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CLASSIFIED ATTACHMENT



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

MEETING ON FY 1977 BUDGET  
Friday, November 21, 1975  
3:00 p.m. (60 minutes)  
The Oval Office

From: James *L*T. Lynn

I. PURPOSE

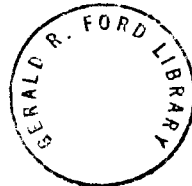
To make decisions on issues raised by the FY-77 budget for The Department of Defense and the Intelligence Community.

II. BACKGROUND AND PARTICIPANTS

- A. Background: The FY-77 Budget submission of The Department of Defense and the Intelligence Community has been reviewed by the Office of Management and Budget and members of the White House staff. This meeting will be conducted as a part of the overall Defense Department budget review. It will focus on issues that require Presidential consideration and determination.
- B. Participants: James T. Lynn, Brent Scowcroft, Paul O'Neill, and Donald Ogilvie.
- C. The attached material is classified and should be treated accordingly.

III. TALKING POINTS

- A. Don Ogilvie, what is the first issue we should discuss today?



CLASSIFIED ATTACHMENT



1977 Presidential Review  
 Department of Defense  
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 requested and recommended.

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Rate Stabilization	-500	-500

	<u>1977</u>	<u>1978</u>
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Military Construction	-804	---
Aeropropulsion Systems Test Facility	+437	-437
Family Housing	-320	-329
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Navy - Cruisers/Destroyers	---	---
Aircraft Carrier	-200	-100
Support Ships	-363	-142
Attack Submarines and Patrol Frigates	-249	+231
Full Funding of Shipbuilding	+846	-366
CONDOR Missile	-49	-65
Aircraft - F-18	-233	-242
Tactical Aircraft Procurement	-1,102	-399
Aerospace Overcapacity	-402	-417
Advanced Tanker/Cargo Aircraft	---	+300
Strategic - Minuteman III	-322	-340
Intelligence (provided separately)	-200	-200
	<u>-9,375</u>	<u>-7,452</u>

\* No TOA impact; only outlays are affected.



Department of Defense  
1977 Budget

Summary Data

	<u>TOA</u>	<u>Outlays</u>	<u>Employment, end-of-year</u>	
			<u>Full-time Permanent</u>	<u>Total</u>
1975 actual . . . . .	87,958	86,019	954,721	989,323
1976 February budget. . . . .	104,684	92,800	953,321	985,000
enacted (estimated) . . . . .	97,270	89,278		
supplementals recommended . . . . .	730	722		
agency request. . . . .	98,000	90,000	935,000	962,000
OMB recommendation. . . . .	98,000	90,000	935,000	962,000
OMB employment ceiling. . . . .			953,321	985,000
TQ February budget. . . . .	24,642	25,400		
enacted (estimated) . . . . .	23,028	23,965		
supplementals recommended . . . . .	85	85		
OMB recommendation. . . . .	23,113	24,050		
1977 planning target. . . . .	110,000	99,000		
agency request (anticipated). . . . .	113,000	101,000	950,000	968,000
OMB recommendation. . . . .	110,000	99,000	910,000	920,000
reduction target . . . . .	110,000	99,000		
1978 OMB estimate . . . . .	122,600	111,350	910,000	920,000



B - Background



Background - Strategy: Defense Budget

. My memorandum to you of October 3 proposed a Defense budget level of \$110 billion in TOA and \$99 billion in outlays. That proposal was designed to:

- Fully fund all of the Defense Department's major force proposals;
- Provide real program growth of \$3 billion over 1976 and fully cover anticipated inflation;
- Affect only pay and support programs and have no appreciable impact on our military capability;
- Provide a substantial cushion for Congressional cuts; and
- Signal our continued commitment to a strong national defense by showing a 12% increase over last year.

. I continue to believe that \$110 billion in TOA and \$99 billion in outlays is an appropriate level for Defense in 1977. The overall program I recommend is described below:

<u>OMB Proposed 1977 Defense Budget</u>		
(\$ billions)		
	<u>TOA</u>	<u>Outlays</u>
1976 Likely Congressional Level .....	98	90
Changes to arrive at 1977 level:		
Add: Inflation .....	10	8
Desirable program growth .....	3	2
Congressional cut insurance .....	3	2
Subtotal .....	114	102
Subtract: Hold pay raise to 5% .....	-2	-2
Improve efficiency .....	-2	-1
Proposed Budget Level .....	<u>110</u>	<u>99</u>

. Changes to the Defense proposal:

- The October 3 memorandum identified a Defense budget request of \$122 billion in TOA based upon the requests of the services.
- At the time we prepared our review book, the Defense Department had reached a budget level of \$118 billion in TOA, and our issues and proposed reductions are tied to that level. We have identified about \$9 billion worth of issues to give you the option to select the final level you desire.



-- Since we prepared our review book, Defense has continued to reduce its forecast. As a result of their reductions:

- (1) Some of our issues have been fully accepted and are no longer in contention;
- (2) Some of our issues have been partially accommodated; and
- (3) Some reductions are being proposed by the Defense Department which are different from issues we have raised.

. As you review the Defense Department issues, I recommend you make tentative decisions to reach a level of \$110 billion in TOA and \$99 billion in outlays or below, for consideration by DOD.

-- I recommend that we inform DOD that alternative proposals to achieve a budget level of \$110 billion in TOA and \$99 billion in outlays are acceptable, provided that:

- . Existing military force levels and readiness are preserved.
- . Strategic modernization levels required for an appropriate SALT posture are maintained.
- . No programs are delayed to 1978 or beyond when such action would be uneconomical.
- . Specific decisions you make are accommodated.

-- Following your tentative decisions we will advise the Department and arrange for a meeting with you, Don Rumsfeld, Brent Scowcroft, and myself to arrive at final decisions.

. In order to retain real program growth and Congressional cut insurance in the Defense budget level of \$110 billion, it is necessary to achieve the types of reductions which will improve efficiency. These are often the types of reductions which are the most difficult to convince the Congress and many in the Department of Defense to accept. Indeed, we would recommend that you take the lead in proposing and supporting these types of actions. The position should be that these types of actions are necessary in order to achieve an affordable Defense program which preserves the necessary military capabilities. Specifically, compensation issues, reserve and active military and civilian personnel reductions, excess aircraft production facilities, and some others are in this category. Thus, Defense can be viewed as being subjected to a level of fiscal austerity equivalent to that imposed on the domestic programs.



1977 Budget  
Department of Defense  
Summary of Recommended Program Reductions  
(\$ Millions)

	1976		TQ TOA	1977		1978	
	TOA	FTP Employ		TOA	FTP Employ	TOA	FTP Employ
Current base	98,000	935,000	23,100	118,000	950,000		950,000
Recommended level	98,000	935,000	23,100	110,000	910,000	122,600	910,000
Reduction	---	---	---	-8,000	-40,000		-40,000

Program reductions:

Military, civilian and retired pay caps. Hold military and civilian pay increases to 5% and retired pay to 60% of CPI. Legislation required.

-2,651                      -385

Military strength levels reduced by 37,000 from the amount requested in support and non-combat categories.

-180                      -250

Civilian employment levels reduced by 48,000 in total and 40,000 in FTP from the requested level.

-450                      -900

Guard and Reserve forces manpower paid drill strength reduced by 46,000 from the requested level. Legislation required.

-12                      -20                      -78                      -73





	1976		TQ TOA	1977		1978	
	TOA	FTP Employ		TOA	FTP Employ	TOA	FTP Employ
Fair market rental. Convert on-base military housing to a fair market rental system by 1984 by allocating a greater portion of future pay raises to quarters allowances. <u>Legislation required.</u>					-52		-119
Personal money allowances. Terminate these special allowances to certain high ranking officers. <u>Legislation required.</u>					---		---
Enlisted aids. Eliminate enlisted aids.					-5		-5
Permanent change of station moves. Reduce personnel turbulence and PCS moves by gradually implementing changes to make Hawaii and Alaska domestic rather than overseas tours; homebasing; and planning to meet prescribed average overseas tour lengths.	-34		-60		-242		-264
Real property maintenance. Reduce by holding backlogs to existing levels; increased use of military construction units; and contracting out.					-222		-252
Energy consumption. Increase use of smaller aircraft and flight simulators in place of high fuel burning aircraft.					-147		-158
Inventory levels. Hold stock levels of fuel and other commonly available items at 1975 levels. (Note: no TOA savings; rather a reduction of \$600 million in outlays.)					---		---



	1976		TQ	1977		1978	
	TOA	FTP Employ	TOA	TOA	FTP Employ	TOA	FTP Employ
Civil Defense. Limit functions to those closely related to nuclear disaster preparedness.							
					-83		-88
Travel. Reduce administrative travel to a level 5% below actual 1975.							
	-82		-23	-94			-94
MAC Charter Concept. Use block seat purchases on commercial scheduled airlines for overseas travel. <u>Requires CAB approval.</u>							
					-13		-11
Rate stabilization. Do not permit future inflation to be anticipated in establishing revolving fund price levels.							
	-350		-125	-500			-500
Military construction. Delete or defer lower priority construction projects.							
					-804		0
ASTF. Construct an Aeropropulsion Systems Test Facility to improve design and test capability of new aircraft engines.							
					+437		-437
Family housing. Reduce leased and new construction housing units where local community off-base housing can fill needs; limit improvements to essential minimums; and provide only essential operating and maintenance costs.							
					-320		-329



	1976		TQ TOA	1977		1978	
	TOA	FTP Employ		TOA	FTP Employ	TOA	FTP Employ
Non-major systems procurement. Limit increase over 1976 to 17%.					-1,000		-1,100
Ground forces procurement. Defer procurement of non-nuclear Lance and long-lead funding of the XM-1 tank; recognize slip in M-60 production build up.					-238		-76
Major warships. Make a Title VIII Presidential determination. Fund a conventionally powered destroyer in 1977 and plan for a nuclear-powered cruiser in 1978.					---		---
Aircraft carrier funding. Defer advance funding for new nuclear powered aircraft carrier until design characteristics are better defined.					-200		-100
Support ships. Defer one oiler and one destroyer tender in 1977; defer one oiler in 1978.					-363		-142
Attack submarines and patrol frigates. Shift funding of one attack submarine from 1977 to 1978.					-249		+231
Full funding of shipbuilding. Re-establish full funding of the 1975 and prior-year shipbuilding programs.					+846		-366



	1976		TO TOA	1977		1978	
	TOA	FTP Employ		TOA	FTP Employ	TOA	FTP Employ
CONDOR missile. Cancel	-86		-10	-49		-65	
F-18. Reopen industry design competition for a new Navy Air Combat Fighter.	-80		-18	-233		-242	
Tactical aircraft procurement. Hold A-10 production to current rate of 5 per month in 1977 pending correction of structural defect; reduce Airborne Warning and Control System from 6 to 3 to encourage possible NATO procurement; and reduce F-15 procurement from 108 to 72 in 1977 in view of likely foreign sales.				-1,102		-399	
Aerospace overcapacity. Discontinue inefficient Navy aircraft production lines (A-4M, A-6E, E-2C, and C-130).				-402		-417	
Advanced Tanker/Cargo Aircraft. Initiate procurement of this aircraft in 1978.				---		+300	
Minuteman III Missile Procurement. Defer decision to continue Minuteman III production pending Presidential decision in light of SALT.				-322		-340	
Offsetting adjustment from internal Defense Department review	+644		+256	+1,375		---	





C - Issues

Military, Civilian  
& Retired Pay Caps

Issue Paper

Department of Defense  
1977 Budget  
Military, Civilian and Retired Pay Caps

Statement of Issue

Should military, classified, wage board and retired pay increases be capped in 1977?

Background

Current law is estimated to require pay increases for:	(\$ millions)	
	<u>1977</u>	<u>1978</u>
- Military and GS civilians, 11.5% on 10/1/76 and 6% on 10/1/77	\$3,744	5,921
- Wage boards civilians, 10% in 1976, 9.4% in 1977, and 6% in 1978	370	876
- Retired pay CPIs, 5.88% on 10/1/76, 5.34% on 5/1/77 and 5.47% on 1/1/78	<u>654</u>	<u>1,317</u>
	<u>\$4,768</u>	<u>8,114</u>

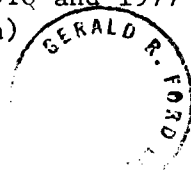
Alternatives

#1. Reduce pay raises by \$2,116 million in 1977 by holding only military and civilian GS increases to 5%. Do not reduce wage board or retired pay increases due to low probability of congressional acceptance. (Agency request)

#2. Approve \$4,768 million for pay raises under current law in 1977 and \$8,114 million in 1978.

#3. Reduce pay raises by \$2,651 million in 1977 and \$385 million in 1978 by holding military, GS and wage board increases in 1976 and 1977 to 5% and by reducing retired pay CPIs to 60% of entitlement. (OMB recommendation)

	TOA (\$ Millions)	
	<u>1977</u>	<u>1978</u>
Alternative #1	2652	8114
Alternative #2	4768	8114
Alternative #3	2117	7729



## Analysis

The 1976 budget proposed legislated caps on military, classified, wage board and retired pay increases. While the pay cap on military and classified pay was achieved, the proposed caps on wage board and retired pay were never considered by the Congress.

Military and Classified Civilians. By holding military and GS pay to 5% in 1976, the 1977 increase to maintain comparability has gone from 8.75% to 11.5%. Assuming a 5% cap in 1977, the 1978 increase to maintain comparability will increase from the presently-estimated 6% to 12.6%.

Holding increases to 5% in 1977 arbitrarily would generate reductions of \$2 billion in 1977 and nothing in 1978.

Wageboard Civilians. Holding wage board increases to 5% for the transition quarter and 1977 would generate reductions of \$271 million in 1977 and nothing in 1978.

Retired pay. Holding cost of living increases in 1977 to 60% of entitlements would generate savings of \$264 million in 1977 and \$385 million in 1978. It is unlikely this cap will be approved by Congress in an election year.

Agency Request: Alternative #1. Defense has no objection to reducing military and GS increases but they are concerned that if the other caps are not enacted, the agency, as happened in 1976, would have to absorb part or all of the cost of these pay raises within its concurrent resolution ceiling. Therefore, the agency recommends holding only military and GS increases to 5%.

OMB Recommendation: Alternative #3. Cap military, GS and wage board increases.



Department of Defense  
1977 Budget

Civilian and Military Strength Levels

Background

Defense payroll costs are going to continue to increase both in direct salary, and related personnel support and benefits costs. Legislative initiatives designed to moderate these increases have been rejected or resisted. In these circumstances, it is essential to assure that military and civilian strength levels are established at the minimum needed to support national goals.

Alternatives

The following table displays the strength levels in the Defense request:

	<u>Actual</u>		<u>Request</u>	
	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Personnel (000)				
Military .....	2,161	2,127	2,094	2,122
Civilian Total .....	1,015	989	962	968
Civilian Full-Time Permanent .....	(961)	(955)	(935)	(950)

The agency request would reverse the downward trend of the past few years in 1977 with increases in both military and civilian totals. We do not believe such a reversal is consistent with current fiscal guidance or justifiable on program grounds, and the alternatives would, accordingly, continue the downward trend.

Summary of the Issues

Can military end strength be reduced by 37,000 with savings of \$180 million?

Can civilian end strength be reduced by 5% from the 1976 level with savings of \$450 million?



Issue Paper  
Department of Defense  
1977 Budget  
Military Strength Levels

Statement of Issue

Should Defense military strength levels be reduced?

Background

The following table displays military end strength included in the budget requests of the military departments, the likely congressional action, and the OMB recommendation.

Military End Strength (000)	Actual	Estimate				Increase Over 197T	OMB FY 1977 Alternative	
	1975	1976	SAC <sup>1/</sup>	197T	SAC <sup>1/</sup>			1977
Army .....	784	783	(782)	791	(788)	791	-	782
Navy .....	535	527	(526)	534	(532)	547	13	539
Marine Corps .....	196	196	(196)	196	(196)	196		196
Air Force .....	612	587	(582)	587	(582)	588	1	568
Total .....	2,127	2,094	(2,086)	2,108	(2,098)	2,122	14	2,085

<sup>1/</sup> Strengths approved by the Senate Appropriations Committee.

Alternatives

- #1. Approve the strength levels as requested by the military departments (Agency request).
- #2. Reduce military strength in 1977 by 37,000 from the request, which is a reduction, however, of only 13,000 from the 197T level (OMB recommendation).

	TOA (\$ millions)			
	1975	1976	1977	1978
Alternative #1 .....				
Alternative #2 .....			-180	-250



Analysis

Historically the joint review results in individual decisions which reduce military strength on a program basis. Normally the military departments make total strength levels a "major issue," and the individual reductions are returned in final budget wrap-ups. Initial results of the budget review indicate that a reduction of about 27,000 will be approved in individual decisions. Over half of this reduction results from the proposal to contract out the work performed by some 14,000 Air Force personnel in real property maintenance. A 6,000 reduction in Navy results from a proposal to reduce recruit training from 9 weeks to 7 weeks. The remaining reduction of 7,000 consists of a large number of individual workload related decisions in Army (2,000), Navy (2,000), and Air Force (3,000). These reductions are expected to be approved in Headquarters and related support activities and in medical and training functions. In part they will reflect logical extension of the congressional action on FY 1976 and FY 1977. In our view these reductions can be accomplished without in any way affecting military capabilities. In addition, a further reduction of 10,000 in transient accounts of Army (7,000), Air Force (3,000), and Marine Corps (300) will be possible upon approval of the revised Permanent Change of Station policies recommended in the OMB study of this subject. These reductions will not detract from military capabilities and in fact could enhance them by reducing turbulence. There will be strong pressures to convert these savings into expanded combat capability on the grounds that this is not only needed but that reducing total strength levels could be misinterpreted as a sign of a lessening in our resolve to preserve a strong national defense.

Agency Request: Alternative #1. The agency will maintain that current strength levels should be continued with savings from tighter management converted into combat units.

OMB Recommendation: Alternative #2. The recommended reduction is minimal (less than 1 1/2%) and can be accomplished without impacting capabilities.





Issue Paper  
 Department of Defense  
 1977 Budget  
 Civilian Employment Levels

Statement of Issue

Should Defense civilian employment be reduced in 1977?

Background

For the past several years, Defense civilian employment has declined at a rate of 1% to 3% per year. The decreases have been directed by the Administration or Congress and have been absorbed through increased productivity, including the closing of unneeded facilities.

Alternatives

- #1. Hold 1976 employment to the level expected to be approved by Congress and then increase by 6,000 for seasonal adjustment. (Agency request)
- #2. Plan on about a 2.5% decrease from the 1977 request.
- #3. Require a 5% reduction from the 1977 request. (OMB recommendation)

	<u>TOA (\$ millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1 .....				
Alternative #2 .....			-250	-400
Alternative #3 .....			-450	-900



	Civilian End Strength (000)							
	1975		1976		1977		1978	
	Total	FTP	Total	FTP	Total	FTP	Total	FTP
Alternative #1 .....	989	955	962	935	968	950*	968	950*
Alternative #2 .....			962	935	944	924	944	924
Alternative #3 .....			962	935	920	910	920	910

### Analysis

Congressional action to date on the 1976 civilian employment requests require a reduction of over 23,000. It is not clear whether the Congressional intent is to require this reduction from direct hire civilian employment only or whether some part of the reduction can be taken in indirect hire foreign nationals. Our best estimate is that the reduction will be taken in direct hire employment and the end 1976 employment will be about 962,000. Adjusting that end strength for seasonal changes only would result in an end strength for 1977 of 968,000. The original military department requests totaled 982,000. We estimate that the normal budget scrub will eliminate most of the requested increases and that the final 1977 agency request will be about 968,000.

Alternative #2 proposes a 2.5% reduction in 1977 civilian end strength from the estimated 968,000 level to a level of 944,000. This reduction can be achieved through the implementation of several issues that are discussed later, and through normal productivity increases. In summary,

- Eliminating appropriated fund support from non-appropriated fund welfare and recreation activities would reduce employment by 5,000.
- Transfer of overseas passenger movement functions from Air Force to civilian airports and reductions in civil defense activities would reduce employment by 800 civilians.
- Application of a 1.9 percent productivity increase would permit reducing employment by the remaining 18,500.

This overall reduction could be achieved with no impact on military readiness and would be consistent with current OMB guidance which provides for a 2.5 percent productivity increase goal.

\* Includes 9,000 formerly classified as temporary.

Alternative #3 proposes an overall reduction of 5 percent in the 1977 end-strength level. The additional 24,000 end-strength reduction required by the alternative can be achieved through the following management improvement and belt tightening actions:

- Improved efficiencies in logistics and procurement management including (a) maximizing use of existing depot facilities and closure of single purpose depots, (b) reducing the number of inventory control points, by one-third, (c) consolidating the Defense Contract Administration Service into three regional offices, (d) transferring Marine Corps supply and maintenance operations to other military services and Defense Agencies. These actions permit employment reductions of about 10,000 civilians.
- Reductions in administrative overhead including a 10 percent reduction in OSD/JCS staff would reduce civilian employment by about 1,000.
- Holding Army and Air Force Reserve and National Guard technician employment to the 1975 level, foregoing planned improvements in Reserve training and maintenance, would provide a reduction of 3,000 civilians.
- Reductions in training personnel and training base closures, reflecting an anticipated decline in training loads would save 5,000 civilian personnel.
- Shifting the accomplishment of some real property maintenance, base operations and other support activities from civilians to military personnel would permit a reduction of 5,000 civilians.

Some of the actions to achieve a 5 percent personnel reduction would involve base and facility closures. A 5 percent reduction would also require some reductions in force. The fact that about 26 percent of Defense civilian employees are eligible to retire would soften the effect of such a reduction in force.

Agency Request: Alternative #1. The Department believes further reductions should not be expected at this time until specific productivity improvements have been identified and accomplished.

OMB Recommendation: Alternative #3. Would require an employment level about 5 percent below the expected 1976 level with the reduction to be achieved by a combination of specifically identified reductions including a major revamping of logistical operations, achievement of established productivity improvement objectives, and foregoing planned improvements in Reserve training and maintenance.

Guard and Reserve Forces

Department of Defense  
1977 Budget

Guard and Reserve Forces

Background

Under the "Total Force Policy," Guard and Reserve forces are designated as the primary source for augmentation of active forces in time of emergency. Equipment modernization, intensified training, conversion of units to higher priority missions and "association" with active counterpart units are key parts of this policy. Funding and strength levels for 1975-1978 are shown below:

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Funding (\$ millions)				
Investment	725	1,003	1,465	1,801
Operations	2,421	2,796	3,013	3,046
Personnel	1,679	1,772	1,826	1,823
ROTC	<u>81</u>	<u>93</u>	<u>98</u>	<u>99</u>
Total Budget Authority (\$ Millions)	4,906	5,664	6,402	6,769
Paid Drill Strength (000)	897	892	895	896

These funds are related primarily to the roughly 900,000 member Selected Reserve who train on a regular basis and are the only portion of our Reserve forces who receive drill pay. An additional 600,000 members belong to the Individual Ready Reserve (IRR), but they generally do not train regularly and they receive no drill pay.

Basic to the size and composition of Guard and Reserve forces is the extent to which they are geared to realistic and current mobilization plans. Guard and Reserve programs have been greatly influenced by external factors such as political support in the Congress, coupled with a natural reluctance by the active forces to part with meaningful missions. Examples are the imposition by the Congress of a minimum average strength authorization of 904,000 in 1976 in lieu of the 886,000 requested by the Administration, and the directed retention of seventeen Navy Seabee battalions although Defense stated a requirement for only eight battalions.



A "Study of the Guard and Reserve in the Total Force," completed this past September, has resulted in four major thrusts: (1) improved modernization; (2) expanded recognition and use of the IRR; (3) increased recognition that non-essential or ineffective Reserves are an unaffordable luxury; and (4) increased integration of active and Reserve forces. Stemming from this study are various tests of Reserve capability to be conducted and a requirement that Army Guard and Reserve and Navy Reserve drill strength be justified on the basis of approved planning guidance.

#### Alternatives

Within the context of this current thrust and in view of today's austere budget climate, meaningful program adjustments can be initiated over and above those likely to result from the review now being conducted within Defense.\* A key factor as to the success of the issues presented is how the impact on the Reserve is perceived by the Congress.

	<u>FY 1975</u>	<u>FY 1976</u>	<u>FY 1977</u>	<u>FY 1978</u>
Budget Authority (\$ Millions)	0	-12	-192	-187
Manpower	0	-12	-78	-73
Pay Practices	0	0	-114	-114
Paid Drill End Strength (000)	0	-16	-46	-46

\* Recommendations are made for reductions in Guard and Reserve manpower and pay practices that could be accomplished without degrading mission capability.



Issue Paper  
 Department of Defense  
 1977 Budget  
 Guard and Reserve Forces Manpower

Statement of Issue

Can portions of the paid drill Guard and Reserve program and Headquarters overhead not directly related to combat requirements be eliminated?

Background

Paid drill Guard and Reserve strengths show a slight decline from 897,000 to 895,000 from 1975 to 1977. Strength levels and Headquarters support can be reduced without degrading the capability to meet assigned missions.

Alternatives

- #1. Continue Reserve forces manpower and Headquarters support as requested by the Department of Defense. (Agency request)
- #2. Reduce Reserve paid drill strength and Headquarters functions. (OMB recommendation)

	<u>TOA (\$ Millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1 .....	0	0	0	0
Alternative #2 .....	0	-12	-78	-73

Analysis

Through better management of Reserve manpower, including expanded use of the Individual Ready Reserve (IRR), Guard and Reserve forces can provide needed capability at reduced funding levels.



-- Navy Reserve requirements for 92,000 drill pay Reservists include approximately 40,000 spaces assigned to reenforce operational staffs, headquarters, bureaus, offices and shore activities upon mobilization. Because of the high experience level of these Reservists, the inability of some units to get meaningful training during paid drills and the questionable essentiality of meeting CONUS shore requirements with paid drill Reservists, objectives could be met through placing these billets in the IRR category. This would require only two weeks' active duty for training in lieu of their programmed training category requiring paid drills plus two weeks' active duty for training. Savings of \$46 million in 1977 would result.

-- Manning against computed requirements of some Reserve components is projected to increase from approximately 90% at present to as high as 97%, based on improved recruiting capability. Continued manning at about 90% (the minimum criteria for units to be considered "combat ready") for Marine Corps Reserve and Air Guard and Reserve and a more gradual recovery of Army National Guard strength to its 400,000 approved level (currently at 390,000) would provide reasonable strength management levels considering difficulties in obtaining certain skills, varying unit deployment criteria and added emphasis on the non-pay IRR. Savings totaling \$17M and strength adjustments as shown below would be realized in 1977.

<u>End Strengths (000)</u>	<u>Army Guard</u>	<u>Marine Corps Reserve</u>	<u>Air Force Reserve</u>	<u>Air Guard</u>
Latest Actual 9/30/75	390	31	51	94
1977 Agency Request	400	35	54	95
1977 OMB Recommendation	400	33	52	93

-- As more Guard and Reserve units "associate" with active force units and as active force gaining commands gain experience with Reserve component management, there is a need to reduce overhead and marginally necessary layers of management. Such Headquarters functions that now appear questionable are the three CONUS Armies, the three Air Force Reserve Regions and the Reserve functions of six Naval Districts. All are under review within DOD or the Congress, but positive action is not certain. Savings of \$15 million in 1977 would result from these actions.

Strong pressure from Congressional and Reserve groups can be expected against restraining strength levels.





Agency Request: Alternative #1. Defense feels manning level funding constraints may prevent some units from attaining their maximum readiness capability, lower levels will be reversed by the Congress and such actions may lead to further Congressional legislative initiatives to manage the Reserves.

OMB Recommendation: Alternative #2. The lower manning levels and reduced Headquarters functions provide significant savings during an austere budget period without affecting essential force requirements.



Issue Paper  
 Department of Defense  
 1977 Budget  
 Guard and Reserve Pay Practices

Statement of Issue

Can some Guard and Reserve pay practices and related programs be curtailed without degrading training proficiency?

Background

While significant changes have occurred in the Reserve forces during the past few years, there are questionable pay practices and related programs that continue without change.

Alternatives

- #1. Continue current practices and programs. (Agency request)
- #2. Make adjustments in those areas which do not directly contribute to military readiness. (OMB recommendation)

	<u>TOA (\$ Millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1 .....	0	0	0	0
Alternative #2 .....	0	0	-114	-114

Analysis

Dual Compensation for Military Training - An estimated 150,000 Federal employees who are Guardsmen or Reservists receive an average of \$400 in military pay in addition to their regular Federal civilian pay while on active duty for training. The Federal Government could follow the policy of many private employers of granting military leave and providing pay only to the extent necessary to assure no loss of take home pay due to Reserve duty. A savings of up to \$45 million annually could be realized. Legislative action would be required. While strong opposition can be expected on the grounds that many Government employees may leave the Reserve program and that recruitment for



technicians could be adversely affected, we feel this opposition to be based more on emotions than fact of life.

Reserve Training Requirements - Although deployment criteria, skill attainment difficulty and skill proficiency levels achieved vary widely among Reserve units and individuals, the Reserve components require 48 four-hour training periods and two weeks' active duty for 97.7% of those personnel in paid drill status. Significant numbers could shift to lower training/pay categories with minimal impact on readiness. Legislative action is necessary for National Guard personnel. Strong opposition can be expected primarily on the basis that reduced drill pay may create a negative recruiting impact. Over 30,000 spaces have been identified for such action in the joint review at a savings of \$20 million, but the decision is uncertain.

Administrative Duty Pay - Administrative duty pay, not to exceed \$240 annually, is provided in law for Commanding Officers of units at a cost of \$2 million annually. This pay was initiated in recognition of the extra time and expense involved with administrative duties of command and is computed on the basis of assigned unit strength. The need is questionable in view of adequate administrative support now provided to units. (Civilian technicians, extra paid training periods.)

Drill Pay - As implemented under law, Reserve inactive duty drill pay is based on one day's pay for each four-hour training period, not to exceed two in any one day. This method, as well as paid mandays (a day's pay for a day of duty), is also used for compensation for additional training above regularly scheduled drills. In the absence of any consistent approach to pay for extra training, the manday method for extra training appears appropriate and can result in annual savings of \$22 million. While this adjustment to extra training pay computation methods could reasonably be implemented without major program impact, the logical follow-on of a day's pay for a day of duty for regular inactive duty training periods has many ramifications warranting detailed study -- a precedent of close to 60 years for one day's basic pay per drill period of 1-1/2 to 4 hours, the impact on retention and recruiting of a substantial loss in daily pay, alternatives to current pay and incentives, retirement point credit implications, etc. However, in view of the magnitude of the current added cost of paying two days' pay for a days' work, approximating \$.5 billion, a detailed study of the Guard and Reserve inactive duty pay seems warranted.

Junior ROTC - The desirability of continued Defense support for the Junior ROTC (high school) program is open to serious question. Support for this program, which is not required to meet any specific military needs, runs about \$25 million per year. There are 1,200 units authorized in law and legislative action would be required.

Strong resistance from Congressional and Reserve groups can be expected for changes to all the above programs.

Agency Request: Alternative #1. Defense would view adjustments to these programs as having a possible adverse impact on recruiting and retention and would fear counterproductive Congressional reaction.

OMB Recommendation: Alternative #2. The current austere budget climate provides an ideal climate to adjust the programs discussed. Defense should develop required legislation for inclusion in their legislative program, where required, and implement those adjustments not requiring legislation. In addition, a comprehensive review of Reserve pay programs should be conducted by the Department of Defense.



Compensation

Department of Defense  
1977 Budget

Compensation

The military salary and benefits system is a highly complicated composite of basic pay plus a wide variety of selected benefits imposed over the past 100 years to meet then identified needs. This hodge-podge of benefits continues today despite the fact that in the past five years the basic salaries for military personnel have been raised substantially and are now considered comparable with those of the Federal civilian work force.

The Quadrennial Review of Military Compensation has been examining the military system in some detail since early 1975. The results to date have been disappointing, and basic questions such as what constitutes military salary remain unresolved. Regardless of the outcome of the QRMC, the budget review provides a useful arena for addressing and resolving the need to continue selective benefits for active military and retired personnel.

The issues raised can be grouped in three categories:

1. Proposed new benefits not currently available to military personnel. Travel for junior enlisted personnel is the single issue in this area.

2. Opportunities to reduce or eliminate inequities in the benefit structure applicable to future military personnel only. Current active and retired personnel would continue to receive the benefit. Included in this area are enlistment bonuses, pay for military cadets, the clothing maintenance allowance, and the insurance premiums on FHA mortgages.

3. Changes in benefits which will take money away from active duty military and retired personnel. These will be most difficult to implement and will encounter severe opposition on the part of the affected parties, as well as congressional obstacles. Specific issues include a renewed attempt to reduce the commissary subsidy, the initiation of medical user charges for dependents of military personnel and retirees, a reduction in appropriated fund support of non-appropriated fund activities, and the initiation of a fair market rental system for Government housing.

Most military people, active and retired, believe they receive less compensation than in fact they do. They tend to equate their total compensation with basic pay only, leaving out any consideration of retirement benefits, special pays, allowances, and the tax advantage. Thus, in the mistaken belief that they are underpaid, they feel that they richly deserve those special benefits of the type with which we take issue here. (Attached is a comprehensive list of auxiliary benefits for military personnel.)

Further aggravating the situation is the perception by the average military person that there has been a constant erosion of their benefits in recent years and that there is a concerted effort to deprive them of more benefits.

For reasons such as these, it would be extremely difficult--if not impossible--for a Secretary of Defense or a military service chief to take the lead in supporting before Congress and the public the sorts of alternatives we are proposing in the following set of issues--especially those in the third category. Successful implementation will require active personal leadership by the President, as commander-in-chief. He would have to make the case that, because of the huge growth in personnel costs in the Defense budget in recent years, these changes are essential in order to achieve the necessary defense capabilities within an affordable total budget.



COMPREHENSIVE LIST OF AUXILIARY BENEFITS FOR MILITARY PERSONNELI. Morale Welfare and Recreational Activities

- Resale of Goods and Services
  - Post exchanges
    - Consumer goods
    - Barber shops
    - Repair services, watch, auto, other
    - Gas stations
  - Liquor stores
  - Movie theaters
  - Cadet and civilian employee restaurants
  - Academic book stores
  - Stars and Stripes system
  
- General Welfare and Recreation
  - Athletic facilities and equipment
    - Gymnasiums
    - Tennis courts
    - Ball fields
    - Swimming pools
  - Bowling and golf facilities
  - Crafts and hobby shops
  - Libraries
  - Organized sports and youth activities
  - Other recreational facilities and equipment
    - Billiard, ping pong, card rooms
    - Boating and camping equipment
  
- Membership Associations
  - Officer and enlisted personnel clubs (open messes)
  - Hobby and sporting clubs



- Special Activities
  - Billeting or housing operation for transient military personnel
  - Transient family accommodations
  - Guest houses and visitor accommodations
  - Child care centers
  - On-post vehicular registration and inspection
  - Military museums and historical sites
  
- Other Recreational and Welfare Benefits
  - Overseas rest and recreation areas including hotel facilities
  - Professional entertainment through the USO
  - Military entertainment and military bands
  - Waived or reduced fees in national parks and national recreation areas
  - Discount admission prices at selected commercial entertainment and amusement establishments

## II. Commissaries

## III. Community Services

- Direct housing services at less than fair market rental
- Utilities, water and waste removal
- Fire and police protection
- Road construction, maintenance and snow removal
- Major maintenance for housing facilities
- "Insurance" against property loss or damage
- Furniture at selected overseas posts
- Parks and other recreational facilities
- "Courtesy" moves for families in the local area to acquire on-post Government quarters
- Transportation for dependent children to local public schools within the U.S. and direct schooling for dependent children in overseas areas

IV. Transportation and Moving Services

- On-post transportation
- Organized transportation to off-post activities
- "Space-available" transportation on military aircraft
- Personal property insurance for moved or stored goods
- Dislocation allowances
- Temporary lodging allowances
- Station housing allowances
- Military discounts on commercial air fares
- Reduced Government rates for household goods movement

V. Medical Services

- Direct care for military member
- Direct and/or civilian care (80/20 cost sharing) for dependents, retired personnel and their dependents
- VA medical services

VI. Other Professional Services

- Legal services
- Religious services
- Financial counseling
- Career counseling and job placement
- Veterinary services
- Mortuary services, including cemetery plots with headstones

VII. Educational Services

- Military member
  - o In service training at military institutions
  - o Full-time enrollment in civilian institutes of higher education for selected officers



- Tuition assistance for part-time enrollment in high school, college or other degree granting institutions
- GI Bill
- Dependents
  - Direct elementary and secondary education services overseas
  - Fellowship and scholarship assistance

#### VIII. Special Financial Advantages

- No state or local taxes on purchases at commissaries, exchanges or other stores on military installations
- Exemption from state and local income and personal property taxes at current residence unless the member is legally domiciled in that state
- Exemption from state vehicular registration and licensing fees so long as vehicle is registered in members' state of domicile
- Exemption or reduction in local vehicular licensing fees and military personnel and their families into the U.S.
- Noncontributory retirement program
- FHA mortgage insurance of 1/2 of one percent for members on active duty
- "No fee" passports for military personnel and their dependents when on official overseas travel

#### IX. Executive Privileges

- Chauffeured staff cars
- Enlisted aides
- Executive aircraft
- Selected dining rooms



- Furnishings for entertainment areas
- Personal money allowances
- Guest rooms in Government quarters
- Other special position allowances

X. Miscellaneous Auxiliary Benefits

- Initial cash clothing allowance for certain officers
- Initial clothing issue for enlisted personnel
- Monthly clothing allowance in cash or in kind for maintenance of enlisted clothing
- Enlisted subsistence either through direct Government provision or in cash payments
- Subsidized meals for officer personnel at specially established officer field ration messes

Issue Paper  
 Department of Defense  
 1977 Budget  
 Junior Enlisted Travel Entitlements

Statement of Issue

Should existing entitlements for dependent travel and transportation allowances be extended to junior enlisted military personnel?

Background

Junior enlisted personnel stationed overseas, even if accompanied by their dependents, are not eligible for travel and transportation allowances for their dependents or for station allowances (cost of living, housing and temporary lodging) at rates otherwise allowable for those with dependents. DOD attempted to change the policy in 1975, but the Congress denied the funds for reasons that included high program cost, the potential increase in the number of dependents overseas, removal of a reenlistment incentive and rejection of DOD's equity argument when so many entitlements are differentiated by rank. DOD attempted to include funding again in the 1976 President's Budget for a smaller group of junior enlisted personnel (those who agreed to an active duty commitment of at least four years). The Secretary discussed this issue with the President who decided not to include the funds in the 1976 budget. The 1977 budget would again request these funds.

Alternatives

- #1. Extend travel and transportation allowances to junior enlisted personnel. (Agency request)
- #2. Retain the current policy of providing travel and transportation allowances only to senior enlisted personnel who are primarily careerists. (OMB recommendation)

	TOA (\$ Millions)			
	1975	1976	1977	1978
Alternative #1 .....	0	0	136	181
Alternative #2 .....	0	0	0	0



### Analysis

Although equity is cited as the primary basis for extending the travel entitlements to junior enlisteds, the Congress indicated in its rejection of the 1975 proposal that equity alone should not be the basis for extension of the entitlement. The entire military pay structure is based on different allowances for individuals of different rank and officer/enlisted status. Based on current military promotion policies, the junior enlisted population is nearly totally composed of first-term service personnel. Providing these entitlements to first-termers would remove an inducement for a junior enlisted service member to reenlist, since he will enjoy full benefits before he completes his first reenlistment. Further, the lack of the entitlement does not appear to have significantly affected reenlistments, inasmuch as the military services are now enjoying an unprecedented high rate of reenlistments. On the other hand, by not providing these new allowances, it may prove to be an incentive for an individual to seek both promotion and reenlistment. Equity as an argument is less compelling in an all-volunteer force environment than in a draft situation when draftees have no choices.

It is also necessary to point out that in denying funds for this purpose in 1975 Congress expressed concern about the possibility of increasing the number of dependents overseas. Again, in its review of the 1976 military travel program, the House Appropriations Committee expressed the same concern. It, therefore, is highly unlikely that Congress would act favorably on funds for this purpose. Not included in the cost of extending this entitlement is the yet undetermined cost and impact of additional housing and other requirements overseas. In 1975 DOD estimated that extension of the entitlement would require 3,000 new housing units and 3,000 new leasing units at a cost of \$76.9 million.

Agency Request: Alternative #1. The Department believes that extending the entitlement to junior enlisted personnel would be equitable, would alleviate the financial burden on many service personnel and would encourage reenlistments.

OMB Recommendation: Alternative #2. Both enlistments and reenlistments are generally exceeding expectation the existing compensation structure appears adequate.

Issue Paper  
Department of Defense  
1977 Budget  
Enlistment Bonuses

Statement of Issue

Should enlistment bonuses be eliminated in view of the favorable recruiting situation?

Background

Current law provides for an enlistment bonus of up to \$3,000 for personnel who enlist in a critical skill in the military services for at least four years. In March 1975, DOD reduced the maximum to \$2,500 which is paid to individuals in the Army and Marine Corps who enter into the combat arms skills. A lesser amount - \$1,500 - is paid to individuals who enlist in critical technical skills.

Alternatives

- #1. Maintain enlistment bonus program at currently planned level. (Agency request)
- #2. Suspend the enlistment bonus until a demonstrated need develops for such an incentive. (OMB recommendation)

	TOA (\$ Millions)			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1 .....	59	63	61	61
Alternative #2 .....	59	63	0	0

Analysis

During 1975, the military services attained their enlistment goals. Generally this success was both quantitative and qualitative. The percentage of recruits who are high school graduates and in the higher mental group categories increased from 66% and 90% in 1974 to 72% and 94% respectively in 1975. As a result of the improvements in recruiting, DOD advised the Congress



that the 1976 enlistment bonus program could be reduced from a requested \$75.5 million to \$62.1 million. Congressional action is likely to further reduce the program.

Reenlistments in 1975 were also greater than anticipated, and it is expected that this favorable trend will continue throughout 1976. All of the above, when coupled with recent economic forecasts, suggest that DOD should continue to meet its manpower requirements even without an enlistment incentive.

The Services will point out that while they are facing less difficulty in meeting their numerical strengths, they continue to experience significant skill mismatch problems. The Marine Corps, for example, utilizes the program to upgrade the quality of enlistees received into the combat arms skills. However, while many skills are undermanned, others are overmanned. The Services have recently initiated retraining, promotion, and policy changes which are designed to shift personnel from overmanned to undermanned skills. This approach to reducing speciality imbalance could be more effective and less costly than the bonus payments.

Agency Request: Alternative #1. The Department believes that technical skill shortages as well as the need to attract people into the combat arms, justifies continuing the enlistment bonus program.

OMB Recommendation: Alternative #2. The current favorable enlistment and reenlistment situation provides an ideal climate to reduce these costs. A change can be made in later years if there is an adverse impact on recruiting.





Issue Paper  
 Department of Defense  
 1977 Budget  
 Pay and Allowances of Cadets and Midshipmen

Statement of Issue

Should the pay and allowances of cadets and midshipmen be reduced?

Background

In addition to a free education and free room and board, cadets and midshipmen of the military academies are entitled to basic pay. This pay is established by law at 50 percent of the basic pay of a second lieutenant. Pay raises approved for members of the Armed Forces are passed on to cadets. As a result of the October 1, 1975, pay raise, cadet basic pay is established at \$5,445 per annum. In addition, cadets receive either a Navy ration or the value of the ration in cash.

Alternatives

- #1. Continue the current system for providing pay and allowances to cadets and midshipmen. (Agency request)
- #2. DOD sponsor legislation which would replace basic pay for cadets and midshipmen with a new system which would provide for cadet expenses plus a \$125 monthly allowance. (OMB recommendation)

	<u>TOA (\$ Millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1 .....	61	65	66	66
Alternative #2 .....	61	65	61	56

Analysis

The report by the House Appropriations Committee on the 1976 Defense Appropriations bill indicates that the practice of paying cadets was begun to prevent perceived inequities when cadets who come from different economic and social levels were placed together. At that time the rate of pay was not tied to the pay of a second lieutenant. This salary system has been justified in the past as necessary

to teach cadets to handle personal finances. In practice, however, they are given very little freedom over the use of their funds. Currently they receive only a monthly allowance. The remaining funds are held by the Academy. Expenses for books, procurement and maintenance of uniforms, laundry and dry-cleaning, etc., are deducted from this pay. The Appropriations Committee recommended that DOD complete a study by April 1, 1976, of alternatives to the current pay system. It suggested that consideration be given to a system in which the Government pays all non-personal expenses associated with academy attendance, uniforms, books, laundry, etc., and the cadet is provided with a fixed monthly pay for his personal use similar to that awarded to ROTC students. Students enrolled in the Services' ROTC program on the average receive a \$100 per month allowance, presumably for room and board. A ROTC student on full tuition scholarship is also provided with books.

Continuing increases to military pay have resulted in a system which provides compensation to cadets and midshipmen in excess of what is needed to attract qualified applicants. There are many more applicants than spaces available to be filled. The following table compares current cadet pay with the OMB alternative proposal.

	<u>Cadet Pay Current Salary</u>	<u>Cadet Pay OMB Alt.</u>	<u>Difference</u>
Annual Salary per cadet	\$5,400	\$1,500	-\$3,900
Academy expenses (annualized)			
Uniforms and equipment	670	-	- 670
Laundry/dry-cleaning	190	190	-
Books and supplies	200	-	- 200
Class ring and class activities	<u>80</u>	<u>60</u>	<u>- 20</u>
Net Pay	\$4,260	\$1,250	-\$3,010

Agency Request: Alternative #1. The Department believes the present compensation system meets the needs of cadets and midshipmen and should be maintained.

OMB Recommendation: Alternative #2. The level of services provided to cadets including a free education, free room and board, plus a \$125 per month allowance would be adequate compensation.

Issue Paper  
Department of Defense  
1977 Budget  
Payment of FHA Mortgage Insurance Premiums

Statement of Issue

Should Government payment of a service members' FHA mortgage insurance premium be discontinued?

Background

Under provisions of the National Housing Act, the Department of Defense pays the 1/2 of 1% FHA mortgage insurance premium for military home buyers. This benefit is limited to approximately 34,000 servicemen who are homebuyers with FHA insured mortgages. The amount of the benefit depends on the amount of the outstanding mortgage, with the average payment \$90.00 per year. Almost without exception, the payments under this benefit go to career military personnel, because one is required to have completed at least two years of active duty before one is eligible to apply for an FHA in-service loan. The payment by the Government of the mortgage insurance premium terminates when the member departs from active duty. The program was justified in large measure because of the inability of the Government to provide adequate quarters to all career service families.

Alternatives

- #1. Continue paying FHA mortgage insurance premiums for military homebuyers. (Agency request)
- #2. Phase out this program by accepting no new applications. (OMB recommendation)

	TOA (\$Millions)			
	1975	1976	1977	1978
Alternative #1 .....	3	3	3	3
Alternative #2 .....	3	3	3	3

Analysis

Military compensation is now reasonably comparable to civilian pay for comparable levels of work. There is no reason why the military homebuyer should suffer any disadvantage relative to other homebuyers. Maintenance of the mortgage insurance premium provision constitutes a supplemental benefit that subsidizes a small group of career members who buy houses and finance them under FHA insured mortgages.

Agency request: Alternative #1. DOD is likely to support continuing the payments on the basis that ending the program would be seen as a further erosion of military benefits.

OMB Recommendation: Alternative #2. The program has outlived its original purpose and should be phased out by accepting no new applications.



Issue Paper  
Department of Defense  
1977 Budget  
Commissary Subsidy

Statement of Issue

Should the direct subsidy to commissaries from appropriated funds be terminated and the costs passed directly on to the commissary patrons?

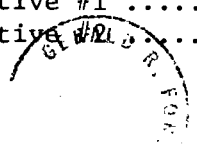
Background

The Defense commissary system was initiated to meet the needs of military personnel stationed at remote locations and evolved into an economic benefit to offset low military salaries. Today military salaries are competitive with civilian salaries, but the subsidy remains unchanged. In the 1976 review, the President determined to phase out the subsidy over a two-year period, and the budget was reduced by \$109 million. Subsequently, the House of Representatives overwhelmingly approved a resolution supporting continuation of the subsidy and later restored the \$109 million. There are strong indications that the Senate will also restore the funds. The subsidy, which totals \$308 million, pays the salaries and expenses of the 26,500 civilian and military personnel engaged in commissary operations.

Alternatives

- #1. Continue the subsidy on the basis that favorable congressional action is unlikely. (Agency request)
- #2. Terminate the existing subsidy over a three-year period beginning on October 1, 1976, and submit legislation in January to implement this change. (OMB recommendation)

	<u>TOA (\$ millions)</u>			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1 .....	265	308	308	308
Alternative #2 .....	265	308	205	103



Analysis

Both the Executive Branch and the Congress have received a very large volume of mail against the 1976 proposal to have the patrons assume the direct costs of commissaries over a two-year period. Private sector, Service oriented publications have publicized the proposal and urged their readers to protest to both Congress and the Executive Branch. The large volume of protest mail, particularly from retired personnel, appears to have influenced the House. The two major concerns of the Congress appear to be that the proposal would be implemented too quickly and that retired personnel would be financially hurt by it. A three-year phase-out of the subsidy would increase the costs to the patrons by approximately 3% in 1977, 1978 and 1979. This would reduce, over the three years, the average commissary savings from 22% to about 10-12% over commercial stores. Implementing this change in connection with the October pay raises would partially offset the adverse impact of the higher prices for the commissary patrons. Legislation will be required to implement this proposal. The impact of this proposal on retired personnel is alleviated by several factors. A DOD pamphlet points out that "... the current military retirement system provides benefits far in excess of the average private pension plan." Military retired pay, unlike most retirement plans in the civilian sector, is automatically adjusted, based on change in the consumer price index, to insure that the retiree suffers no loss in purchasing power through cost-of-living increases. These cost-of-living increases have, in fact, been greater than the actual increase in the CPI because of the one percent "kicker."

In lieu of terminating the subsidy, reductions in the subsidy are possible. Closing the seven stores in the Washington, D.C. area in 1976 would permit a 1977 reduction of \$13 million. Eliminating tobacco products, soft drinks, candy, and health and beauty aids would reduce labor requirements and the subsidy by \$8 million. These products are available at the post and base exchanges (which do not benefit from appropriated fund support). The substitution of boxed beef for carcass beef would reduce the number of meatcutters and the subsidy by \$3 million. These actions can be taken administratively without seeking any legislation and are under consideration within the Department. These actions would respond to criticisms in the House Appropriations Committee report about the large number of stores in major metropolitan areas and the efficiency of commissary stores. Strong criticism can be expected if the Washington, D.C. area stores are closed, but it is most obviously unnecessary here because of the large number of shopping centers and small numbers of personnel occupying on-base housing. Such action could result in legislation to prevent closings in the future or it could make the surcharge proposal more attractive to the Congress and the Commissary patrons. The Department has never closed a store unless it closed a base, and in some cases, has continued the commissary even after the base has been closed.



Agency Request: Alternative #1. Retain the subsidy on the basis that Congress will not allow the subsidy to be ended.

OMB Recommendation: Alternative #2. Terminate the commissary direct labor subsidy over a three-year period, starting October 1, 1976.



Issue Paper  
Department of Defense  
1977 Budget  
Appropriated Fund Support of Non-appropriated Fund Activities

Statement of Issue

Should appropriated funds continue to be used in partial support of non-appropriated fund morale, welfare, and recreation activities?

Background

Non-appropriated funds are monies derived from sources other than Congressional appropriations, primarily from the sale of goods and services to DOD military personnel and their dependents and used to support or provide essential morale, welfare, recreational, and certain religious and education programs (MRWR programs). The creation and maintenance of high morale is seen by DOD as essential to the military effectiveness of the Armed Forces. Therefore, it is the policy of the Department to promote and provide a well-rounded MRWR program to insure the mental and physical well being of its personnel (and their dependents). Many of these programs are also available to retired personnel. Adequate programs, including facilities, should be provided, under this policy, through financial support tendered by the Federal Government from appropriated sources. Non-appropriated fund resources are used to supplement appropriated resources for the cost of these programs. The non-appropriated fund activities fall into 4 groups: resale activities such as exchanges and movie theatres; general welfare and recreation activities such as bowling and golf facilities; membership associations such as officer clubs and flying clubs; and special activities such as guest houses and child care centers.

Data are not available centrally on the exact number or size of these activities nor the exact extent of appropriated fund support. The non-appropriated fund activities have approximately 250,000 full and part-time employees and there are approximately 10-15,000 appropriated fund military and civilian personnel in support. DOD is in the process of conducting a world-wide survey of these activities, their cost, and the degree and type of appropriated fund support. While the results of this survey will not be available until early next year, there is at least \$150 million in the 1977 budget in support of these activities and possibly as much as \$300 million.





Alternatives

- #1. Continue the present level of appropriated fund support of these activities. (Agency request)
- #2. Gradually discontinue appropriated fund support of these activities. (OMB recommendation)
- #3. Direct an inter-agency study of the current arrangements to be completed by September 1, 1976.

	TOA (\$ Millions)			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1 .....	-	-	-	-
Alternative #2 .....	-	-40	-100	-
Alternative #3 .....	-	-	-	-

Analysis

When military pay, particularly for junior enlisted men was deliberately depressed, there were strong arguments for appropriated fund support of these activities. With the move to a volunteer force and the accompanying competitive pay levels, the rationale is less clear. It is estimated that there is about \$10 of non-appropriated fund support of these activities for every \$1 of appropriated fund support. Thus, the appropriated fund support could be phased out with only moderate increases in user charges for these activities. The Department of Defense counters that the present arrangement of only 1 appropriated dollar for every 10 non-appropriated dollars is a bargain since these activities have long been considered a Federal responsibility. Very strong opposition can be expected from the military leadership on reducing this subsidy on the grounds that it is a further erosion of benefits and could increase the chances of military unions. Military personnel and particularly retirees can be expected to voice strong opposition and the Congress may well bow to such pressure. Legislation is not necessary, however, and thus, the likelihood of congressional intervention is lessened.

In view of the sensitivity of this issue with military people and the Congress, it could be determined to conduct an inter-agency study of the many facets of the current arrangements using the work that has already been done in DOD and the survey they are conducting as a base. OMB, CSC and DOD would be logical participants in such a study. Savings in 1977, however, would have to be deferred under this alternative.



Agency Request: Alternative #1. The Department strongly recommends that no changes be made at this time. They believe these are legitimate obligations of the government and until they have completed their survey of the precise amounts of subsidization it would be difficult to implement the change.

OMB Recommendation: Alternative #2. Phase out appropriated fund support of these activities over five years with the first phase being the elimination of Federal civilian employee support.

Issue Paper  
Department of Defense  
1977 Budget  
Fair Market Rental of Military Housing

Statement of Issue

Should military housing be converted to a system of fair market rentals?

Background

Military personnel receive either a cash allowance for quarters (BAQ) or government housing, for which they forfeit entitlement to the BAQ. BAQ rates are tied to rank. Personnel with dependents (married rate) draw an allowance about 20 percent greater than personnel without dependents (single rate). The cash amount of BAQ is not equivalent to either the value of government housing or the cost of civilian housing.

In mid-1973 OMB and DOD initiated a joint evaluation of all military housing programs, family and bachelor. This issue is the direct result of the study.

For 1977 the estimated total request for on-base and off-base housing for active military personnel is \$4,900 million.

Alternatives

#1. Continue the present method of treating BAQ when occupying military housing. (Agency request)

#2. Convert military housing value to a fair market rental (FMR) system. Implement an FMR system by reallocating a larger portion of future pay raises directly to BAQ until average BAQ is equivalent to the average fair market rental value of family housing. At the same time, an offsetting rebate for certain personnel living in bachelor housing is provided. (OMB recommendation)

	TOA (\$ millions)			
	1975	1976	1977	1978
Alternative #1 .....				
Alternative #2 .....			-52	-119



## Analysis

Military housing policy is the cause of several inequities in the military compensation system which stem from the differences between cash allowances and the wide variations in value among military quarters. This ranges from an average cash loss of \$800 per year for single personnel receiving BAQ to a cash gain of \$1,460 for married personnel in government quarters.

The fair market rental system proposed in the OMB-OSD study eliminates these inequities over time and has the following features:

. Military housing inventory appraised at fair market rental value on a local basis for family quarters. Either a nationwide or local basis for bachelor quarters.

. BAQ cash paid to all personnel. Personnel voluntarily occupying government quarters will pay rent equivalent to the fair market rental value.

. Shipboard quarters, field quarters, emergency quarters provided for duty sections or watches, and certain other quarters in remote or combat areas normally manned without accompanying dependents would be provided without charge to the occupant.

By instituting the policy of fair market rental for military housing, the inequity between the value of military housing and the cash amount of BAQ will be removed, and the DOD housing costs will be reduced, primarily through reduced construction requirements.

The proposed implementation plan raises the rent for occupants of military family quarters on a gradual basis. Alternative 2 provides for a transition into a fair market rental by 1984 through annual increases in the BAQ portion of cash pay until average BAQ becomes nearly equivalent to average family housing fair market rental. BAQ would be raised in conjunction with normal government pay raises by diverting 25 percent of each future pay raise directly into BAQ. Thus, 1.25 percent of the planned 5 percent October 1976 pay raise would be added directly to the BAQ allowance of each military person. By 1984 the average BAQ could be approximately equivalent to the average fair market rental of family housing, assuming future pay raises of 6 percent and annual family housing fair market rental increases based on OMB projections of the Consumer Price Index.

To offset the effects of further increasing the BAQ forfeited by bachelor enlisted personnel (who currently forfeit BAQ exceeding the fair market rent of their housing), a special cash rebate would be provided. The total amount of the rebate to bachelors would be equivalent to the money "gained" by

increased BAQ forfeitures for government housing, less an amount for the tax advantage created through increasing the portion of military compensation in BAQ, which is not taxed.

The effects of incorporating this revised BAQ proposal is shown below:

	<u>1976</u>	<u>1984</u>
Average annual BAQ .....	\$2,080	\$4,980
Average annual fair market rental .....	\$3,450	\$4,980

The annual savings (i.e., "increased rent" for family housing) accrued through this implementation plan, without considering any reductions in construction, are the result of the reduction in base pay and subsistence received by personnel in family housing:

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1984</u>
Savings (\$ in millions) .....	52	119	193	275	365	639

Defense is likely to oppose this change and will suggest that the subject be considered by the Quadrennial Review of Military Compensation (QRMC). Expected reaction from various segments of the military population who either are or expect to be in these categories would be negative, except for bachelors in government quarters who will receive cash rebates. Reserve personnel will be opposed, since base pay would be lower, and they do not draw BAQ for paid drills.

The ongoing QRMC has not taken a position. Should that group approve a total salary system, which is unlikely, fair market rental would be implemented as part of that process. Legislation will be required to implement this proposal.

Agency Request: Alternative #1. The budget request assumes no change in the current system.

OMB Recommendation: Alternative #2. Convert military housing to a fair market rental system by 1984. Allocate 25 percent of each pay raise to BAQ until that time. Initiate a special pay rebate to bachelors living in government quarters. Legislation will be required to implement this proposal.

Issue Paper  
 Department of Defense  
 1977 Budget  
 Personal Money Allowances

Statement of Issue

Should the personal money allowances and position allowances paid to certain generals and admirals be terminated?

Background

167 admirals and generals, mostly at the 3 and 4 star level, receive from \$500 to \$5,200 each year to cover whatever entertainment expenses they might incur. Payments of this type started in 1922.

Alternatives

- #1. Continue the Personal Money Allowance and the position allowance as now in law. (Agency request)
- #2. Seek legislation to terminate these allowances. (OMB recommendation)

	TOA (\$ millions)			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1 .....	.2	.2	.2	.2
Alternative #2 .....	.2	.2	0	0

Analysis

High ranking military personnel are reimbursed for official entertaining with personal money allowances and/or position allowances. There is no accounting for the money or requirement that it be spent for official entertainment. When these allowances started in 1922 they were designed to correct a pay inequity for the occupants of certain positions. These inequities no longer exist. The effective salaries of high ranking military personnel receiving these allowances is considerably higher than all civilian counterparts except Cabinet Officers. No civilians receive a personal money allowance. The Internal Revenue Service has ruled that these allowances are not subject to taxation as income, thus implicitly recognizing their validity as a business type expense. The senior military leaders who receive these allowances would resent their discontinuance.

The following table shows those who now receive such allowances:

<u>Personal Money Allowances</u>	<u>Annual Rate</u>
Members Joint Chief of Staff )	
Commandant, Marine Corps )	\$4,000
Commandant, Coast Guard )	
General or Admiral (other than above)	2,200
Senior Member, U.N. Military Staff	2,200
Surgeon General, Public Health Service	1,200
Lieutenant General/Vice Admiral	500
 <u>Position Allowances</u>	
Director of Naval Intelligence	5,200
Superintendent of the Naval Academy	5,200
President of the Naval War College	1,000
Commandant of Midshipmen, Naval Academy	800
Superintendent, Naval Post Graduate School	400

Agency Request: Alternative #1. DOD supports this expenditure as a valid reimbursement for expenses incurred in official business. Defense might go along with a proposal to establish some accounting for the money.

OMB Recommendation: Alternative #2. Allowances which are paid directly to personnel for which there is no accounting, should be terminated. There are no similar payments for high ranking civilian officials.



Issue Paper  
Department of Defense  
1977 Budget  
Enlisted Aides

Statement of Issue

Should all enlisted aides to senior officers be eliminated?

Background

Enlisted aides have been authorized to officers of the U. S. Armed Forces since the Revolutionary War. At one time, company grade officers were authorized enlisted aides; today, however, only selected general and flag officers are authorized such aides. The 1977 request includes a total of 396 aides.

Enlisted aides relieve general and flag officers of those minor tasks and details which, if performed by the officers, would be at the expense of the officers' primary military and official duties. Enlisted aides may be utilized to:

- a. Assist with the care, cleanliness, and order of assigned quarters and uniforms.
- b. Assist in the preparation and conduct of official social functions and activities.
- c. Assist in purchasing, preparing, and serving food and beverages.
- d. Perform errands, provide quarters security, and necessary administrative assistance.





Alternatives

- #1. Continue the enlisted aide program at a level of 396 enlisted men. (Agency request)
- #2. Eliminate enlisted aides. (OMB recommendation)

	TOA (\$ Millions)			
	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Alternative #1 .....	7	5	5	5
Alternative #2 .....		5	0	0

Analysis

The enlisted aides issue has long been a sore point between the Department of Defense and the Congress. In every recent year there has been a minor skirmish on the issue resulting in a congressional reduction. The Administration should decide whether it should take the initiative and end the practice of enlisted aides or permit Congress to complete the task. The necessary official duty services should be performed by regular base personnel as required.

Agency Request: Alternative #1 DOD believes that the enlisted aide partially offsets the personal expense involved in conducting a myriad of representational activities and in maintaining the quarters to which an officer is assigned.

OMB Recommendation: (Alternative #2) Eliminate enlisted aides from the 1977 budget.

