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FUTURE YEARS DEFENSE PROGRAM

1996 Program Is Considerably Different From the 1995 Program





United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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September 15, 1995

The Honorable William V. Roth, Jr.
Chairman, Committee on Governmental Affairs
United States Senate

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

The Honorable Charles E. Grassley
United States Senate

At your request, we compared the Department of Defense's (DOD) fiscal year 1996 Future Years Defense Program (FYDP) with the FYDP for fiscal year 1995. Specifically, you asked us to determine (1) what major program adjustments were made from the 1995 FYDP to the 1996 FYDP, (2) what the implications of these changes are for the future, and (3) whether the 1996 FYDP complies with statutory requirements.

Background

Dramatic changes that occurred in the world as a result of the end of the Cold War and the dissolution of the Soviet Union have fundamentally altered the United States' security needs. In March 1993, DOD initiated a comprehensive review to define and redesign the nation's defense strategy, force structure, modernization, infrastructure, and budgets "from the bottom up." The report of the Bottom-Up Review, issued in October 1993, concluded that DOD could reduce its forces and infrastructure from a posture designed to meet a global Soviet threat to one that focuses on potential regional conflicts.¹

In our review of the 1995 FYDP,² the first FYDP to reflect the implementation of the Bottom-Up Review strategy, we concluded that DOD's major planning assumptions relied too heavily on optimistic cost estimates and potential savings. As a result, it had not gone far enough to meet economic realities, thus leaving its new plan with more programs than proposed budgets would support. This included approximately \$20 billion in

¹DOD defines infrastructure as all DOD activities other than those directly associated with operational forces, intelligence, strategic defense, and applied research and development.

²Future Years Defense Program: Optimistic Estimates Lead to Billions in Overprogramming (GAO/NSIAD-94-210, July 29, 1994).

overprogramming, which DOD identified in the 1995 FYDP as undistributed future adjustments.

Results in Brief

The fiscal year 1996 FYDP, which covers fiscal years 1996-2001, is considerably different from the 1995 FYDP, which covers fiscal years 1995-99. First, the total program increased by about \$12.6 billion in the 4 common years of both plans (fiscal years 1996-99). Second, approximately \$27 billion in planned weapon system modernization programs for these 4 years have been eliminated, reduced, or deferred to the year 2000 and beyond. Third, the military personnel, operation and maintenance, and family housing accounts increased by over \$21 billion during the common period and continue to increase to 2001 to support Defense's emphasis on readiness and quality-of-life programs. The net effect is a more costly defense program, despite substantial reductions in DOD's weapon modernization programs between 1996 and 1999.

Defense plans to compensate for the decline in procurement during the early years of the 1996 FYDP by substantially increasing procurement funding in 2000 and 2001. The Secretary of Defense plans to pay for the increased future modernization with a combination of savings achieved from infrastructure reductions and acquisition reforms and from real budget growth.

Our analysis shows that the 1996 FYDP does not reflect reduced infrastructure costs, primarily because of funding increases for base operation and management headquarters functions and quality-of-life programs. However, the Concurrent Resolution on the Budget for Fiscal Year 1996 includes over \$24 billion more for Defense than requested in the President's budget for fiscal years 1996-2001. The additional budget amounts are expected, in part, to lessen the need for Defense to reduce or defer weapon modernization programs to meet other near-term readiness requirements. Assuming the funds are appropriated, Congress will specify how Defense is to spend some of the added funds; however, DOD may have an opportunity to restore some programs that were reduced or deferred to the year 2000 and beyond. Further, the additional near-term funding could mitigate the need for DOD to increase out-year budgets.

The fiscal year 1996 FYDP was submitted in compliance with applicable legislative requirements.

**1996 FYDP Shifts
Weapons
Procurement to Later
Years to Fund Higher
Priority Programs**

The 1995 FYDP, which totaled \$1,240 billion, represented DOD's 5-year program plan through fiscal year 1999. The 1996 FYDP, which totals \$1,544 billion, covers the 6-year period from fiscal year 1996 through fiscal year 2001. The 1996 plan overlaps the 1995 plan for the years 1996-99. Table 1 compares the two plans by primary appropriation account. The shaded area represents the common years to both plans.

Table 1: Comparison of DOD's 1995 and 1996 FYDPs by Primary Appropriation Account

Dollars in billions

| Appropriation Accounts | | Fiscal year | | | | | | Totals | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|
| | | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | FYDP 1995 | FYDP 1996 |
| Military Personnel | FY 1995 | \$70.5 | \$66.2 | \$65.7 | \$66.1 | \$67.3 | | | \$335.8 | |
| | FY 1996 | | \$68.7 | \$67.5 | \$68.2 | \$69.6 | \$70.9 | \$72.3 | | \$417.2 |
| Operation and Maintenance | FY 1995 | 92.9 | 88.0 | 88.0 | 88.5 | 90.6 | | | 448.0 | |
| | FY 1996 | | 91.9 | 90.6 | 89.9 | 92.7 | 94.8 | 98.1 | | 558.0 |
| Procurement | FY 1995 | 43.3 | 48.4 | 49.8 | 57.1 | 60.1 | | | 258.7 | |
| | FY 1996 | | 39.4 | 43.5 | 51.4 | 54.2 | 62.3 | 67.3 | | 318.1 |
| Research, Development, Test And Evaluation | FY 1995 | 36.2 | 34.8 | 32.1 | 30.9 | 30.2 | | | 164.2 | |
| | FY 1996 | | 34.3 | 32.7 | 31.7 | 30.9 | 30.2 | 30.6 | | 190.4 |
| Military Construction | FY 1995 | 5.2 | 7.9 | 5.5 | 4.7 | 4.1 | | | 27.4 | |
| | FY 1996 | | 6.7 | 5.1 | 4.6 | 4.4 | 3.8 | 3.9 | | 28.5 |
| Family Housing | FY 1995 | 3.6 | 3.6 | 3.7 | 3.6 | 3.9 | | | 18.4 | |
| | FY 1996 | | 4.3 | 4.5 | 4.1 | 4.4 | 4.5 | 4.6 | | 26.4 |
| Other | FY 1995 | 1.8 | 1.6 | 2.1 | 1.6 | 1.0 | | | \$8.1 | |
| | FY 1996 | | 1.8 | 0.6 | 0.9 | 1.0 | 0.6 | 0.8 | | 5.7 |
| Undistributed Adjustments | FY 1995 | | -6.4 | -5.4 | -5.0 | -3.3 | | | -20.1 | |
| Totals | FY 1995 | \$253.5 | \$244.2 | \$241.5 | \$247.5 | \$253.8 | | | \$1,240.5 | |
| | FY 1996 | | \$247.1 | \$244.4 | \$250.8 | \$257.3 | \$267.1 | \$277.5 | | \$1,544.2 |
| Increases | | | \$2.9 | \$2.9 | \$3.3 | \$3.5 | | | | |

Note: Program estimates in DOD's FYDP are expressed in total obligational authority. Total obligational authority is the sum of (a) new budget authority provided for a given fiscal year; (b) any balances brought forward from prior years that may remain available for obligation; and (c) any other amounts authorized to be credited to a specific fund or account during that year, including transfers between funds or accounts. Table totals may not add due to rounding.

Source: Fiscal years 1995 and 1996 FYDPs.

Our analysis of the two FYDPs shows that during the 4 common years, the budget increases by about \$3 billion annually. In addition, DOD reduced the 1996 FYDP for the \$20 billion in undistributed future adjustments included in the 1995 FYDP. These reductions were made primarily in the procurement account. The largest changes from one year to the next in the 1996 FYDP occur during the last 2 years of the plan when the budget is projected to increase by about \$10 billion from 1999 to 2000 and by another \$10.4 billion from 2000 to 2001. This represents about a 1-percent real increase after inflation for those years.

According to the Secretary of Defense, the 1996 FYDP emphasizes readiness and quality-of-life programs. As such, the Secretary increased the budgeted amounts for the operation and maintenance, military personnel, and family housing accounts from the 1995 FYDP to the 1996 FYDP as shown in table 1.

The following sections discuss some of the more significant changes in each of the primary appropriation accounts.

Military Personnel

The 1995 FYDP proposed holding military pay raises below the amount included in current law, about 1.6 percent versus 2.6 percent. According to DOD, the 1996 FYDP funds the full military pay raises provided for under law through 1999. About \$7.3 billion of the \$8.7 billion of additional funds proposed for the military personnel account is to cover the planned pay raises. Table 2 shows a comparison of the military personnel account in the 1995 and 1996 FYDPs.

Table 2: Comparison of the Military Personnel Account in the 1995 and 1996 FYDPs

(dollars in billions)

| Military personnel | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | Total |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| 1995 FYDP | \$70.5 | \$66.2 | \$65.7 | \$66.1 | \$67.3 | | | |
| 1996 FYDP | | 68.7 | 67.5 | 68.2 | 69.6 | \$70.9 | \$72.3 | |
| Increase 1996-99 | | \$2.5 | \$1.8 | \$2.1 | \$2.3 | | | \$8.7 |

Note: Figures are expressed in total obligational authority.

Source: Fiscal years 1995 and 1996 FYDPs.

Operation and Maintenance

As table 3 shows, the operation and maintenance account is projected to increase by a total of about \$10 billion for the common years of the 1995 and 1996 FYDPs.

Table 3: Comparison of the Operation and Maintenance Account in the 1995 and 1996 FYDPs

(dollars in billions)

| Operation and maintenance | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | Total |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|---------------|
| 1995 FYDP | \$92.9 | \$88.0 | \$88.0 | \$88.5 | \$90.6 | | | |
| 1996 FYDP | | 91.9 | 90.6 | 89.9 | 92.7 | \$94.8 | \$98.1 | |
| Increase 1996-99 | | \$3.9 | \$2.6 | \$1.4 | \$2.1 | | | \$10.0 |

Note: Figures are expressed in total obligational authority.

Source: Fiscal years 1995 and 1996 FYDPs.

The budgeted amounts for many operation and maintenance programs changed from the 1995 to the 1996 FYDP resulting in the net increase of \$10 billion during the 4 common years, 1996-99. Our review shows that the largest increases were in the base operations and management headquarters functions. These functions include child care and development, family centers, base communications, real property services, environmental programs, and other infrastructure-related activities. For example, Army base operations and management headquarters, including maintenance and repair activities funding show a net increase of about \$3 billion. Similarly, the Navy's base operations, operations support, and management headquarters activities show a net increase of over \$2 billion. Similar Air Force accounts show a net increase in these functions of about \$2 billion.

Procurement

The 1995 FYDP contained undistributed future adjustments of about \$20 billion. Because of the magnitude of the decrease in the procurement account from the 1995 to the 1996 FYDP, it is evident that most of these adjustments were taken from the procurement account. As table 4 shows, the procurement account decreased by almost \$27 billion for the common years in the 1995 and 1996 FYDPs.

Table 4: Comparison of the Procurement Account in the 1995 and 1996 FYDPs

(dollars in billions)

| Procurement | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | Total |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------|
| 1995 FYDP | \$43.3 | \$48.4 | \$49.8 | \$57.1 | \$60.1 | | | |
| 1996 FYDP | | 39.4 | 43.5 | 51.4 | 54.2 | \$62.3 | \$67.3 | |
| Decrease 1996-99 | | (\$9.0) | (\$6.3) | (\$5.7) | (\$5.9) | | | (\$26.9) |

Note: Figures are expressed in total obligational authority.

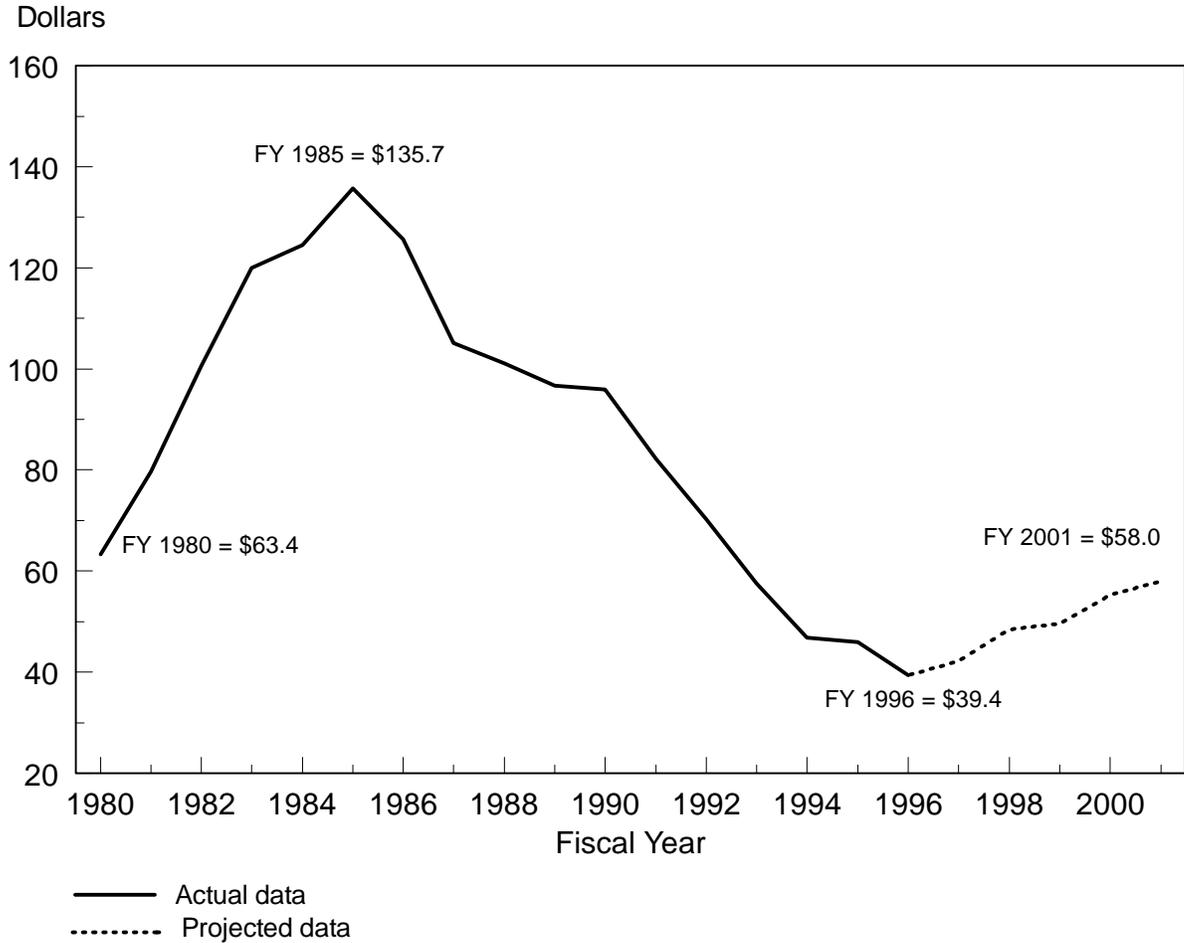
Source: Fiscal years 1995 and 1996 FYDPs.

DOD decreased the procurement account in the 4 common years by stretching out the planned buys for some systems to the year 2000 and beyond and by reducing the total acquisition quantities for others. For example, according to the 1995 FYDP, Defense planned to procure one LPD-17 amphibious ship in 1996, two in 1998, and two in 1999. This procurement schedule slipped in the 1996 FYDP to one ship in 1998, two in 2000, and two in 2001. Also, the F-22 procurement program was slipped 1 year so that the 12 aircraft that were to be procured in 1999, according to the 1995 FYDP, are now programmed to be procured in 2000. The total planned procurement quantities were reduced for other programs, including the F/A-18C/D fighter aircraft and the Navy's Tomahawk missile. Appendix I shows 14 of the more significant procurement program deferrals or reductions relative to last year's FYDP. The 14 programs account for about \$14.7 billion, or 54 percent, of the approximately \$27 billion in reductions to the procurement account.

The decrease in procurement dollars during the 4 common years of the 1995 and 1996 FYDPs comes on top of an already steep decline in procurement that began in the mid-1980s. The 1996 procurement budget request is \$39.4 billion, which when adjusted for inflation, is a decline of 71 percent from fiscal year 1985. The implication of this trend is that future years' budgets will eventually have to accommodate a recapitalization of equipment and weapon systems. DOD plans to reverse this trend and increase its procurement budgets starting in fiscal year 1997.

Figure 1 shows the sharp decline in the procurement account from fiscal years 1985 to 1996 and, as indicated by the dotted line, DOD's proposed increase from fiscal years 1997 through 2001.

Figure 1: DOD Procurement Budget From 1980 to 2001 in Billions of Constant 1996 Dollars



Note: Figures are expressed in budget authority.^a

^aBudget authority is the authority to incur legally binding obligations of the government that will result in immediate or future outlays. Most Defense budget authority is provided by Congress in the form of enacted appropriations.

Source: Fiscal year 1996 President's budget deflated using DOD deflators.

According to the Secretary of Defense, future modernization funds will come from savings achieved through infrastructure reductions and acquisition reforms and from larger future Defense budgets. Significant spending increases are planned in the last 2 years of the 1996 FYDP. Specifically, procurement funding estimates are 15 and 24 percent greater in 2000 and 2001 compared with 1999.

Congressional action may result in increasing near-term funding for defense, which could mitigate the need for DOD to increase out-year budgets. The June 1995 Concurrent Resolution on the Budget for Fiscal Year 1996 includes over \$24 billion more for defense than the President's budget for fiscal years 1996-2001. The additional funds are expected, in part, to lessen the need for DOD to reduce or defer weapon modernization programs to meet other near-term readiness requirements. Assuming the funds are appropriated, Congress will specify how defense is to spend some of the added funds, but DOD may have an opportunity to restore some programs that were reduced or deferred in the 1996 FYDP. The Concurrent Resolution on the Budget is discussed further in a later section.

Research, Development, Test, and Evaluation

As table 5 shows, the research, development, test, and evaluation account increased by \$1.6 billion during the common years of the 1995 and 1996 FYDPs.

Table 5: Comparison of the Research, Development, Test, and Evaluation Account in the 1995 and 1996 FYDPs

(dollars in billions)

| Research and development | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | Total |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| 1995 FYDP | \$36.2 | \$34.8 | \$32.1 | \$30.9 | \$30.2 | | | |
| 1996 FYDP | | 34.3 | 32.7 | 31.7 | 30.9 | \$30.2 | \$30.6 | |
| Increase/(decrease) 1996-99 | | (\$0.5) | \$0.6 | \$0.8 | \$0.7 | | | \$1.6 |

Note: Figures are expressed in total obligational authority.

Source: Fiscal years 1995 and 1996 FYDPs

The budgeted amounts for many research and development programs changed from the 1995 FYDP to the 1996 FYDP. Two programs that are projected to receive some of the largest funding increases over the 1995-99 period are special classified programs, which increased by about

\$1.8 billion, and the F-22 advanced fighter aircraft engineering and manufacturing development, which increased by about \$700 million. Two programs that are budgeted substantially less are the defense reinvestment program, which decreased by about \$1 billion, and the Comanche helicopter development program, which decreased by about \$700 million.

Overall, the comparison of the 1995 and 1996 FYDPS for the common years 1996-99 shows that programs in the latter stages of development are receiving increased funds, while those in the earlier stages of development are receiving less funds. For example, programs in demonstration and validation, engineering and manufacturing development, and operational systems development increased by about \$7.1 billion while programs in basic research, exploratory development, and advanced development decreased by about \$5.4 billion. A large part of the shift was in ballistic missile defense programs from earlier development to later stages of development.

Military Construction

As table 6 shows, the 1996 FYDP budgets less for military construction than was planned in the 1995 FYDP.

Table 6: Comparison of the Military Construction Account in the 1995 and 1996 FYDPS

(dollars in billions)

| Military construction | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | Total |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| 1995 FYDP | \$5.2 | \$7.9 | \$5.5 | \$4.7 | \$4.1 | | | |
| 1996 FYDP | | 6.7 | 5.1 | 4.6 | 4.4 | \$3.8 | \$3.9 | |
| Increase/(decrease) 1996-99 | | (\$1.2) | (\$0.4) | (\$0.1) | \$0.3 | | | (\$1.4) |

Note: Figures are expressed in total obligational authority.

Source: Fiscal years 1995 and 1996 FYDPS.

The table shows that although the biggest reduction is projected to occur in fiscal year 1996, the funds continue to decrease through 1998, increase slightly in 1999, and drop below \$4 billion in 2000 and 2001.

Family Housing

Table 7 shows that, over the common years of the 1995 and 1996 FYDPs, the family housing account increases by about \$2.5 billion.

Table 7: Comparison of the Family Housing Account in the 1995 and 1996 FYDPs

(dollars in billions)

| Family housing | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | Total |
|------------------|-------|-------|-------|-------|-------|-------|-------|--------------|
| 1995 FYDP | \$3.6 | \$3.6 | \$3.7 | \$3.6 | \$3.9 | | | |
| 1996 FYDP | | 4.3 | 4.5 | 4.1 | 4.4 | \$4.5 | \$4.6 | |
| Increase 1996-99 | | \$0.7 | \$0.8 | \$0.5 | \$0.5 | | | \$2.5 |

Note: Figures are expressed in total obligational authority.

Source: Fiscal years 1995 and 1996 FYDPs.

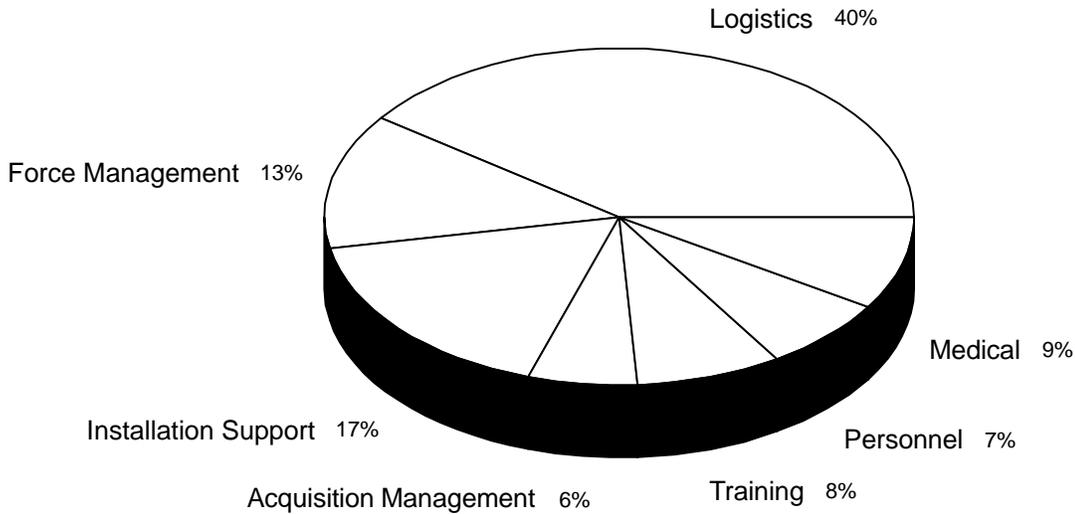
According to DOD, worldwide military housing is inadequate and needs to be improved. Most of the funding increases in the 1996 FYDP are for operation and maintenance, new construction, and improvements to DOD's family housing.

Infrastructure Funding as a Proportion of the Defense Budget Is Not Declining

DOD anticipates that the realignment and closure of unneeded military bases and facilities resulting from the four rounds of closures since 1988 and force structure reductions will result in substantial savings. Our analysis of the 1996 FYDP shows that savings that have accrued or are expected to accrue from the base closings and force reductions appear to have been offset by increased infrastructure funding requirements primarily for base operations and management headquarters functions and quality-of-life programs. Thus, the proportion of infrastructure funding in the total defense budget in 2001 is expected to be about the same as it was reported for fiscal year 1994 in DOD's Bottom-Up Review report.

DOD stated in its Bottom-Up Review report that \$160 billion, or approximately 59 percent, of its total obligational authority for fiscal year 1994 was required to fund infrastructure activities. These activities include logistics support, medical treatment and facilities, personnel costs, including a wide range of dependent support programs, formal training, and installation support such as base operations, acquisition management, and force management. The Bottom-Up Review report noted that a key defense objective was to reduce this infrastructure without harming readiness. Figure 2 shows a breakdown of these infrastructure categories for fiscal year 1994 as displayed in DOD's report.

Figure 2: \$160 Billion of Infrastructure Funding in the Fiscal Year 1994 Defense Budget by Category



Source: DOD's Bottom-Up Review report.

Using the infrastructure categories identified by DOD, we calculated the amount of infrastructure funding for fiscal years 1995 through 2001. Table 8 shows that, on the basis of current program plans, infrastructure funding (as a percentage of DOD's total budget) stays relatively stable through 2001 and shows no improvement over the 59-percent infrastructure level DOD reported for fiscal year 1994.

Table 8: DOD's Projected Infrastructure and Noninfrastructure Funding Through Fiscal Year 2001

(dollars in billions)

| Fiscal year | Projected budget | Infrastructure funding | Noninfrastructure funding | Percentage infrastructure funding |
|-------------|------------------|------------------------|---------------------------|-----------------------------------|
| 1995 | \$256 | \$158 | \$98 | 62 |
| 1996 | 247 | 156 | 91 | 63 |
| 1997 | 244 | 152 | 92 | 62 |
| 1998 | 251 | 152 | 99 | 61 |
| 1999 | 257 | 157 | 100 | 61 |
| 2000 | 267 | 161 | 106 | 60 |
| 2001 | 277 | 166 | 111 | 60 |

Note: Figures are expressed in total obligational authority.

Source: Our calculation from fiscal year 1996 FYDP.

According to DOD's Bottom-Up Review report, approximately 40 percent of infrastructure funding such as for training, supply, and transportation are tied directly to force structure and would be expected to decline with force structure reductions. Historically, savings resulting from force structure reductions lag a few years behind. On the basis of this, and because DOD's planned drawdown of forces is essentially complete in fiscal year 1996, the 1996 FYDP should begin to reflect some significant infrastructure savings. However, FYDP estimates include the costs of new requirements as well as anticipated savings. Our analysis indicates that increases in personnel, operation and maintenance, research and development, and family housing, which include increases in infrastructure costs, appear to offset most planned infrastructure savings through 2001. As a result, the 1996 FYDP does not show the decline in the proportion of infrastructure funding that might be expected.

Fiscal Year 1996 Concurrent Budget Resolution Proposes Increased National Defense Funding

The concurrent budget resolution approved by both the Senate and the House in June 1995 anticipates \$35.6 billion more funding for national defense over the 1996-99 period than the President's budget request. However, as shown in table 9, the resolution would reduce the President's proposed budgets for 2000-2001 by a total of \$11.4 billion. The net effect of these adjustments is a \$24.2-billion increase over the period. These estimates include funding for DOD military, atomic energy defense activities, and defense-related activities.

Table 9: Comparison of Concurrent Budget Resolution With the President's 1996 Budget for National Defense

(dollars in billions)

| Budget | 1996 | 1997 | 1998 | 1999 | 2000 | 2001^a | Total |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------------------|------------------|
| President's budget | \$257.8 | \$253.4 | \$259.6 | \$266.3 | \$276.0 | \$286.9 | \$1,600.0 |
| Budget resolution | 264.7 | 267.3 | 269.0 | 271.7 | 274.4 | 277.1 | 1,624.2 |
| Increase/(decrease) | \$6.9 | \$13.9 | \$9.4 | \$5.4 | (\$1.6) | (\$9.8) | \$24.2 |

Note: Figures are expressed in budget authority.

^aThe atomic energy defense activities portion of the budget was not available to us for fiscal year 2001. Therefore, we estimated that these activities would be funded at about \$9.3 billion, the average annual level projected for fiscal years 1998-2000.

Source: Concurrent Resolution on the Budget for Fiscal Year 1996 and the President's Fiscal Year 1996 Budget.

According to the conference agreement on the budget resolution, most of the increase for DOD in 1996 is assumed to be used for the procurement of weapons and research and development activities. For the period 1997 through 2001, budget authority increases are assumed to be split equally between procurement and operation and maintenance.

In providing additional defense funds, it is the intent of the conferees to lessen the need for decisionmakers to sacrifice future readiness to meet current readiness requirements. When the funds are appropriated, Congress will undoubtedly specify how DOD is to spend some of the added funds. For example, the House bill on the defense authorization act for fiscal year 1996 would add programs such as the B-2 bomber, which DOD did not request and for which DOD would have to find funding in the future. Also, the Senate's 1996 authorization bill would significantly increase DOD's proposed funding for a missile defense system. In addition, DOD may have an opportunity to restore some of the programs that it reduced or deferred to the year 2000 and beyond.

FYDP Submission Is in Accordance With Legislative Requirements

Congress enacted legislation in 1987 requiring DOD to submit future years program and budget information consistent with the President's budget. This enactment was in response to congressional concern that DOD's FYDPS were inconsistent with the President's budget submissions because they contained more programs than the President's funding projections would support. Last year, as a result of continuing program and budget mismatches, Congress added the requirement that the Secretary of Defense, after consultation with the DOD Inspector General, certify that the

FYDP submission complies with section 221, title 10 of the United States Code. Section 221 of title 10 states

The Secretary of Defense shall submit to Congress each year, at or about the time that the President's budget is submitted . . . a future-years defense program . . . reflecting the estimated expenditures and proposed appropriations included in that budget.

The provision requires that program and budget information submitted to Congress by DOD be consistent with the President's budget.

The President's fiscal year 1996 budget was submitted to Congress on February 6, 1995. The 1996 FYDP was submitted to Congress on March 29, 1995, and was accompanied by a written certification by the Secretary of Defense that the FYDP and associated annexes satisfied the requirements of section 221 of title 10, United States Code. This certification was made after consultation with the DOD Inspector General. On the basis of our review, we consider the FYDP estimates to be consistent with the President's budget submission. Therefore, in our opinion, the fiscal year 1996 FYDP was submitted in compliance with all applicable legislative requirements.

Agency Comments and Our Evaluation

In commenting on this report, DOD stated that we had fairly and accurately assessed the funding adjustments it made to balance the program plans for fiscal years 1996-2001. DOD also stated that the report correctly identified the fiscal implications of funding priorities and strategies that guided the preparation of the 1996-2001 program.

We reported that infrastructure funding, as a proportion of the defense budget, is relatively constant from 1995 through 2001. DOD agreed and said that it would be incorrect to infer from this finding that the Department is failing to achieve savings from a smaller infrastructure and applying them to higher priority activities like readiness, quality-of-life, and procurement. We agree with DOD in part. Our analysis shows that infrastructure savings that have occurred have been applied toward new infrastructure requirements, but not to weapons procurement or modernization in any appreciable amounts.

DOD expressed concern that it may not be able to accelerate the procurement of programs that are already in the defense program if Congress directs that additional funding be used to acquire new programs

with large out-year funding requirements. The full text of DOD's comments are included as appendix II.

Scope and Methodology

To evaluate the major planning assumptions underlying DOD's fiscal year 1996 FYDP, we interviewed officials in the Office of the DOD Comptroller, the Office of Program Analysis and Evaluation, Office of Environmental Security, Base Closure and Utilization Office, and the Congressional Budget Office. We examined a variety of DOD planning and budget documents, including the FYDP and associated annexes. We also reviewed the President's fiscal year 1996 budget submission; the fiscal year 1996 concurrent budget resolution; our prior reports; and pertinent reports by the Congressional Budget Office, the Congressional Research Service, and others.

To calculate the amount of infrastructure funding for fiscal years 1995 through 2001 we used the infrastructure definitions and categories provided by DOD. Results of our infrastructure analysis were provided to cognizant DOD officials within the Office of Program Analysis and Evaluation for validation and comment. Department officials stated the analysis was correct on the basis of the definitions and categories established in 1994. However, they also stated they were redefining some infrastructure activities and categories that may change the results. DOD would not provide us with the details supporting these new categories during our review so we were unable to evaluate them.

To determine whether the FYDP submission complies with the law, we compared its content with the requirements established in section 221 of title 10 of the United States Code and section 1005 of the Defense Authorization Act for fiscal year 1995. We also reviewed references to the reporting requirement in various legislative reports to clarify congressional intent. Our work was conducted from March to August 1995 in accordance with generally accepted government auditing standards.

We are providing copies of this report to appropriate House and Senate Committees; the Secretaries of Defense, the Air Force, the Army, and the Navy; and the Director, Office of Management and Budget. We will also provide copies to other interested parties upon request.

If you have any questions concerning this report, please call me on (202) 512-3504. Major contributors to this report are listed in appendix III.

A handwritten signature in black ink that reads "Richard Davis". The signature is written in a cursive style with a prominent initial "R" and a long, sweeping underline.

Richard Davis
Director, National Security
Analysis

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Abbreviations

| | |
|------|------------------------------|
| DOD | Department of Defense |
| FYDP | Future Years Defense Program |

Selected Procurement Program Deferrals or Reductions for 1996-99 From the 1995 FYDP to the 1996 FYDP

Table I.1 shows 14 of the more significant procurement program changes for 1996-99 from the 1995 FYDP to the 1996 FYDP. The 14 programs account for about \$14.7 billion, or 54 percent, of the approximately \$27 billion in reductions to the procurement account.

Table I.1: Selected Procurement Program Deferrals or Reductions for 1996-99 From the 1995 FYDP to the 1996 FYDP

(dollars in millions)

| Procurement program | 1995 FYDP quantity | 1996 FYDP quantity | Deferred or reduced quantity | Deferred or reduced cost |
|---|--------------------|--------------------|------------------------------|--------------------------|
| LPD-17 Amphibious Ship | 5 | 1 | 4 | \$2,280 |
| F-22 Fighter | 20 | 8 | 12 | 2,134 |
| F/A-18C/D Fighter | 48 | 12 | 36 | 1,958 |
| C-17/Strategic Airlift ^a | 8 | 8 | 0 | 1,347 |
| Family of Medium Tactical Vehicles | 9,987 | 954 | 9,033 | 1,157 |
| DDG-51 Destroyer | 12 | 10 | 2 | 1,052 |
| Joint Primary Aircraft Training System ^b | 174 | 51 | 123 | 900 |
| Space Boosters | 3 | 2 | 1 | 876 |
| F-14 Aircraft Modifications ^c | 0 | 0 | 0 | 671 |
| Minute Man Missile Modifications ^c | 0 | 0 | 0 | 617 |
| AMRAAM Missile ^b | 2,520 | 1,774 | 746 | 572 |
| Navy Tomahawk Missile | 651 | 448 | 203 | 464 |
| F-16C/D multi-year procurement funding | 0 | 0 | 0 | 381 |
| Sensor Fuzed Weapon | 3,834 | 2,534 | 1300 | 288 |
| Total | | | | \$14,697 |

Note: Figures are in total obligational authority.

^aAlthough DOD is to decide later this year whether to procure more than 40 C-17s or a commercial alternative, it has reduced the amount of funds available for this procurement by \$1.3 billion over the 1996-99 period.

^bJoint Air Force and Navy program.

^cThe funds are to be used for the procurement of modification parts.

Source: Fiscal years 1995 and 1996 FYDPs.

Comments From the Department of Defense



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06 SEP 1995

Mr. Richard Davis
Director, National Security Analysis
National Security and International Affairs Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Davis:

This is the Department of Defense's (DoD) response to the General Accounting Office's (GAO) draft report, "FUTURE YEARS DEFENSE PROGRAM: Major Adjustments from the 1995 to the 1996 Program," August 22, 1995 (GAO Code 701062), OSD Case 1004. The report is a fair and accurate assessment of how the Department of Defense made funding adjustments to balance its program plans for fiscal years (FY) 1996-2001.

The report correctly identifies the fiscal implications of funding priorities and strategies that guided the Department's preparation of the FY 1996-2001 program. The Secretary of Defense placed his highest priority on maintaining the readiness of operating forces and enhancing programs that support the quality of life of military personnel and their families. These priorities were funded at the expense of some procurement and infrastructure programs. As a result, the report identifies increases to the operations and maintenance, military personnel, and family housing accounts, together with corresponding decreases to the procurement and infrastructure accounts.

The GAO also identified the Department's plans to increase substantially the real funding for procurement between FY 1996 and 2001. The combined effect of the large weapons procurements of the 1980s and the post-Cold War force drawdown have allowed the Department to maintain a technologically superior force in good material condition through the 1990s. Substantial real increases in procurement now are necessary to recapitalize the force and mitigate the aging trend of major fleets of systems in the next decade.

The report observes that the congressional balanced budget resolution may help the Department achieve these increases in procurement without having to sacrifice funding for near-term readiness. That observation is correct only if the Congress uses additional funding to accelerate the procurement of programs that already are in the defense program. If, on the other hand, the Congress applies increased funding to new programs, like additional B-2 bombers and a national missile defense system with large out-year funding requirements, the impact will aggravate the challenge of fulfilling the Department's procurement plans.

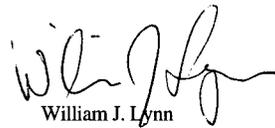


The report also finds that infrastructure funding as a proportion of the defense budget is relatively constant. This is due in part to the fact that decreases due to base closures and civilian workforce reductions have been offset by increases needed to support readiness and quality of life programs. The Department believes that much work remains to achieve an overall reduction of the infrastructure commensurate with the force drawdown and to improve the measures by which it manages that infrastructure. However, because the categories of infrastructure used in the report comprise such widely diverse activities, it would be incorrect to infer from this finding that the Department is failing to achieve savings from a smaller infrastructure and applying them to higher priority activities like readiness, quality of life, and procurement.

Finally, and as the report also notes, realizing real savings from acquisition reform is important to achieving DoD's procurement plans. While the Department's ability to quantify these savings is not yet great enough to have incorporated prospective reductions into program plans, we do expect these savings to accrue directly to modernization and procurement accounts.

These remarks supplement the technical corrections to the report which my staff previously has provided. The Department appreciates the opportunity to comment on the draft report.

Sincerely,



William J. Lynn
Director
Program Analysis and Evaluation

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Related GAO Products

DOD Budget: Selected Categories of Planned Funding for Fiscal Years 1995-99 (GAO/NSIAD-95-92, Feb. 17, 1995).

Future Years Defense Program: Optimistic Estimates Lead to Billions in Overprogramming (GAO/NSIAD-94-210, July 29, 1994).

DOD Budget: Future Years Defense Program Needs Details Based on Comprehensive Review (GAO/NSIAD-93-250, Aug. 20, 1993).

Transition Series: National Security Issues (GAO/OCG-93-9TR, Dec. 1992).

High Risk Series: Defense Weapons Systems Acquisition (GAO/HR-93-7, Dec. 1992).

Weapons Acquisition: Implementation of the 1991 DOD Full Funding Policy (GAO/NSIAD-92-238, Sept. 24, 1992).

Defense Budget and Program Issues Facing the 102nd Congress (GAO/T-NSIAD-91-21, Apr. 25, 1991).

DOD Budget: Observations on the Future Years Defense Program (GAO/NSIAD-91-204, Apr. 25, 1991).

Department of Defense: Improving Management to Meet the Challenges of the 1990s (GAO/T-NSIAD-90-57, July 25, 1990).

DOD Budget: Comparison of Updated Five-Year Plan With President's Budget (GAO/NSIAD-90-211BR, June 13, 1990).

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Status of Defense Forces and Five Year Defense Planning and Funding Implications (GAO/T-NSIAD-89-29, May 10, 1989).

Transition Series: Defense Issues (GAO/OCG-89-9TR, Nov. 1988).

Defense Budget and Program Issues: Fiscal Year 1989 Budget (GAO/T-NSIAD-88-18, Mar. 14, 1988).

Underestimation of Funding Requirements in Five Year Procurement Plans (GAO/NSIAD-84-88, Mar. 12, 1984).

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