



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

June 19, 2002
(Senate)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

S. 2514 - National Defense Authorization Act for FY 2003

(Sen. Levin (D) Michigan)

The Administration commends the Senate Armed Services Committee for reporting a bill that strongly supports many of the requirements in the President's request. For example, the Administration appreciates the Committee's support for the President's request for \$10 billion to be set aside to fund the war on terrorism during FY 2003, the pay increase and other benefits to support our service members, and important authorities, such as the permanent waiver authority relating to Cooperative Threat Reduction and Freedom Support Act nonproliferation programs.

Unfortunately, S. 2514, as reported, would reduce the FY 2003 funding request for missile defense by \$814 million and impose burdensome statutory restrictions impairing the Department of Defense's (DoD) ability to manage the program effectively. If these missile defense provisions are included in the final enrolled bill, the President's senior advisors would recommend that he veto the bill.

The Administration's missile defense program is a carefully balanced effort to defend the American people, our deployed forces, and our friends and allies against a growing missile threat. The provisions of S. 2514 would undermine this critical defense effort by severely reducing the program's workforce; significantly impairing DoD's ability to effectively integrate components currently under development; delaying boost phase defense efforts; hindering early deployment of contingency capabilities; undermining efforts to address countermeasures; and slowing key sensor programs.

S. 2514 also contains a number of provisions, including those discussed below, that are of particular concern to the Administration. The Administration looks forward to working with Congress to address these concerns as S. 2514 moves through the legislative process.

Crusader

The Administration understands the Senate will consider an amendment to the Committee bill that will reallocate funding to the Objective Force from the Crusader program. The Administration welcomes the Senate's support of the President's decision to terminate the Crusader in favor of more transformational efforts to improve the Army's indirect fire capabilities. However, we are concerned that the amendment would unduly constrain the President's flexibility to proceed in a timely way to reallocate funding to currently identified transformational programs and cover termination costs. Should

the final bill presented to the President include language which limits the Administration's ability to proceed with termination of the program, the President's senior advisors would recommend that he veto the bill.

Concurrent Receipt

The Administration strongly opposes Section 641 of the current version of the bill, which would phase in full concurrent receipt of military retired pay and veterans disability compensation for military retirees with disabilities rated at sixty percent or higher. The Administration also believes that our current deficit projections necessitate strict adherence to fiscal discipline to ensure the quickest return to a balanced budget. The Administration is concerned that an amendment may be offered on the Senate floor that would expand this objectionable provision even further. Should the final version of the bill include either provision affecting concurrent receipt of retirement and disability benefits, the President's senior advisors would recommend that he veto the bill.

Section 641 as currently drafted is contrary to the long-standing principle that no one should be able to receive concurrent retirement benefits and disability benefits based upon the same service. All Federal compensation systems aim for an equitable percentage of income replacement in the case of either work-related injury or retirement. The Administration's preliminary estimate is that Section 641 would increase mandatory outlays by \$18 billion from 2003 to 2012 and would also increase DoD discretionary costs for retirement accrual by \$11 billion from FY 2004 to FY 2012, an impact that would necessarily require tradeoffs with war fighting capabilities. The Administration also strongly opposes any further expansion of Section 641 and understands that the amendment that may be offered would provide immediate full concurrent receipt. This expansion would have an estimated mandatory cost of \$58 billion (\$42 billion associated with the additional payment of retired pay, and \$16 billion associated with payment of additional VA disability compensation under claims that would not otherwise be submitted) and DoD discretionary costs of \$20 billion over 10 years.

Contracting for Services

The Administration opposes the \$850 million reduction for improved management of service contracts. As directed by Congress, DoD is acting to improve its management of Services Contracting and rely to a greater extent on the use of Performance Based Services Contracting. Because these initiatives are in their early stages and the true savings that they may yield are not yet known, it is premature to make such significant reductions -- or to impose overly aggressive performance goals for performance-based purchasing as provided in section 811. If the aggressive savings projections do not materialize, the congressional reduction will be met by unwarranted reductions to high priority programs. At a minimum, the Department should be allowed to allocate this reduction itself so that it would fall where savings are most achievable.

Core Logistics

The Administration opposes Section 344, which would effectively double the number of logistics support functions that are exempt from competition and shorten the required time period, from four

years to two years, for DoD to determine the core logistics capabilities for new weapons systems after initial operating capability. Increasing the number of exempt positions would severely limit DoD's ability to: (1) manage logistics and acquisition programs; (2) reduce life cycle costs; and (3) foster economy, efficiency, high performance, and continuous support for weapon systems. Shortening the transition period would significantly increase the likelihood of acquisition of inappropriate elements of support due to the changing and immature nature of programs during initial fielding. Section 344 also would undermine the Administration's efforts to increase competitive sourcing, a central component of the President's Management Agenda.

Disposition of Weapons-Usable Plutonium at the Savannah River Site

The Administration supports a legislative approach such as that set out in H.R. 4648 and S. 2453 for disposition of weapons-usable plutonium at the Savannah River site, and remains committed to disposing of this material by fabricating it into mixed-oxide fuel. The Administration considers section 3182 as more than adequate to achieve this objective, and commends the provisions' sponsors and the Committee for its efforts to craft a solution enabling timely action by the Department of Energy.

Defense Nuclear Waste Disposal

The Administration opposes section 3105, which would cut the Administration's funding request for the Nuclear Waste fund by \$100 million (a 32 percent reduction below the Administration's \$315 million request). This reduction would have a devastating impact on the Administration's goals of submitting a license application to the Nuclear Regulatory Commission in 2004 so that the repository can open in 2010. As a result this funding reduction will increase the overall cost of the repository program and the time that waste remains at individual utility storage sites around the country.

Pay-As-You-Go (PAYGO) Scoring

Any law that would reduce receipts or increase direct spending is subject to the PAYGO requirements of the Balanced Budget and Emergency Deficit Control Act and could cause a sequester of mandatory programs in any fiscal year through 2006. The requirement to score PAYGO costs expires on September 30, 2002, and there are no discretionary caps beyond 2002. Preliminary OMB estimates indicate that the bill would increase spending by \$5.7 billion through FY 2007. The Administration will work with Congress to ensure fiscal discipline consistent with the President's budget and a quick return to a balanced budget. The Administration also will work with Congress to ensure that any unintended sequester of spending does not occur.
