

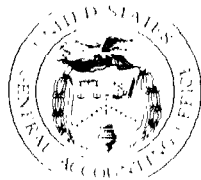
GAO

Briefing Report to Congressional Requesters

February 1990

DOD'S BUDGET STATUS

Fiscal Years 1990-94  
Budget Reduction  
Decisions Still Pending



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

National Security and  
International Affairs Division

B-238512

February 22, 1990

The Honorable Sam Nunn  
Chairman, Committee on Armed  
Services  
United States Senate

The Honorable Les Aspin  
Chairman, Committee on Armed  
Services  
House of Representatives

The Honorable Andy Ireland  
House of Representatives

This letter provides a progress report on the status of the Department of Defense's (DOD) Five-Year Defense Program (FYDP). As you know, Title 10 of the U.S. Code as added by the National Defense Authorization Act for Fiscal Years 1990 and 1991 (P.L. 101-189-November 29, 1989) states: "The Secretary of Defense shall submit to Congress each year at or about the time that the President's budget is submitted . . . the current five year defense program . . . reflecting the estimated expenditures and proposed appropriations included in that budget." This section also requires consistency in the numbers reported in the budget submission with those reported in the FYDP.

An official from the Office of the Secretary of Defense told us that a FYDP will not be submitted with this year's budget. However, a FYDP will be prepared at the completion of this year's budget cycle. The official explained that major changes in the national security environment have significantly affected defense planning, programming, and budgeting decisions. The fiscal year 1991 budget submitted in January 1990 shows a \$167 billion reduction from the budget submitted in April 1989 for the years 1990-94. Decisions have been made on where and how to make the reductions planned for fiscal year 1991, but decisions remain to be made for the outyears 1992-94. Accordingly, a FYDP cannot be prepared at this time.

DOD has provided congressional committees and us with a general summary reflecting outyear (1992-94) funding levels for selected programs. However, additional adjustments are needed to prepare a FYDP that is consistent with the outyear funding levels in the President's budget.

DOD notes however, that the summary is not intended to satisfy the requirements of section 114a of title 10 U.S. Code.

As you know, we testified in May 1989 that the 1990-94 FYDP, submitted in April 1989, reflected a potential \$147 billion shortfall because of overly optimistic inflation and funding assumptions and \$45 billion in unidentified FYDP adjustments.

The President's fiscal year 1991 budget, submitted to the Congress on January 29, 1990, shows that planned defense spending for fiscal years 1990-94 was reduced \$167 billion from the April 1989 budget plan, which was adjusted for inflation. The \$167 billion reduction reflects a \$51.6 billion inflation adjustment and a \$115.4 billion downward revision in planned funding. The funding real growth rate, adjusted for inflation, was revised from 0,1,1,2,2 percent for fiscal years 1990-94, respectively, to a real decline of 2.6% in fiscal year 1991 and 2 percent per year thereafter. Appendix I shows the inflation adjustments and reductions by year. These reductions, combined with the need to reduce the April 1989 FYDP by \$45 billion,<sup>1</sup> will require a total reduction of \$212 billion in the 1990-94 FYDP.

To date, DOD has made reductions totaling about \$74.1 billion of the \$212 billion. These reductions consist of \$4.2 billion in fiscal year 1990, \$22.4 billion in the fiscal year 1991 budget, \$22.8 billion in reductions for fiscal years 1992-94, and \$24.7 billion in Defense Management Report savings for fiscal years 1992-94. Accordingly, DOD still needs to make reductions of \$137.9 billion (\$212 billion - \$74.1 billion) in spending for the outyears. Until these reductions are made, a FYDP consistent with the President's budget cannot be produced.

The President's fiscal year 1991 budget and supporting documents provide details regarding the fiscal year 1990 \$4.2 billion reduction and the fiscal year 1991 \$22.4 billion reduction. DOD has provided summary information on the \$22.8 billion in fiscal year 1992-94 reductions and has also provided information on the \$39 billion in anticipated savings from DOD's Defense Management Report (DMR)

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<sup>1</sup>The \$45 billion reduction is required to distribute \$21.7 billion in planned but not taken program reductions and eliminate \$23.3 billion in unanticipated requirements from the April 1989 FYDP.

savings from DOD's Defense Management Report (DMR) initiatives. DOD's goal is to save \$39 billion over the 1991-95 5-year period (\$24.7 billion 1992-94) through management efficiencies and other changes, which are outlined in summary form for budget justification purposes. Some details regarding the implementation of these initiatives and the savings they are expected to produce have been provided. DOD officials state that more details will be forthcoming. As with any new initiative, it remains to be seen whether all these anticipated savings will be achieved. (See appendix II for more detailed information on DMR savings.)

We have reviewed the inflation estimates DOD used in adjusting the outyear projections of budget authority. As indicated above, the inflation estimates used in the April 1989 budget and FYDP have been adjusted upward to more closely match those of the Congressional Budget Office (CBO) and other economic forecasts. This adjustment as reflected in the January 1990 budget submission added \$51.6 billion to DOD's 1990-94 budget estimate. However, the revised inflation adjustments remain slightly lower than CBO's current projections for 1992 through 1994. We estimate that CBO's inflation estimates, if applied to the current 1990-94 defense budget, would result in a funding shortfall of approximately \$3 billion for the 5-year period. This is a preliminary estimate; a more exact estimate can be made once we obtain DOD's latest spendout rate projections. The inflation adjustments used by DOD and the CBO projections are shown in table 1.

Table 1: Inflation Estimates For 1990-94

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Administration	4.1	4.2	3.9	3.6	3.3
CBO	4.0	4.0	4.0	4.0	4.0

We are sending copies of this report to the Chairmen, House and Senate Committees on Appropriations, Chairmen, House and Senate Budget Committees, the Senate Committee on Governmental Affairs, the House Committee on Government Operations and the Secretary of Defense. Copies will be made available to other interested parties upon request.

This report was prepared under the direction of Paul F. Math, Director, Research, Development, Acquisition, and Procurement Issues, who may be reached on 275-8400 if you or

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your staff have any questions. Other major contributors are listed in appendix III.

A handwritten signature in cursive script that reads "Frank C. Conahan". The signature is written in dark ink and is positioned above the printed name.

Frank C. Conahan  
Assistant Comptroller General

C o n t e n t s

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ABBREVIATIONS

ADP	Automated Data Processing
CBO	Congressional Budget Office
DOD	Department of Defense
DLA	Defense Logistics Agency
DMR	Defense Management Report
FYDP	Five-Year Defense Program
OSD	Office of the Secretary of Defense

## FY 1991 DOD Budget Revisions (dollars in billions)

<u>Year</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>Total 90-94</u>
April 1989 plan (0,1,1,2,2% real growth)	\$295.6	\$311.0	\$322.0	\$335.9	\$349.8	\$1,614.3
Adjustment for revised inflation estimates	<u>0.0</u>	<u>6.5</u>	<u>10.4</u>	<u>15.1</u>	<u>19.6</u>	<u>51.6</u>
Adjusted April 1989 plan	\$295.6	\$317.5	\$332.4	\$351.0	\$369.4	\$1,665.9
Jan. 1990 reduction	<u>-4.2</u>	<u>-22.4</u>	<u>-32.4</u>	<u>-46.6</u>	<u>-61.4</u>	<u>-167.0</u>
Jan. 1990 budget plan (-2% real growth)	<u>\$291.4</u>	<u>\$295.1</u>	<u>\$300.0</u>	<u>\$304.4</u>	<u>\$308.0</u>	<u>\$1,498.9</u>

ANALYSIS OF DEFENSE MANAGEMENT REPORT PROJECTED SAVINGS

DOD's DMR initiatives are projected to save an estimated \$39 billion through management efficiencies over the next 5 fiscal years, 1991-95. However, the actual savings resulting from these efficiencies are uncertain. Our analysis shows that 54% (\$21 billion) of these savings are expected to come from changes in the logistics area. Some of these initiatives include restructuring or streamlining the Air Force Logistics and Systems Commands and the Army Materiel Command. Savings are also expected from increased productivity at naval aviation depots and shipyards. DOD-wide changes affecting the management of supplies and reparable, transportation costs, and clothing and textiles are expected to save \$14.2 of the \$21 billion.

Other major DMR initiatives include:

- Converting some military positions to civilian.
- Streamlining Defense Logistics Agency (DLA) Headquarters and the Office of the Secretary of Defense (OSD).
- Providing more efficient management of defense agencies.
- Developing standard automated data processing (ADP) systems and computer-aided logistics support.
- Reducing contract advisory and assistance services and consolidating contract management services under DLA.
- Reducing electric costs and moving from leased space onto military facilities.

DOD is also forming study teams to review possible consolidations or management changes to six major areas: supply depots, inventory control points, maintenance depots, ADP design centers, accounting operations and finance centers, and research and development labs and test facilities. These consolidations could save \$5.6 billion.

Table II.1 shows the impact of the DMR savings projections on appropriations and other accounts.



Table II.1: DOD-Wide Savings From Defense Management Report Initiatives by Appropriation Account (dollars in millions)

<u>Appropriation account</u>	<u>FY 1991</u>	<u>FY 1992-95</u>	<u>Total</u>
Operations and maintenance	\$ 890.0	\$ 9,361.5	\$10,251.5
Military personnel	151.5	3,496.7	3,648.2
Procurement	109.9	4,490.1	4,600.0
Other procurement	77.7	1,588.3	1,666.0
Research, development, test, and evaluation	83.2	845.5	928.7
Military construction	.2	.8	1.0
<u>Other</u>			
Stock fund	986.0	12,019.3	13,005.3
Industrial fund	55.0	1,016.9	1,071.9
Contingency fund	300.0	5,150.0	5,450.0
Central fund	(254.0)	(1,222.0)	(1,476.0)
Foreign military sales	.1	2.0	2.1
Corporate information management	<u>(80.0)</u>	<u>0.0</u>	<u>(80.0)</u>
Total	<u>\$2,319.6<sup>a</sup></u>	<u>\$36,749.1<sup>a</sup></u>	<u>\$39,068.7<sup>a</sup></u>

<sup>a</sup>Totals may vary slightly from DOD estimates due to rounding.

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