Analysis of the FY 2017 Defense Budget

Todd Harrison

CSIS
CENTER FOR STRATEGIC & INTERNATIONAL STUDIES
International Security Program
Total Defense-Related Funding in FY17: $905B

- Veterans Benefits and Services, $179.2B
- DoD (base discretionary), $523.9B
- DoD (OCO), $58.8B
- DoD (base mandatory), $7.9B
- Atomic Energy Defense Activities, $20.5B
- Other Defense-Related Activities, $8.4B
- Amortization of Unfunded Liabilities, $83.4B
- Tax Expenditures, $22.8B

CSIS CENTER FOR STRATEGIC & INTERNATIONAL STUDIES
International Security Program
FY17 FYDP Compared to Budget Caps

Total National Defense Base Discretionary Budget (in FY17 dollars)

FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20 FY21

Post-Super Committee BCA Caps
ATRA 2012 Budget Deal
BBA 2013 Budget Deal
BBA 2015 Budget Deal

Actual

PB17 $113B

$650B
$625B
$600B
$575B
$550B
$525B
$500B
$475B
Base Budget Funding in Afghanistan OCO Request

Increase of ~$25B in "fixed" costs
Growing Costs, Shrinking Force

DoD Budget in FY17 Dollars (Discretionary and Mandatory)

Active Duty End Strength

DoD Civilian FTEs

Base Budget

CSIS
CENTERS FOR STRATEGIC & INTERNATIONAL STUDIES
International Security Program
Ratio of DoD Civilian FTEs to Active Service Members

Record High
Growth in Cost per Person (Military vs. Civilian)

- Avg. Cost per Active Service Member
- Avg. Cost per DoD Civilian

Budget Authority in FY17 Dollars (excludes Guard/Reserve Pay)

- FY84
- FY86
- FY88
- FY90
- FY92
- FY94
- FY96
- FY98
- FY00
- FY02
- FY04
- FY06
- FY08
- FY10
- FY12
- FY14
- FY16
- FY18
- FY20

Costs range from $40K to $140K.
Military Healthcare & Retirement Reforms in PB17

• Healthcare
  • Previous reforms now saving ~$5.4B annually
  • MCRMC recommended moving retirees and dependents out of MTFs
  • DoD’s request would incentivize greater use of MTFs
  • Savings: $0.5B in FY17 and $6.9B over the FYDP

• Retirement
  • New hybrid system (recommended by MCRMC) enacted in FY16 gives greater benefits to junior personnel
  • 401k-like plan matches up to 4%, starts after 2 years of service
  • DoD proposes increasing match to 5% but delaying start until 4 years
  • Would also extend matching contributions past 26 years of service
  • Costs: $0.4B in FY17; Net Savings: $1.9B over FYDP
Growth in O&M per Active Service Member

Annual Growth of 3.0% above inflation

2.9% above inflation
Ratio of Procurement to RDT&E Funding

- Ratio ~2.5:1
- Ratio ~1.5:1
F-35 Joint Strike Fighter

-$3.0B and -32 aircraft over the FYDP

<table>
<thead>
<tr>
<th>Year</th>
<th>PB16 Quantities</th>
<th>PB17 Quantities</th>
<th>PB16 Budget</th>
<th>PB17 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY16</td>
<td>57</td>
<td>68</td>
<td>68</td>
<td>68</td>
</tr>
<tr>
<td>FY17</td>
<td>66</td>
<td>63</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>FY18</td>
<td>88</td>
<td>70</td>
<td>90</td>
<td>80</td>
</tr>
<tr>
<td>FY19</td>
<td>90</td>
<td>80</td>
<td>92</td>
<td>86</td>
</tr>
<tr>
<td>FY20</td>
<td>92</td>
<td>86</td>
<td>100</td>
<td>105</td>
</tr>
<tr>
<td>FY21</td>
<td>100</td>
<td>105</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Littoral Combat Ship (LCS)

-$2.5B from FY 2017 to FY 2020
+$0.1B and +14 helicopters over the FYDP
Ground Based Strategic Deterrent (GBSD)

+$0.9B from FY 2017 to FY 2020

Total Obligational Authority (in then-year dollars)

PB16  PB17

FY16  FY17  FY18  FY19  FY20  FY21
B-21 Long Range Strike – Bomber (LRS-B)

-%$3.5B from FY 2017 to FY 2020
Strategic Capabilities Office (SCO)

+$1.3B from FY 2017 to FY 2020
Service Budgets by Title

82% on MILPERS and O&M

Army

- MILPERS (base): 37%
- MILPERS (OCO): 2%
- O&M (base): 29%
- RDT&E (base): 5%
- Procurement (base): 11%
- MILCON, Housing, Other (base): 1%

Navy

- MILPERS (base): 28%
- O&M (base): 28%
- RDT&E (base): 11%
- Procurement (base): 27%
- MILCON, Housing, Other (base): 1%

Air Force

- MILPERS (base): 21%
- O&M (base): 29%
- RDT&E (base): 6%
- Procurement (base): 23%
- MILCON, Housing, Other (base): 1%
- Procurement (OCO): 3%

Defense-Wide

- MILPERS (base): 7%
- O&M (base): 62%
- RDT&E (base): 17%
- Procurement (base): 4%
- MILCON, Housing, Other (base): 1%
- Procurement (OCO): 7%
Trends in Unfunded Priorities
## Tradeoffs in PB17 vs. PB16

<table>
<thead>
<tr>
<th>Service</th>
<th>Capability</th>
<th>Capacity</th>
<th>Readiness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Army</td>
<td>↓</td>
<td>↑</td>
<td>↑</td>
</tr>
<tr>
<td>Navy</td>
<td>↑</td>
<td>↓</td>
<td></td>
</tr>
<tr>
<td>Air Force</td>
<td>↓</td>
<td>↑</td>
<td></td>
</tr>
<tr>
<td>Marine Corps</td>
<td>↓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Issues for the Next Administration

• Program-resource mismatch of ~$233B over the FYDP
  • Revision or elimination of BCA budget caps for FY18-21
  • Use of OCO funding for base budget activities
• Modernization bow wave of the early 2020s
• Military and civilian personnel reform
• Acquisition reform and strategic technologies
• BRAC 20XX
Questions?

CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES | International Security Program
FYDP as a Lagging Indicator

DoD Base Budget Authority

(FY17 dollars, includes mandatory and discretionary)

FY80 FY82 FY84 FY86 FY88 FY90 FY92 FY94 FY96 FY98 FY00 FY02 FY04 FY06 FY08 FY10 FY12 FY14 FY16 FY18 FY20

- Carter
- Reagan
- Bush 41
- Clinton
- Bush 43
- Obama
Total National Defense Outlays Adjusted for Inflation

Adjusted Using Defense Deflators
Adjusted Using Chained GDP Price Index

Avg. $507B
Avg. $435B
FY16 vs. FY17 Funding by Title

<table>
<thead>
<tr>
<th>Title</th>
<th>FY16 Base</th>
<th>FY17 Base</th>
<th>FY17 OCO</th>
<th>FY16 OCO</th>
</tr>
</thead>
<tbody>
<tr>
<td>MILPERS</td>
<td>-0.7%</td>
<td>2.6%</td>
<td>-3.3%</td>
<td>0.7%</td>
</tr>
<tr>
<td>O&amp;M</td>
<td>2.6%</td>
<td>2.6%</td>
<td>0.5%</td>
<td>-11.6%</td>
</tr>
<tr>
<td>Procurement</td>
<td>-5.6%</td>
<td>-5.6%</td>
<td>-5.6%</td>
<td>-5.6%</td>
</tr>
<tr>
<td>RDT&amp;E</td>
<td>4.1%</td>
<td>4.1%</td>
<td>4.1%</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

Budget Authority in Then-Year Dollars
Comparison of Base DoD FYDP Projections

FY09 FYDP
FY10 FYDP
FY11 FYDP
FY12 FYDP
FY13 FYDP
FY14 FYDP
FY15 FYDP
FY16 FYDP
FY17 FYDP

DoD Base Budget Authority (in FY17 dollars, includes mandatory and discretionary)

<table>
<thead>
<tr>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
</tr>
</thead>
<tbody>
<tr>
<td>$500B</td>
<td>$520B</td>
<td>$540B</td>
<td>$560B</td>
<td>$580B</td>
<td>$600B</td>
<td>$620B</td>
<td>$640B</td>
<td>$660B</td>
<td>$500B</td>
<td>$520B</td>
<td>$540B</td>
</tr>
</tbody>
</table>

Enacted
Total DoD Military Compensation Costs: $189B

- Basic Pay, $53.7B
- Allowances, $27.5B
- Guard and Reserve Pay, $20.4B
- Retired Pay Accrual, $15.7B
- Concurrent Recepit Accrual, $7.6B
- Special Pays and Other MILPERS, $6.7B
- TRICARE for Life Accrual, $6.4B
- PCS Travel, $4.3B
- Social Security Tax, $4.1B
- Commissary Subsidy, $1.2B
- Other In-Kind Benefits, $3.4B
- DoD K-12 Schools, $2.9B
- Family Housing, $1.3B

Total DoD Military Compensation Costs: $189B
Total O&M Funding by Activity and Service

O&M by Activity

- Depot Maintenance, $27.7B
- Defense Health Program, $33.8B
- Other Activities, $58.2B
- Air Operations, $39.0B
- Mobilization, $11.1B
- Facilities, $9.7B
- Training and Education, $8.3B
- USSOCOM, $8.0B
- Command, Control, and Communications, $5.1B
- Recruiting, $1.6B
- Ship Operations, Support, $22.0B
- Land Forces, $11.6B

O&M by Service

- Navy, $55.0B
- Air Force, $57.3B
- Army, $63.3B
- Defense-Wide, $76.2B

Includes discretionary, mandatory, and OCO O&M funding
Trends in MILCON Funding

Budget Authority (in FY17 Dollars)

FY48 FY52 FY56 FY60 FY64 FY68 FY72 FY75 FY80 FY84 FY88 FY92 FY96 FY00 FY04 FY08 FY12 FY16 FY20

$0B $5B $10B $15B $20B $25B $30B $35B