (BA-01); Mobilization (BA-02); Training and Recruiting (BA-03); and Administration and Service-wide Activities (BA-04). Each budget activity is further subdivided into subactivity groups (SAGs). For example, the Training and Recruiting budget activity contains a SAG for "recruit training" and SAGs for other training-related activities and recruiting activities. For each SAG, the services report the particular goods and services purchased using four-digit "object class" codes.

The analysis conducted in this report was possible only because the Office of the Secretary of Defense and the services provided CBO with data that are not routinely available in the department's regular

7. For more information on the changes in benefits and the associated costs of providing health care to military personnel and their families, see Congressional Budget Office, *Approaches to Reducing Federal Spending on Military Health Care* (January 2014), www.cbo.gov/publication/44993.

The growth in civilian compensation is discussed in Congressional Budget Office, *Long-Term Implications of the 2017 Future Years Defense Program* (forthcoming), and *Growth in DoD's Budget From 2000 to 2014* (November 2014), www.cbo.gov/publication/49764.

8. Budget justification books are detailed materials submitted to the Congress annually that provide additional information to support the President's budget. They can be obtained from DoD's website at <http://go.usa.gov/x927r>.

annual reports to the Congress. However, those data still had limitations, including many vague and large “other” categories that prevented CBO from answering important questions about the causes of growth in O&M spending. A database without those limitations that was provided to the Congress with DoD’s budget each year would allow such analysis to be undertaken routinely and in more detail than CBO was able to do for this report.

CBO’s Categorization Scheme

To analyze growth between 2000 and 2012, CBO used the SAGs and their associated object class codes to sort costs into four main groups that allow O&M spending to be examined from different perspectives: activity, commodity class, commodity, and provider. (The table below summarizes CBO’s categorization scheme.)

Activity. For the purposes of CBO’s analysis, an “activity” is defined in terms of the type of function being performed. CBO defined five such categories:

Forces. Includes spending for units whose primary mission is to directly engage in offensive and defensive combat operations.⁹ Such units include each service branch’s major combat units (the Army’s infantry brigades, for example) and those units that support them with combat arms (such as the Army’s artillery and air defense brigades).¹⁰

9. As is the case with all of the categories, the amounts exclude the pay for the service members in those units, which is funded from the military personnel appropriation rather than the O&M appropriation.

Support and Individual Training. Includes spending for units that provide specialized functional support (such as military intelligence) to combat forces as well as for units that provide general support (such as equipment maintenance and logistics). The category also includes spending for service members’ individual training.

Administration. Encompasses spending for administration, management, information technology, office communications, and similar functions.

Infrastructure. Includes spending for operating and maintaining bases and facilities.

Health Care. Encompasses spending for activities of the Defense Health Program.

Commodity Class. This grouping categorizes the types of goods and services funded through DoD’s O&M appropriation. It includes five categories:

Goods. Represents purchases of physical products such as fuel and equipment.

Services. Includes spending for transportation, technical support, research, and other services.

Property. Includes spending related to facilities, such as rental payments to government agencies (for instance, the General Services Administration) and private landlords.

10. This category also includes the Air Force’s Airlift Squadrons, which transport personnel and equipment using large transport aircraft.

Civilian Compensation. Includes spending for the pay and benefits of DoD’s civilian employees whose compensation is funded through the O&M appropriation (except for those employees whose pay and benefits are funded through defense working capital funds, or WCFs). About 75 percent of DoD’s civilian employees are paid directly with O&M funding, and another 15 percent are paid through the defense WCFs (discussed below).¹¹

Other. Includes spending for goods and services obtained overseas or from intragovernmental sources, items that DoD categorizes as “other purchases” in its budget data. It also includes spending for miscellaneous items such as insurance claims and indemnities and postal services. Because of the relatively small amount and miscellaneous nature of spending in this category, some exhibits omit it.

Commodity. An extension of the “commodity-class” category, this grouping further breaks down spending for goods and services into nine smaller categories:

Equipment; and Supplies and Materials. Account for the spending for almost all of the “goods” in the commodity-class grouping.

11. Because the purpose of civilian compensation is to obtain the labor services of DoD’s civilian employees, it arguably could be grouped with the “services” commodity class. CBO could not use such a grouping because the budget justification documents provided by the military services list civilian compensation separately and distinctly from purchased services. However, CBO was able to allocate civilian compensation into the various categories of “activity.”

CBO's Categorization Scheme

Category	Description	Examples
Activity	The type of function being performed	Spending for combat forces, training, administration, health care
Commodity Class	Types of purchases	Spending for goods, services, property-related management
Commodity	Further delineation of types of purchases	Spending for maintenance, equipment, transportation, professional services
Provider	Sources of goods and services	Spending for private sector, defense working capital funds, nondefense government agencies and organizations, the Department of Defense's civilian employees

Medical; Maintenance; Transportation; Technical and Research Services; Professional and Other Services; Installation Support; and Other and Uncategorized. Account for spending for all “services” described in the commodity-class grouping.

Provider. For this category, CBO identified four sources of goods and services:

Private Sector. Represents spending for private companies under contract with DoD to provide goods and services, but excludes spending through defense WCFs to purchase goods and services from private companies.

Defense Working Capital Funds. Accounts for spending by specific organizations in both defense agencies and the military departments that supply goods and services to other DoD organizations. Defense WCFs are comparable to an internal

marketplace in which organizations within DoD purchase goods and services from one another. DoD organizations that are funded by WCFs generally do not receive direct appropriations from the Congress. Instead, they obtain “revenues” from “customers” (other DoD organizations) to whom they “sell” goods and services. The WCF arrangement is intended to make support costs more explicit to the purchaser.

Other Government Agencies. Accounts for spending to acquire goods and services from government agencies and organizations outside of DoD. For example, the General Services Administration provides some land-related management services, and the Centers for Medicare & Medicaid Services provide some medical products to the Defense Health Program. CBO categorizes those sources as other government agencies.

DoD's Civilian Employees. Accounts for the compensation of DoD's civilian employees (excluding those employees whose pay and benefits are funded through WCFs), whose services make up the largest single component of the government as a provider of goods and services.

Benefits of CBO's Categorization Scheme in Explaining Trends in O&M Funding

As illustrated in Exhibits 7 and 8, those main groupings—activity, commodity class, commodity, and provider—are interconnected, reflecting the complexity of O&M spending. Nevertheless, because the categories in each group have common attributes (types of activities or types of goods and services, for example), they allow a deeper examination of trends. They can be combined in a way that enables CBO to reach this type of insight: A majority of funding for O&M in 2012 was used for support and individual training (as opposed to

functions directly related to major combat units), much of which was carried out through services provided by the private sector.

How This Report Is Organized

Exhibits 1 through 6 provide details about funding for O&M in DoD's base budget, examining the growth in funding between 1980 and 2015 and comparing it with growth in other appropriation categories and among DoD's components. Those components include the active and reserve elements of the four service branches—the Army,

Air Force, Navy, and Marine Corps—and defense-wide agencies and programs. (The latter are sometimes treated within this report as a single entity that is parallel with the four service branches.) This section also considers O&M costs per active-duty service member during the same period.

Exhibits 7 through 9 present O&M funding in 2012 in terms of the categories CBO defined to group the diverse activities, goods, and services for which such funding is used. *Exhibit 10* examines flows of funding through DoD's working capital funds.

Exhibits 11 through 14 examine the growth in O&M funding for all of DoD and its components between 2000 and 2012 using the CBO-defined categories.

Exhibits 15 through 18 analyze the growth in O&M funding for all of DoD in greater detail, breaking down that growth into the portion that might be deemed “well understood” and the portion that is relatively “less understood” or “not easily tracked.” ♦



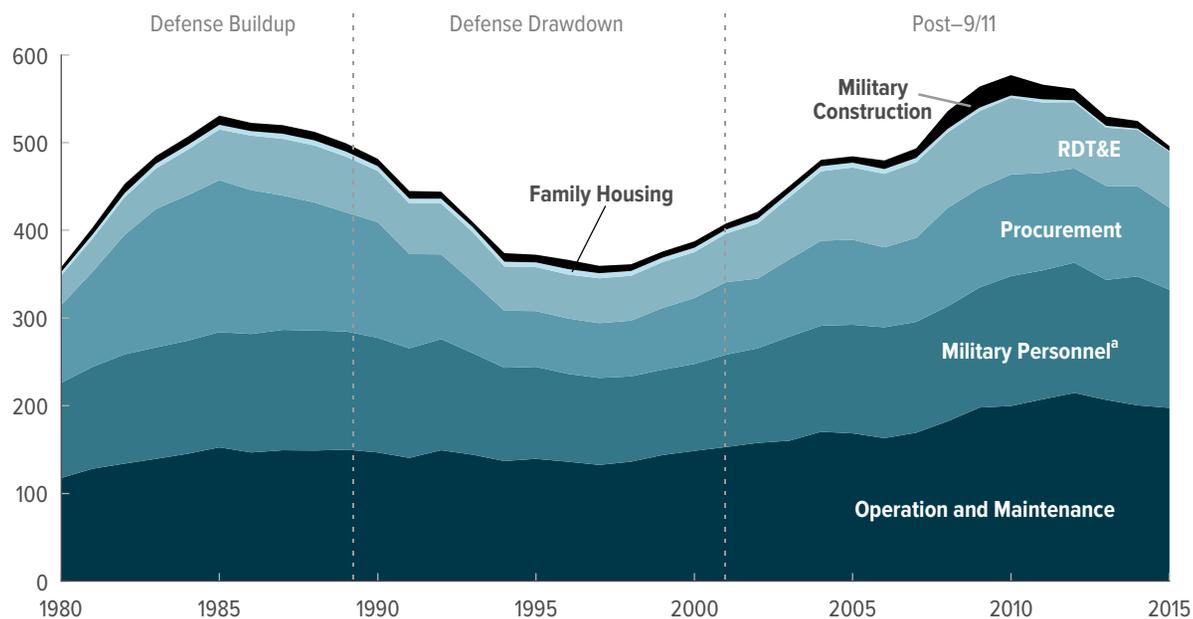
**Trends in Spending for Operation and
Maintenance Between 1980 and 2015**



Exhibit 1.

DoD's Base Budget by Type of Appropriation, 1980 to 2015

Billions of 2015 Dollars



Source: Congressional Budget Office, using data from the Department of Defense (DoD).

DoD's base budget funds peacetime activities; it does not include funding for overseas contingency operations such as the current Operation Freedom's Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

RDT&E = research, development, test, and evaluation.

a. For additional information, see Congressional Budget Office, *Costs of Military Pay and Benefits in the Defense Budget* (November 2012), www.cbo.gov/publication/43574.

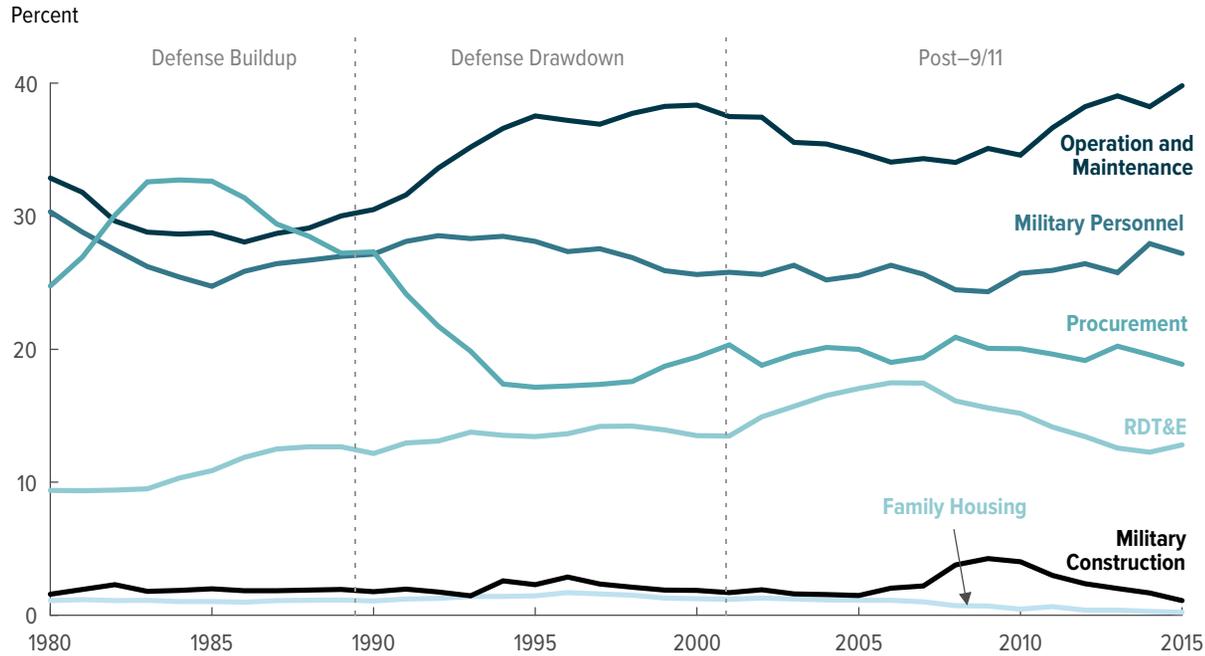
The appropriation for operation and maintenance has constituted the largest single piece of the Department of Defense's base budget since 1980—with the exception of the six-year period between 1982 and 1987, which emphasized procurement as part of the defense buildup. In 2015, funding for O&M amounted to roughly \$200 billion, or 40 percent of DoD's base budget of \$500 billion. Between 1980 and 2015, that funding averaged about \$160 billion in 2015 dollars.

Again with the exception of the 1980s defense buildup, the appropriation for military personnel has been the second-largest component of DoD's base budget since 1980. In real terms (that is, with adjustments to exclude the effects of inflation), funding rose during the defense buildup (although not as rapidly as the appropriation for procurement); declined during the drawdown in the 1990s; and rose again beginning in the early 2000s as a result of ongoing military operations following the terrorist attacks of September 11, 2001, and the subsequent expansion of many elements of military pay and benefits. Funding for military personnel totaled \$135 billion in 2015 and averaged about \$120 billion (in 2015 dollars) between 1980 and 2015.

Funding for procurement totaled \$94 billion in 2015 (less than the average of \$106 billion, in 2015 dollars, between 1980 and 2015), and funding for research, development, test, and evaluation amounted to \$64 billion in 2015 (slightly more than the \$62 billion average over the 1980–2015 period). Appropriations for family housing and military construction were much smaller. ♦

Exhibit 2.

DoD's Appropriation Accounts as a Percentage of Its Base Budget, 1980 to 2015



Funding for O&M as a share of DoD's base budget has increased over time, mostly from the mid-1980s to the mid-1990s and during the past five years. That appropriation category grew from 33 percent of DoD's base budget in 1980 to 40 percent in 2015, its largest share over that period. Funding for RDT&E also increased as a share of the base budget, from 9 percent in 1980 to 13 percent in 2015.

Correspondingly, appropriations for military personnel and procurement fell as a share of the base budget during the same period: Funding for military personnel edged down from 30 percent of the budget in 1980 to 27 percent in 2015; and appropriations for procurement declined from 25 percent of the budget in 1980 to 19 percent in 2015 (after peaking at 33 percent in the mid-1980s). ♦

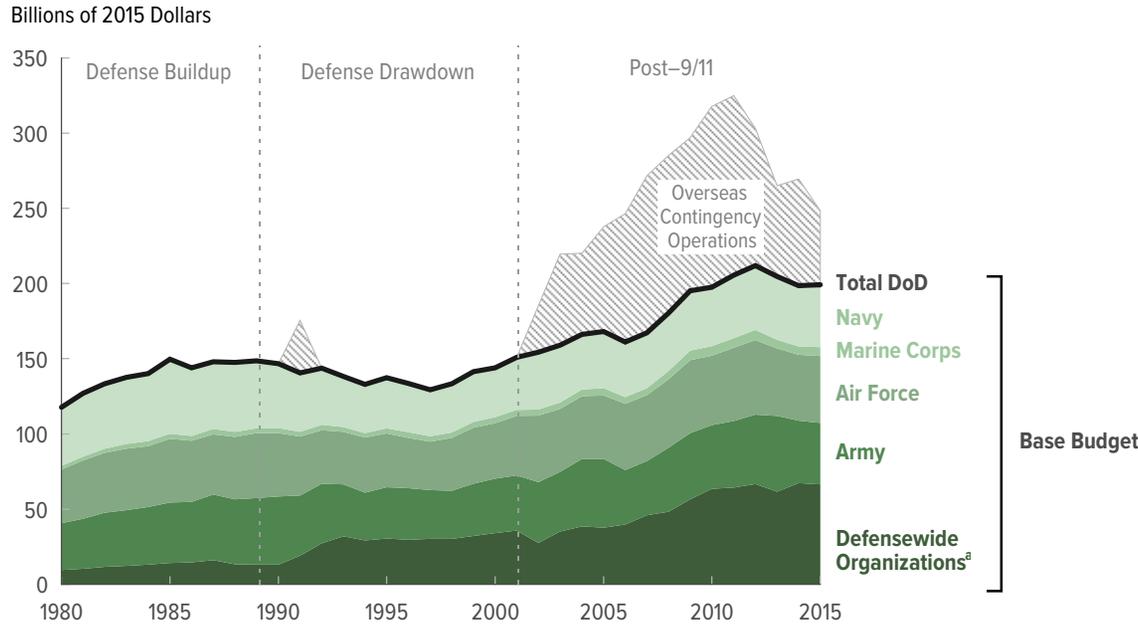
Source: Congressional Budget Office, using data from the Department of Defense (DoD).

DoD's base budget funds peacetime activities; it does not include funding for overseas contingency operations such as the current Operation Freedom's Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

RDT&E = research, development, test, and evaluation.

Exhibit 3.

DoD’s Total Funding for Operation and Maintenance, by Military Service, 1980 to 2015



Source: Congressional Budget Office, using data from the Department of Defense (DoD).

DoD’s base budget funds peacetime activities; it does not include funding for overseas contingency operations such as the current Operation Freedom’s Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

“Total DoD” is the sum of base-budget funding for operation and maintenance in all service branches and defensewide organizations. Supplemental and emergency funding for overseas contingency operations is shown separately in the shaded areas above the line for “Total DoD.”

Defensewide organizations include the various defense agencies and smaller independent programs, the Defense Health Program, the Office of the Secretary of Defense, the Joint Chiefs of Staff, Special Operations Command, and other organizations that support the services.

a. For information on a portion of the funding for defensewide organizations, see Congressional Budget Office, *Approaches to Reducing Federal Spending on Military Health Care* (January 2014), www.cbo.gov/publication/44993.

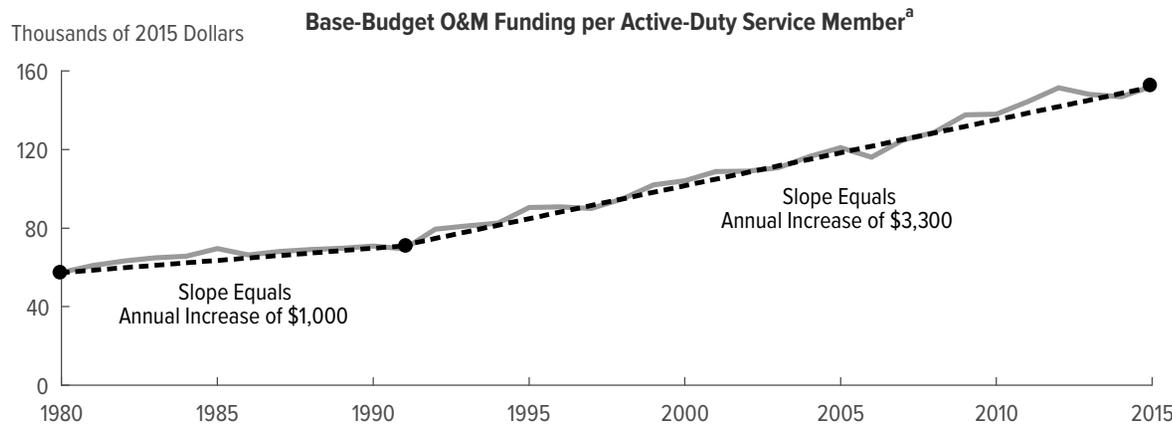
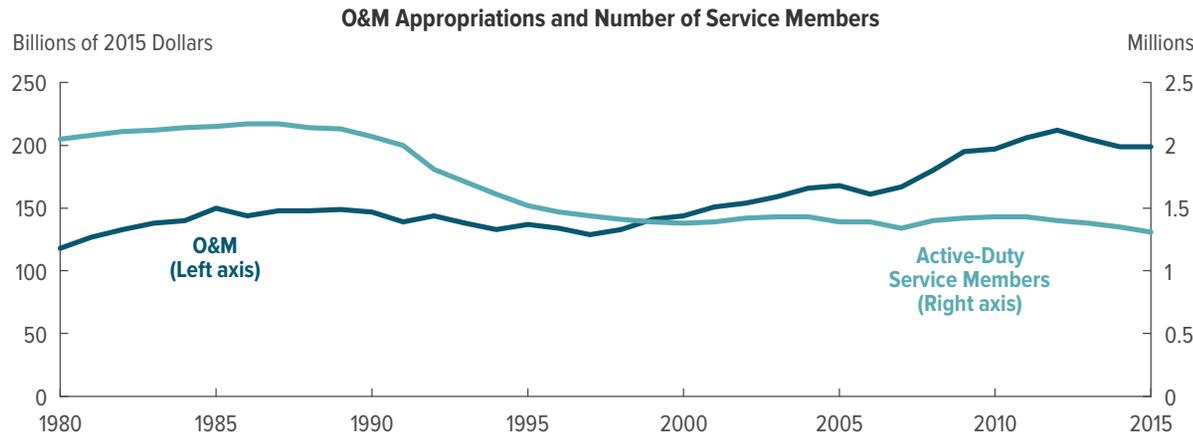
Base-budget O&M funding for the Army, Air Force, and Navy amounted to roughly \$33 billion each (in 2015 dollars) in the mid-1990s and grew to about \$41 billion each by 2015. However, defensewide O&M funding grew much more rapidly, from roughly \$30 billion in the mid-1990s to \$67 billion in 2015. (Defensewide organizations, programs, and activities are sometimes viewed collectively as a separate entity parallel to the services; they provide resources that are shared by all of the services.) Base-budget O&M funding for the Marine Corps averaged roughly \$4 billion in the 1990s and grew to about \$9 billion in 2015.

Between 1980 and 2001, base-budget O&M funding for all of DoD grew in real terms at an average annual rate of 1 percent. Defensewide O&M funding grew more rapidly than that for any of the services, at an average annual rate of 6 percent. That growth occurred in part because DoD created new programs—such as the Defense Health Program—to manage support functions formerly provided by the services and funded in their O&M budgets. Funding for the DHP increased rapidly, in part because health care benefits for service members were expanded during that period. Between 2001 and 2015, base-budget O&M funding for all of DoD grew in real terms at an average annual rate of 2 percent, mainly because of the continued growth in defensewide O&M funding that occurred after the initial consolidation of support functions that used to be performed by the services.

Measured in 2015 dollars, O&M spending for Operation Desert Storm totaled roughly \$35 billion in 1991. Wartime O&M spending, which is not in the base budget, resumed in 2002 and grew steadily over the next decade, peaking at \$120 billion in 2010 before decreasing to \$51 billion in 2015. ♦

Exhibit 4.

Funding for Operation and Maintenance in DoD’s Base Budget in Relation to the Number of Active-Duty Service Members, 1980 to 2015



Source: Congressional Budget Office, using data from the Department of Defense (DoD).

DoD’s base budget funds peacetime activities; it does not include funding for overseas contingency operations such as the current Operation Freedom’s Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

O&M = operation and maintenance.

a. Rising O&M funding per active-duty service member probably reflects, in part, the long-term effect of substituting contractors and civilian employees for military personnel. For more details, see Congressional Budget Office, *Replacing Military Personnel in Support Positions With Civilian Employees* (December 2015), www.cbo.gov/publication/51012.

Rising funding for O&M since the end of the Cold War contrasts sharply with the size of military forces. Active-duty end strength (the number of active-duty service members on the last day of the fiscal year) has declined over the past two-and-a-half decades. After peaking in 1987 with the defense buildup of the 1980s, active-duty end strength fell sharply in the early 1990s. O&M funding also fell after the defense drawdown but at a slower rate.

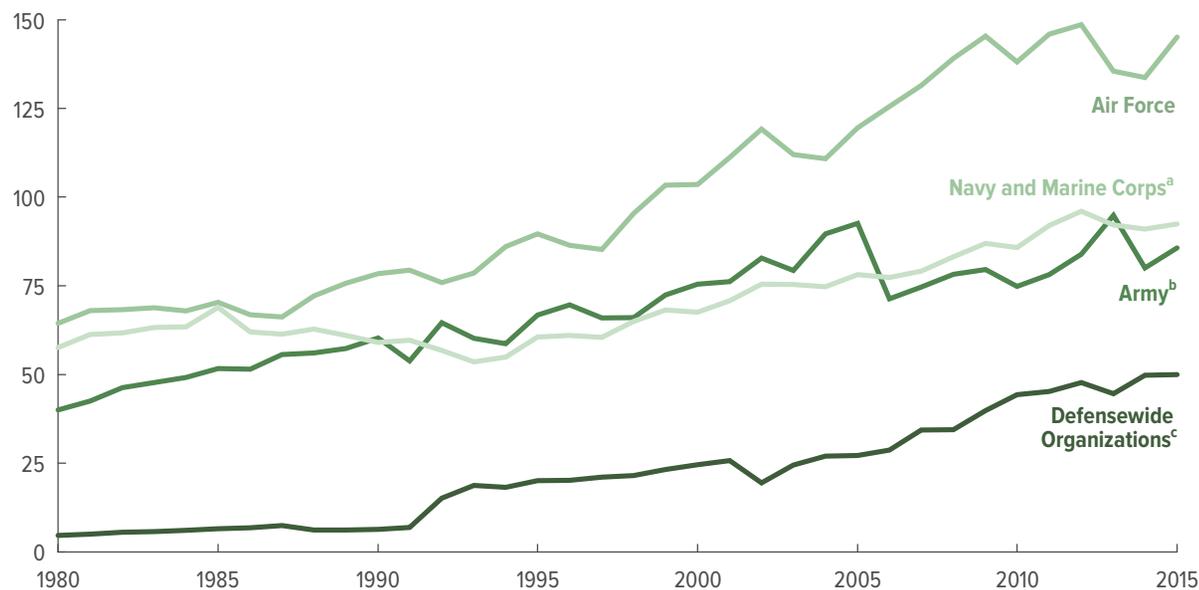
Since the late 1990s, military end strength and O&M funding have been on very different trajectories. End strength has continued to slide, although the demands of the wars in Iraq and Afghanistan led to a slight increase in active-duty end strength between 2000 and 2010. By contrast, O&M spending in the base budget began increasing sharply in the late 1990s and generally continued to rise through 2012—even with the substantial O&M funding provided separately for military operations overseas.

The combination of rising O&M spending and falling active-duty end strength has resulted in increased real spending for O&M per active-duty service member, particularly after 1991. Between 1980 and 1991, real O&M spending per active-duty service member increased at a rate of about \$1,000 a year. However, that rate accelerated between 1992 and 2015 to \$3,300 a year. That trend could partly be the long-term effect of substituting contractors and civilian employees (who are paid from O&M funds) for military personnel (who are paid from the military personnel appropriation); also, it probably reflects the real growth in other elements of O&M spending, despite a smaller force structure. ♦

Exhibit 5.

Funding for Operation and Maintenance in the Services' Base Budgets per Active-Duty Service Member, 1980 to 2015

Thousands of 2015 Dollars



Source: Congressional Budget Office, using data from the Department of Defense (DoD).

The services' base budgets fund peacetime activities; they do not include funding for overseas contingency operations such as the current Operation Freedom's Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

O&M = operation and maintenance.

- CBO calculated O&M costs per service member for the Department of the Navy, which includes both the Navy and the Marine Corps, rather than treating the two services separately because Navy resources provide many services that support the Marine Corps (for example, medical care, aircraft maintenance, and transportation of personnel and materiel by sea).
- The decrease in O&M funding per service member in the Army in 2006 was a result of the increase in that service's end strength during the surge for the wars in Iraq and Afghanistan.
- Defensewide organizations include the various defense agencies and smaller independent programs, the Defense Health Program, the Office of the Secretary of Defense, the Joint Chiefs of Staff, Special Operations Command, and other organizations that support the services. O&M funding per active-duty service member was lowest in defensewide organizations, largely because O&M funding for those organizations is divided by the combined total active-duty end strength of all four service branches.

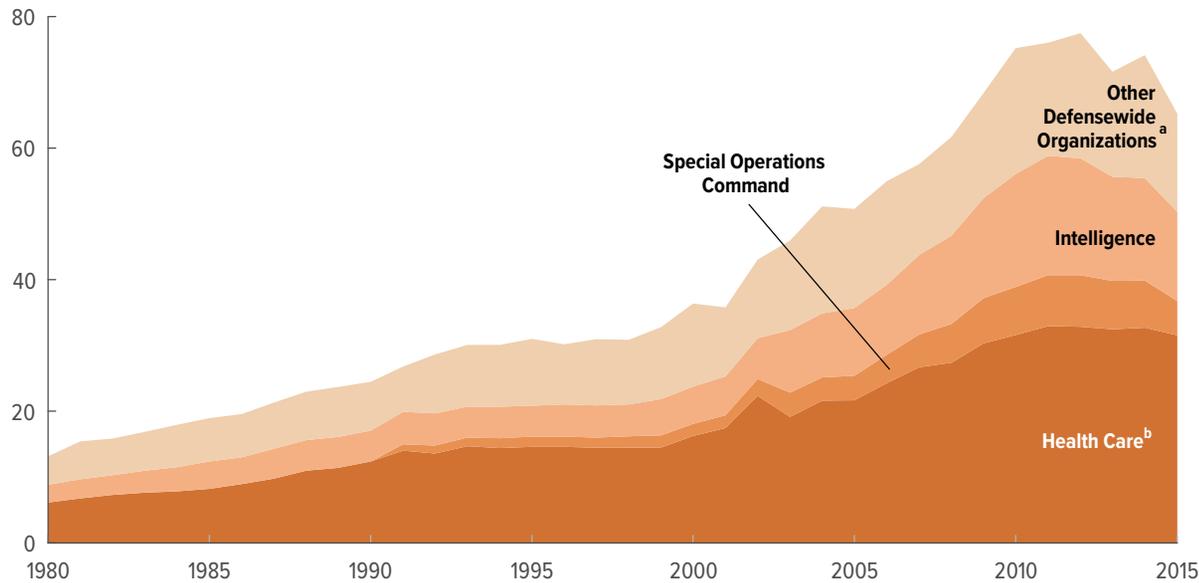
Between 1980 and 2015, funding for O&M per active-duty service member increased among all of the various service branches, but to differing degrees. Over that period, real O&M funding per active-duty service member was highest in the Air Force (averaging about \$100,000 per service member in the base budget) and grew at the fastest pace (an average rate of 2.3 percent per year). During the same period, O&M funding per service member in the Army was smaller (averaging \$68,000) and grew at a slightly slower annual rate (2.1 percent). The Department of the Navy (including the Marine Corps) experienced much slower real growth, averaging 1.3 percent a year, although the rate of growth matched that experienced by the Army after 1991.

Real funding for defensewide O&M grew faster per service member (averaging roughly 7 percent per year) than in any of the service branches. In the early 1990s, that growth was largely attributable to the consolidation of activities formerly carried out by the service branches. In subsequent years, it was largely attributable to rapid increases in the costs of those activities, particularly for military health care and intelligence. ♦

Exhibit 6.

Operation and Maintenance Funding for Defensewide Organizations, Programs, and Activities in DoD's Base Budget, 1980 to 2015

Billions of 2015 Dollars



Source: Congressional Budget Office, using data from the Department of Defense (DoD).

DoD's base budget funds peacetime activities; it does not include funding for overseas contingency operations such as the current Operation Freedom's Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

- a. Other defensewide organizations include the following: American Forces Information Service (Defense Media Activity), Defense Acquisition University, Defense Commissary Agency (working capital portion), Defense Human Resources Activity, Defense Information Systems Agency, Defense Logistics Agency, Defense Security Cooperation Agency, Defense Security Service, Defense Threat Reduction Agency, the Joint Chiefs of Staff, Missile Defense Agency, National Defense University, Office of Economic Adjustment, Office of the Secretary of Defense and programs managed by that office, personnel support programs (including those for families and education), Washington Headquarters Services, and miscellaneous defensewide programs.
- b. This category mostly reflects funding for the Defense Health Program, which includes both the deployable medical units of the Army, Air Force, and Navy, and other DoD-wide health care programs that were consolidated beginning in the early 1990s, culminating in the establishment of the Defense Health Agency in 2014.

Although sometimes viewed collectively as a separate entity similar to the service branches, defensewide organizations, programs, and activities represent resources shared by all of the services. The major programs and activities with this designation include the Defense Health Program, intelligence activities (many of which are classified), and activities of a number of smaller defense organizations.

Defensewide spending for O&M increased significantly in the early 1990s, in large part because of the consolidation of certain programs previously overseen by each of the services; but that increase, and continued increases in subsequent years, also reflect significant growth in funding for defensewide programs and agencies relative to funding for the services (see Exhibit 14 for further details).

In 1980, O&M funding for intelligence programs amounted to about \$3 billion (in 2015 dollars), most of which was in classified defensewide accounts. Funding increased slowly during the 1980s and 1990s, but the pace of growth quickened between 2000 and 2010; funding for those programs peaked at \$18 billion in 2011. Similarly, O&M spending for the Special Operations Command averaged \$1.5 billion from 1991 to 2001 but then rose rapidly, peaking at about \$8 billion in 2012.¹ O&M spending for other defensewide organizations averaged \$6 billion between 1980 and 1990 and more than doubled between 1991 and 2015, when such base-budget spending averaged \$13 billion. ♦

1. The Special Operations Command was established in 1987, but DoD's budget data included a separate funding line for that command beginning in 1991.



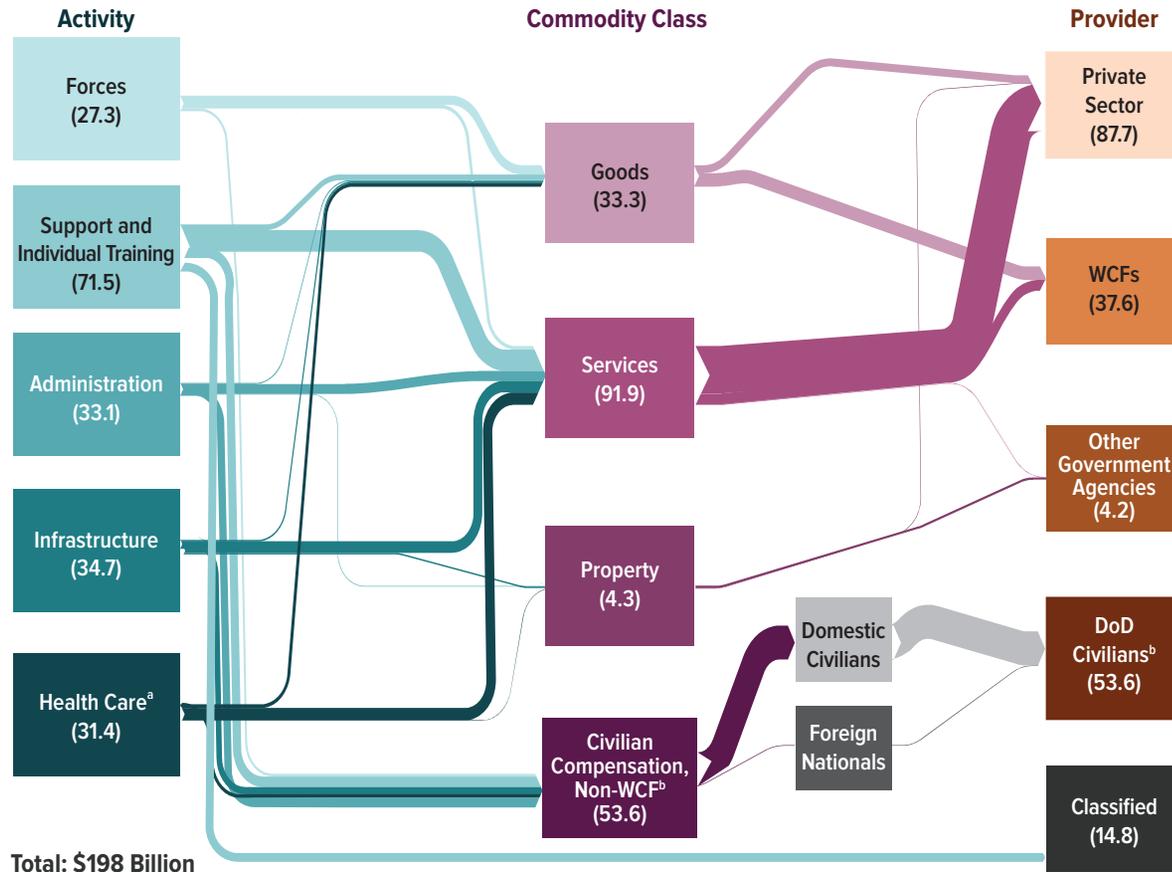
**Funding for Operation and Maintenance
by Category of Spending**



Exhibit 7.

Purchases Funded Through DoD’s Base-Budget Appropriation for Operation and Maintenance in 2012, by Activity, Commodity Class, and Provider

Billions of 2012 Dollars



Source: Congressional Budget Office, using data from the Department of Defense (DoD).

DoD’s base budget funds peacetime activities; it does not include funding for overseas contingency operations such as the current Operation Freedom’s Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

Defense working capital funds (WCFs) constitute an internal marketplace in which organizations within DoD purchase goods and services from one another. WCF providers receive some direct appropriations but, for the most part, obtain “revenues” from their DoD “customers” to whom they “sell” goods and services.

- a. This category mostly reflects funding for the Defense Health Program, which includes both the deployable medical units of the Army, Air Force, and Navy, and other DoD-wide health care programs that were consolidated beginning in the early 1990s, culminating in the establishment of the Defense Health Agency in 2014.
- b. DoD civilian employees exclude those whose salaries and benefits are funded through WCFs.

The O&M appropriation funds a wide array of activities. Funding for those activities is used to purchase a variety of goods and services (labeled as “commodity classes” in the exhibit) that are provided by the private sector, through working capital funds, and by government agencies other than DoD (labeled “providers”). (The patterns and flows can be seen in the lines connecting the boxes, where the line widths reflect dollar amounts.)

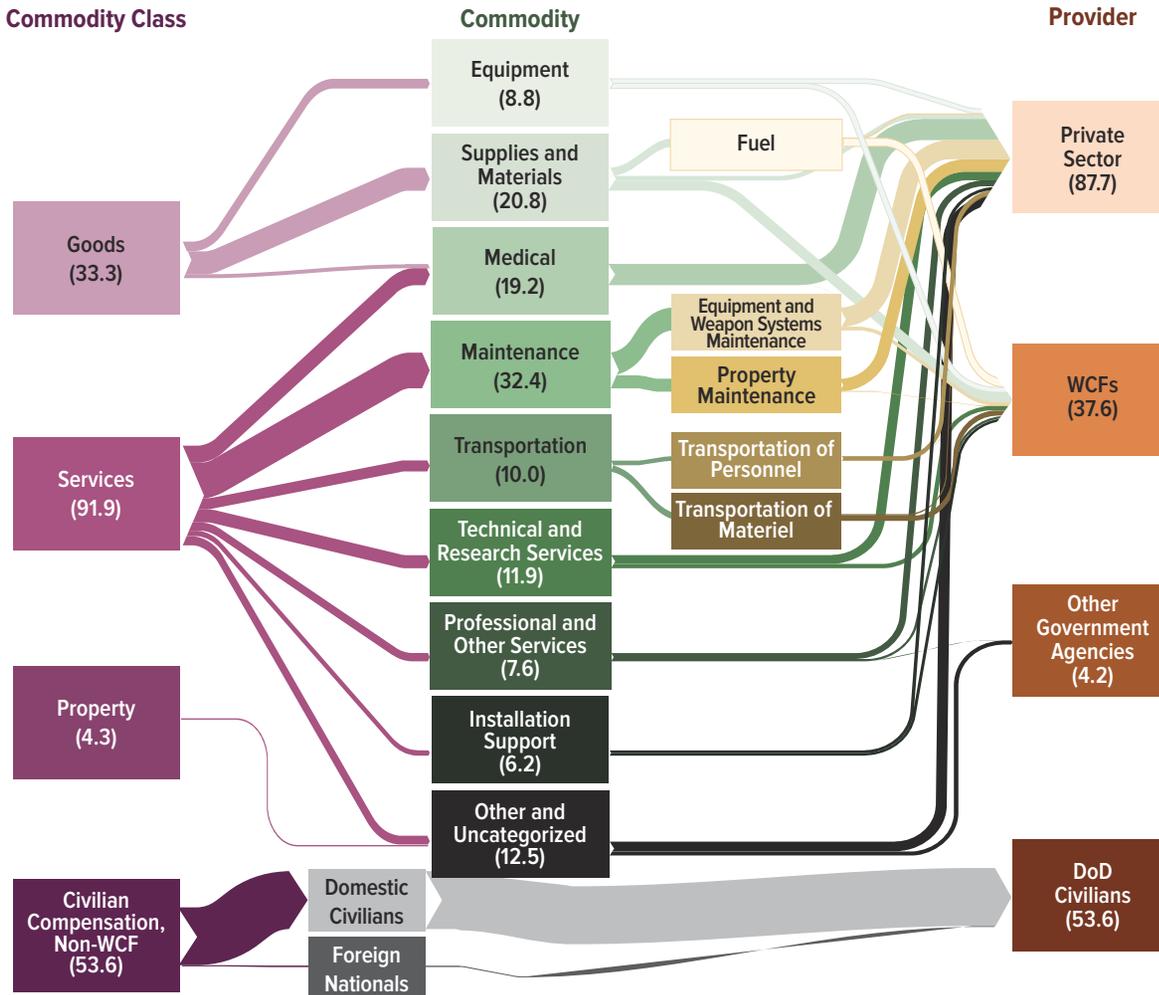
Within the “activity” category, a relatively small portion of funding for O&M in 2012 was devoted to unit-level training, operations, and other activities related to “forces” (units whose primary mission is to directly engage in combat operations), which accounted for about \$27 billion, or 14 percent, of the \$198 billion in total base-budget funding for O&M. By far the largest share (about \$71 billion, or 36 percent) went to “support and individual training,” which includes activities such as maintaining equipment for combat units, purchasing supplies such as fuel and water, and providing individual training for service members. DoD also spent about \$15 billion (or about 7 percent) on classified programs, which CBO also categorized as “support and individual training.”

Among the items purchased, “services” (that is, transportation, technical support, research, and other services) accounted for half of O&M spending in 2012, if spending on classified programs is excluded. Those services were overwhelmingly provided by the private sector. CBO did not have enough information to determine how many of DoD’s civilian employees were involved in providing each commodity, so the roughly \$54 billion in civilian compensation in 2012 (excluding compensation provided for civilians through WCFs) is indicated in a single box under “commodity class” with no further delineation. ♦

Exhibit 8.

Purchases Funded Through DoD’s Base-Budget Appropriation for Operation and Maintenance in 2012, by Commodity Class, Commodity, and Provider

Billions of 2012 Dollars



The diverse nature of spending for O&M is apparent from the many types of commodities it purchases. In this exhibit, CBO breaks down the broad “commodity classes” into more detailed “commodity” groupings.

For instance, “services,” the largest commodity-class category, is broken down into seven “commodity” categories. Maintenance accounted for more than one-third (about \$32 billion) of funding for services. About two-thirds of that maintenance was for equipment and weapon systems; the remaining one-third was for property. Medical services, technical and research services, and transportation were the next largest components in the “services” category.

The private sector was the single largest source of goods and services, accounting for roughly \$88 billion in O&M funding in 2012. Civilian workers employed by DoD (excluding civilians whose compensation was funded through working capital funds) were the second-largest supplier of goods and services, accounting for about \$54 billion in O&M funding in 2012. Roughly \$38 billion in goods and services was provided through working capital funds that year (see Exhibit 10 for more on working capital funds). ♦

Source: Congressional Budget Office, using data from the Department of Defense (DoD).

DoD’s base budget funds peacetime activities; it does not include funding for overseas contingency operations such as the current Operation Freedom’s Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

Defense working capital funds (WCFs) constitute an internal marketplace in which organizations within DoD purchase goods and services from one another. WCF providers receive some direct appropriations but, for the most part, obtain “revenues” from their DoD “customers” to whom they “sell” goods and services.

Exhibit 9.

The Amount of Goods and Services Purchased With Operation and Maintenance Funds in 2012, by Provider or Source



Source: Congressional Budget Office, using data from the Department of Defense (DoD).

Defense working capital funds (WCFs) constitute an internal marketplace in which organizations within DoD purchase goods and services from one another. WCF providers receive some direct appropriations but, for the most part, obtain “revenues” from their DoD “customers” to whom they “sell” goods and services.

This exhibit excludes funding for classified programs because CBO did not have enough information to allocate that spending into the appropriate categories.

For “services,” which was the largest commodity class in 2012 (accounting for \$92 billion in funding), the private sector was the dominant provider (accounting for about 80 percent of the funding). Most of the rest was procured through working capital funds.

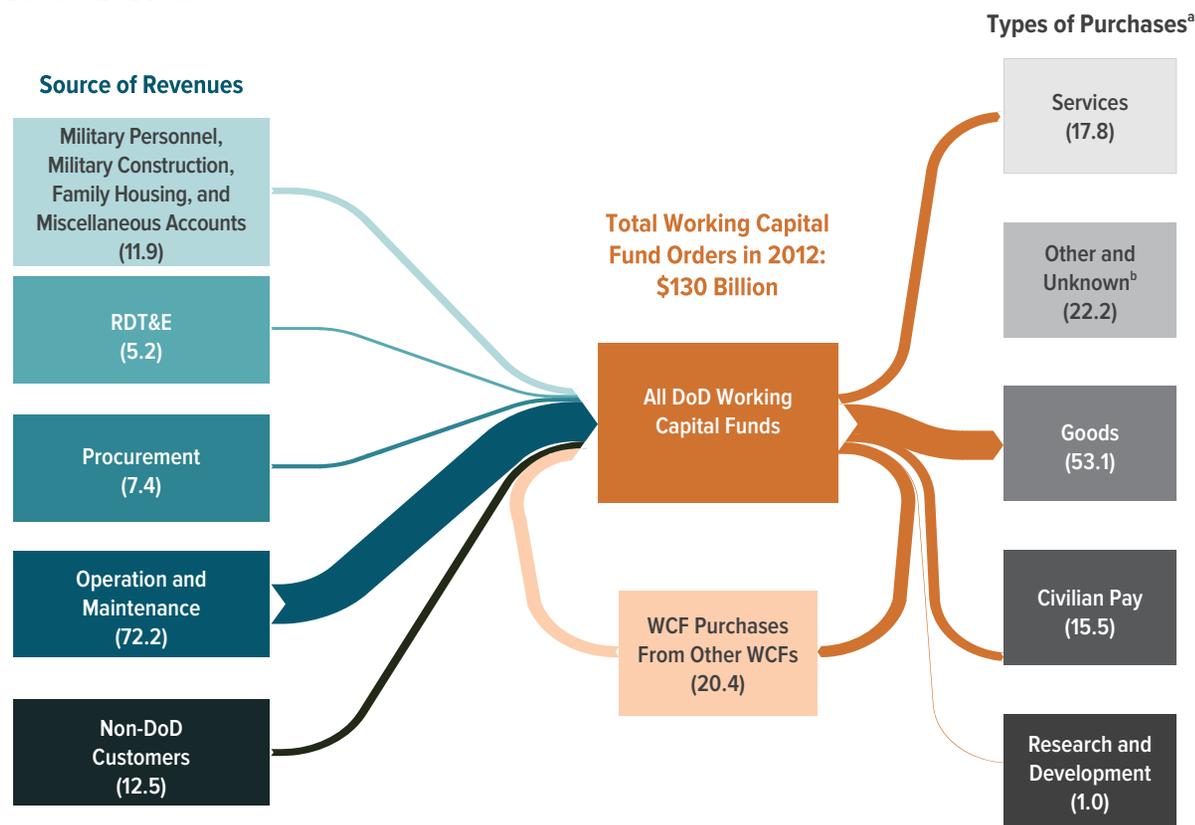
The other commodity classes accounted for smaller shares of O&M funding and had different mixes of providers. “Civilian compensation” is, by definition, provided by the government. Whereas working capital funds provided only 18 percent of the dollar total in the “services” category (including services such as depot maintenance), the ratios were nearly the reverse for “goods”: WCFs provided 63 percent of the dollar value of goods (including those purchased in bulk by the Defense Logistics Agency), and the private sector provided the remainder. Spending in the “property” category was mostly for goods and services provided by government sources other than DoD, such as the General Services Administration.

The goods and services (such as fuel and equipment maintenance) shown in this exhibit that were provided through working capital funds represent the outputs of WCF activities and do not include the inputs (such as labor services from DoD’s civilian employees or contractors) that WCFs purchase. The purchase of those inputs is discussed in Exhibit 10 (which is based on different data), although data provided by DoD do not allow CBO to reconcile the dollar amounts across the two exhibits. ♦

Exhibit 10.

Flows Within DoD's Working Capital Funds

Billions of 2012 Dollars



Source: Congressional Budget Office, using data from the Department of Defense.

For a breakdown of WCF flows by provider, see the supplemental data file “1. Detailed Flows Within DoD’s Working Capital Funds, by Provider,” www.cbo.gov/publication/52156.

DoD = Department of Defense; RDT&E = research, development, test, and evaluation; WCFs = working capital funds.

- a. The data for the goods and services categories in this exhibit come from a different source than those for Exhibits 7 and 8 and therefore are based on slightly different definitions.
- b. Miscellaneous items that CBO was unable to identify with available data.

About 20 percent of O&M funding in 2012 was for the acquisition of goods and services through working capital funds. Those funds provide goods and services to other DoD organizations and to one another, obtaining “revenues” from the “customers” to whom they “sell” goods and services.

According to the budget justifications for WCFs that DoD provides to the Congress, about two-thirds (\$72 billion) of WCF revenues in 2012 came from O&M accounts. That figure includes both base-budget funding and funding for overseas contingency operations, which are combined in DoD’s justification books and cannot be separated. WCFs also received revenue from other appropriation accounts, as well as about \$3 billion in direct appropriations (not shown in the exhibit).

In 2012, about 40 percent of total WCF revenues (including revenues from other WCF activities) was used to purchase goods and another 14 percent to purchase services from the private sector. About 12 percent was used to purchase labor from federal civilians. CBO could not determine how WCFs spent about 17 percent of their revenues.

The actual amount of O&M funding that WCFs receive is unclear, however, because data in the WCF budget justifications are inconsistent with those in the O&M justification books. The O&M documents report about \$63 billion in total O&M spending through WCFs in 2012 (including about \$25 billion in OCO funds) rather than the \$72 billion shown here—a figure that CBO derived from WCF justification books. CBO could not reconcile that difference even after discussions with DoD but is working with the department to improve the quality and scope of the data. ♦



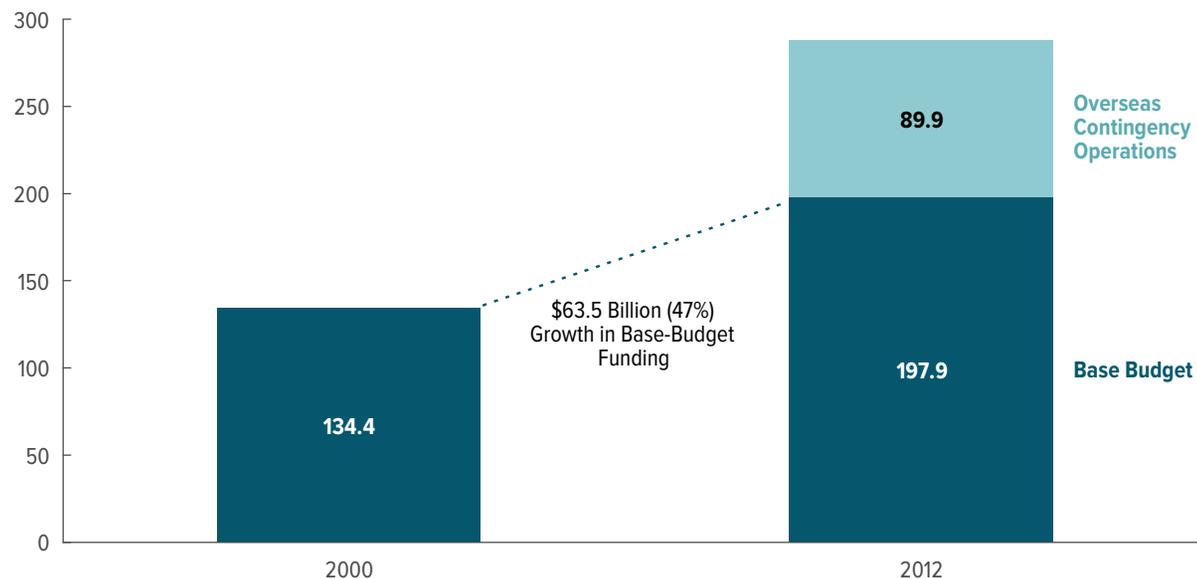
**Growth in Spending for Operation and Maintenance
Between 2000 and 2012, by Category**



Exhibit 11.

Growth in Funding for Operation and Maintenance Between 2000 and 2012, After Removing the Effects of Inflation

Billions of 2012 Dollars



To examine the causes of growth in funding for O&M, CBO compared funding in 2012 with funding in 2000 (the years for which detailed data were available), after adjusting to remove the effects of inflation. Measured in 2012 dollars, O&M funding in the base budget grew from about \$134 billion in 2000 to \$198 billion in 2012, an increase of 47 percent. Exhibits 12, 13, and 14 examine the sources of that growth.

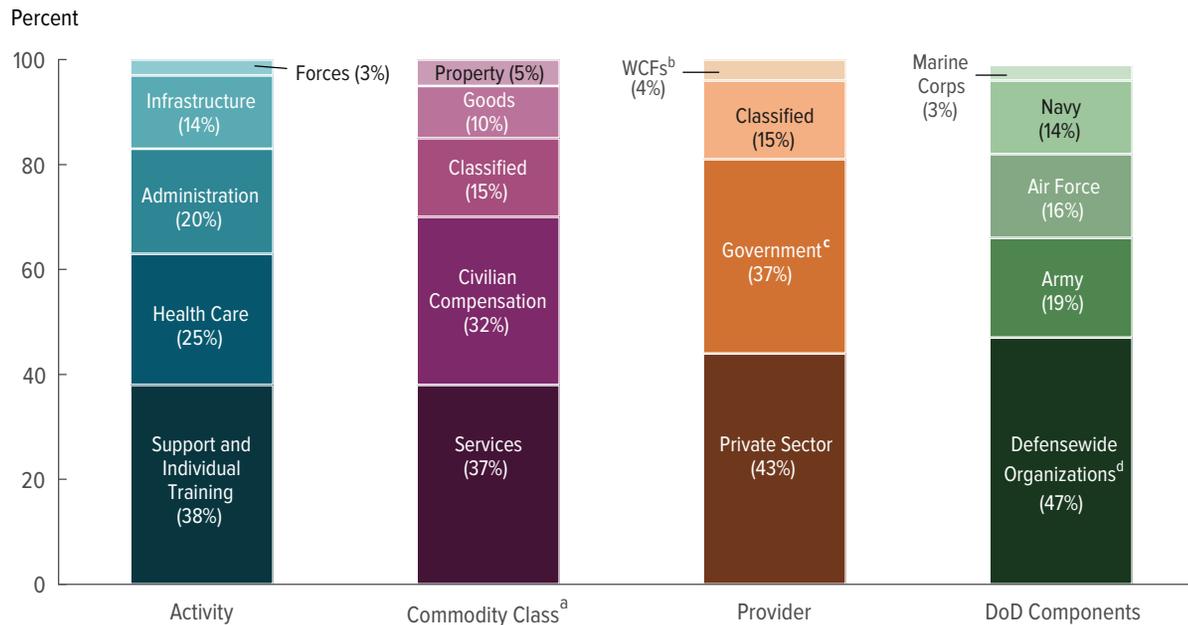
Over the same period, O&M funding for overseas contingency operations grew from essentially zero in 2000 to almost \$90 billion in 2012. CBO did not analyze OCO funding for this report because such funding is attributable to wartime operations, which are temporary and, in principle, should not have long-term effects on DoD's base budget. ♦

Source: Congressional Budget Office, using data from the Department of Defense (DoD).

CBO's analysis of the growth in operation and maintenance funding focuses on DoD's base budget, which funds peacetime activities. However, to provide broader context, supplemental operation and maintenance funding for overseas contingency operations (such as the current Operation Freedom's Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria) is included in this exhibit.

Exhibit 12.

Share of Growth in Base-Budget Funding for Operation and Maintenance From 2000 to 2012, by Category and DoD Component



Source: Congressional Budget Office, using data from the Department of Defense (DoD).

DoD's base budget funds peacetime activities; it does not include funding for overseas contingency operations such as the current Operation Freedom's Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

- Because of the relatively small amounts of spending attributable to the category "Other" and the miscellaneous nature of that spending, "Other" has been excluded from this depiction of the category "Commodity Class."
- Defense working capital funds (WCFs) constitute an internal marketplace in which organizations within DoD purchase goods and services from one another. WCF providers receive some direct appropriations but, for the most part, obtain "revenues" from their DoD "customers" to whom they "sell" goods and services.
- Includes DoD's civilian employees (not funded through WCFs) and other government agencies.
- Defensewide organizations include the various defense agencies and smaller independent programs, the Defense Health Program, the Office of the Secretary of Defense, the Joint Chiefs of Staff, Special Operations Command, and other organizations that support the services.

Measured in 2012 dollars, funding for O&M grew by about \$64 billion (or 47 percent) between 2000 and 2012. That growth can be analyzed by activity, commodity class, and provider, as well as by DoD component (the military services and defensewide organizations and programs).

Within the "activity" category, forces (spending for units whose primary mission is to directly engage in offensive and defensive combat operations) accounted for just 3 percent of the increase in O&M funding. Functions related to support and individual training, health care, administration, and infrastructure all accounted for much more of the increase.

Among the commodity classes, services and civilian compensation together accounted for more than two-thirds of the growth. Spending on classified programs accounted for 15 percent of the growth; that spending is included in both the provider and commodity-class groupings because information useful for allocating that spending into the appropriate categories was not available to CBO.

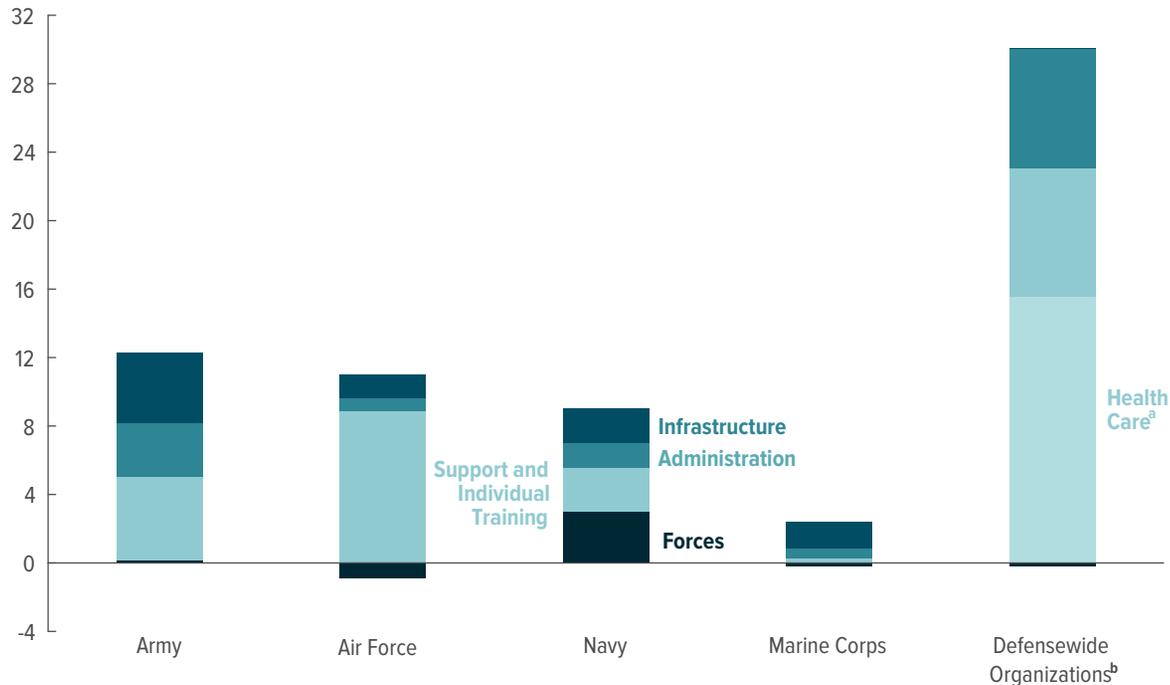
Among the different types of providers, the largest portion of the funding increase (43 percent) was used for purchases of goods and services from the private sector. Government, which includes DoD's civilian employees and other government agencies, was the source for the next largest share (37 percent).

Among DoD's components, defensewide organizations accounted for almost half of the growth in O&M funding between 2000 and 2012. Of the rest, the Navy, Air Force, and Army accounted for roughly equivalent portions, while the Marine Corps accounted for the smallest share. ♦

Exhibit 13.

Growth in Base-Budget Funding for Operation and Maintenance From 2000 to 2012, by Type of Activity

Billions of 2012 Dollars



Source: Congressional Budget Office, using data from the Department of Defense (DoD).

DoD's base budget funds peacetime activities; it does not include the funding for overseas contingency operations such as the current Operation Freedom's Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

- This category mostly reflects funding for the Defense Health Program, which includes both the deployable medical units of the Army, Air Force, and Navy, and other DoD-wide health care programs that were consolidated beginning in the early 1990s, culminating in the establishment of the Defense Health Agency in 2014.
- Defensewide organizations include the various defense agencies and smaller independent programs, the Defense Health Program, the Office of the Secretary of Defense, the Joint Chiefs of Staff, Special Operations Command, and other organizations that support the services.

Between 2000 and 2012, all five Department of Defense components—the four service branches and defensewide organizations—experienced growth in O&M funding, but the activities responsible for that growth varied widely across the components. Measured in 2012 dollars, O&M funding for the Army, Air Force, Navy, and Marine Corps grew by about \$12 billion, \$10 billion, \$9 billion, and \$2 billion, respectively, over that period. However, defensewide funding increased by \$32 billion.

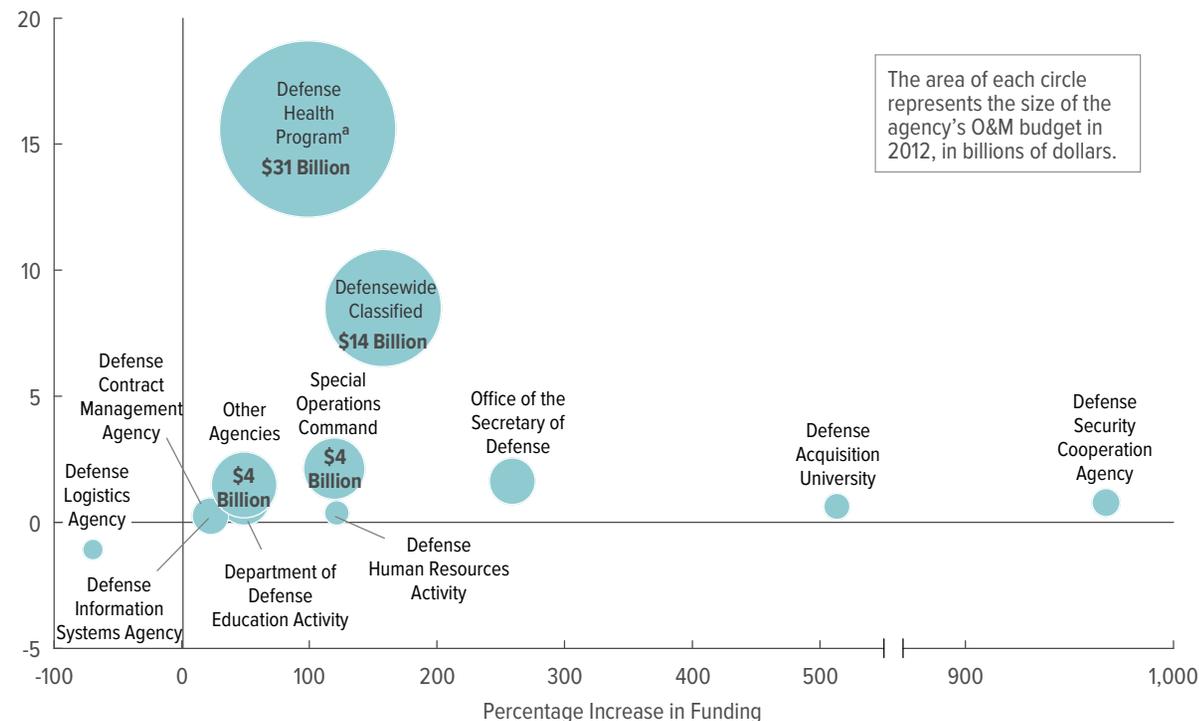
Funding within the category “forces” accounted for a relatively small portion of the growth in all of the military services except for the Navy; funding for forces actually decreased in the Air Force, Marine Corps, and defensewide organizations.

The patterns of growth in the various services differed in a number of other ways. Funding for “support and individual training” accounted for by far the largest share of the increase in O&M funding for the Air Force, more than twice the share of the growth experienced by other services for that activity. In the Marine Corps, funding for “infrastructure” accounted for the largest share of the growth in O&M funding; in defensewide organizations, funding for “health care” accounted for almost half of the growth. A portion of the growth in defensewide administration has occurred because DoD consolidated some common support functions (such as finance and accounting services) into defensewide agencies (such as the Defense Finance and Accounting Service). ♦

Exhibit 14.

Growth in Defensewide Organizations' Base-Budget Funding for Operation and Maintenance From 2000 to 2012

Change in Funding in Billions of 2012 Dollars



Source: Congressional Budget Office, using data from the Department of Defense (DoD).

DoD's base budget funds peacetime activities; it does not include funding for overseas contingency operations such as the current Operation Freedom's Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

Defensewide agencies and organizations include the following: American Forces Information Service (Defense Media Activity), Defense Acquisition University, Defense Commissary Agency (working capital portion), Defense Health Agency (formerly Tricare Management Activity), Defense Human Resources Activity, Defense Information Systems Agency, Defense Logistics Agency, Defense Security Cooperation Agency, Defense Security Service, Defense Threat Reduction Agency, the Joint Chiefs of Staff, Missile Defense Agency, National Defense University, Office of Economic Adjustment, Office of the Secretary of Defense and programs managed by that office, personnel support programs (including those for families and education), Washington Headquarters Services, and miscellaneous defensewide programs.

O&M = operation and maintenance.

- a. The Defense Health Program includes both the deployable medical units of the Army, Navy, and Air Force, and other DoD-wide health care programs that were consolidated beginning in the early 1990s, culminating in the establishment of the Defense Health Agency in 2014.

The defensewide component, which consists of more than a dozen agencies and many other organizations and programs, accounted for almost half of the \$64 billion increase in DoD's funding for O&M between 2000 and 2012 (measured in 2012 dollars). O&M funding for most of those entities rose faster than DoD's average rate of growth for O&M over that period, 47 percent.

The largest dollar increase was for the Defense Health Program; its funding almost doubled between 2000 and 2012 (rising from about \$16 billion to \$31 billion, an increase of \$15 billion, as shown on the vertical axis). A principal cause of growth in the DHP over the past several years was the expansion of health care benefits for military retirees and their families. In addition, spending on classified programs increased significantly—rising from about \$5 billion to nearly \$14 billion—probably because of the wars in Iraq and Afghanistan. Spending by the Special Operations Command also increased (from \$2 billion to \$4 billion), probably for the same reasons. Only the Defense Logistics Agency reduced its O&M spending between 2000 and 2012, perhaps because some of its functions were taken over when the Defense Contract Management Agency became a separate entity in about 2001.

Although O&M funding for a few defense agencies grew even more rapidly than that for the DHP, that growth was relatively small in dollar terms. For example, O&M spending by the Defense Security Cooperation Agency increased about tenfold (from just over \$80 million to just under \$900 million) during the period, as a result of greater arms sales and training related to counterterrorism. Funding for the Defense Acquisition University grew by more than 500 percent, possibly reflecting DoD's efforts during the past several years to improve its acquisition workforce. ♦



**Growth in Spending for O&M From 2000 to 2012
in Categories That Are Difficult to Track**

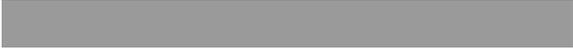
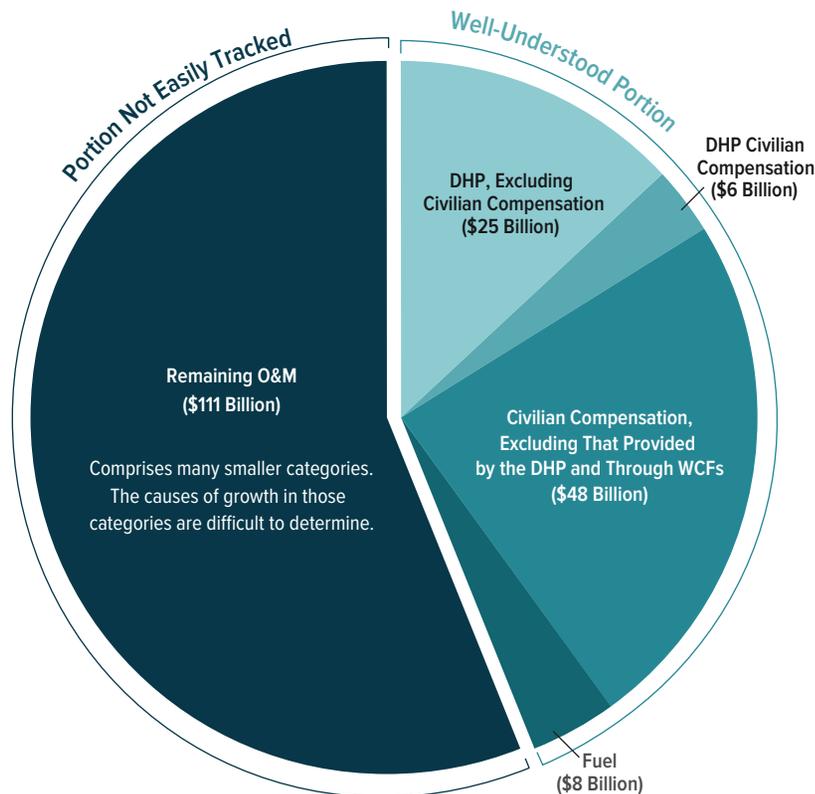


Exhibit 15.

Portions of Base-Budget Funding for Operation and Maintenance That Are Well Understood and Those That Are Not Easily Tracked

Billions of 2012 Dollars



The O&M budget can be divided into a few large accounts that are well understood and a large collection of much smaller accounts that are more difficult to track. Together, the Defense Health Program, civilian compensation, and fuel made up 44 percent of O&M funding in 2012. The content of those large accounts is easily identified, and the growth in spending can be explained, in large part, by increases in health care benefits and incentives to use the system, civilian pay raises, and higher fuel prices, all of which grew faster than total O&M funding in DoD's base budget between 2000 and 2012.

However, the same is not true for the remaining 56 percent of O&M funding in 2012. The "remaining O&M" category consists of many diverse small accounts, such as certain types of equipment maintenance and professional services. The contents of those accounts are not always apparent from the way they are labeled, and consequently the reasons for their growth are not easy to discern. (Those smaller accounts are examined in Exhibits 17 and 18.) ♦

Source: Congressional Budget Office, using data from the Department of Defense (DoD).

DoD's base budget funds peacetime activities; it does not include funding for overseas contingency operations such as the current Operation Freedom's Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

The Defense Health Program (DHP) includes both the deployable medical units of the Army, Navy, and Air Force, and other DoD-wide health care programs that were consolidated beginning in the early 1990s, culminating in the establishment of the Defense Health Agency in 2014. For more about changes in benefits and associated costs of the military health care system, see Congressional Budget Office, *Approaches to Reducing Federal Spending on Military Health Care* (January 2014), www.cbo.gov/publication/44993.

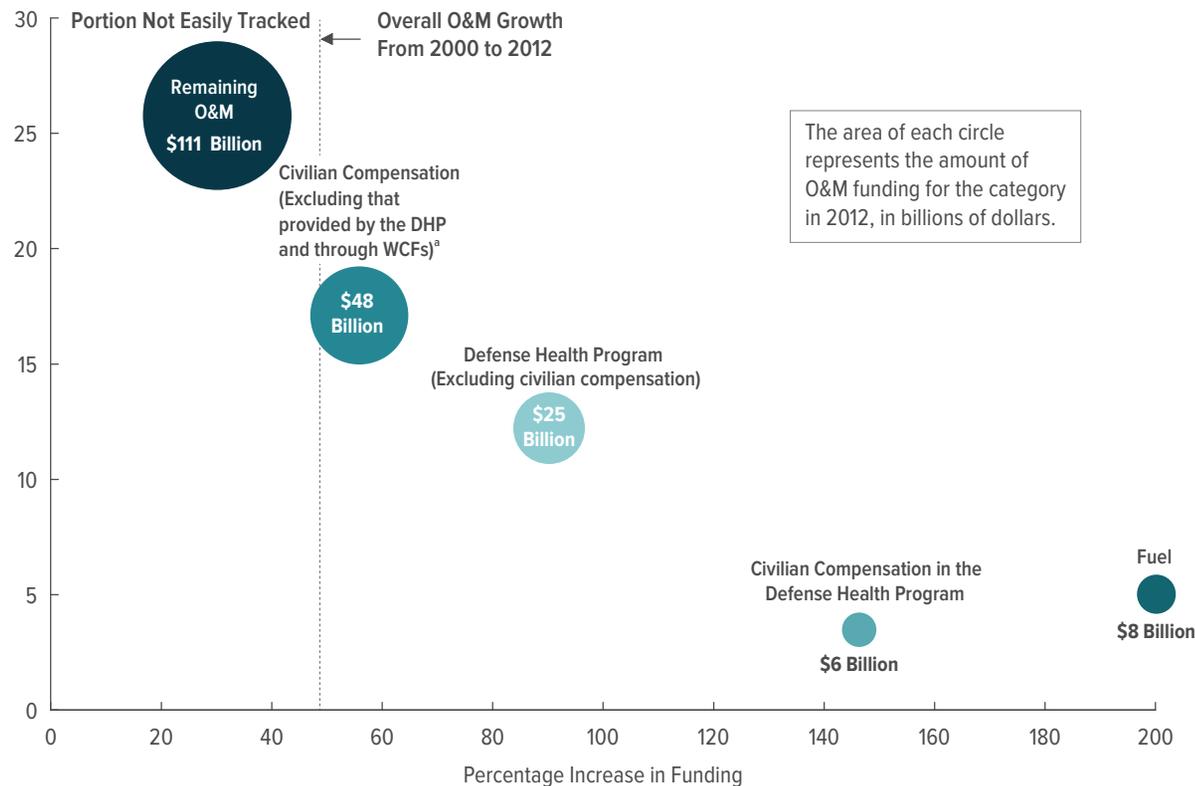
Defense working capital funds (WCFs) constitute an internal marketplace in which organizations within DoD purchase goods and services from one another. WCF providers receive some direct appropriations but, for the most part, obtain "revenues" from their DoD "customers" to whom they "sell" goods and services.

O&M = operation and maintenance.

Exhibit 16.

Growth in Base-Budget Funding for Operation and Maintenance From 2000 to 2012, by Major Category

Change in Funding in Billions of 2012 Dollars



Source: Congressional Budget Office, using data from the Department of Defense (DoD).

DoD's base budget funds peacetime activities; it does not include funding for overseas contingency operations such as the current Operation Freedom's Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

The Defense Health Program (DHP) includes both the deployable medical units of the Army, Navy, and Air Force, and other DoD-wide health care programs that were consolidated beginning in the early 1990s, culminating in the establishment of the Defense Health Agency in 2014.

Defense working capital funds (WCFs) constitute an internal marketplace in which organizations within DoD purchase goods and services from one another. WCF providers receive some direct appropriations but, for the most part, obtain "revenues" from their DoD "customers" to whom they "sell" goods and services.

O&M = operation and maintenance.

a. Civilian employees exclude those whose salaries and benefits are funded through WCFs.

Funding for civilian compensation, health care, and fuel purchases—the well-understood categories—grew at a faster rate than that for other categories of O&M. Together, they accounted for about 60 percent of the overall growth in O&M funding between 2000 and 2012 (about \$38 billion of \$64 billion, measured in 2012 dollars), rising at an average rate of 80 percent. Increased funding for civilian compensation can be linked to a larger, more senior workforce, and legislated pay raises.¹ Rising appropriations for the Defense Health Program are attributable to expanded health benefits for military personnel, retirees, and their families and to greater incentives to use the system. Costs for fuel were higher in 2012, in part, because fuel prices more than doubled. Civilian compensation in the DHP grew faster than DoD's civilian compensation generally or than funding for the rest of the DHP.

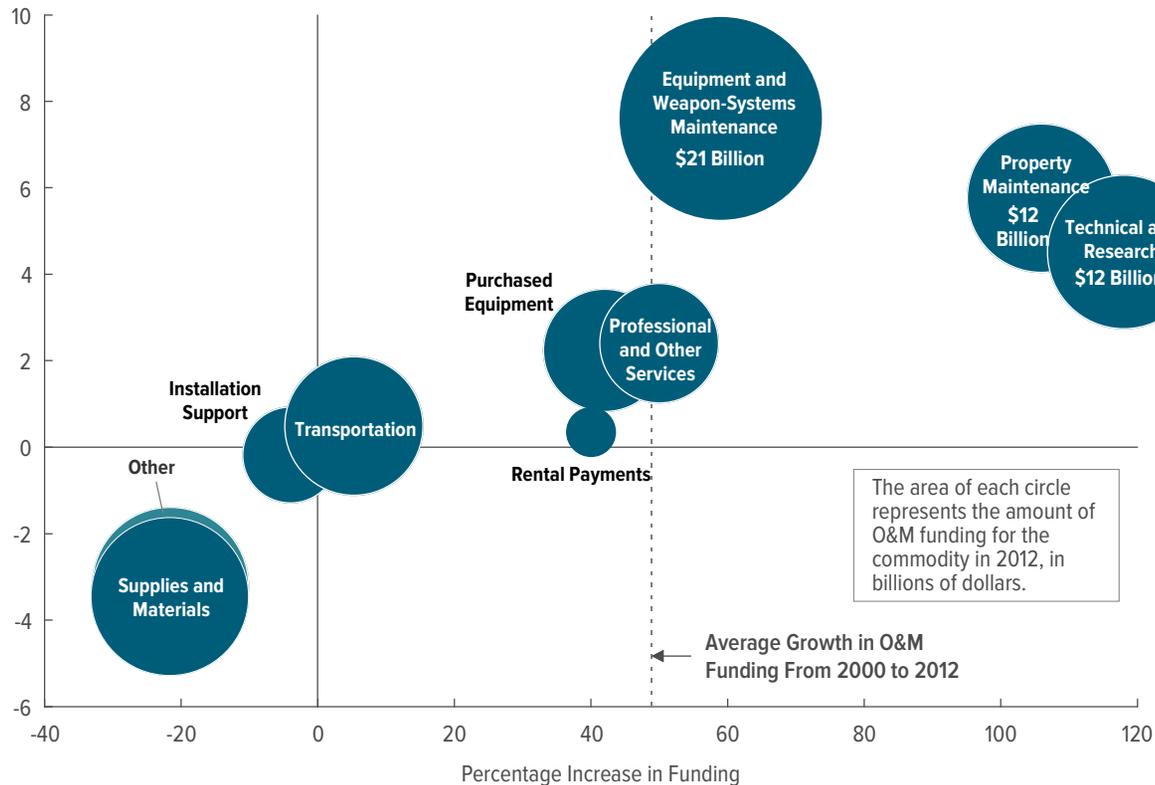
Funding for the remaining portion of the O&M budget grew at a slower rate overall (30 percent), but it still accounted for more growth in dollar terms than any one of the other, more easily identifiable categories. That funding grew by about \$26 billion between 2000 and 2012 (from \$86 billion to \$111 billion), accounting for 40 percent of the overall growth in O&M funding. (The causes of that growth, examined in Exhibits 17 and 18, are difficult to understand because that portion consists of small accounts that fund diverse activities, and because available data are not detailed enough to analyze those programs separately.) ♦

1. The number of O&M-funded civilian employees rose from 644,000 in 2000 to 740,000 in 2012.

Exhibit 17.

Growth in the Not-Easily-Tracked Portion of Base-Budget Funding for Operation and Maintenance From 2000 to 2012, by Commodity

Change in Funding in Billions of 2012 Dollars



Source: Congressional Budget Office, using data from the Department of Defense (DoD).

DoD's base budget funds peacetime activities; it does not include funding for overseas contingency operations such as the current Operation Freedom's Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

O&M = operation and maintenance.

This exhibit excludes funding for classified programs because CBO did not have enough information to allocate that spending into the appropriate categories.

CBO's analysis of the not-easily-tracked portion of the O&M budget indicates that, between 2000 and 2012, higher spending for equipment and weapon-systems maintenance, property maintenance, technical and research services, professional and other services, and purchased equipment accounted for a significant share of the growth. Together, those goods and services made up 31 percent (about \$61 billion) of total O&M funding in 2012 (\$198 billion) but accounted for 40 percent of the growth in funding (roughly \$25 billion of \$64 billion).

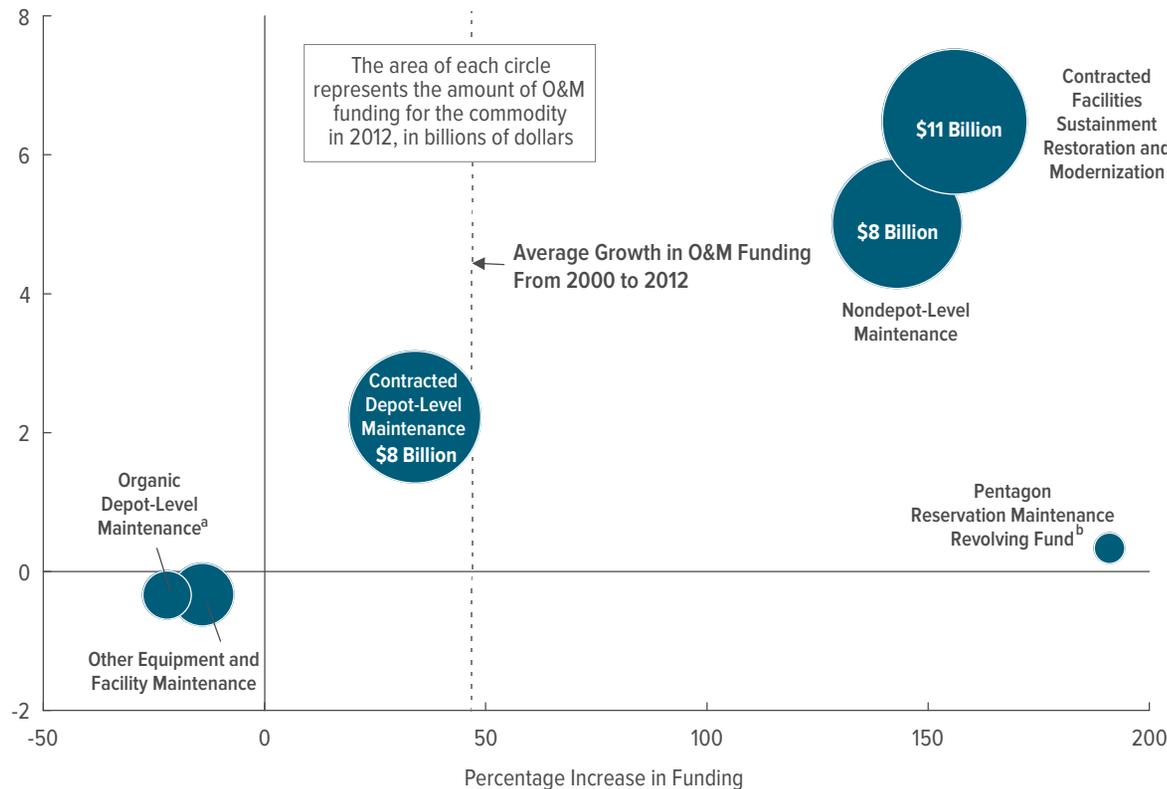
In particular, measured in 2012 dollars, funding for equipment and weapon-systems maintenance increased by 59 percent (from \$13 billion in 2000 to \$21 billion in 2012), while funding for maintenance related to property and facilities more than doubled (from about \$6 billion to nearly \$12 billion). (Exhibit 18 further examines the growth in those O&M categories.) Funding for technical and research services also more than doubled, from about \$6 billion to roughly \$12 billion. CBO did not have access to data with sufficient detail that would help explain these substantial increases.

Although spending grew in most areas of the not-easily-tracked portion of the budget, there were some notable exceptions: Spending both on supplies and materials and on "other" items (which include items such as insurance claims and indemnities and payments for interest rate penalties) fell by 21 percent over the period. CBO could not determine why spending fell in those categories. ◆

Exhibit 18.

Growth in Base-Budget Operation and Maintenance Funding for Equipment and Property Maintenance From 2000 to 2012

Change in Funding in Billions of 2012 Dollars



Source: Congressional Budget Office, using data from the Department of Defense (DoD).

DoD's base budget funds peacetime activities; it does not include funding for overseas contingency operations such as the current Operation Freedom's Sentinel in Afghanistan and Operation Inherent Resolve in Iraq and Syria.

O&M = operation and maintenance.

- Organic depot-level maintenance is major repair, overhaul, or complete rebuilding of large equipment or weapon systems by DoD organizations at DoD's depots.
- The Pentagon Reservation Maintenance Revolving Fund finances the activities of Washington Headquarters Services (in the Office of the Secretary of Defense) in providing space and building services for DoD offices housed within the Pentagon complex.

Between 2000 and 2012, funding for the maintenance of equipment, weapon systems, and property was the largest contributor to growth in the category CBO defined as "not easily tracked," accounting for about \$13 billion in increased funding or almost one-quarter of all growth in O&M. That amounted to a real increase of about 70 percent.

Equipment and weapon-systems maintenance, for which spending increased by slightly more than \$7 billion during the period, consists of two categories: depot-level maintenance (major repair, overhaul, or complete rebuilding of large equipment and weapon systems at large centralized facilities); and nondepot-level maintenance (less-intensive repair of equipment and weapon systems usually conducted at smaller repair facilities or within an organization). Private contractors provided the bulk of nondepot-level maintenance of equipment and weapon systems in 2000 and accounted for all of the roughly \$5 billion increase in funding in that category by 2012. Depot-level maintenance provided by private contractors increased by about \$2 billion (from about \$6 billion to about \$8 billion) between 2000 and 2012; over the same period, such maintenance provided by DoD organizations ("organic" depot-level maintenance) actually fell.

Private contracts for property maintenance services, called facilities sustainment, restoration, and modernization, increased by about \$6 billion.

CBO could not determine from DoD's budget justifications whether the cost increases were due to higher volumes of contracted equipment and property maintenance or to higher prices for a given volume of maintenance or to a combination of both. ♦



About This Document

This Congressional Budget Office report was prepared at the request of the Chairman and Ranking Member of the Senate Armed Services Committee in the 113th Congress. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

The report was prepared by Adebayo Adedeji and Derek Trunkey of CBO's National Security Division and Daniel Frisk (formerly of CBO), with guidance from Matthew Goldberg (formerly of CBO) and David Mosher. William Ma, Daniel Ready, Jeffrey Werling, and Matthew Woodward provided useful comments, as did Brent Boning of the CNA Corporation and Stanley Horowitz of the Institute for Defense Analyses. (The assistance from external reviewers implies no responsibility for the final product, which rests solely with CBO.)

Jeffrey Kling, John Skeen, and Robert Sunshine reviewed the report. Loretta Lettner edited the document, and Maureen Costantino (formerly of CBO), Jeanine Rees (formerly of CBO), and Gabe Waggoner prepared it for publication. An electronic version is available on CBO's website (www.cbo.gov/publication/52156).

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