

Not for Publication
Until released by the
House Budget Committee

STATEMENT OF
AMY BELASCO
SPECIALIST IN U.S., DEFENSE POLICY AND BUDGET
CONGRESSIONAL RESEARCH SERVICE
BEFORE THE
HOUSE BUDGET COMMITTEE

HEARING ON
THE GROWING COST OF THE IRAQ WAR,
OCTOBER 24, 2007

INTRODUCTION AND SUMMARY

Chairman Spratt, Ranking Member Ryan, and other distinguished members of the committee. Thank you for asking the Congressional Research Service to testify about the important issue the committee is considering: the growing cost of the war in Iraq.

This testimony makes the following key points.

- First, CRS estimates that Congress has provided about \$615 billion to date for Iraq, Afghanistan and enhanced security at defense bases including appropriations to DOD, the State Department and AID, and the Department of Veterans' Affairs (VA).
- This total includes about \$455 billion for Iraq, \$127 billion for Afghanistan and \$28 billion for enhanced security, and reflects \$5 billion provided in the current FY2008 Continuing Resolution. On October 22, 2007, the Administration submitted an additional request, which includes an additional \$43.6 billion for Iraq and Afghanistan. If Congress chooses to provide those funds, CRS estimates that total war costs would reach about \$803 billion including some \$192 billion in FY2008.
- In recent years, annual war costs have more than doubled from some \$72 billion in FY2004 to \$165 billion FY2007. Most of this increase does not reflect changes in the number of deployed personnel but rather several other factors:
 - unanticipated requirements for force protection gear and equipment;
 - funding to train partners and train Afghan and Iraqi security forces; and
 - the single largest factor, resulting from a broadened definition of war-related expenses primarily for reconstitution or reset — funds to repair and replace war-worn equipment to include expenses with a more indirect connection to war needs.
- Because war funding has generally been provided as emergency supplemental appropriations, the Administration and the Defense Department have developed requests on a separate track, and may not have made the same kind of trade-offs between programs as is done in the regular budget. Like other funding requests, DOD's war requests are assessed by OMB and the President but funding levels are not subject to the same budget caps applying to other discretionary spending. DOD has also broadened the scope of programs funded as war-related activities in recent years.
- Relying on emergency supplemental appropriations has both advantages and disadvantages. Potential advantages include
 - providing the services with more capable equipment for future needs;
 - enabling the services to buy large amounts of equipment ranging from trucks to radios that have proven critical for war fighting which were not funded in DOD's previous regular budgets;
 - buying equipment earlier than planned; and
 - meeting some unanticipated requirements for counter-insurgency warfare.

- Potential disadvantages include:
 - contributing to equipment shortfalls because DOD chose to upgrade rather than do standard maintenance on equipment such as Bradley fighting vehicles and M-1/A-1 tanks;
 - purchasing some equipment whose requirements have not been fully vetted, such as replacement of pre-positioned equipment stationed overseas;
 - funding programs that have not been subjected to the same scrutiny as programs funded in the baseline budget; and
 - reducing visibility on total program costs.

- To address potential effects like these, Congress could either require DOD to restore its earlier, stricter definition of war costs or delay consideration of much of the FY2008 reset request until submission of the FY2009 regular budget request in February 2008 when baseline requirements would also be considered. CRS estimates that in FY2008, DOD has about \$40 billion to \$45 billion in unobligated funds available from previous war appropriations which could be used to meet many urgent war needs until passage of the FY2008 emergency supplemental request.¹

- As requested, CRS estimated how long the Army could finance or “cash flow” its war operating expenses without passage of the FY2008 supplemental request. Assuming that DOD receives its regular appropriation for FY2008, we project that the Army could finance or “cash flow” its war expenses until about mid-January 2008 using funds that would otherwise be used later in the fiscal year. If DOD used its transfer authority and the Army slowed non-readiness-related operating funding for its regular activities, as has occurred in previous years, we estimate that the Army could finance operations until mid-February 2008.

The remainder of the statement discusses these and other points.

COMPARISONS TO OTHER MAJOR WARS

To put the cost of Iraq and Afghanistan in perspective, it may be useful to compare those costs to previous wars. Looking strictly at military costs and using estimates prepared by CRS Specialist, Stephen Daggett that are adjusted for inflation, the discussion below compares the cost-to-date after six years of operations to previous wars.²

¹According to DOD, unobligated balances of war funds total \$53 billion as of August 2007, consisting primarily of investment funding. If an additional \$11 billion is obligated in the last month of the fiscal year, about \$42 billion would remain available for FY2008. CRS estimates that DOD figures do not include about \$7 billion in funds transferred from baseline appropriations to meet war needs. Taking these funds into account, would increase unobligated funds to almost \$50 billion; see Table A1 in CRS Report RL33110.

²CRS calculations for DOD costs relying on a variety of data, all converted to FY2007 dollars.

The cost of all DOD funds appropriated thus far for the three GWOT operations — Iraq, Afghanistan and enhanced security — now equals about 90% of the 12-year war in Vietnam (\$670 billion) and about double the cost of the Korean war (\$295 billion).³

The cost of all three operations thus far is now over six times as large as the cost of the first Persian Gulf War (\$94 billion). Comparisons to that war are problematic, however, because the United States paid some \$7 billion, or about 7% of the cost of the war because our allies, principally Kuwait and Saudi Arabia, reimbursed the United States for most of the cost.⁴

The Iraq war itself has thus far cost about 65% as much as Vietnam. On the other hand, Iraq has cost about 50% more than Korea to date and about four and a half times more than the costs incurred for the first Persian Gulf War.

COSTS-TO-DATE AND FY2008 REQUEST

Now to costs. There are several ways to look at the cost of the current conflicts in Iraq and Afghanistan. DOD witnesses often cite the current “burn rates” or monthly obligations as of a particular date. While this figure reflects current spending, it does not reflect overall costs.

DOD’s war cost reporting system captures the amounts that have been obligated for Iraq, for Afghanistan, and for enhanced security and hence shows how funds have been allocated after the fact or once contracts or purchase orders are signed and military or civilian personnel are paid. DOD’s figures do not reflect the total amounts that Congress has appropriated to date which includes funds that remain to be obligated in later years.

Nor does DOD’s reporting system capture some intelligence funding that DOD does not administer and may not include other war funds appropriated. Nor does DOD capture amounts that have actually been spent.⁵ Concerned about the accuracy of its reporting, DOD asked a private firm to conduct an audit on war cost tracking.⁶ Although DOD’s current FY2008 request identifies the funds for Iraq vs. those for Afghanistan, DOD has not presented a breakdown by operation of all funds received to date.⁷

³Estimates prepared by Stephen Daggett; all figures converted to FY2007 dollars; military costs only.

⁴Department of Defense, *Annual Report to Congress for Fiscal Year 1994*, January 1993; converted to FY2007 dollars by CRS.

⁵DOD’s financial systems do not segregate “amounts spent” or outlays for war expenses from its regular or baseline budget because the funds are mixed in the same account.

⁶CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, July 16, 2007 by Amy Belasco; <http://www.congress.gov/erp/rl/pdf/RL33110.pdf>; hereinafter, *CRS Report RL33110*. For example, DOD does not consider the 10 C-17 aircraft added by Congress in the FY2007 supplemental to be war-related.

⁷ See Table 1a. In DOD, *FY2008 Global War on Terror Request*, February 2007; hereinafter DOD, *FY2008 GWOT Request*;

(continued...)

To present a more complete picture, CRS has estimated how all funds appropriated to date are split between Iraq, Afghanistan and enhanced security, relying on DOD and other data. In addition, CRS includes not only DOD appropriations, but also State Department funds for its diplomatic operations, AID funds for reconstruction and aid programs, and Department of Veterans Affairs (VA) funds for medical care of veterans of these two conflicts. CRS estimates do not include any VA disability benefits for Iraq and Afghan veterans since CRS was not able to get figures from the VA. About 90% of total funds appropriated to date have been for DOD military operations and support in theater as well as to train Iraq and Afghan security forces.

Total War Cost-to-Date. CRS estimates that Congress has provided a total of about \$615 billion for Iraq, Afghanistan and other counter-terror operations, and enhanced security at U.S. bases, often referred to by the Bush Administration as the global war on terror (GWOT). This total includes funds in the FY2008 Continuing Resolution. Of this amount, about:

- \$573 billion is for DOD;
- \$41 billion is for foreign aid, reconstruction, and building and operating embassies in Iraq and Afghanistan; and
- \$1.6 billion is for VA medical care for veterans of these conflicts.

On a monthly basis, CRS estimates that DOD is spending about \$11.7 billion for the three GWOT operations. This year's average monthly spending for Iraq and Afghanistan is running substantially higher than the \$8.8 billion in FY2006 and the \$7.7 billion in FY2005. These increases reflect both higher spending by the services to buy new weapon systems to replace and upgrade war-worn equipment and higher operating costs — particularly in Iraq — much of it is unexplained in available budget documents.⁸

Cost of Iraq. CRS estimates that Congress has provided about \$455 billion for Iraq including:

- \$423 billion for DOD;
- \$31 billion for State/AID; and
- \$1.6 billion for VA medical care.

Average monthly spending for Iraq is running about \$9.7 billion, well above the \$7.4 billion in FY2006 and the \$6.5 billion in FY2005. Only a small amount of the increase in FY2007 reflects the “surge” in troops in Iraq.⁹

Cost of Afghanistan. CRS estimates that Congress has provided a total of about \$128 billion for Afghanistan including about:

- \$118 billion for DOD;
- \$10 billion for State/AID; and
- \$100 million for VA Medical costs.

⁷(...continued)

http://www.dod.mil/comptroller/defbudget/fy2008/fy2007_supplemental/FY2008_Global_War_On_Terror_Request.pdf.

⁸CRS estimates based on Table 6, Ibid and monthly DOD war cost reports as of July 2007.

⁹CRS estimates that the increase of 30,000 troops in Iraq cost between \$3.5 billion and \$4 billion in FY2007, adding about \$300 million to monthly spending and accounting for 13% of the increase.

Average monthly obligations are running about \$1.7 billion for Afghanistan, again substantially more than the \$1.4 billion in FY2006 and the \$1.1 billion in FY2005. The increase may reflect higher troop levels and operating costs.

Enhanced Security and Other. CRS estimates that Congress has appropriated about \$28 billion for enhanced security at DOD bases. Average monthly obligations for enhanced security now run about \$30 million a month, less than half of last year's level.

Of the \$615 billion total for the three missions appropriated thus far, CRS was unable to allocate about \$5 billion in war-related appropriations that appear not to have been captured by DOD's tracking system, a problem also identified by GAO.¹⁰

Status of FY2008 Request

Congress has not yet acted on the Administration's FY2008 request for war funding with one exception — the FY2008 Continuing Resolution includes funding requested by the Administration's for Mine Resistant Ambush Protected (MRAP) vehicles, trucks with a V-shaped hull that have proven more effective against attacks from Improvised Explosive Devices than uparmored HMMWVs.¹¹

As of today, including the request submitted on October 22, 2007, the Administration has requested \$192.5 billion for FY2008's war-related activities in Iraq and Afghanistan including DOD costs, State and AID, and VA medical.¹² This total includes about \$158 billion for Iraq and \$33 billion for Afghanistan, and includes the MRAP funds which Congress has already provided.

Senior appropriators have said that they may not consider the FY2008 supplemental request until January or February of 2008, though some interim or bridge funding may be included in DOD's FY2008 regular Defense Appropriations bill which has been passed by the House and Senate.¹³ When DOD receives its regular or baseline appropriations, it is expected to finance war costs until a supplemental is passed by using regular funds slated to be needed at the end of the year and any interim funds provided.

HOW AND WHY WAR COSTS HAVE INCREASED

¹⁰The \$615 billion includes the \$5.2 billion provided to DOD in Sec. 123, *H.J. Res. 52, P.L.110-2, FY2008 Continuing Resolution*, enacted 9-29-07 . See also, **Table 3** in CRS Report RL33110.

¹¹ In the FY2008 CR (H.J. Res 52, P.L. 110-92) Congress approved \$5.2 billion for Mine Resistant Ambush Protected (MRAP) vehicles that the Administration requested in a July 31, 2007 budget amendment.

¹²See Sec. 123, *H.J. Res 52, P.L. 110-92* enacted September 29, 2007, and OMB, "Estimate No. 6, FY2008 Emergency Budget Amendments, Operation Iraqi Freedom, Operation Enduring Freedom and Selected Other International Activities," 10/22/07; http://www.whitehouse.gov/omb/budget/amendments/amendment_10_22_07.pdf

¹³Conferees to H.R. 3222, the FY2008 DOD Appropriations bill have been appointed by the House but not the Senate.

In recent years, DOD's annual war costs have more than doubled from \$72 billion in FY2004 to about \$165 billion in FY2007, an increase of \$93 billion. Little of this increase reflects changes in the number of deployed personnel. Rather, the increase is attributable to several factors: 1) certain unanticipated requirements for force protection gear and equipment; 2) the cost of training and equipping Afghan and Iraqi security forces; and 3) even more, to a broadened definition of the types of programs that would be considered part of war reconstitution or reset — funds to repair and replace war-worn equipment.

Although the major cost drivers in war costs would be expected to be changes in the number of deployed military personnel and the intensity of conflict, this does not appear to have been the case because average deployed military strength has changed relatively little in the past four years (see below).

Changes in Deployed Military Personnel. Although DOD does not report these figures to Congress, the best measure of military personnel levels may be average strength because it captures the average number of military personnel in theater for a year, taking into account the ups and downs as units rotate, and the amount of time that individual service members are in theater. This figure is equivalent to a full-time-equivalents (FTE) for civilians. Between FY006 and FY2007, average strength increased by about 6,000 reflecting the increase in troop levels announced by the President in January 2007.¹⁴

The average strength of military personnel deployed in the Iraq and Afghanistan theater of operations has grown from 219,000 in FY2004 to 254,000 in FY2007, an increase of about 15% increase. During the same period, however, costs have grown by about 130%, more than doubling.¹⁵ Thus there appears to be little correlation between changes in personnel levels and changes in costs.

Changes in Operational Tempo. In the past four years, direct operating costs — a reflection of the intensity of operations — have grown by about \$4 billion, from \$6.9 billion in FY2004 to about \$11.3 billion in FY2007, a 65% increase. This would suggest that the intensity of operations has grown. While service witnesses have frequently testified that operating rates for equipment are several times higher than peacetime levels and in an especially harsh environment, DOD has not provided Congress with the total number of miles driven by tanks, fighting vehicles or trucks each year that would show whether the overall pace of operations has risen. It appears, however, that a major reason for the \$4 billion increase is higher fuel prices as cited by DOD in its FY2005 Supplemental justification.¹⁶

¹⁴Defense Manpower Data Center, DRS 17253, *Average Number of Members Deployed by Month*, September 2001 - July 2007 based on the Contingency Tracking System; CRS estimated the average of FY2007 by assuming the same level in August and September 2007 as of July 2007.

¹⁵*Ibid.*

¹⁶Department of Defense, *FY2005 Supplemental Request for Operation Iraqi Freedom (OIF), Operation Enduring Freedom (OEF), and Operation Unified Assistance*, February 2005 http://www.dod.mil/comptroller/defbudget/fy2006/fy2005_supp.pdf; and CRS Report RL32783, *FY2005 Supplemental Appropriations for Iraq and Afghanistan, Tsunami Relief and Other Activities* by Amy Belasco and Larry Nowels, May 12, 2005, CRS-22; hereinafter, *CRS Report RL32783*; <http://www.congress.gov/erp/rl/pdf/RL32783.pdf>.

Factors Cited by the Defense Department. The Defense Department cites a variety of factors, ranging from higher personnel benefits to fuel prices, to explain increases in war costs in its budget justifications. Together, we estimate that these could explain about \$42 billion of the \$93 billion increase in annual war costs between FY2004 and FY2007. These factors include:

- \$3 billion more for higher war-related personnel benefits (for higher rates for imminent danger pay, family separation allowances, hardship duty, death gratuities, and traumatic injuries);¹⁷
- \$10 billion more is for force protection — for example, uparmored HMMWVs, night vision goggles (from \$2 billion in FY2004 to more than \$12 billion in FY2007);¹⁸
- \$4 billion more to defeat improvised explosive devices (from \$0 in FY2004 to \$4.4 billion in FY2007);¹⁹
- \$4 billion more for higher fuel prices (\$3.5 billion cited in FY2005 Supplemental);
- \$13 billion more the cost to train and equip Afghan and Iraq Security Forces (from \$0 funded in DOD in FY2004 to \$12.9 billion in FY2007);²⁰
- \$7 billion for higher troop levels and heightened naval presence in FY2007 to meet the President’s “surge” in force levels.²¹

This leaves about \$51 billion to be explained.²²

Of other factors cited by DOD, the \$34 billion increase in annual reset requests — the repair, replacement, and upgrading of equipment — is the largest single factor in the growth in the past four years. Of the \$51 billion increase,

- About \$34 billion is for reset or reconstitution (from about \$4 billion in FY04 to \$38 billion in FY07);

¹⁷ CRS Report RL33298, *FY2006 Supplemental Appropriations: Iraq and Other International Activities; Additional Katrina Hurricane Relief* coordinated by Paul Irwin and Larry Nowels, June 15, 2006, p. CRS-31; hereinafter, *CRS Report RL33298*; <http://www.congress.gov/erp/rl/pdf/RL33298.pdf>.

¹⁸ *CRS Report RL32783*, p. CRS-33; Congress added \$1.5 billion for Mine Resistant Ambush Protected (MRAP) vehicles to the \$11.3 billion requested for force protection gear in Table 2 in DOD, *FY2007 Emergency Supplemental Request for the Global war on Terror*, February 2007; hereinafter, DOD, *FY2007 Supplemental Request*;

http://www.dod.mil/comptroller/defbudget/fy2008/fy2007_supplemental/FY2007_Emergency_Supplemental_Request_for_the_GWOT.pdf; for Congressional add, see House Appropriations Committee, Press Release, May 24, 2007; for FY2008 request, see Table 2 in DOD, *FY2008 GWOT Request*.

¹⁹ See Table 5 in *CRS Report RL33110*.

²⁰ *Ibid.*

²¹ CRS Report RL33900, *FY2007 Supplemental Appropriations for Defense, Foreign Affairs, and Other Purposes*, July 2, 2007 by Stephen Daggett, Amy Belasco, Pat Towell, Susan B. Epstein, Connie Veillette, Curt Tarnoff, and Rhoda Margesson, July 2, 2007, p. CRS-38; hereinafter, *CRS Report RL33900*.

²² CRS calculation based on differences between FY2004 and FY2007 in categories listed.

- Some amount that CRS has not been able to identify for accelerating the creation of standardized units in the Army and Marine Corps (level in FY04 and FY07 unclear); and
- Possibly about \$3 billion to “grow the force” or increase Army and Marine Corps strength, (perhaps \$1 billion in FY2004 to about \$4 billion in FY07).²³

Taking these additional factors into account, about \$14 billion of the increase between FY2004 and FY2007 would remain unexplained.

Role of Reset or Reconstitution. The largest single reason for the growth in costs between FY2004 and FY2007 appears to be reconstitution or reset — the repair, replacement, and upgrading of war-worn equipment as DOD defines it. To date, DOD has received about \$64 billion in funding for reset. With the just submitted new FY2008 request, the total for reset would be \$47 billion. That brings the total for enacted and requested funding to about \$110 billion.²⁴ The FY2008 reset request is some \$43 billion more than in FY2004.²⁵

Although repair and replacement costs might be expected to grow over time as operations wear down equipment, it appears that much of the growth reflects a broadening of the definition of war-related funding as well as “front loading” or requesting funding in advance as OMB Director Ronald Portman acknowledged.²⁶ Providing additional funds for reset faces fewer hurdles when war operations are funded on a separate track from its baseline or regular requests.

THE EMERGENCY BUDGETING PROCESS

The Administration has requested and Congress has agreed to use emergency supplemental funds to pay for almost all of the cost of the wars in Iraq and Afghanistan thus far.²⁷ War funds have

²³CRS calculations based on various sources, including DOD, *Supplemental & Cost of War Execution Reports* and DOD, *FY2007 Supplemental Request*.

²⁴CRS calculations based on Office of the Secretary of Defense, *Report To Congress, Long-Term Equipment Repair Costs*, September 2006, p.24 and p.25; *Congressional Record*, August 2, 2006, p. S8571; DOD *FY2007 Supplemental Request*, p.75; DOD, *FY2008 GWOT Request*, p. 62; and SAC, *Fiscal 2008 War Supplemental*, p. 7.

²⁵CRS assumed \$4 billion for all services compared to the \$3.3 billion for Army and Marine Corps in Office of the Secretary of Defense, *Long-Term Equipment Repair Costs*, Sept. 2006, p. 24 and p. 25; Table 2 in DOD, *FY2007 Supplemental Request*.

²⁶For changes in repair costs, see Figure 2-2 and Figure 2-3 in CBO Paper, *Replacing and Repairing Equipment Used in Iraq and Afghanistan: The Army’s Reset Program* by Frances Lussier, September 2007, hereinafter, CBO, *Army Reset*; <http://www.cbo.gov/showdoc.cfm?index=8629&sequence=0&from=7>. For front-loading and changes in definition, see *CRS Report RL33900*, p. CRS-42 to CRS-43; Table 2 in DOD, *FY2008 GWOT Request*.

²⁷For example, war funds in the FY2007 Supplemental (Sec. 10002, P.L.110-28) and provided as “additional” appropriations in DOD’s FY2007 regular appropriations (Sec. 9011, P.L.110-28) were designated as emergency funds; see also, Title IX, Sec. 9011 in P.L. 108-287, P.L. 109-148,

(continued...)

generally not been under the overall discretionary limits set within annual budget resolutions so that they do not compete with other programs. While few disputed that initial war costs for Afghanistan and Iraq met the budget resolution’s criteria for emergency spending — necessary and vital, urgent, sudden, requiring immediate action, “unforeseen, unpredictable, and unanticipated,” and “not building over time.” Some members now question whether those criteria still apply to war costs in the sixth year of operations.²⁸

In recent years, Congress has set separate caps for war funds. For example, the FY2008 budget resolution (S. Con. Res. 21) no longer classifies war costs as emergency funds but instead, sets a level in a separate category for “overseas deployments.” That level — set in the resolution at the Administration’s initial request — may be adjusted in the House. Changes in that level in the House are not subject to the overall budget caps for discretionary programs.²⁹ Thus, it appears that war costs and baseline programs essentially remain on separate tracks.

DOD BUDGETING PROCESS FOR WAR COSTS

Although much of the standard budget review process is followed for developing war cost requests — the services submit their requests, the Office of the Secretary and OMB review those requests, and ultimately, the President sets the level. But unlike the baseline budget, the overall funding level for war requests is not set in advance, and war requests have generally been considered on a separate track. In FY2008, Congress required DOD to submit a full year of war costs with its regular budget. Since then, the President has submitted two additional requests.

Relying on supplementals has been considered appropriate for war funding because conditions on the ground make it more difficult to predict defense needs, particularly in the early stages of a conflict. In FY2008, however, Congress required that the President submit a complete and detailed request for FY2008 with the regular budget. In response to this requirement, DOD simultaneously developed requests for the FY2007 Supplemental, FY2008 regular budget, and the FY2008 Supplemental. Some observers believe having several alternative ways to cover costs may have eroded budget discipline.

DOD’s recent requests have also gone beyond traditional definition of immediate “incremental costs,” including some programs with more indirect or longer-term connections to ongoing war operations such as equipping standardized units in the Army and Marine Corps, upgrading equipment as part of reset, buying pre-positioned equipment, and increasing the size of the Army and Marine Corps.

In DOD’s regular budget process — a six-year process referred to as the Planning, Programming, Budgeting and Execution System (PPBES) — senior officials make trade-offs within a “top line” or total funding level set in advance by the President, based on the relative costs and

²⁷(...continued)

P.L. 109-289; DOD also received some funds as non-emergency funding in the FY2003 Consolidated Appropriations (P.L. 108-7) and the FY2003 Regular DOD Appropriations Act, P.L. 107-48; see Table A1 in *CRS Report RL33110*.

²⁸Sec. 204 (a) (6)(A) of *S. Con. Res 21*, May 17, 2007.

²⁹Sec. 101 (121) and Sec. 207 (d) (1) (E), *H. Rept. 110-153 on S. Con. Res 21*.

benefits of various expenses and programs as well as the relative risks of choosing to fund programs in the immediate budget year rather than in a later year.

DOD's War Cost Guidance. DOD recently revised the regulations that guide the services in developing war cost requests. These revised guidelines appear to institutionalize previous interim guidance and practice that broadened the definition of war costs.³⁰ Traditionally, the cost of contingencies was expected to include only incremental costs directly related to operations — in other words, costs “*that would not have been incurred had the contingency operation not been supported*”(emphasis added).³¹ The guidance goes on to warn that “Costs incurred beyond what was reasonably necessary to support a contingency operation cannot be deemed incremental expenses, since such costs are not directly attributable to support of the operation.”³²

Examples of incremental expenses are:

- special pays for those deployed overseas such as imminent danger or separation pay for those with families;
- the additional costs of activating national guard and reserve personnel in pay and benefits;
- transportation of personnel and equipment and setting up base support services;
- maintenance above planned peacetime levels to repair equipment that has been operated at higher operating tempo rates;
- “Other Services and Miscellaneous Contracts;”
- procurement, Research, Development, Test & Evaluation (RDT&E), and military construction that is “associated with supporting a contingency operation,” “*only if the expenditures were necessary to support a contingency operation and would not have been incurred in that fiscal year in the absence of the contingency requirement*” (emphasis in original).³³

To distinguish these incremental costs, the guidance required that the military services show assumptions about troop levels, operational tempo, and reconstitution though little of this information has been provided to Congress. In addition, the guidance lists and describes the types of incremental expenses that are to be reported monthly.

In guidance issued to the services to prepare their FY007 and FY2008 requests, DOD reiterated that the services would have to demonstrate that any investment requests were “directly associated with GWOT operations,” rather than to offset “normal recurring replacement of equipment.”³⁴ In

³⁰The latest Financial Management Regulations for contingency operations are dated September 2007 and supercede September 2005 regulations. These regulations were developed in the mid-1990s in response to difficulties in estimating the cost of contingency operations such as Bosnia.

³¹Section 230902, DOD, *Financial Management Regulations*, Chapter 12, Sec. 23, “Contingency Operations,” Sept. 2007, hereinafter, DOD, *FMR*, “Contingency Operations”; http://www.defenselink.mil/comptroller/fmr/12/12_23.pdf.

³²*Ibid.*

³³DOD, *FMR*, “Contingency Operations,” p. 23-25.

³⁴Under Secretary of Defense, Memorandum for Secretaries of the Military Departments, (continued...)

addition, the services were also required to show that reset plans could be executed in FY2007, presumably to meet an emergency criteria.³⁵

Change in DOD’s Definition of War Costs. During the final stages of preparation of the FY2007 supplemental, however, DOD appears to have adopted a new and expanded definition of war costs that permits the services to fund reconstitution or equipment replacement for not only operations in Iraq and Afghanistan but also “the longer war on terror.”

On October 25, 2006, Deputy Secretary of Defense Gordon England, issued new “ground rules” for the services in developing their FY2007 Supplemental requests stating that the services could include “incremental costs related to the longer war against terror (not just OEF/OIF)” including replacement of war-worn equipment with newer models and “costs to accelerate specific force capability necessary to prosecute the war.”³⁶ There is no specific definition of the “longer war on terror” although it is now one of the core missions of the Department of Defense.³⁷

In September 2007, DOD published revised budgeting guidance for contingency operations that institutionalizes the changes in the October 2006 England memo.³⁸ This new guidance includes a new section on budgeting for “large-scale contingencies” that expands the definition of expenses that would be considered part of reset. For large-scale contingencies which include “intense combat or long-term stability or anti-insurgency operations,” the guidance permits the services to request “expenses beyond only direct incremental costs” on a case-by-case basis.³⁹

The guidance also includes not only expenses that “relate directly to operations” but also those that are “a result or consequence of the operations such as reconstitution activities (to replenish stocks, replace battle losses, or worn equipment or systems), depot maintenance and other supporting actions,” as well as special funding authorities such as coalition support.⁴⁰

This new definition differs substantially from the traditional definition of reset — the “process of bringing a unit back to full readiness once it has been rotated out of a combat operation,” by repairing and replacing equipment and resting and retraining troops.”⁴¹ The new guidance allows the

³⁴(...continued)

“Fiscal Year (FY) 2008-2013 program and Budget Review,” July 19, 2006, p.34-49, specifically, p. 36, 39, 41.

³⁵ *CRS Report RL33110*, p. CRS-31.

³⁶Deputy Secretary of Defense Gordon England, Memorandum for Secretaries of the Military Department, “Ground Rules and Process for FY ’07 Spring Supplemental,” October 25, 2006.

³⁷*CRS Report RL33110*, p. CRS-31-p. CRS-32.

³⁸ Although the revised guidance is dated September 2007, it was apparently issued as interim guidance earlier. It also appears that the guidance endorse requests by the services in earlier supplementals that were approved by Congress.

³⁹ DOD, *FMR*, “Contingency Operations,”p. 23-45.

⁴⁰*Ibid.*

⁴¹Office of the Secretary of Defense, *Report to Congress, Ground Force Equipment Repair*, (continued...)

services to restore or buy new equipment that meets a higher standard to meet its future missions by enhancing capability or adding new technology as well as rebuilding equipment to its original condition (*italics added*). Thus the guidance endorses actions to:

- reach a “*desired level of combat capability*;”
- appropriate to the *units’ future mission*;
- “*restore and enhance combat capability*;”
- insert *new* technology; and
- rebuild equipment to its *original* condition.⁴²

The new guidance may be intended to help the services provide for unanticipated requirements, and apply some of the lessons learned in the Iraq and Afghan wars — for example, by providing more force protection, meeting threats from improvised explosive devices, buying support equipment like trucks, radios, and loading pallets that are traditionally under-funded, or fully equipping the reserve-component now playing a key role. The new standards appear to provide the services with broader leeway to include programs that are expected to contribute to future needs rather than restricting war requests to programs tied directly to ongoing conflicts.

CHANGES IN EXPANDING DEFINITION OF WAR COSTS

Adopting these higher standards also appears to provide a rationale for including expenses in supplementals that have more indirect connections to ongoing operations. Some observers have questioned whether certain programs, funded in emergency supplementals, contribute significantly to war operations:

- equipping standardized units in the Army and Marine Corps;
- personnel costs to increase the size of the Army and Marine Corps;
- reset, particularly, replacing war losses with equipment just beginning production, upgrading equipment for future needs, and buying pre-positioned equipment.

Standardizing Units in the Army and Marine Corps. In FY2005 and FY2006, DOD requested and received a total of \$10 billion in supplementals to fund its ongoing initiative to standardize the configuration of Army and Marine Corps units — an effort referred to as modularity in the Army and restructuring in the Marine Corps. The Army argued that accelerating the creation

⁴¹(...continued)

Replacement, and Recapitalization Requirements Resulting from Sustained Combat Operations, April 2005, p. 8; see also GAO-06-604T, *Defense Logistics: Preliminary Observations on Equipment Reset Challenges and Issues for the Army and Marine Corps*, p. 3.

⁴²For example, the guidance for vehicle reset endorses “Actions taken to restore units to a desired level of combat capability commensurate with the units’ future mission. It encompasses procurement activities that restore and enhance combat capability to unit and pre-positioned equipment that was destroyed, damaged, stressed, or worn out beyond economic repair due to combat operations by procuring replacement equipment. . . [including] major repairs/overhauls and recapitalization (Rebuild or Upgrade) that enhances existing equipment through the insertion of new technology or restores selected equipment to a zero-miles/zero-hours condition;” see DOD, *FMR*, “Contingency Operations,” p. 23-21 to p. 23-22.

of standardized units would decrease the stress on Army forces by providing more units to deploy.

Critics suggested that these expenses were more appropriately considered regular rather than emergency budget costs and that standardizing units may not contribute significantly to reducing stress on the force.⁴³ While DOD argues that modularity makes it easier to swap out units during rotations, only some deployed units are modular. Modular units have fewer personnel, and some studies have found that these units make a small contribution to reducing stress on the force. It appears that most, if not all, funding for modularity is now in DOD's regular budget.

Increasing the Size of the Army and Marine Corps. Until January 2007, the Administration and DOD argued that the increases in the size of the Army and Marine Corps above pre-war levels should be considered war costs because they would be temporary increases to relieve stress on the force, which would no longer be necessary once the conflicts in Iraq and Afghanistan were resolved. This was the rationale for including the personnel costs of the additional Army and Marine Corps, referred to as "active-duty over strength" in emergency supplementals rather than baseline requests.⁴⁴ Some Members of Congress argued that the Administration should permanently expand the size of the Army and Marine Corps to relieve stress on the force.

In January 2007, the Administration reversed its position, endorsing permanent increases of 65,000 personnel in the Army and 27,000 in the Marine Corps by 2012. In its FY2007 Supplemental request, the Administration included not only the military personnel cost but also an additional \$1.7 billion to equip an expanded force contending that the additional forces would reduce the stress on the force from frequent rotations.

Some observers have questioned this rationale, noting that most of the additional forces would not be available until 2012 or 2013. In its report, the Senate Armed Services Committee transferred this funding to DOD's baseline request on the basis that the Administration's initiative to "grow the force," was a regular rather than a war-related expense.⁴⁵ According to recent testimony, the Army is planning to add forces sooner, though it's not clear whether DOD's FY2008 request includes funding for that change.⁴⁶

Replacing War Losses. Although war losses are generally accepted as an appropriate war-related expense, recently, there has been controversy about DOD's original FY2007 emergency war requests, which included requests to replace lost equipment with new systems about to or just-beginning production which would not be delivered for two to three years. Examples include:

- \$389 million to replace F-16 aircraft with Joint Strike Fighters;
- \$146 million to buy CV-22 Ospreys;
- \$388 million for C-130J aircraft; and
- \$375 million for EA_18G electronic warfare requirements.

⁴³CRS Report RL33110, p. CRS-34 to CRS-35; CRS Report RL32783, p. CRS-30 to p. CRS-31.

⁴⁴CRS Report RL33298, p. CRS-32.

⁴⁵CRS Report RL33999, *Defense: FY2008 Authorization and Appropriations*, by Pat Towell, Stephen Daggett, and Amy Belasco, October 9, 2007, p. 19, hereinafter *CRS Report RL33999*; <http://www.congress.gov/erp/ra/pdf/RL33999.pdf>,

⁴⁶SAC, *FY2008 War Supplemental*, p. 69.

Partly in response to congressional scepticism, the Administration withdrew these requests in its March 2007 amendment which provided funding for additional troops to support the additional five combat brigades being sent to Iraq in the troop “surge.”⁴⁷ That scepticism may be reinforced by the finding in the new CBO report that the Army’s FY2007 request included funds to replace not only helicopters lost in theater but also losses of some 40 helicopters in other non-war-related operations, which many observers would continue a baseline rather than a war-related requirement.⁴⁸

Expanded Definition of Reset. While Congress has largely endorsed DOD’s past reset request, some questions have been raised about these requests. In the FY2007 Supplemental, for example, appropriators rejected some of DOD’s FY2007 reset-related requests on the basis that the proposed depot maintenance or procurement was either not executable, not clearly an emergency, or provided funding in advance of requirements.⁴⁹ Congress may want to ask DOD to identify which requests are part of the “long war on terror,” rather than for Iraq and Afghanistan. Some observers might suggest that to the extent that requests were for this purpose, they might be considered more appropriately within the context of DOD’s regular budget where they would compete with other defense needs.

A new report by the Congressional Budget Office on Army reset programs estimates that more than 40% of the Army’s funding for reset thus far — or about \$14 billion — is not to repair or replace systems returned from overseas, the traditional definition. Instead, CBO reported those funds are to upgrade systems to new capabilities, buy new equipment to eliminate longstanding shortfalls, and replace pre-positioned equipment stocks. CBO estimates that almost half of the FY2007 funding was for these purposes.⁵⁰

CBO’s report states that over 40% of the Army’s war request in the past three years has been to rebuild, upgrade, and purchase new or upgraded equipment for reserve component, modular units, and pre-positioned equipment — the broader definition of reset — rather than to replace lost equipment or repair equipment returned from theater. This included, for example:

- upgrades to Bradley fighting vehicles, previously funded in the baseline budget;
- rebuilding heavy trucks to an “as new” status;
- buying replacements for pre-positioned equipment used in theater;
- buying additional trucks for the reserve-component to fill longstanding gaps; and
- buying medium trucks to equip new modular units.⁵¹

⁴⁷DOD withdrew these requests and re-allocated the funds to additional support personnel associated with the higher troop levels of the “surge;” see *CRS Report RL33900*, p. CRS-44 to CRS-45.

⁴⁸*Ibid.*, p. 22-p. 23, and Table 2-3.

⁴⁹*CRS Report RL33900*, p. CRS-42 to CRS-43.

⁵⁰CBO, *Replacing and Repairing Equipment Used In Iraq and Afghanistan: The Army's Reset Program* by Frances Lussier, September 2007, p. ix and p. 31ff., Tables 2-4 and Table 2-5; hereinafter, CBO, *Army Reset Program*; CRS calculation of FY2007 of non-reset share from CBO Table 2-5.

⁵¹CBO, *Army Reset Program*, *passim*.

Although the Army argues that the upgrades provide improved capability, potential questions for Congress are whether such repair and equipment requirements are urgent or war-related requirements in light of the one to three years required for delivery. Given the lead time to buy such new systems, the Army may rely on its current inventory to provide equipment rotating back with units, which is possible since the Army is generally using 20% or less of its inventory in theater and in many cases, already has upgraded equipment available to send to the Iraq and Afghan theater.⁵²

POTENTIAL ADVANTAGES AND DISADVANTAGES OF EMERGENCY BUDGETING

What are some potential advantages and disadvantages of relying on emergency budgeting to fund war costs? Potential advantages might include the following:

- **wartime needs could be met more expeditiously;**
- **the services, particularly the Army and Marine Corps, have been able to meet certain longstanding goals to upgrade and buy equipment;**
- **the services have bought upgraded, more capable, equipment earlier than planned; and**
- **funding ongoing programs such as modularity in supplementals gives the Army room to fund other needs.**

At the same time, potential disadvantages include the following:

- **readiness may have reduced because upgrades take longer than standard maintenance and hence, equipment may be returned to units later;**
- **purchasing equipment whose requirements have not been fully vetted, such as Army pre-positioned stocks;**
- **visibility on total program costs may be reduced; and**
- **budget discipline may be eroded.**

Potential Benefits of Emergency Budgeting. The expanded definition of emergency requests, particularly reset, may have allowed the services, particularly the Army and Marine Corps, to fill certain longstanding gaps in their inventories for equipment that had not been deemed sufficiently important to be included in previous budgets, some of which may have been needed in these conflicts. This included, for example, many items that have been included in the Unfunded Priority List (UPLs), lists of items that are not included in the President's budget that are often submitted to the congressional defense committees.

Supplemental requests have also allowed the services to fund certain support items that typically receive less priority than aircraft, helicopters, and tanks or other major weapon systems in regular budgets. This includes funding in "Other Procurement" accounts, which covers a wide range of seemingly mundane support items such as radios, tactical vehicles, and loading pallets. During war-time operations, the services realized the importance of these items and requested substantial funding in supplementals.

Providing the Army with \$5 billion in funding in FY2005 and FY2006 reduced the pressure on the Army's budget by covering costs that had been previously funded in their regular budget. This

⁵²*Ibid.*, Summary Table 1 and Table 1-1.

may have made it easier for the Army to cover unanticipated cost increases in programs such as the Future Combat Systems.

Costs of Emergency Budgeting: Readiness Effects. Congress may want to ask whether the Defense Department's decision to fund major upgrades and purchase new weapon systems and equipment for reset may have lowered readiness by contributing to equipment shortages for units training to deploy. CBO points out that major system upgrades or modifications take longer than performing standard maintenance or refurbishing older equipment and delay when equipment returns to units. CBO's new report cites two examples: a tank can be reconditioned in four months while it takes two years to recondition and upgrade that same tank, and an overhaul of a heavy truck takes two to three months whereas rebuilding those trucks would take one year (Heavy Expanded Mobility Tactical Trucks).⁵³

The broader definition of reset could also have lowered readiness by putting into the depot maintenance queue major upgrades and overhauls of equipment that take more time to complete and may be less urgently required than other items. According to GAO testimony and a recent report, the Army's repair depots do not target items needed by units preparing to deploy but simply repair equipment as it returns.⁵⁴

Costs of Emergency Budgeting: Incomplete Vetting. Because the services have drawn heavily on pre-positioned equipment for Iraq and Afghanistan, DOD has included replacements in their war-related reset requests. The Army is currently re-examining its overall pre-positioning strategy to reflect the 2006 Quadrennial Defense Review. A recent GAO report points out that the Army's pre-positioning implementation plan could "result in investments for the pre-positioning program that do not align with the anticipated DOD-wide . . . strategy," and recommended that the Army synchronize its strategy with that of DOD, a recommendation that DOD endorsed.⁵⁵

Similar dilemmas may arise in other areas where DOD requests in war supplementals items that may not fit in with ongoing modernization efforts, as may be the case for uparmored HMMWVs and MRAP vehicles. Those systems will create additional support costs that may not be anticipated in regular budgets.

Lack of Visibility on Costs and Reduced Budget Discipline. Because supplemental and regular funding is requested simultaneously, it becomes difficult for Congress to get a full picture of DOD plans as well as the past, current and future costs of weapon systems. At the same time, the availability of supplementals and broadened definition of war costs, gives DOD (and Congress) an alternate funding vehicle that is not subject to standard budget caps, and hence a potentially attractive way to add funding to the defense budget.

⁵³CBO, *Army Reset Program*, p. 36 to p. 37.

⁵⁴ GAO-07-814, *Defense Logistics: Army and Marine Corps Cannot Be Assured That Equipment Reset Strategies Will Sustain Equipment Availability While Meeting Ongoing Operational Requirements*, September 2007; <http://www.gao.gov/new.items/d07814.pdf>; GAO-07-439T, *Defense Logistics: Preliminary Observations on the Army's Implementation of Its Equipment Reset Strategies*, January 31, 2007; <http://www.gao.gov/new.items/d07439t.pdf>.

⁵⁵GAO-07-144, *Defense Logistics: Improved Oversight and Increased Coordination Needed to ensure Viability of the Army's Prepositioning Strategy*, February 2007, p. 4 and p. 7.

Some observers have raised concerns that the services may be relying too heavily on future supplementals to cover various programs, which may allow DOD to delay facing trade-offs between programs.

POLICY ALTERNATIVES

Although both the President and Secretary of Defense Gates have suggested that troop levels in Iraq are likely to decrease in 2008 below pre-surge levels, there remains considerable uncertainty about the pace of troop decreases. Administration and Defense witnesses have stated repeatedly that changes in troop levels will reflect the situation on the ground.⁵⁶

Potential options for Congress to avoid some of the dilemmas raised by separate emergency budgeting could include the following:

- require DOD to define the criteria for war funding less broadly ; or
- delay consideration of much of the FY2008 reset request until FY2009, which could encourage DOD to make trade-offs between those programs and their baseline requirements within a set limit.

With about \$45 billion in investment funds likely to be available to spend as of the beginning of FY2008, DOD might be able to meet urgent reset needs while Congress considers its FY2008 reset request.⁵⁷

FINANCING ARMY OPERATIONS WITHOUT A FY2008 SUPPLEMENTAL

As you requested, CRS estimated how long the Army could continue to fund FY2008 war operations using strictly funds from the regular FY2008 DOD appropriations bill. Under that assumption, CRS estimates that the Army could continue to finance its operating costs — both baseline and war — until about mid-January. This estimate assumes that the Army uses operation and maintenance (O&M) funds slated to be used at the end of the year to cover war costs in the initial months of the year.⁵⁸

If DOD transferred additional funds to the Army and if the Army slowed its non-readiness regular non-war support spending as occurred last spring, CRS estimates that the Army could last an additional month, or until mid-February 2008.

⁵⁶Senate Appropriations Committee, transcript, *Hearing on the Fiscal 2008 War Supplemental*, September 26, 2007, p.55-p. 57, p. 64-p.65.

⁵⁷According to DOD, war-related carryover is \$53 billion as of August 2007, consisting primarily of investment funding. If an additional \$10 billion is obligated in the last month of the fiscal year, about \$43 billion would remain available for FY2008. CRS estimates that DOD figures do not reflect an additional \$7 billion in funds transferred from baseline appropriations to meet war needs. Taking these funds into account, would increase unobligated funds that are available to over \$45 billion; see Table A1 in CRS Report RL33110.

⁵⁸CRS assumes baseline Army O&M spending of \$6.9 billion monthly, including \$2.3 billion in DOD's baseline program (the average of House and Senate recommended levels) and \$4.6 billion in war spending, based on the FY2008 request.

