United States General Accounting Office

GAO

Report to Congressional Requesters

October 1997

FUTURE YEARS DEFENSE PROGRAM

DOD's 1998 Plan Has Substantial Risk in Execution

19971030 052

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GAO/NSIAD-98-26

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

National Security and
International Affairs Division

B-277841

October 23, 1997

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

The Honorable Charles E. Grassley
The Honorable William V. Roth, Jr.
United States Senate

Since its bottom-up review in 1993, the Department of Defense (DOD) has repeatedly stated that it must reduce its infrastructure to offset the cost of future modern weapon systems. Our analysis of DOD's Future Years Defense Programs (FYDP) for fiscal years 1996 and 1997 showed that DOD continued to allocate about the same percentage of its budget for infrastructure activities as it did at the time of the bottom-up review and that planned weapon systems increases had repeatedly been shifted further into the future with each succeeding FYDP.[1] As requested, we compared DOD's fiscal year 1998 FYDP with the FYDP for fiscal year 1997. Specifically, we determined (1) how major programs were adjusted from the 1997 FYDP to the 1998 FYDP and (2) how these adjustments may affect programs in the future. We also identified proposed Quadrennial Defense Review (QDR) initiatives that could impact future FYDPs. We do not reflect any adjustments that may have been taken by the Committees on Authorizations and Appropriations during their reviews of the fiscal year 1998 defense budget request.

Background

An objective of DOD's 1993 Report on the Bottom-Up Review was to identify potential infrastructure savings and to launch a long-term process to reduce and streamline DOD's infrastructure without harming readiness. The report stated that infrastructure activities accounted for $160 billion in fiscal year 1994, or about 60 percent of DOD's total obligational authority. DOD defines infrastructure as those activities that provide services to mission programs, such as combat forces, and primarily operate from fixed locations.

Our analysis of DOD's FYDPs and infrastructure activities over the past few years showed that the infrastructure portion of DOD's budget had not

[1]Future Years Defense Program: Lower Inflation Outlook Was Most Significant Change From 1996 to 1997 Program (GAO/NSIAD-97-36, Dec. 12, 1996); Defense Infrastructure: Costs Projected to Increase Between 1997 and 2001 (GAO/NSIAD-96-174, May 31, 1996); and Future Years Defense Program: 1996 Program Is Considerably Different From the 1995 Program (GAO/NSIAD-95-213, Sept. 15, 1995).

decreased as DOD planned. As explained in our previous reports, about 80 percent of DOD's infrastructure activities are paid for from the military personnel and operation and maintenance (O&M) accounts. Therefore, if DOD is to free up dollars for weapons modernization, it must reduce funding requirements for these accounts.

The FYDP is an authoritative record of current and projected force structure, costs, and personnel levels that have been approved by the Secretary of Defense. The 1997 FYDP supported the President's fiscal year 1997 budget and included budget estimates for fiscal years 1997-2001. The 1998 FYDP supports the President's fiscal year 1998 budget and includes budget estimates for fiscal years 1998-2003.

In May 1997, DOD completed its first QDR. The QDR was required by the Military Force Structure Review Act, which was included in the National Defense Authorization Act for Fiscal Year 1997 (P.L. 104-201). DOD said that it designed the QDR to be a fundamental and comprehensive examination of America's defense needs from 1997 to 2015. It considered potential threats, strategy, force structure, readiness posture, military modernization programs, defense infrastructure, and other elements of the defense program. The QDR is intended to provide a blueprint for a strategy-based, balanced, and affordable defense program. DOD plans to incorporate many of the details of the QDR blueprint into its fiscal year 1999 budget and FYDP for fiscal years 1999-2003.

Results in Brief

Our comparison of the 4 years common to both DOD's fiscal year 1998 FYDP and 1997 FYDP (1998-2001) shows that funding for military personnel; O&M; and research, development, test, and evaluation (RDT&E) is projected to be higher and funding for procurement is projected to be lower than anticipated 1 year ago. For the fourth straight budget year since 1995, DOD has not met its procurement goals established in previous FYDPs.

The 1998 FYDP retains substantial risk that DOD's program will not be executed as planned. Although the 1998 FYDP projects that a smaller percentage of DOD's total budget will be needed to pay for infrastructure activities than that projected in the 1997 FYDP, DOD's projections are questionable. For example, the 1998 FYDP projects billions of dollars in savings due to management initiatives, but DOD does not have details on how all the savings will be achieved. Also, DOD projects no real growth in the cost of the Defense Health Program during 1998-2001, whereas O&M funds in DOD's health program increased 73 percent in real terms during

1985-96. Another reason we believe the 1998 FYDP poses risks is that the estimates for procurement spending, in relation to DOD's total budget and its O&M projections, run counter to DOD's experience over the last 30 years.

DOD acknowledged in its May 1997 Report of the Quadrennial Defense Review that the 1998 FYDP includes substantial financial risk. The Secretary has stated that absent any further changes, the fiscal patterns and assumptions embedded in the 1998 FYDP are most likely not going to free up sufficient funds to achieve DOD's modernization goals. According to DOD, compared to the 1998 FYDP, the QDR proposes a more balanced, modern, and capable defense program that can be achieved within currently proposed budgets. To accomplish its goals, DOD proposes that it reduce personnel, make some modest changes in force structure, realize additional infrastructure savings through fundamental reforms and base realignments and closures, and continue to improve its business operations. The success of these initiatives will require discipline, execution, and aggressive follow-through on the part of DOD management. On some important initiatives, such as base closures and military personnel reductions, DOD will need congressional approval.

The 1998 FYDP Reflects Some Change Since the 1997 FYDP but Retains Substantial Risk in Execution

The 1997 FYDP, which totaled $1,281 billion, represented DOD's 5-year program through fiscal year 2001.[2] The 1998 FYDP, which totals $1,607 billion, covers the 6-year period through fiscal year 2003. The 1997 plan overlaps the 1998 plan for the 4 years 1998-2001. Table 1 compares the two plans, by appropriation.

[2]Unless otherwise stated, the dollar values shown in this report are in current dollars and on a fiscal year basis.

Table 1: DOD's 1997 and 1998 FYDPs, by Appropriation

Dollars in billions

Appropriation	FYDP	Fiscal year 1997	1998	1999	2000	2001	2002	2003	Total 1997 FYDP	Total 1998 FYDP
Military personnel	FY 1997	$69.8	$69.2	$70.0	$71.1	$73.1			$353.2	
	FY 1998		69.5	70.1	71.4	73.3	$75.3	$77.5		$437.1
	Change		0.3	0.1	0.3	0.2				
Operation and maintenance	FY 1997	89.1	88.6	90.1	92.3	95.9			456.0	
	FY 1998		93.5	91.4	92.0	93.8	91.8	95.2		557.7
	Change		4.9	1.3	–0.3	–2.1				
Procurement	FY 1997	38.9	45.5	50.5	57.7	60.1			252.7	
	FY 1998		42.6	50.7	57.0	60.7	68.3	68.0		347.3
	Change		–2.9	0.2	–0.7	0.6				
Research, development, test, and evaluation	FY 1997	34.7	35.0	33.7	31.9	31.7			167.0	
	FY 1998		35.9	35.0	33.4	32.9	34.2	35.8		207.2
	Change		0.9	1.3	1.5	1.2				
Military construction	FY 1997	5.5	4.8	4.7	4.1	4.2			23.3	
	FY 1998		4.8	4.3	4.3	4.2	3.4	3.4		24.4
	Change		0	–0.4	0.2	0				
Family housing	FY 1997	4.0	3.8	4.1	4.1	4.1			20.1	
	FY 1998		3.8	4.0	3.9	4.0	3.9	4.0		23.6
	Change		0	–0.1	–0.2	–0.1				
Other	FY 1997	1.9	2.1	1.9	1.4	1.4			8.7	
	FY 1998		2.2	1.7	1.4	1.4	1.2	1.5		9.4
	Change		0.1	–0.2	0.0	0.0				
Total	**FY 1997**	**$244.0**	**$249.0**	**$255.1**	**$262.5**	**$270.4**			**$1,281.0**	
	FY 1998		**$252.2**	**$257.2**	**$263.5**	**$270.3**	**$278.2**	**$285.3**		**$1,606.7**
	Change		**$3.2**	**$2.1**	**$1.0**	**–$0.1**				

Note: Program estimates in DOD's FYDP are expressed in total obligational authority, which is the sum of the new budget authority provided for a given fiscal year and any other amounts authorized to be credited to a specific fund or account during that year, including transfers between funds or accounts. Total obligational authority may not reflect the precise budget authority adjustments made in the President's budget. Totals may not add due to rounding.

Source: 1997 and 1998 FYDPs.

Focusing on the years common to both FYDPs, table 1 shows that the costs of military personnel; O&M; and RDT&E are higher than previously planned,

while planned procurement spending is reduced. Specifically, the 1998 FYDP adds about $1 billion to the military personnel accounts, $3.7 billion to O&M accounts, and $4.9 billion to RDT&E accounts and reduces planned procurement spending by $2.8 billion. Increases in the O&M accounts and decreases in the procurement accounts are inverse to DOD's goals since the bottom-up review, which have been to reduce infrastructure and increase funding for weapons modernization. This is the fourth straight budget year since 1995 that DOD has not met procurement goals established in previous FYDPs.

Savings achieved from infrastructure reductions have too often not been as large as anticipated and tended to be absorbed by unplanned or underestimated expenses in day-to-day operations. According to DOD, the most prevalent underestimated expenses are for depot maintenance, real property maintenance, military construction, and medical care. Because of unrealized savings, weapons modernization plans have repeatedly been delayed.

Defense budgets are planned to remain relatively flat in inflation-adjusted terms through 2003 as part of the balanced budget agreement. Therefore, if DOD is to achieve real growth in the procurement accounts, it must reduce funding for its infrastructure activities.

The 1997 FYDP projected that spending for infrastructure would decline slightly from 58 percent to 57 percent of DOD's budget during 1998-2001. The 1998 FYDP shows that spending for infrastructure is projected to decline from 58 percent to about 55 percent of DOD's budget from 1998 through 2001 and further decline to 54 percent through 2003. This planned decline in infrastructure spending is predicated primarily on planned reductions in O&M accounts. Our review of these and other accounts and DOD's own review of the current FYDP found risks that sufficient reductions will not occur and that planned procurement increases will not materialize. We discuss these risks in later sections of this report.

QDR Finds That Program Changes Must Be Made to Mitigate Known Cost Risks

In the QDR report, the Secretary of Defense expressed doubts that the 1998 FYDP goes far enough to break the cycle of the migration of funds from planned procurement to unplanned expenses. Specifically, the report states the following:

"Based on an assessment of recent patterns and the assumptions embedded in the current six-year plan, the QDR concluded that there was a potential for annual migration to

unplanned expenses of as much as $10-$12 billion per year in the later years of the plan. Migration in that range would undermine much of the planned increase in procurement. Instead of growing to $60 billion, procurement funding could be expected to stall in the range of $45 to $50 billion. Some growth from the FY 1998 level could be expected from ongoing efforts to reduce the cost of defense infrastructure and from the natural transition of several major programs from development to production. Absent any further changes to the defense program, however, growth above $50 billion would be highly unlikely."

A principal resource management objective of the QDR was to understand the financial risk in DOD's program plans and devise ways to manage that risk. In the QDR report, the Secretary recognizes the sources of instability that are built into the current FYDP and presents plans to mitigate that instability through more realistic planning assumptions in the 1999 FYDP. Those assumptions include making some force structure reductions and greater personnel reductions, shedding additional excess facilities through more base closures and realignments, streamlining operations, and proceeding more prudently on the acquisitions of new weapons. DOD recognizes in the report that it will need congressional approval to accomplish some of the more significant cost-reduction measures, such as additional base closures and military personnel reductions. In appendix I, we discuss specific QDR proposals that could impact future defense programs.

Fiscal Year 1998 Program Provides for Small Increase in Active Military Personnel

By comparing the 1998 FYDP with the 1997 FYDP, we found that during fiscal years 1998-2001, active duty military personnel and the comparable military personnel accounts have net increases of 4,655 personnel and $929 million, respectively. The overall increases are due to changes in the active Army. The Army has programmed 10,000 more military personnel by the end of 1998 and an additional 10,000 personnel in 1999 for a total increase of 20,000 from the 1997 FYDP.[3] The Air Force and Navy have programmed personnel decreases in every year for the common period, and the Marine Corps' 1998 personnel remains unchanged from the 1997 FYDP.

Within the active components, some military personnel programs expected to receive the largest cumulative funding increases during 1998-2001 are the Army's recruit training ($1.8 billion), general skill training ($1.4 billion), and integrated recruit and skill training ($965 million). Some of the largest cumulative decreases in military

[3]According to an Army official, contrary to what the 1998 FYDP shows, the Army will end 1997 with about 490,000 active duty personnel and plans to be down to about 480,000 personnel by the end of 1999.

personnel costs are projected for the Navy's general skill training ($547 million) and the Army's and Air Force's defense medical centers, station hospitals, and medical clinics ($249 million and $191 million, respectively). Appendix II provides a description of these and other programs identified in this report.

The 1998 FYDP shows that the Navy and Air Force plan to lower active duty force levels in fiscal years 1998-2003 by 3,319 and 6,031, respectively. The planned decreases would bring force levels below the permanent end-strength levels set forth in the National Defense Authorization Act for Fiscal Year 1996. If DOD is precluded from implementing its planned personnel reductions, it will have to make other compensating adjustments to its overall program.

Risks in Executing O&M Plans

Overall, a comparison of the 1998 FYDP with the 1997 FYDP shows an increase of $3.7 billion in O&M funding during 1998-2001. By service, the 1998 FYDP projections differ considerably from the 1997 projections when comparing dollar values in the common 4-year period. The Air Force's 1998 FYDP projections are higher than the 1997 FYDP projections in every year. Air Force programs that are projected to receive the largest cumulative gains between 1998 and 2001 are base operations for tactical air forces ($904 million), training ($525 million), and F-15A/B/C/D squadrons ($410 million). The Air Force program, logistics operations other than working capital funds, has the largest projected cumulative decrease during the common period—$437 million.

The Navy and Marine Corps 1998 FYDP O&M estimates are higher in 1998 and 1999, with decreases in 2000 and 2001. The Navy's largest projected cumulative increases include nonindustrially funded depot maintenance ($564 million) and administrative base operations ($418 million). The Marine Corps' largest projected cumulative increase is for other combat support ($444 million). The largest cumulative projected decreases are in the Navy's logistics support activities ($330 million) and in the Marine Corps' other personnel activities program ($302 million).

In contrast, the Army's 1998 FYDP O&M funds are lower in every year than the 1997 FYDP. Some of the Army's largest projected cumulative decreases are in real property maintenance ($800 million) and nonindustrially funded depot maintenance ($622 million). Despite lower 1998 FYDP levels, Army base operations increase by $2.3 billion during 1998-2001.

According to the Secretary of Defense, support costs have been consistently underestimated in recent years. In underestimating costs, DOD risks the execution of its program as originally desired. The following sections describe significant influences on the O&M accounts.

Operational Changes in Bosnia Could Lead to Higher O&M Costs

Part of the higher 1998 O&M level in the 1998 FYDP is due to DOD's request for almost $1.5 billion for Bosnia operations.[4] In July 1997, we reported that recent operational decisions will increase the cost estimate for 1998 and that other decisions, such as changes in the size and composition of the force and the timing of withdrawal, could lead to further increases in the O&M cost estimate for 1998.[5]

Large Projected Savings in O&M Dependent on Management Initiatives

DOD is depending on a number of management initiatives, both defined and undefined, to achieve large savings in future O&M costs. For example, undefined savings of $600 million in 2001 were included in the 1998 FYDP. These savings were not in the 1997 FYDP. Moreover, additional savings of $4.2 billion and $3 billion are projected in 2002 and 2003, respectively. According to DOD officials, the savings were programmed by the Office of the Secretary of Defense, although details do not exist on how the savings will be achieved. In addition to these savings to be generated through undefined initiatives, DOD has programmed over $16 billion in savings from defined initiatives. These include outsourcing installation support, improving maintenance processes, improving material management processes, consolidating inventory control points, and reducing the life-cycle costs of weapon systems by reducing the operation and support costs for fielded and new systems.

Base Closure Savings Have Been Difficult to Precisely Estimate

In reporting on lessons learned from prior base closure rounds, we noted that costs associated with closing bases can be significant; savings, though not well documented, are expected to be substantial; and achieving annual recurring savings to offset costs may take several years.[6] However, the exact amount of actual savings realized from base closure actions is uncertain.

[4]The 1997 FYDP did not include any funds for Bosnia beyond fiscal year 1997.

[5]Bosnia: Cost Estimating Has Improved, but Operational Changes Will Affect Current Estimates (GAO/NSIAD-97-183, July 28, 1997).

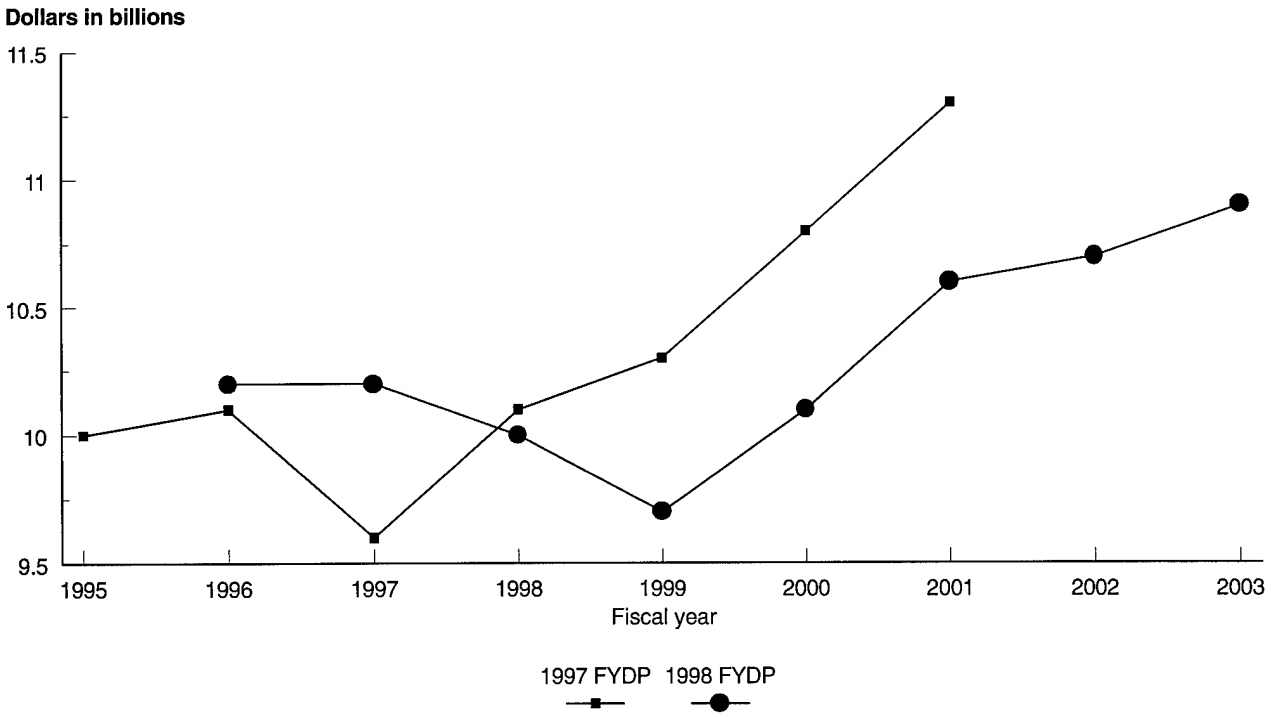
[6]Military Bases: Lessons Learned From Prior Base Closure Rounds (GAO/NSIAD-97-151, July 25, 1997).

In the 1997 FYDP, the Air Force was the only service that projected savings from the fourth round of base closures. The savings was projected at $586 million during 1998-2001. The 1998 FYDP projects total Air Force savings of $119 million for these 4 years, $467 million less than the 1997 FYDP. Moreover, the savings slip to 1999-2001. The 1998 FYDP also includes projected savings for the Navy from the fourth round of base closures. However, the Navy's projected savings in the FYDP of $687 million in 2000 and 2001 is incorrect. According to the Navy, this estimate is for outsourcing and competition initiatives. Instead, base closure savings projections should show $1.3 billion for 1998-99, with steady state annual savings of $732 million thereafter.

Estimates for Lower Health Care Costs May Be Unrealistic

The Defense Health Program, approximately 11 percent of projected annual O&M spending, changes considerably from the 1997 FYDP to the 1998 FYDP. When compared with the 1997 FYDP, the 1998 FYDP shows lower funding levels between 1998 and 2001. Figure 1 shows funding levels for the Defense Health Program for the entire period covering the 1997 and 1998 FYDPs.

Figure 1: Defense Health Program Funding for the 1997 and 1998 FYDPs



Source: DOD FYDP data.

DOD significantly underbudgeted the 1997 O&M Defense Health Program, and Congress appropriated additional funds for the program. Shortfalls continue in the 1998 FYDP in fiscal years 1998 and 1999, as documented by DOD in the 1998 President's budget submission. Moreover, when the program in the 1998 FYDP is viewed in constant dollars, DOD projects no growth between fiscal year 1998 and 2001.[7] This appears to be unrealistic, given that during fiscal years 1985-96, O&M funds in DOD's health program increased 73 percent in real terms. In addition, our analysis of the Defense Health Program during the 1998 FYDP development showed that one key assumption DOD used to estimate future program costs appeared to be unrealistic and another was questionable.[8] Although DOD's budget

[7]The 1997 FYDP had 5.8 percent real growth between fiscal year 1998 and 2001.

[8]Defense Health Program: Future Costs Are Likely to Be Greater Than Estimated (GAO/NSIAD-97-83BR, Feb. 21, 1997).

assumptions appear to be optimistic, the extent to which future costs might exceed the budget estimates is unknown.

Civilian Personnel Levels Are Projected to Decline Steadily

Civilian personnel levels have a direct effect on O&M costs because civilians' salaries and benefits account for about 40 percent of annual O&M appropriations.[9] Overall, civilian personnel levels continue downward at nearly the same rate in the common period in both FYDPs. In the 1997 FYDP, the total number of civilian personnel was projected to decline 6.2 percent between fiscal year 1998 and 2001. During the same period in the 1998 FYDP, the number of civilians is projected to decrease at a rate of 6.6 percent.

Risks That Procurement Plans May Not Succeed

The 1998 FYDP reflects a net decline in planned procurement during the 4 years common to the 1997 FYDP. The largest decline is in 1998, for which the President's budget requested $42.6 billion in lieu of the $45.5 billion projected in last year's FYDP. Projected spending declined by 10 percent or more over the common years for some major programs, including the Advanced Tactical Fighter, Abrams tank upgrade, Bradley base sustainment, Javelin and Hellfire missiles, UH-60 Blackhawk and SH-60 helicopters, Medium Launch Space Vehicle, Joint Standoff Weapon, and Global Positioning System.

Both the 1997 and 1998 FYDPs anticipate procurement spending of $60 billion in 2001. The 1998 FYDP projects that procurement costs will increase to about $68 billion for 2002 and remain at that level for 2003.

The 1998 FYDP procurement accounts include funds reserved for modernization that were not included in the 1997 FYDP. These funds total $19.8 billion for 1999-2003. Table 2 shows the allocation of these funds by year.

Table 2: Proposed Modernization Reserve, by Fiscal Year

Dollars in millions

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Reserve	$965	$1,783	$2,454	$6,640	$8,003

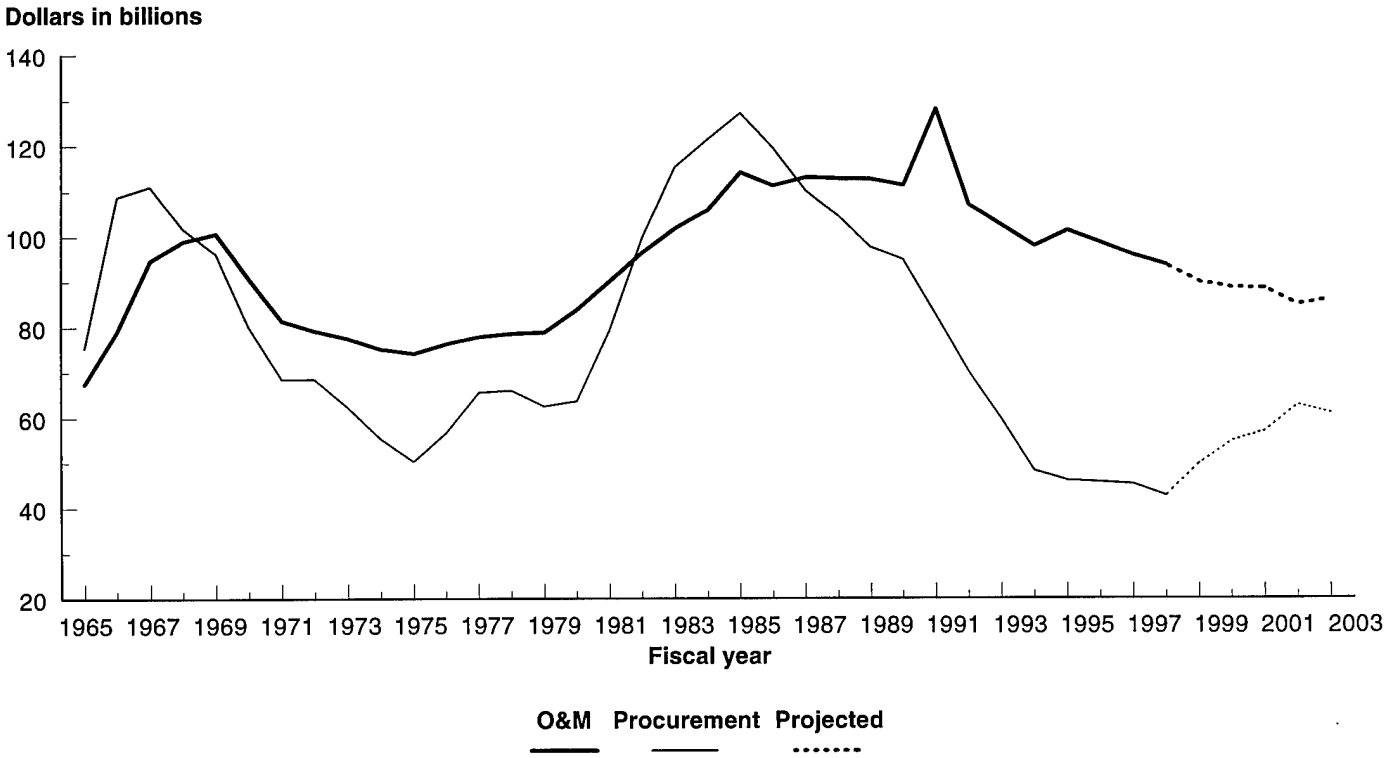
Source: 1998 FYDP.

[9]Approximately 87 percent of DOD civilian payroll costs are paid from O&M appropriations. The remainder is funded from the RDT&E, military construction, and family housing appropriation accounts.

DOD has programmed the funds in anticipation that savings will be achieved from reduced operating costs and that the savings will become available for procurement. However, DOD has not assigned these projected funds to specific programs.

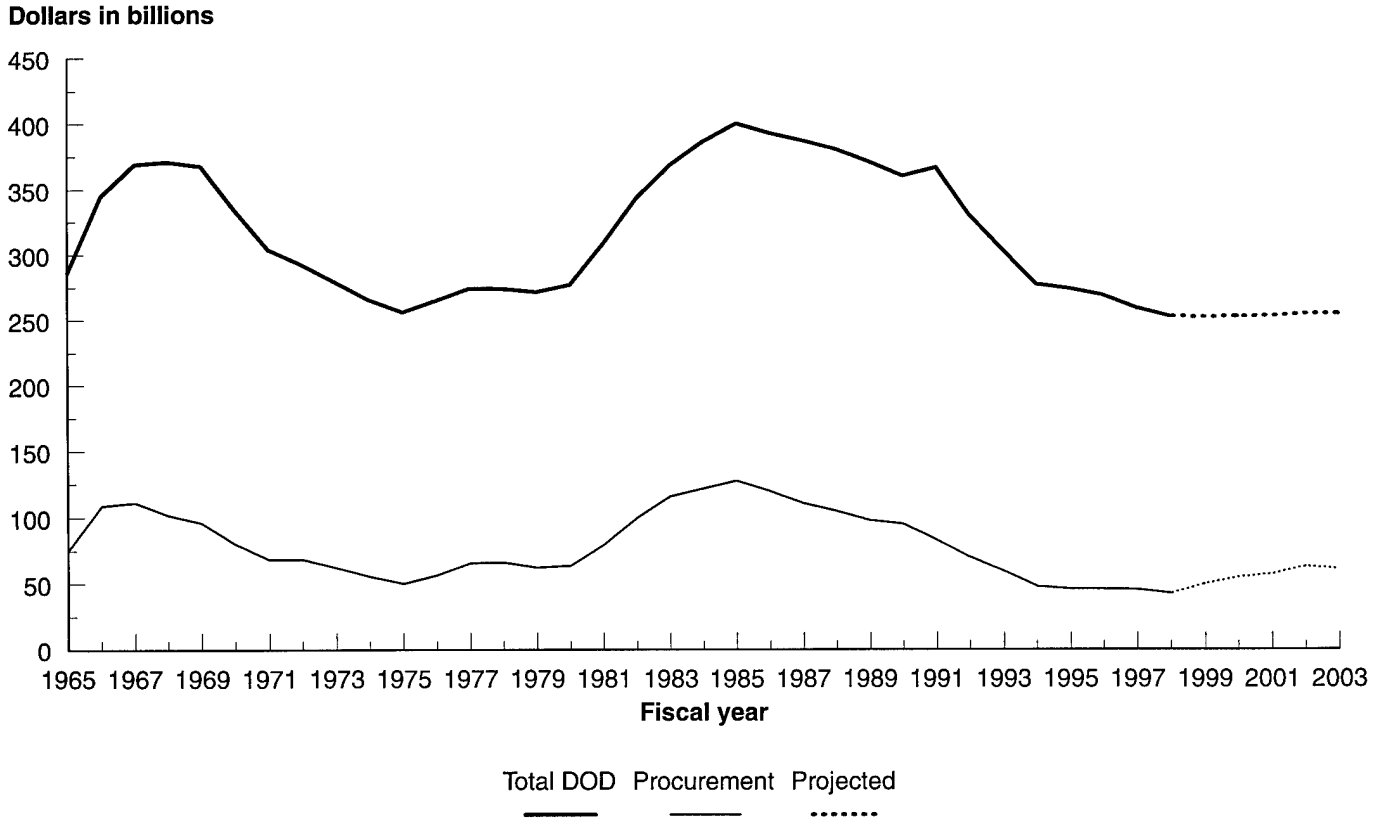
With each FYDP from fiscal year 1995 to 1997, DOD has not met its plans to increase procurement. There is risk that DOD's 1998 plan also may not succeed. Since 1965, O&M spending has increased consistently with increases in procurement spending. However, the 1998 FYDP shows that DOD plans to change that historical relationship from 1998 through 2003 by increasing procurement while decreasing O&M spending. Figure 2 shows the historical and projected relationship between O&M and procurement spending.

Figure 2: Historical and Projected Relationship Between Procurement and O&M Spending in Constant 1998 Dollars



DOD's plans for procurement spending in the 1998 FYDP also run counter to another historical trend. Specifically, DOD procurement spending rises and falls in nearly direct proportion to movements in its total budget. However, DOD projects that procurement funding will rise in real terms during 1998-2003 by about 43 percent while the total DOD budget remains relatively flat. Figure 3 shows the historical trend and DOD's FYDP projections.

Figure 3: Historical and Projected Relationship Between Procurement Spending and DOD's Total Budget in Constant 1998 Dollars



DOD's plans to increase procurement funding to pay for modern weapon systems will also have to provide for potential cost growth in existing systems. Program cost increases and schedule delays are two of the oldest, most prevalent, and most visible problems associated with weapon

systems development and procurement. In 1994, we reported that program cost increases of 20 to 40 percent have been common for major weapon programs, with numerous programs experiencing increases much greater than that.[10] A 1993 RAND study of weapon system cost growth prepared for the Air Force concluded that there had been no substantial reduction in the average cost growth of weapon systems over the last 30 years, despite the implementation of several initiatives intended to mitigate the effects of cost risk and the associated cost growth.[11]

We continue to find examples of program projections that appear to be overly optimistic. For example, in our 1997 high-risk report, we noted that the Joint Air-to-Surface Standoff Missile Program contained significant schedule and cost risk.[12] The plan is to develop and initially deploy the Air Force's most capable precision-guided munition in 5 years for no more than $700,000 per missile. However, the plan does not appear to allow enough time to develop and test the munition's complex technology and to integrate the missile into the appropriate aircraft.

In June 1997, we reported that we were skeptical the Air Force could achieve planned production cost reductions of $13 billion proposed in its F-22 fighter aircraft program.[13] The planned reductions in F-22 unit costs are greater than achieved in prior fighter programs, and initiatives to reduce the production costs are not fully developed. As a result of the QDR analysis, DOD has decided to reduce total procurement of F-22s by about 100 aircraft, in part due to its own overall affordability concerns.

RDT&E Projected to Increase

Total projected RDT&E funding for the 4 common years increases from $132 billion in the 1997 FYDP to $137 billion in the 1998 FYDP—an increase of $5 billion. Table 3 shows total planned funding for the seven budget activities of RDT&E during 1998-2001 in both the 1997 and 1998 FYDPs.

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

[11]An Analysis of Weapon System Cost Growth (RAND, MR-291-AF, 1993).

[12]Defense Weapon Systems Acquisition (GAO/HR-97-6, Feb. 1997).

[13]Tactical Aircraft: Restructuring of the Air Force F-22 Fighter Program (GAO/NSIAD-97-156, June 4, 1997).

Table 3: Planned Funding for RDT&E by Budget Activity During the 4 Common Years of 1997 and 1998 FYDPs

Dollars in millions

RDT&E budget activity	1997 FYDP	1998 FYDP	Change
Basic research	$5,167	$4,877	-$290
Applied research	12,434	12,174	-260
Advanced technology development	13,896	14,013	117
Demonstration and validation	17,606	19,045	1,439
Engineering and manufacturing development	29,505	31,276	1,771
RDT&E management support	11,908	12,397	489
Operational systems development	41,749	43,497	1,749
Total	**$132,265**	**$137,279**	**$5,014**

Source: 1997 and 1998 FYDPs.

As table 3 shows, the $5-billion increase is almost totally allotted to three budget activities—demonstration and validation, engineering and manufacturing development, and operational systems development. Two accounts were reduced slightly over the period—basic and applied research.

Programs for which funding was significantly increased over the common years of both FYDPs include the Joint Strike Fighter ($223 million), airborne laser technology ($307 million), B-1B bomber enhancements ($114 million), and dual-use applications programs ($120 million). Programs for which funding was significantly reduced over the common years of both FYDPs include experimental evaluation of major innovative technologies ($2.9 billion), defense airborne reconnaissance ($1.7 billion), advanced military satellite communications ($567 million), and the advanced technology transition program ($125 million).

Significant Changes in Funding for Military Construction Programs

The overall funding level for military construction changed little between the 1997 FYDP and the 1998 FYDP during the 4 common years. However, our examination of programs showed several changes. We found significant increases in Army base operations ($391 million), Navy base realignment and closure activities ($335 million), Marine Corps base operations ($116 million), training base operations ($67 million), logistics base operations ($51 million), and Army National Guard base operations ($50 million). We also found significant decreases in Army management headquarters construction ($713 million), chemical agents and munitions destruction ($158 million), Air Force base operations for airlift activities

($145 million), Air Force environmental compliance ($122 million), and Navy environmental compliance ($49 million).

Family Housing Improvement and Operations Funds Projected to Decline

Total funding for family housing decreases by $337 million, or about 2 percent, for the common years in the 1997 and 1998 FYDPs. The decrease is due primarily to reduced funding for improvements and operations costs. Table 4 compares total funding for the common years of the 1997 and 1998 FYDPs for family housing programs.

Table 4: Funding for Family Housing Programs During the 4 Common Years in the 1997 and 1998 FYDPs

Dollars in millions

Family housing program	1997 FYDP	1998 FYDP	Change
Maintenance	$5,458	$5,556	$98
Operations	4,858	4,500	–358
Improvements	2,569	2,127	–442
Leasing	2,072	2,089	17
New construction	1,167	1,156	–11
Homeowner's Assistance	0	275	275
Debt payments	474	458	–16
Construction (planning and design)	0	100	100
Total	**$16,598**	**$16,261**	**–$337**

Source: 1997 and 1998 FYDPs.

Agency Comments and Our Evaluation

DOD generally concurred with a draft of this report. It emphasized that the full implications of the QDR on programs and budgets will not be fully expressed until the submission of the fiscal years 1999-2003 defense program in February 1998. DOD's comments are included as appendix III.

Scope and Methodology

To determine the major program adjustments in DOD's fiscal year 1998 FYDP, we interviewed officials in the Office of Under Secretary of Defense (Comptroller); the Office of Program Analysis and Evaluation; and the Army, Navy, and Air Force program and budget offices. We examined a variety of DOD planning and budget documents, including the 1997 and 1998 FYDPs and the QDR report. We also reviewed the President's fiscal year 1998 budget submission; our prior reports; and pertinent reports by the Congressional Budget Office, the Congressional Research Service, and others.

To determine the implications of program changes and underlying planning assumptions, we discussed the changes with DOD officials.

We compared DOD's automated data with published documents provided by DOD. Specifically, we compared total budget estimates, appropriation totals, military and civilian force levels, force structure levels, and some specific program information. Based on our comparisons, we were satisfied that DOD's automated FYDP data and published data are in agreement. We did not test DOD's management controls of the FYDP data. The FYDP is DOD's primary source of official program information. It is used extensively throughout DOD for analytical purposes and for making programming and budgeting decisions.

Our work was conducted from March through August 1997 in accordance with generally accepted government auditing standards.

We are providing copies of this report to other appropriate congressional committees; the Secretaries of Defense, the Air Force, the Army, and the Navy; and the Director, Office of Management and Budget. We will also provide copies to others upon request.

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

Richard Davis

Richard Davis
Director, National Security
Analysis

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Abbreviations

DOD	Department of Defense
FYDP	Future Years Defense Program
O&M	operation and maintenance
QDR	Quadrennial Defense Review
RDT&E	research, development, test, and evaluation
THAAD	Theater High Altitude Area Defense

Quadrennial Defense Review Initiatives

The following sections describe proposed Quadrennial Defense Review (QDR) initiatives that could impact the Department of Defense's (DOD) future programs.

Smaller Active and Reserve Forces Are Planned

Across DOD, QDR actions are to reduce active military end strength by about 62,000 and Reserve end strength by about 54,000. The reductions, by service, are shown in table I.1.

Table I.1: QDR Proposed Military Personnel Reductions

Service	Active military	Reserves
Air Force	26,900	700
Army	15,000	45,000
Marine Corps	1,800	4,200
Navy	18,000	4,100
Total	**61,700**	**54,000**

Source: QDR report.

According to the QDR, most of DOD's infrastructure is in the military departments (medical and some logistics functions are the exceptions). In fiscal year 1997, the military departments' infrastructure activities employ 557,000 military personnel. Further, the QDR states that about 37,000 of the active military positions would be eliminated from infrastructure activities.

Proposed Reductions in Operation and Maintenance

According to DOD, 61 percent of the people employed by the Department in fiscal year 1997 are involved in infrastructure activities. Most of these activities, including civilian pay, are funded from the operation and maintenance (O&M) appropriation. Since the end of the Cold War, DOD has reduced its military force structure and number of military personnel faster than its supporting infrastructure. To close the gap, and to begin to reduce the share of the defense budget devoted to infrastructure, the QDR proposed the following four actions:

- Reduce the number of civilian personnel associated with infrastructure by 72,000 more than the reductions in DOD's 1998 budget.
- Request authority for two additional rounds of base closures and realignments.

- Improve the efficiency and performance of DOD support activities by adopting innovative business practices of the private sector.
- Consider far more nonwarfighting DOD support functions as candidates for outsourcing, inviting commercial companies to compete with the public sector to undertake certain support functions.

Proposals Impacting Procurement

As DOD observed in its QDR report, each new defense program since the bottom-up review has had to postpone the previous year's plan to increase procurement spending. According to DOD, these postponements have generally reflected the high priority DOD attaches to current spending on readiness. Funding originally planned for procurement was spent instead to meet day-to-day operating expenses. DOD refers to this as a "migration" of funding. DOD pointed out that funds have migrated because it has not managed financial risk to reflect the importance it also attaches to investing in the future. The implication for the future is that DOD's operating costs will continue to exceed program estimates, resulting in substantial unrealized weapons procurements early in the next century. DOD recognizes the challenge it faces to achieve its modernization goals.

To address the problem of migrating funds, DOD plans to redirect about $6 billion to $7 billion in resources annually by the end of 2003 from savings made available by reducing the force structure, streamlining infrastructure, and adjusting modernization plans. While DOD has retained its goal of increasing procurement funding to roughly $60 billion by fiscal year 2001, it plans to moderate the intermediate targets to $49 billion in 1999 and $54 billion in 2000. The QDR also suggests reducing some purchases that were planned beyond 2000.

Some of the QDR procurement proposals are as follows:

- Reduce purchases of the Joint Surveillance and Target Attack Radar System from 19 to 13 aircraft.
- Decrease the total procurement of F-22 aircraft from 438 to 339 and slow the maximum planned annual production rate from 48 to 36.
- Reduce the maximum production rate of F/A-18E/F aircraft from 60 to 48 per year. Also delay by 2 years, from 2000 to 2002, production at the maximum rate.
- Reduce planned purchases of the Joint Strike Fighter from 2,978 to 2,852. Also delay production at the planned maximum rate for 2 years, from 2010 to 2012.

- Reduce planned purchases of the Marine Corps V-22 Osprey from 425 to 360 aircraft and accelerate procurement to a long-term rate of 30 per year by 2004.
- Limit procurement of B-2 bombers to the currently planned 21.
- Create a funding reserve to offset cost growth in weapons programs due to technical risk. Cost growth in existing programs divert modernization funds.

QDR Proposes Substantial Investments in Research, Development, Test, and Evaluation

The QDR discusses broad efforts that are underway in all of the military departments to exploit the Revolution in Military Affairs. Underwriting DOD's extensive modernization effort and the Revolution in Military Affairs are plans for substantial future investments in research, development, test, and evaluation (RDT&E). DOD acknowledges that some of these major investments, while deemed essential to meet national goals, will involve very high financial and technological risks. Therefore, it is likely that billions of additional dollars will be directed to these programs over the coming years. But according to DOD, the precise amount and allocation of these dollars are still under review. Some of these programs were identified in the QDR report and include the following:

- Theater Ballistic Missile Defense Programs. According to DOD, the Theater High Altitude Area Defense (THAAD) Program is expected to take longer and cost more than the 1998 Future Years Defense Program (FYDP) anticipated. DOD has decided to slow the Army's portion of the THAAD program because of serious technical problems and shift the deployment date from 2004 to 2006. According to DOD, this action will improve the stability of the program and lower program risk.
- National Missile Defense. This high-priority program with the executive branch and Congress is on an accelerated research and development path. However, the QDR analysis concluded that this program could not be deployed by the planned date of 2000 within the current program budget. As a result, DOD decided it will direct additional funds to national missile defense. DOD acknowledges in the QDR report that even with the additional funding, this program will remain a high risk.
- Cruise Missile Defense. According to DOD, intelligence estimates have revealed that a cruise missile threat to U.S. forces may emerge after 2000. Therefore, over the next several years, DOD plans to increase emphasis on a national cruise missile defense.
- Navigation. Upgrades to the space-based Global Positioning System and compliance with global air traffic management rules to become effective over the next several years will require significant future expenditures,

which are yet to be determined. According to DOD, its very large fleet of aircraft will need to be properly equipped with new navigation equipment to comply with new procedures of the Federal Aviation Administration and the International Civil Aviation Organization.

- Counterproliferation. DOD said that it will increase planned spending on counterproliferation by approximately $1 billion over the 1999 FYDP, particularly for protective measures against chemical weapons.
- Force Protection and Combating Terrorism. According to the QDR, DOD is increasing its research and development funding in this area. The funding will support state-of-the-art programs, including systems to detect, assess, and disable large vehicle bombs; standoff explosive detection capabilities; capabilities to maintain surveillance of and tag and track harmful materials that can be used in terrorist attacks; and improvements to robotic vehicles used in counterterrorism operations.
- Information Operations. According to DOD, technical measures to protect military information systems, in both hardware and software, are being greatly expanded.

Program Descriptions

The following are descriptions of the programs in the FYDP, by appropriation, that are mentioned in this report.

Military Personnel

Recruit Training Units

This program includes staff authorizations, peculiar and support equipment, necessary facilities, and the associated costs specifically identified and measurable to the conduct of recruit training and the basic introductory and indoctrination provided to enlisted entrants in units devoted to such training at Army training centers, recruit training commands, Marine Corps recruit depots, the Air Force Military Training Center, and other DOD facilities.

General Skill Training

This program includes staff authorizations, peculiar and support equipment, necessary facilities, and the associated costs specifically identified and measurable to the conduct of specialized skill training in both DOD and civilian institutions, including initial skill, skill progression, and functional training to provide tactical, technical, administrative, and management skills. Specifically includes, but is not limited to, officer basic courses, advanced individual training at Army training centers, training in aircraft maintenance and airfield operations, formal noncommissioned officer and drill sergeant schools, survival training, Navy apprenticeship training, and temporary duty specifically identified for this training.

Integrated Recruit and Skill Training

This program includes staff authorizations, peculiar and support equipment, necessary facilities, and the associated costs specifically identified and measurable to the conduct of enlisted recruit training and initial skill training in a single unit in a single, uninterrupted formal course. Includes, for example, Army one-station unit training and Navy apprenticeship training, when conducted as a single, uninterrupted course with recruit training.

Defense Medical Centers, Station Hospitals, and Medical Clinics

This program includes staff authorizations, peculiar and support equipment, necessary facilities, and the associated costs specifically identified and measurable to the provision of health care in the continental United States in DOD-owned and operated facilities that are staffed and

equipped to provide inpatient care for both surgical and nonsurgical conditions and outpatient care for patients that are not hospitalized.

Operation and Maintenance

Base Operations

This program includes staff authorizations, peculiar and support equipment, necessary facilities, and the associated costs specifically identified and measurable to the following: administration, retail supply operations, maintenance of installation equipment, other base services, bachelor housing operations and furnishings, and other personnel support. Excluded from this program are the following types of base operating support: real property services, minor construction, maintenance and repair, base communications, commissary operations, station hospitals, medical and dental clinics, and family housing.

Air Force Training

This program includes staff authorizations, peculiar and support equipment, necessary facilities, and the associated costs specifically identified and measurable to the operating cost of aircraft used in training, field maintenance, organizational maintenance, and permanent party student authorizations.

Air Force F-15A/B/C/D Squadrons

This program includes all F-15 acquisitions, research and development, staff authorizations, peculiar and support equipment, necessary facilities, and the associated costs specifically identified and measurable to the F-15A/B/C/D, including wing headquarters, tactical fighter squadrons, avionics maintenance, field maintenance, consolidated aircraft maintenance, munitions maintenance, and weapon system security.

Air Force Logistics Operations, Other Than Working Capital Funds

This program includes staff authorizations, necessary facilities, and associated costs specifically identified and measurable to the costs of civilian personnel, travel, and transportation for supply depot operations; inventory control and materiel management-related requirements computations; commodity management; standardization; cataloging; systems and data management; procurement and contract administration;

requisition processing; inventory accounting; and the management, receipt, storage preservation, issue, and distribution of supplies.

Nonindustrially Funded Depot Maintenance	This program includes, for all services, funds for reimbursement of the industrial fund for depot maintenance of aircraft and equipment, financing commercial depot maintenance contracts, and interservice depot maintenance. Also includes staff, equipment, facilities, and associated costs directly measurable to nonindustrially funded depot-level maintenance at various facilities.
Marine Corps Other Combat Support	This program includes staff authorizations, peculiar and support equipment, necessary facilities, and associated costs specifically identified and measurable to headquarters of Marine amphibious forces, brigades, and units; communications battalions; force reconnaissance companies; air and naval gunfire liaison companies; and topographic platoons.
Navy Logistics Support Activities	This program includes staff authorizations and the associated costs specifically identified and measurable to the following: centrally managed logistics support services not directly related to another program, production engineering activities that do not fit into another program, and various other activities.
Marine Corps Other Personnel Activities	This program includes staff authorizations, peculiar and support equipment, necessary facilities, and the associated costs specifically identified and measurable to resources associated with units and activities devoted to enhancing the service's overall morale, fostering good community relations, and providing miscellaneous personnel support services.
Army Real Property Maintenance and Repair	This program includes staff authorizations, peculiar and support equipment, necessary facilities, and the associated costs specifically identified and measurable to maintenance and repair of real property, such as utilities, buildings, other facilities, pavements, land, and grounds. Includes such things as repair of electrical circuitry, heating and air conditioning, water piping, and routine maintenance work, such as caulking and painting, at fixed installations.

Research, Development, Test, and Evaluation

Joint Strike Fighter (Joint Advanced Strike Technology)	This program continues engineering and manufacturing development of a joint program to develop a high-technology, low-cost, multirole fighter aircraft for the Air Force, Navy, and Marine Corps.
Airborne Laser Technology	This program includes funds to design, build, and test a weapon system to acquire, track, and kill theater ballistic missiles in the boost phase.
Air Force B-1B Bomber Enhancements	This program includes funds for the full-scale engineering development of a strategic multirole bomber that maximizes range, payload, and the ability to perform the missions of a conventional bomber, cruise missile launch platform, and nuclear weapons delivery system in both the tactical and strategic role.
Dual-Use Applications Programs	The objective of this program is to leverage emerging dual-use (potentially usable in both commercial and defense applications) technologies to the direct benefit of military system acquisitions.
Experimental Evaluation of Major Innovative Technologies	This program includes resources to demonstrate technology of major program efforts. Principally, it includes technology investigations aimed at providing radically new options for major increases in the effectiveness of strategic and tactical command, control, and communications mission areas.
Defense Airborne Reconnaissance	This program includes staff authorizations, peculiar and support equipment, necessary facilities, and the associated costs specifically identified and measurable to providing a central focus for a multiservice requirements approach to develop and field future airborne reconnaissance systems.
Advanced Military Satellite Communications	This program includes demonstration and validation efforts to support development of the follow-on satellite to the Milstar II program. This

system will provide the capability for survivable, jam-resistant, worldwide, secure communications for strategic and tactical warfighters.

Advanced Technology Transition Program

This program includes funds for advanced technology development, which provides a formal mechanism to foster and encourage transition of the most promising technological opportunities into development programs.

Military Construction

Navy Base Realignment and Closure Activities

This program includes resources necessary to implement base realignments and closures. Includes costs to prepare facilities and property for disposal, relocate personnel and equipment, construct new facilities for realigned forces, and assist affected communities. Financing for this program is to be provided by the sale of assets made available by base realignments and closures, and by appropriated funding.

Base Operations

This program includes staff authorizations, peculiar and support equipment, necessary facilities, and the associated costs specifically identified and measurable to the following: administration, retail supply operations, maintenance of installation equipment, bachelor housing operations and furnishings, other base services, and other personnel support. Excluded from this program are the following types of base operating support: real property services, minor construction, maintenance and repair, base communications, commissary operations, station hospitals, medical and dental clinics, and family housing.

Army Management Headquarters-Construction

This program includes staff authorizations, peculiar and support equipment, necessary facilities, and the associated costs specifically identified and measurable to management resources for the Headquarters, U.S. Army Corps of Engineers.

Chemical Agents and Munitions Destruction

This program includes resources, not otherwise provided for, that are necessary for the destruction of the U.S. stockpile of lethal chemical agents and munitions in accordance with the provisions of section 1412 of the 1986 DOD Authorization Act, Public Law 99-145.

Environmental Compliance

This program includes actions to achieve and maintain full and sustained compliance with federal, state, and local environmental laws and regulations; executive orders; and host nation regulations and DOD policies. This program funds all costs related to environmental compliance, including recurring costs of environmental program management; nonrecurring costs of projects/services required to bring DOD into compliance with environmental standards or notice of violation; pest management programs to meet federal standards for pest management and pesticide storage, handling, or use; overseas cleanup and compliance efforts; and certification of innovative technology for DOD applications.

Family Housing

Maintenance

This program includes maintenance costs for the DOD Family Housing Program.

Operations

This program includes costs specifically identifiable and measurable to operations costs for the DOD Family Housing Program.

Improvements

This program includes costs specifically identifiable and measurable to construction costs, including applicable planning costs, for improving existing facilities under the DOD Family Housing Program and other construction items.

Leasing

This program includes costs specifically identifiable and measurable to administration and leasing costs of the Leased Housing Program.

New Construction

This program includes costs specifically identifiable and measurable to the construction of new family dwelling units; new trailer court facilities; new nondwelling buildings; new community facilities; and new roads, driveways, walks, and utilities primarily for use by family housing occupants.

Homeowner's Assistance	This program includes costs specifically identified with the Defense Homeowner's Assistance Fund. These include reimbursements to homeowners for losses in private sales; operating and maintenance costs for acquired properties; appraisal fees; administrative costs for all types of assistance; and equity payments to homeowners, payments in foreclosure cases, and payments on assumed mortgages.
Debt Payments	This program includes costs specifically identifiable and measurable to debt payments for family housing.
Construction Planning and Design	This program includes staff authorizations, peculiar and support equipment, necessary facilities, and the associated costs specifically identified and measurable to the planning and design of military construction, access roads, and minor land acquisitions.

Comments From the Department of Defense

OFFICE OF THE SECRETARY OF DEFENSE
1800 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-1800

PROGRAM ANALYSIS
AND EVALUATION

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

Dear Mr. Davis:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, 'FUTURE YEARS DEFENSE PROGRAM: DoD's 1998 Plan Has Substantial Risks in Execution,' dated September 2, 1997 (GAO Code 701101/OSD Case 1454). The Department generally concurs with the report. The programmatic risks outlined in it are generally consistent with the resource challenges discussed in the Report of the Quadrennial Defense Review (QDR). The report also fairly describes the program adjustments resulting from the QDR that are intended to achieve a better balance of resource allocations in DoD's program and financial plans. While we generally concur with these findings, the Department also would underscore that the full implications of the QDR on programs and budgets will not reach definitive expression until the submission of the fiscal year 1999-2003 defense program in February 1998.

The draft GAO report recognizes the difficulty in reducing infrastructure spending and increasing procurement funding during a period when the defense budget is projected to grow only at about the rate of inflation. But as the report points out, decisions stemming from the QDR to trim forces, streamline infrastructure, and adjust modernization plans are projected to generate savings to shore up the modernization program. Of course, the Department also concurs with the GAO's finding that our success in achieving these savings will depend to some extent on congressional approval for such critical reform initiatives as base closures and military personnel reductions. To the extent we succeed in achieving these savings, resources can be reallocated to program more accurately in the outyears of the Future Years Defense Program for the cost of operating the defense establishment. Such steps would go a long way toward breaking the trend that has resulted when funding that is planned in future budgets for procurement migrates to cover shortfalls in operating and support activities.

Additional technical comments were separately provided to the GAO staff. The DoD appreciates the opportunity to comment on the draft report.

William J. Lynn
Director

Major Contributors to This Report

National Security and International Affairs Division, Washington, D.C.

Robert Pelletier
William Crocker
Deborah Colantonio
Alan Byroade
Shawn Bates
Nancy Ragsdale

Related GAO Products

Bosnia: Cost Estimating Has Improved, but Operational Changes Will Affect Current Estimates (GAO/NSIAD-97-183, July 28, 1997).

Military Bases: Lessons Learned From Prior Base Closure Rounds (GAO/NSIAD-97-151, July 25, 1997).

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High-Risk Series: Defense Weapon Systems Acquisition (GAO/HR-97-6, Feb. 1997).

Defense Health Program: Future Costs Are Likely to Be Greater Than Estimated (GAO/NSIAD-97-83BR, Feb. 21, 1997).

Future Years Defense Program: Lower Inflation Outlook Was Most Significant Change From 1996 to 1997 Program (GAO/NSIAD-97-36, Dec. 12, 1996).

Defense Infrastructure: Costs Projected to Increase Between 1997 and 2001 (GAO/NSIAD-96-174, May 31, 1996).

Defense Infrastructure: Budget Estimates for 1996-2001 Offer Little Savings for Modernization (GAO/NSIAD-96-131, Apr. 4, 1996).

Future Years Defense Program: 1996 Program Is Considerably Different From the 1995 Program (GAO/NSIAD-95-213, Sept. 15, 1995).

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

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