

January 2017

# The Enduring Dilemma of Overseas Contingency Operations Funding

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## Overview

The practice of using Overseas Contingency Operations (OCO) funding for base budget activities may become a significant issue in the new administration. Because OCO funding is intended for war-related activities that cannot be forecasted well in advance, it is not restricted by the Budget Control Act (BCA) budget caps. However, in recent years both Congress and the Obama administration have moved items from the base budget to the OCO budget as a way of circumventing the BCA budget caps. Roughly half of the OCO budget (\$30 billion) is now being used for programs and activities that were previously funded in the base budget. In May, Representative Mick Mulvaney co-sponsored an amendment to the National Defense Authorization Act (NDAA) that would have restricted the use of OCO funding for base budget activities, effectively ending this loophole.<sup>1</sup> While this amendment did not pass, the issue is not likely to go away now that Rep. Mulvaney has been nominated by President-elect Trump to be the Director of the Office of Management and Budget (OMB).

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## Background

The use (or misuse) of OCO funding for base budget activities is not new to the Obama administration. As the Congressional Research Service has noted, the George W. Bush administration used OCO funding for some base budget activities; Congress has transferred

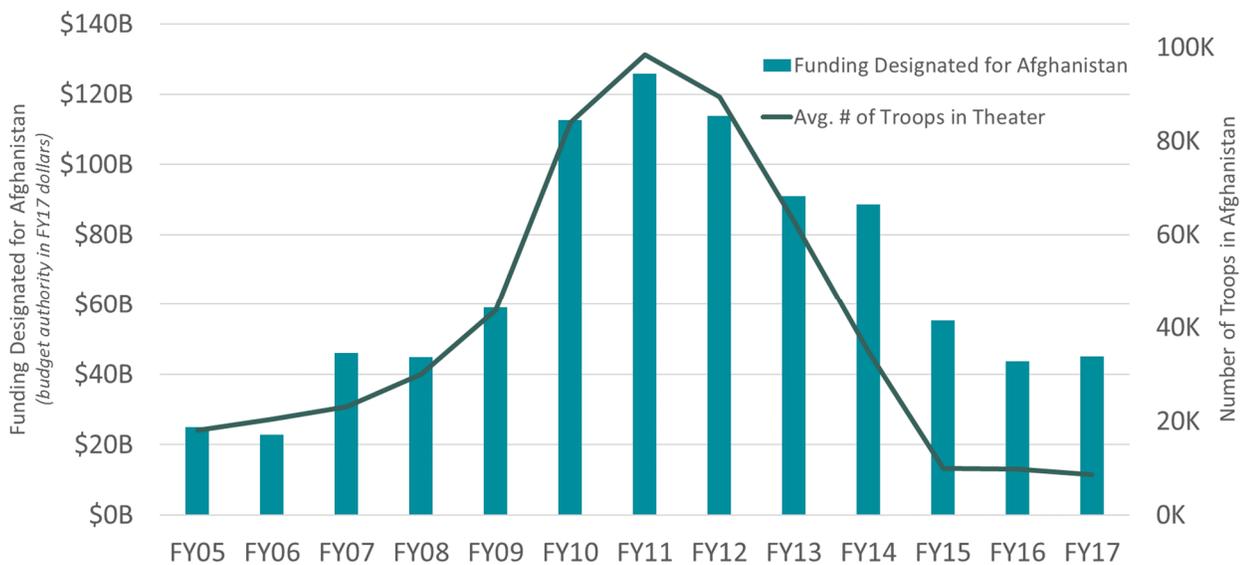
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<sup>1</sup> Press Release, “Mulvaney, Van Hollen, Lee, Sanford Amendment Helps Prevent Abuse of OCO Slush Fund,” May 19, 2016, <https://mulvaney.house.gov/media-center/press-releases/mulvaney-van-hollen-lee-sanford-amendment-helps-prevent-abuse-oco-slush>.

funding from the base budget to the OCO budget in multiple appropriations bills;<sup>2</sup> and the most recent budget deal from December 2015 sets a minimum level of OCO funding which virtually ensures some will be used for base budget activities.<sup>3</sup> DoD itself estimated that base budget funding in OCO under the Bush administration peaked in FY 2008 at \$12.1 billion.<sup>4</sup> The difference now is the magnitude by which the Obama administration has expanded this practice—which far exceeds what Congress and the Bush administration have done in the past.

In the five years since the BCA was enacted, OCO funding has become a convenient tool for Congress and DoD to negotiate around the budget caps. The Obama administration significantly expanded its use of this loophole beginning in FY 2014—the first OCO budget request submitted after the BCA budget caps went into enforcement.<sup>5</sup> As shown in Figure 1 below, the level of OCO funding designated for Afghanistan (shown in the vertical bars) tracked closely with the number of troops deployed to Afghanistan (shown in the solid line) through FY 2013.

Figure 1: Funding and Troop Levels in Afghanistan



Beginning in FY 2014, however, the Obama administration began requesting roughly \$25 to \$30 billion more for Afghanistan than historical trends indicate would be necessary given the level of

<sup>2</sup> Amy Belasco, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11* (Washington, DC: CRS, December 8, 2014), 26-28, <https://www.fas.org/sgp/crs/natsec/RL33110.pdf>.

<sup>3</sup> "Bipartisan Budget Act of 2015 Section-by-Section Summary," Congressional Report, <http://docs.house.gov/meetings/RU/RU00/CPRT-114-RU00-D001.pdf>.

<sup>4</sup> Belasco, p. 34.

<sup>5</sup> The FY 2014 OCO request was submitted in May of 2013, a month later than the base budget request and two months after sequestration was triggered.

forces remaining in Afghanistan. The evidence suggests that this additional funding is not due to operations in Afghanistan but rather is base budget funding that has been re-labeled by the Obama administration as OCO funding.<sup>6,7</sup>

DoD has tacitly acknowledged that roughly \$30 billion of the current OCO request is being used for base budget activities, referring to it as “enduring costs.” In the FY 2016 budget request, DoD stated that “early this year [2015] the Administration will propose a plan to transition all enduring costs currently funded in the OCO budget to the base budget beginning in 2017 and ending by 2020.”<sup>8</sup> Responding to a question about this in a February 2015 press briefing, Deputy Secretary of Defense Bob Work alluded to the magnitude of enduring costs and the difficulty of transferring them back into the base budget where they once resided using a hypothetical (emphasis added):

“The White House will announce that their intent is to try to move what these enduring base costs that have crept into OCO over 13 years of war *back into the base budget*. But we can only do it if the sequestration caps are lifted. Otherwise, if you took 20 (billion dollars) to \$30 billion of enduring costs—or enduring costs and tried to put it into the budget without a concomitant topline increase, as the vice chairman as said, that, in essence, is a 20 [billion dollar] to \$30 billion per year cut.”<sup>9</sup>

Deputy Secretary Work left it as a broad hypothetical and stopped short of saying that \$20 to \$30 billion was in fact the amount of base budget funding in the OCO budget. But more than a year later on September 30, 2016 a DoD spokesperson confirmed this, saying:

“The Department of Defense Fiscal Year (FY) 2017 Overseas Contingency Operations (OCO) budget request includes requirements associated with a forward presence and readiness that will likely continue after current operations in Afghanistan and Iraq/Syria conclude. The cost associated with these enduring requirements is in the range of \$30 billion annually.”<sup>10</sup>

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<sup>6</sup> Todd Harrison, *Analysis of the FY 2017 Defense Budget* (Washington, DC: CSIS, April 2016), p. 9.

<sup>7</sup> This does not include base budget funding Congress moved into OCO or new contingency operations that have begun since the BCA was enacted, such as the European Reassurance Initiative and operations against the Islamic State in Iraq and Syria.

<sup>8</sup> Office of the Under Secretary of Defense (Comptroller), *United States Department of Defense Fiscal Year 2016 Budget Request Overview*, (Washington, DC: DoD, February 2015), 7-9.

<sup>9</sup> News Transcript, “Department of Defense Briefing by Deputy Secretary Work and Adm. Winnefeld on the Fiscal Year 2016 Budget in the Pentagon Briefing Room,” February 2, 2015, <http://www.defense.gov/News/Transcripts/Transcript-View/Article/607002/departments-of-defense-briefing-by-deputy-secretary-work-and-adm-winnefeld-on-th>.

<sup>10</sup> Tony Bertuca, “Pentagon will need to fund ‘enduring requirements,’ now in OCO account, once combat ends,” *Inside Defense*, September 30, 2016, <http://insidedefense.com/daily-news/pentagon-will-need-fund-enduring-requirements-now-oco-account-once-combat-ends>

As Secretary of Defense Ashton Carter has previously stated, OCO “is funding that is intended to cover the variable costs of operations that go up and down in the course of a year. The base budget funds the *enduring* military that will be here 10 years, 20 years down the road.”<sup>11</sup> The enduring requirements DoD references for “forward presence and readiness” are cornerstones of the base budget that are needed regardless of contingency operations around the world.

## Issues

The fact that \$30 billion of the OCO budget is being used for base budget activities creates several challenges for the new administration. First, it means that DoD’s current programs and force structure cost more than is shown in its base budget request. This is particularly problematic in the out-years of DoD’s budget request (FY 2018 to FY 2021) because the budget projections for these years do not include the roughly \$120 billion in “enduring” OCO funding the Department is planning to use to support its base budget over the next four years. This is on top of the \$113 billion the Obama administration’s base defense budget request exceeds the BCA budget caps over the same period, making a combined shortfall of roughly \$233 billion, or nearly \$60 billion per year over the next four years.<sup>12</sup> Before the Trump administration can begin to fund its plans to grow the force it must first fund this shortfall just to maintain the level of forces and readiness projected by the Obama administration.

It also means that overall federal spending and deficit projections will be worse than the administration’s FY 2017 budget materials indicate. These additional “enduring” costs would add roughly \$120 billion to the \$2.6 trillion in deficit spending the budget already projects for the next five years (FY 2017 to FY 2021).<sup>13</sup> This does not include legitimate war-related costs in future years, which are also not fully accounted for in the budget request’s deficit projections and will further increase deficits.

The continued use of OCO funding in this manner could complicate budget negotiations in Congress and within the Trump administration. Fiscal conservatives within the Republican party, and Rep. Mulvaney in particular, have argued that any increases in defense should be matched by equal cuts in other parts of the budget. Democrats (and even the Obama administration) have

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<sup>11</sup> News Transcript, “Remarks by Secretary Carter on the Budget at the Economic Club of Washington, D.C.,” February 2, 2016, <http://www.defense.gov/News/Transcripts/Transcript-View/Article/648901/remarks-by-secretary-carter-on-the-budget-at-the-economic-club-of-washington-dc>.

<sup>12</sup> Todd Harrison, *Analysis of the FY 2017 Defense Budget* (Washington, DC: CSIS, April 2016), p. 36.

<sup>13</sup> Office of Management and Budget, *Fiscal Year 2017 Historical Tables Budget of the U.S. Government* (Washington, DC: GPO, February 2016) Historical Table 1.1, available at: <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2017/assets/hist01z1.xls>.

argued that any increases in the defense budget—base or OCO—must be matched by equal increases in the non-defense budget. As the Trump administration begins preparations for its FY 2018 budget request, the question of how to handle the base budget funding in OCO could be a major point of contention among OMB, DoD, and Congress.

## Options

The Trump administration has several options for how it could handle the use of OCO funding for base budget activities, each with risks and implementation challenges. All of the options below assume that the actual costs for contingency operations in Iraq, Syria, Afghanistan, and elsewhere would continue to be funded in OCO and only base budget funding in OCO would be affected.

- 1. Move funding back to the base budget *without* a corresponding increase in the BCA budget caps.** This option may be the most attractive to fiscal conservatives because it does not increase the deficit or overall spending and does not require raising the budget caps, which would mean negotiating a deal with Democrats in the Senate to reach the 60-vote threshold. However, it would force DoD to cut \$30 billion from its existing base budget plans through some combination of cuts to acquisitions, force structure, and readiness, which would face strong resistance among defense hawks in Congress.
- 2. Move funding back to the base budget *with* a corresponding increase in the BCA budget caps.** This option would require a larger increase in the budget caps, which would make it more difficult to get through Congress and would likely require a deal with Senate Democrats. Maintaining the Obama administration defense plans and moving base budget funding out of OCO would mean an increase in the budget caps of nearly \$60 billion per year. Any increases in force structure desired by the Trump administration would be on top of that.
- 3. Continue using the OCO loophole.** Under this approach, base budget funding would remain in OCO, and any increases in the defense budget caps could be used to grow the military. The challenge with this option is that fiscally conservative Republicans, such as Rep. Mulvaney, and many Democrats would likely continue to oppose this approach, creating resistance within the administration and Congress. This approach would also continue the budgetary uncertainty that comes from not having a five-year plan for base budget funding that resides in OCO.

**4. Gradually transition base budget funding out of OCO with some increase in BCA budget caps and some offsetting cuts.** The new administration could propose a hybrid approach by producing a five-year budget projection showing how much OCO would be used for base budget activities each year until it is eliminated. This could be implemented as part of a budget deal that raises the budget caps and could include some offsetting cuts in defense from efficiencies or civilian workforce reductions. This approach would not fully satisfy fiscal hawks, defense hawks, or many Democrats, but it may be the best deal any of these groups can get.

Regardless of which option the Trump administration chooses, OCO funding is likely to be a major issue in budget negotiations over the next year. The military's increased dependence on OCO funding to support peacetime activities is one of the most significant defense budget issues left unresolved by the Obama administration. It leaves a cloud of budgetary uncertainty over the Defense Department that could temper plans to grow the military and jeopardize modernization programs. It is an issue that has festered for nearly fifteen years, but it is one that may culminate early in the new administration.

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