

SUMMARY OF THE DOD FISCAL 2013 BUDGET PROPOSAL

PRINCIPAL OBJECTIVES

In January 2012 the Department published a paper -- “Defense Budget Priorities and Choices” -- identifying the major budgetary changes made in response to the new defense strategy. Changes in the Fiscal Year 2013 Budget support U.S. defense strategy and are organized around four major themes:

1. Making more disciplined use of defense dollars.
2. Applying strategic guidance to force structure and investment.
3. Ensuring the quality of the all-volunteer force.
4. Fully supporting deployed warfighters.

Disciplined Use of Defense Dollars

The FY 2013 budget continues the reform agenda advanced in the Department’s previous three budgets. The FY 2012 budget proposed more than \$150 billion in efficiencies, which are being implemented. The FY 2013 budget proposes about \$60 billion in additional reductions compared with last year’s plan, to be achieved over the next five years through improved business practices and changes in lower-priority programs. These savings will be applied to deficit reduction.

The Department will achieve efficiencies in travel and printing, enterprise information technology, strategic sourcing, better buying practices, streamlined installation support, rephasing military construction, and reducing expenses in the Office of the Secretary of Defense and Defense Agencies.

To provide better financial information, we are also increasing our emphasis on audit readiness and accelerating key timelines. At the Secretary’s direction, the Department is aiming to achieve audit readiness of the Statement of Budgetary Resources (SBR) for general funds by the end of Calendar Year 2014, three years ahead of the original schedule. The Department is on track to meet the legal requirements for full audit readiness for all DoD financial statements by 2017. We are also implementing a course-based certification program for defense financial managers to ensure that they receive the training needed for audit readiness and other key initiatives.

Force Structure and Investment

President Obama's strategic guidance for the Department of Defense was published in January 2012 and provides a blueprint for the Joint Force in 2020 and a rationale for the changes in force structure and investment.

Strategic goals include: (1) creating a force that is smaller and leaner, but also agile, ready, flexible, and technologically advanced; (2) rebalancing U.S. global posture toward the Asia-Pacific and Middle East regions; (3) building innovative partnerships and strengthening alliances elsewhere in the world; and (4) protecting and prioritizing investments in new capabilities. These actions will ensure that the U.S. can quickly confront and defeat aggression from any adversary, anytime, anywhere.

To achieve these goals, the FY 2013 budget begins a series of decisions and changes that will be carried out over the next several years:

- The Armed Services will be resized by 2017 – the Army to 490,000 (down 72k), Marine Corps to 182,100 (down 20k), Navy to 319,500 (down 6.2k), and Air Force to 328,600 (down 4.2k). There will be more-limited reductions in the Reserves and National Guard.
- Force structure reductions will save about \$50 billion over the Future Years Defense Program (FYDP). Proposed cuts include a minimum of eight Army Brigade Combat Teams (pending further review), six Marine Corps battalions and four TACAIR squadrons, seven Air Force TACAIR squadrons, and retirement of seven older Navy cruisers.
- To align our base structure with our force structure, the Department is requesting two new base closure rounds, one in 2013 and another in 2015.

Rebalancing towards Asia-Pacific and the Middle East will require investments in FY 2013 – including \$0.3 billion to develop the next generation bomber, initial funding of \$0.1 billion to develop increased cruise missile capacity of future Virginia-class submarines, and \$1.8 billion to upgrade tactical sensors and other electronic warfare equipment.

Building innovative partnerships and stronger alliances will mean organizational changes, including two fewer brigades in Europe, as well as continued investments in NATO ground surveillance (\$0.2 billion), the Combatant Commanders Exercise and Engagement Program (\$0.8 billion), and security force assistance (\$0.4 billion).

To protect and prioritize new investments, funding is included for FY 2013 for high-priority initiatives including Special Operations Forces (\$10.4 billion), unmanned air systems (\$3.7 billion), cyber capabilities (\$3.4 billion), missile defense (\$9.7 billion), space initiatives (\$8.0 billion), the new Air Force tanker program (\$1.8 billion), and investment in science and technology (\$11.9 billion).

Prioritizing investments will also mean reductions to existing programs and savings of about \$75 billion over the FYDP. Among them are restructuring of the Joint Strike Fighter to allow more time for development and testing (-\$15.1 billion), delayed development of the Army's Ground Combat vehicle due to contracting delays (-\$1.3 billion), and reductions to the Navy's shipbuilding program (-\$13.1 billion).

Terminated programs will save \$9.6 billion over the FYDP. Included are the Block 30 version of Global Hawk, which is no longer cost-effective; the Defense Weather Satellite System, due to the availability of existing satellites; and the C-27A Mobility Aircraft, whose mission can be met with C-130 transport planes.

Support for All-Volunteer Force

People remain the most fundamental element of strategy, and the FY 2013 budget keeps faith with Service Members by protecting well-deserved benefits for active duty personnel and their families, taking steps to modernize military health and retirement systems, providing support for Service Members returning from war, and proposing a pay raise during what is otherwise a time of austerity. These considerations are especially important as the size of the Armed Forces is reduced.

As a matter of policy, military compensation should be commensurate with the stress of military life and sufficient to attract and retain needed personnel. Accordingly, the FY 2013 budget includes a basic pay raise of 1.7 percent, consistent with the Employment Cost Index.

The FY 2013 budget contains significant amounts for the support of wounded warriors, \$48.7 billion to fully fund the Military Health System, and \$8.5 billion in family support – for DoD schools, commissaries, counseling, child care, and other programs.

Also included is funding for proposals to facilitate the transition of our Service Members who will return to civilian life, including support for programs that help veterans to translate their military skills to civilian work. The FY 2013 budget includes \$0.2 billion for the Yellow Ribbon Reintegration Program and \$0.1 billion in transition assistance.

While continuing to support the All-Volunteer Force, the Department did conduct a review of military pay and benefits. The cost of pay and benefits has grown by nearly 90 percent since 2001, about 30 percent more than inflation. Changes are needed now to avoid overly large cuts in force structure and modernization at a later date.

As a result, the Department proposes changes in military healthcare – largely through increases in TRICARE enrollment fees, new Standard/Extra and TRICARE-for-life enrollment fees, and increases in pharmacy co-pays. None of the fee proposals in the budget would apply to active Service Members, survivors of Service Members who died on active duty, or retirees who retired due to disability. Basic pay raises will be slowed in the years beyond FY 2014, which will give military members time to plan for lower increases. Total savings in military pay and benefits amount to about \$29 billion over the next five years. These changes amount to slightly more than 10 percent of required savings even though pay and benefits represent about one-third of the defense budget.

Military retirement comprises another significant portion of military compensation. No changes are proposed in the FY 2013 budget, and both the President and the Secretary believe the retirement benefits of current Service Members should not be affected. However, the Department is recommending that Congress establish a commission to conduct a comprehensive review of military retirement.

Support for Warfighters

The FY 2013 budget request for Overseas Contingency Operations will ensure full support of warfighters in combat. The proposed amount of \$88.5 billion is 23 percent or \$26.6 billion less than the enacted FY2012 budget of \$115.1 billion.

Included are \$85.6 billion to support OPERATION ENDURING FREEDOM in Afghanistan and \$2.9 billion for post OPERATION NEW DAWN transition activities.

DoD's request assumes that U.S. force levels in Afghanistan will remain at 68,000 troops through the year. In addition, funds will also cover the cost of training and equipping Afghan National Security Forces, support for the Office of Security Cooperation-Iraq, and repairing or replacing equipment used or destroyed in Iraq and Afghanistan.

Attached Summary Charts:

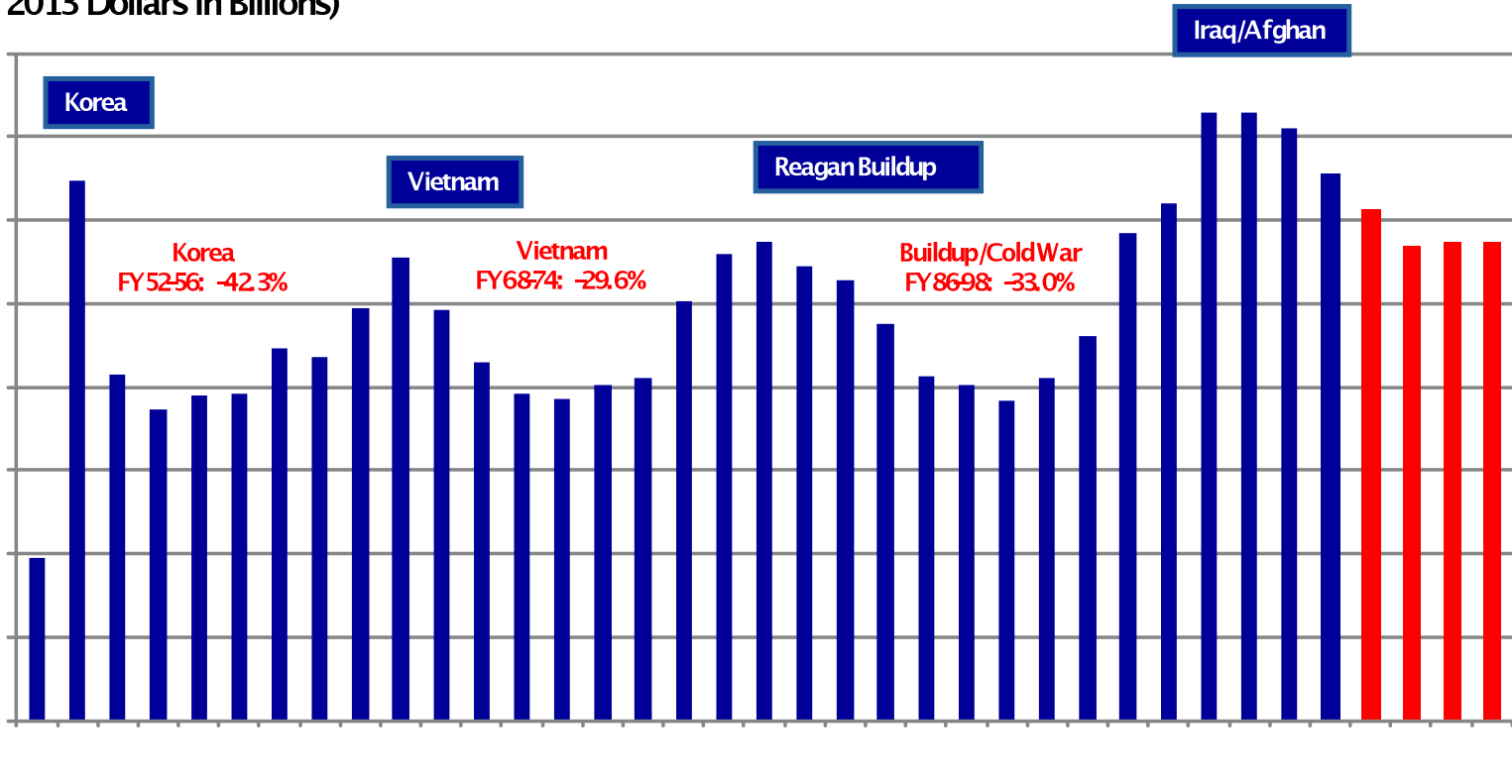
- Department of Defense Total Budget Trends FY 2010 – FY 2017
- Budget Trends by Title
- Summary By Military Department
- FY 2013 OCO Budget by Military Department/Title

Total Budget Trends

(Including supplemental and OCO funding)

**FY10- 17:
-21%/- \$156B**

(FY 2013 Dollars in Billions)



Fiscal Year

Projection (red bars) assume FYDP plus \$44.2 billion annual placeholders for OCO beyond FY 2013

Budget Trends By Title (Base Budget)

(Dollars in Billions)

	FY 2011 Actual	FY 2012 Enacted	FY 2013
Military Personnel	137.8	141.8	135.1
Operations and Maintenance	194.1	197.2	208.8
Procurement	102.1	104.5	98.8
RDT&E	75.3	71.4	69.4
Military Construction	14.8	11.4	9.6
Family Housing	1.8	1.7	1.7
Revolving & Management Funds	2.4	2.6	2.1
Total	528.3	530.6	525.4

Numbers may not add due to rounding

Summary By Military Department

(Dollars in Billions)

	FY 2011 Actual	FY 2012 Enacted	FY 2013
Army	136.2	133.9	134.6
Navy	156.0	156.8	155.9
Air Force	145.4	144.9	140.1
Defense-Wide	90.7	95.0	94.9
Total	528.3	530.6	525.4

Numbers may not add due to rounding

FY 2013 OCO Budget by Military Department/Title

<i>\$ in Thousands</i>	FY 2012 Enacted	FY 2013 Request	Delta '12-'13	Percent Change '12-'13
<i>OCO Budget</i>				
Army	67,445,544	50,052,150	-17,393,394	-26%
Navy	15,693,315	14,230,117	-1,463,198	-9%
Air Force	16,796,526	14,272,783	-2,523,743	-15%
Defense-Wide	15,147,492	9,927,368	-5,220,124	-34%
Total	115,082,877	88,482,418	-26,600,459	-23%

Numbers may not add due to rounding

<i>\$ in Thousands</i>	FY 2012 Enacted	FY 2013 Request	Delta '12-'13	Percent Change '12-'13
<i>OCO Budget</i>				
Military Personnel	11,293,469	14,060,094	2,766,625	24%
Operation and Maintenance	86,775,842	63,986,203	-22,789,639	-26%
Procurement	16,052,195	9,687,241	-6,364,954	-40%
RDT&E	526,358	245,516	-280,842	-53%
Military Construction			0	0%
Family Housing			0	0%
Revolving and Management Funds	435,013	503,364	68,351	16%
Total	115,082,877	88,482,418	-26,600,459	-23%

Numbers may not add due to rounding