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FUTURE YEARS DEFENSE PROGRAM

Substantial Risks Remain in DOD's 1999-2003 Plan

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

The Honorable Charles E. Grassley
United States Senate

Our earlier analysis of the Department of Defense's (DOD) Future Years Defense Program (FYDP) for fiscal year 1998 found substantial risk that the program would not be executed as planned.[1] According to DOD, compared to the fiscal year 1998 FYDP, the Quadrennial Defense Review (QDR) proposed a more balanced, modern, and capable program that can be executed within currently proposed budgets. DOD planned to incorporate many of the details of the QDR blueprint into its fiscal year 1999 FYDP.[2] As you requested, we (1) identified the Department's plans to address the financial and programmatic risk areas that the QDR found in DOD's program, (2) compared DOD's 1999 FYDP with its 1998 FYDP to identify major changes and adjustments to address these risks areas, and (3) explored whether there were risk areas in DOD's 1999 program. Our report does not reflect any adjustments that may have been taken by the Committees on Authorizations and Appropriations during their reviews of the 1999 defense budget request.

Background

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). The act directed the Secretary of Defense, in consultation with the Chairman, Joint Chiefs of Staff, to conduct a review of the defense needs from 1997 to 2015.

Since its bottom-up review in 1993, DOD has repeatedly stated that it must reduce its infrastructure to offset the cost of future modern weapon systems.[3] Our analysis of DOD's FYDPS and infrastructure activities over the past several years showed that the infrastructure portion of DOD's budget

[1] Future Years Defense Program: DOD's 1998 Plan Has Substantial Risk in Execution (GAO/NSIAD-98-26, Oct. 23, 1997).

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

[3] Infrastructure comprises activities that provide support services to mission programs and primarily operate from fixed locations.

had not decreased as DOD planned.[4] Further, planned funding increases for modern weapon systems have repeatedly been shifted further into the future with each succeeding FYDP.

In May 1997, under the balanced budget agreement, the President and Congress set forth a budget blueprint for the national defense budget function. As part of the agreement, national defense funding levels were established for 1999-2002.

The FYDP is an authoritative record of current and projected force structure, costs, and personnel levels that has been approved by the Secretary of Defense. In addition, it is used extensively throughout DOD for analytical purposes and for making programming and budgeting decisions. The 1998 FYDP supported the President's 1998 budget and included budget estimates for 1998-2003. The 1999 FYDP supports the President's 1999 budget and includes budget estimates for 1999-2003.

Results in Brief

Although DOD has reduced military and civilian personnel, force structure, and facilities over several years, DOD has been unable to shift funds from infrastructure to modernization. In 1997, infrastructure spending was 59 percent of DOD's total budget, the same percentage as in 1994. DOD acknowledged in the QDR that it has postponed procurement plans because funds were redirected to pay for underestimated operating costs and new program demands, and projected savings from outsourcing and other initiatives had not materialized. To address this diversion of funds, the QDR directed DOD to cut some force structure and personnel, eliminate additional excess facilities through more base closures and realignments, streamline infrastructure, and reduce quantities of some new weapon systems.

DOD made adjustments in the 1999 FYDP to decrease the risk that funds would migrate from procurement to unplanned operating expenses. For example, funding for operation and maintenance is projected to be substantially higher and funding for military personnel and procurement is projected to be considerably lower than anticipated 1 year ago. DOD has programmed additional funds in areas, such as medical care, that have been previously underestimated or underbudgeted. It also has programmed additional funds for new programs such as the National

[4] 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).

Missile Defense System. Moreover, DOD has moderated its procurement plans. As a result of these and other changes, DOD believes that its 1999 program is on a sounder financial footing.

Although DOD made adjustments in the 1999 FYDP, we continue to see risks that DOD's program may not be executable as planned. For example, DOD projects savings of $24.1 billion as a result of lower projected inflation rates and fuel costs and favorable foreign currency exchange rates. However, if these rates and costs do not hold true to DOD's assumptions, projected savings will not materialize, and DOD will have to adjust future budgets by cutting programs and/or requesting additional budget authority. Also, considerable risk remains in the services' plans to cut 175,000 military and civilian personnel and save $3.7 billion annually by 2003. For example, plans for some cuts are incomplete or are based on optimistic assumptions about the potential to achieve savings through outsourcing and reengineering and may not be implemented on time. Furthermore, the adequacy of funding for the Defense Health Program is contingent upon several assumptions, including that Congress will authorize the reduction of 61,700 active military personnel recommended in the QDR and that the reduction will be a mix of retirements and other attrition. Without this reduction, costs will be higher than planned. Also, new programs, such as the deployment of the National Missile Defense System, may require additional investment funding. According to several analyses, this system has high technical risk that would likely cause increased costs and program delays. Moreover, the 1999 FYDP does not include funds to deploy and operate the system if a decision is made to do so.

Further indication of risk can be found in DOD's procurement plans and additional proposed initiatives to reduce facilities. DOD's estimates for procurement spending, in relation to DOD's total budget, run counter to DOD's experience over the last 32 years. 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 approximately 29 percent while the total DOD budget will remain relatively flat. Also, on some important proposed initiatives, such as base closures and military personnel reductions, DOD will need congressional approval. Moreover, as long as the funding levels agreed to in the balanced budget agreement for national defense remain unaltered, DOD must solve its funding issues within its current and projected total budget.

DOD's Plans to Address Risk

A principal objective of the QDR was to understand and devise ways to manage the financial risk in DOD's program. In the QDR, the Department acknowledges that it has a historic, serious problem—the postponement of procurement modernization plans to pay for current operating and support costs. DOD refers to this as migration of funds. According to DOD, the chronic erosion of procurement funding has three general sources: underestimated day-to-day operating costs, unrealized savings from initiatives such as outsourcing or business process reengineering, and new program demands. The QDR concluded that as much as $10 billion to $12 billion per year in future procurement funding could be redirected as a result of these three general sources. The QDR also identifies other areas of significant future cost risks.

To address this financial instability, the QDR directed DOD to cut some force structure and personnel, eliminate additional excess facilities through more base closures and realignments, streamline infrastructure, and reduce quantities of some new weapon systems. By taking these actions, the Secretary of Defense intended that the 1999 budget and FYDP would be fiscally executable, modernization targets would be met, the overall defense program would be rebalanced, and the program would become more stable.

During the QDR, DOD identified initiatives to reduce infrastructure costs and personnel. However, even as the QDR report was released, the Department acknowledged that more could be done. The Department's November 1997 Defense Reform Initiative Report provided a second set of initiatives to streamline and improve DOD's infrastructure and support activities. Money saved by these initiatives is to help fund weapons modernization. The Defense Management Council, chaired by the Deputy Secretary of Defense,[5] was charged by the Secretary to ensure implementation of the reform decisions. The Council also was directed to examine similar reforms for each of the services and to negotiate an annual performance contract with the director of each defense agency.

The 1999 FYDP Reflects Significant Resource Adjustments

The 1999 FYDP reflects the budget blueprint outlined in the balanced budget agreement, and therefore, its total budget does not vary greatly from that in the 1998 FYDP. The common 5-year period of both FYDPs (1999-2003) shows that the 1998 FYDP totaled $1,355 billion and the 1999

[5]Other members of the Council are the Vice Chairman of the Joint Chiefs of Staff, the four Under Secretaries of Defense, the three service Under Secretaries, and the four service Vice Chiefs.

FYDP totaled $1,356 billion. Table 1 compares the two plans, by primary appropriation account.

Table 1: DOD's 1998 and 1999 FYDPs, by Primary Appropriation Account

Dollars in billions

		Fiscal year					
Account	**FYDP**	**1999**	**2000**	**2001**	**2002**	**2003**	**Total**
Military personnel	1998	$70.1	$71.4	$73.3	$75.3	$77.5	**$367.5**
	1999	70.8	70.7	71.6	73.0	74.9	**361.0**
	Change	0.7	–0.7	–1.6	–2.2	–2.6	**–6.4**
Operation and maintenance	1998	91.4	92.0	93.8	91.8	95.2	**464.3**
	1999	94.6	95.7	97.7	99.5	101.7	**489.2**
	Change	3.3	3.6	3.9	7.6	6.5	**24.9**
Procurement	1998	50.7	57.0	60.7	68.3	68.0	**304.7**
	1999	48.7	54.1	61.3	60.7	63.5	**288.3**
	Change	–2.0	–2.9	0.6	–7.7	–4.5	**–16.4**
Research, development, test, and evaluation	1998	35.0	33.4	32.9	34.2	35.8	**171.4**
	1999	36.1	33.9	33.0	33.5	34.3	**170.9**
	Change	1.0	0.5	0.1	–0.7	–1.5	**–0.5**
Military construction	1998	4.3	4.3	4.2	3.4	3.4	**19.6**
	1999	4.3	4.9	4.4	3.7	4.0	**21.3**
	Change	0.0	0.6	0.2	0.3	0.6	**1.7**
Family housing	1998	4.0	3.9	4.0	3.9	4.0	**19.8**
	1999	3.6	3.9	3.9	3.9	4.2	**19.4**
	Change	–0.4	0.0	–0.1	0.0	0.2	**–0.4**
Revolving and management funds	1998	1.7	1.3	1.3	1.4	1.4	**7.0**
	1999	0.6	0.8	0.4	0.4	1.1	**3.2**
	Change	–1.1	–0.5	–1.0	–1.0	–0.3	**–3.9**
Defense-wide contingencies	1998	0.1	0.1	0.1	–0.1	0.1	**0.2**
	1999	0.0	0.0	0.0	0.8	1.4	**2.3**
	Change	–0.1	–0.1	–0.1	0.9	1.4	**2.1**
Total	**1998**	**$257.2**	**$263.5**	**$270.3**	**$278.2**	**$285.3**	**$1,354.5**
	1999	**$258.6**	**$264.0**	**$272.3**	**$275.5**	**$285.1**	**$1,355.5**
	Change	**$1.4**	**$0.5**	**$2.0**	**$-2.7**	**$-0.2**	**$1.0**

Note: Program estimates in the 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: 1998 and 1999 FYDPs.

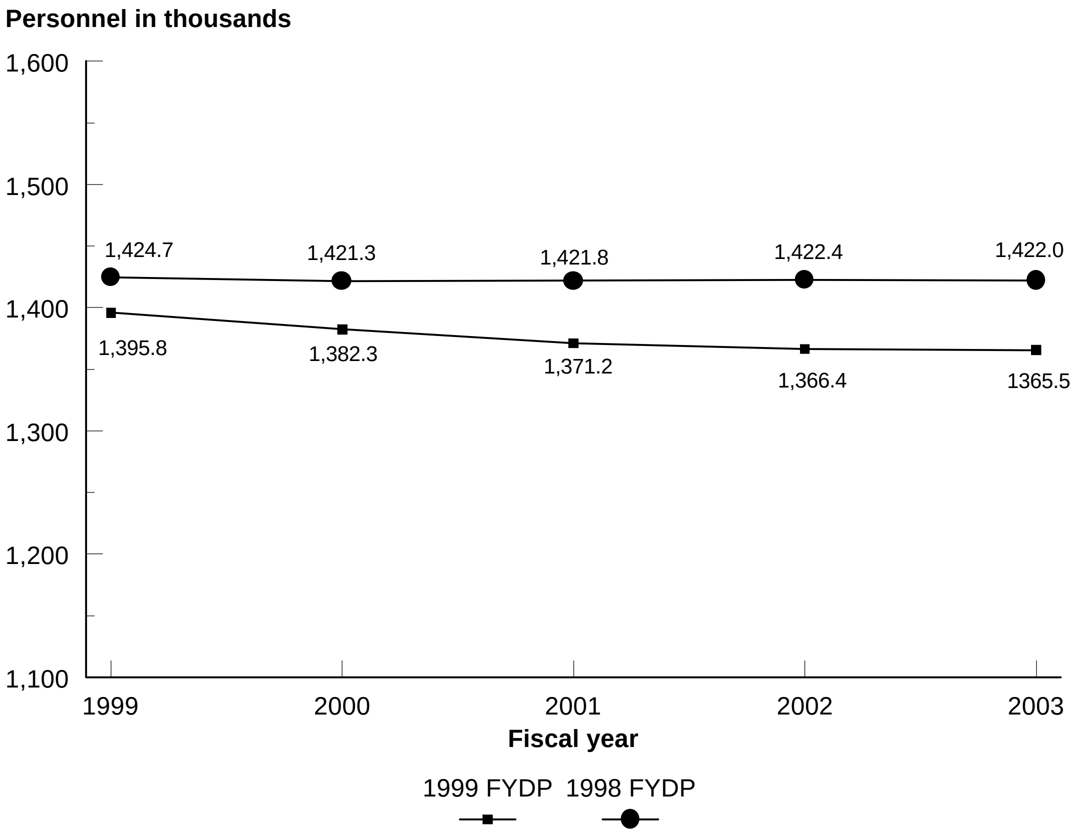
Appropriation Changes to Rebalance the Defense Program

As shown in table 1, DOD adjusted its three largest appropriations substantially in the 1999 FYDP. Specifically, DOD added $24.9 billion to operation and maintenance (O&M) accounts and decreased the procurement and military personnel accounts by $16.4 billion and $6.4 billion, respectively. (App. I shows the differences between accounts in the 1998 and 1999 FYDPs for each appropriation.)

Military Personnel

In comparing the two FYDPs, we found that planned active duty military personnel and the comparable military personnel accounts have net decreases of 56,500 personnel and $6.4 billion, respectively. All services contribute to these planned decreases. For example, the Air Force has the largest programmed decreases—a reduction of 21,200 personnel and a 2.9-percent decrease in funding. Figure 1 shows the total active military personnel levels for the 1998 and 1999 FYDPs.

Figure 1: DOD Total Active Military Personnel for the 1998 and 1999 FYDPs



Source: 1998 and 1999 FYDPs.

In the 1999 FYDP, active military personnel decrease 2.2 percent, and the corresponding appropriation accounts decrease in real terms at 5.4 percent. The Air Force contributes the largest planned decreases in personnel (7.2 percent) and funding in real terms (9 percent).

Operation and Maintenance

Planned O&M funding from 1999 to 2003 increases by $24.9 billion (5.4 percent) from the 1998 FYDP to the 1999 FYDP. Contributing to the increase is the elimination of a previously projected $7.8 billion savings due to management initiatives. Those savings, programmed in the 1998 FYDP for 2001 to 2003, are not programmed in the 1999 FYDP. We reported that the 1998 FYDP savings were programmed by the Office of the Secretary of Defense (OSD), although there were no details about how the savings would be achieved.[6] According to DOD, over $8 billion of the $24.9 billion increase went into the readiness-related accounts of depot maintenance, real property maintenance, and spare parts. At the service level in the 1999 FYDP, O&M funding increases for every active duty component: Air Force, $5.4 billion (5.3 percent); Navy, $4.3 billion (4.1 percent); Army, $1.9 billion (2.2 percent); and Marine Corps, $450 million (3.6 percent). Also, O&M, defense-wide planned funding increases $294 million.

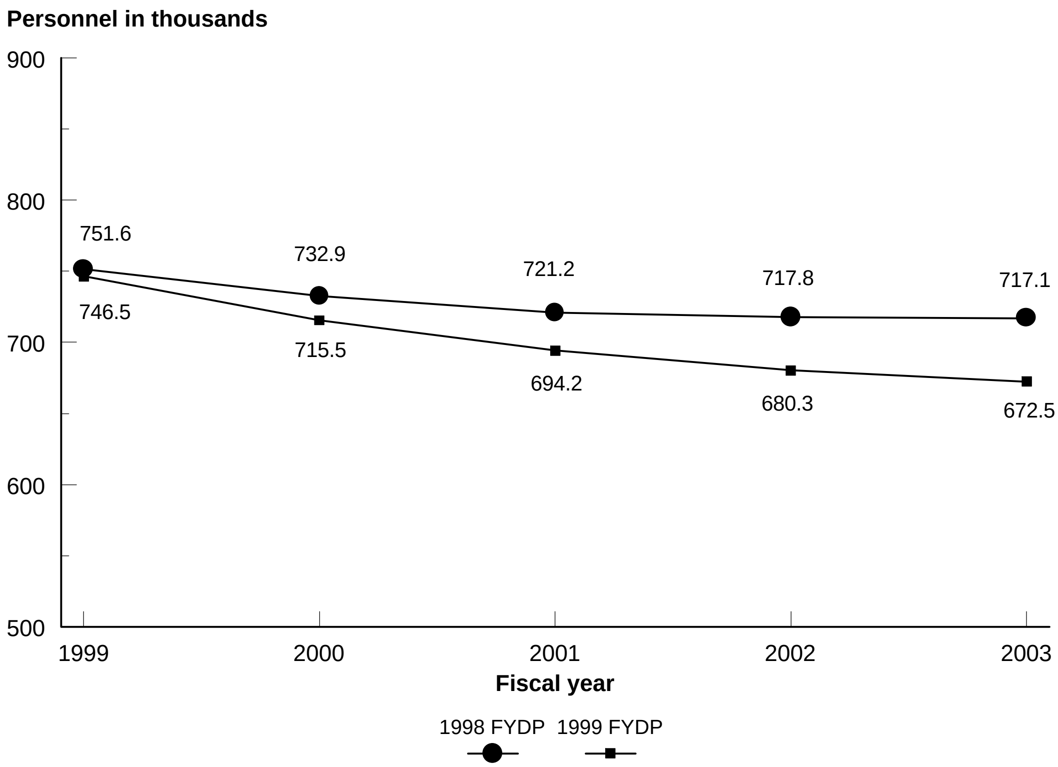
Civilian personnel salaries and benefits account for about 40 percent of annual O&M appropriations.[7] Overall, civilian personnel levels decrease more than double the rate in the 1999 FYDP than in the 1998 FYDP. In the 1998 FYDP, the total number of civilian personnel was projected to decline 4.6 percent, and in the 1999 FYDP the decline is projected to be 9.9 percent. In the 1999 FYDP, the Air Force projects the largest decline of civilian levels (12.3 percent), and OSD and defense-wide organizations project the second largest decline (10.1 percent).

Figure 2 shows the total civilian personnel levels for the 1998 and 1999 FYDPS.

[6] Future Years Defense Program: DOD's 1998 Plan Has Substantial Risk in Execution.

[7] Approximately 88 percent of DOD civilian payroll costs are paid from O&M appropriations. The remainder is funded from the research, development, test, and evaluation; military construction; and family housing appropriation accounts.

Figure 2: DOD Total Civilian Personnel for the 1998 and 1999 FYDPs



Source: 1998 and 1999 FYDPs.

Procurement

Procurement funding from 1999 to 2003 is projected to decline by a total of $16.4 billion (5.4 percent) from the 1998 to the 1999 FYDP. The largest decline is in 2002—$7.7 billion, from $68.3 billion to $60.7 billion.[8] This is the fifth straight budget year since 1995 that DOD has deferred procurement goals established in previous FYDPs. For example, the 1995 FYDP, developed after DOD's bottom-up review, projected funding of $57.1 billion in 1998. However, DOD is executing a fiscal year 1998 procurement budget of $42.6 billion, a difference of $14.5 billion.

The most significant change in procurement is found in the defense-wide accounts—a net decrease of $13.8 billion. Contributing to this decrease was the liquidation of the projected $19.8 billion modernization reserve. We reported that DOD had programmed the modernization reserve funds in

[8]The difference does not add due to rounding.

anticipation that savings would be achieved from reduced operating costs and that the savings would become available for procurement.[9] Among the services, the Army and the Marine Corps project increases of $1.3 billion,[10] or 2.7 percent, and $342 million, or 7.7 percent, respectively. The Navy and the Air Force project decreases of $2.9 billion, or 2.6 percent, and $1.4 billion, or 1.4 percent, respectively.

Program Additions and Cuts to Reduce Risk Identified in QDR

DOD made other adjustments in the 1999 FYDP to (1) meet unplanned operating expenses, such as medical care, or new program demands, such as the National Missile Defense System and (2) avoid disrupting or displacing other investment plans.

In the 1999 FYDP, the Defense Health Program, which accounts for about 11 percent of annual O&M spending, is projected to receive higher funding in every year (1999-2003) when compared with the 1998 FYDP. The cumulative projected increase from the 1998 FYDP is $1.6 billion. According to a Defense Health Affairs official, the projected increase would adequately fund the core medical mission, which is comprised of 2 parts, direct care and managed care contracts. However, significant cost-saving initiatives will be necessary in the non-patient care areas of the program.[11]

The 1999 FYDP includes an acquisition program stability reserve to address unforeseeable cost growth that can result from technical risk and uncertainty associated with developing advanced technology for weapons systems, for example, unexpected engineering problems. Currently, cost growth in one program requires offsets from other programs, which in turn can disrupt the overall modernization program. DOD's plan is to distribute the reserve among programs for the budget year before a President's budget is submitted to Congress. The service acquisition executives centrally will manage the reserves, and the Under Secretary of Defense for Acquisition and Technology will provide oversight. These reserve funds total $2.4 billion for 2000-2003. Between 2000 and 2003, approximately $2.3 billion, or 97 percent, of the funding is programmed in procurement accounts for the Army, Air Force, Navy, and Marine Corps. The remaining 3 percent is programmed in the defense-wide research,

[9] Future Years Defense Program: DOD's 1998 Plan Has Substantial Risk in Execution.

[10] Although total Army procurement increases in the 1999 FYDP, there is a $3.2 billion, or 31-percent decrease in the Army missile procurement account. A significant portion of the decrease was due to the move of funding for the Patriot System and Theater Ballistic Missile Defense Program from the Army to the Procurement, defense-wide account.

[11] In fiscal year 1997, DOD significantly underbudgeted the 1997 O&M Defense Health Program, but Congress appropriated additional funds. Unrealistically low estimates continued in the 1998 FYDP in fiscal years 1998 and 1999, as documented by DOD in the 1998 President's budget submission.

development, test, and evaluation account. Table 2 shows the allocation of these funds, by year.

Table 2: Proposed Acquisition Program Stability Reserve

Dollars in millions

	Fiscal year				
	2000	2001	2002	2003	Total
Reserve	$244	$485	$725	$966	**$2,420**

Source: 1999 FYDP.

As stated in a recent report on weapon acquisitions,[12] we have not evaluated the program stability reserve or the way DOD plans to implement it. Nonetheless, DOD's use of the reserve has the potential for communicating to program managers which practices will be encouraged and which ones will not. For example, if the reserve funds are used primarily to pay for problems that are revealed in late product development or early production, the fund could reinforce existing incentives for not dealing with problems until they occur. Conversely, if the fund is used to resolve and preclude problems, the fund could encourage problems to be revealed earlier in programs.

The 1999 FYDP increased National Missile Defense System research, development, test, and evaluation funding by $1.4 billion, or 75 percent ($1.8 billion to $3.2 billion), from the 1998 FYDP. The program is to provide protection against a limited ballistic missile attack. DOD's approach, commonly referred to as "3+3," is to develop, within 3 years, elements of an initial system that can be deployed within 3 years of a deployment decision. The initial deployment decision review is scheduled for 2000. According to DOD, if a sufficient missile threat to the United States has not materialized at that time, development will continue, and the program will maintain a capability to deploy within 3 years.

The QDR directed that some planned procurement be cut, in part to address overall affordability concerns. In the 1999 FYDP, DOD reduced quantities of some weapon systems from the 1998 FYDP. For example, DOD reduced the planned purchase of Joint Surveillance Target Attack Radar Systems' aircraft from 8 to 2, F-22 fighters from 70 to 58, and F/A-18E/F fighters from 228 to 204.

[12] Best Practices: Successful Application to Weapon Acquisitions Requires Changes in DOD's Environment (GAO/NSIAD-98-56, Feb. 24, 1998).

Some Funding Additions in Anticipation of Future Expenses

When comparing the 1999 FYDP with the 1998 FYDP, substantial planned funding appears in the 1999 FYDP outyears. OSD has programmed funds in two appropriation accounts without distributing the amounts to a DOD organization. Within the revolving and management funds, DOD working capital funds are anticipated to receive $450 million in 2000 to reduce advance billings. Moreover, in 2003, $700 million is programmed for potential purchases of war reserve materials. According to an Army official, the Army and an outside study group have verified requirement shortages in Army war reserve materials. If future DOD programming and budgeting cycles reveal that the programmed funds are needed, then the amounts would be requested in the applicable President's budget. Accordingly, trade-offs within other DOD programs would not have to be made.

Estimated costs associated with DOD's request for the base closure and realignment round in 2001 appear in the defense-wide contingencies account. Net costs of $832 million and $1.45 billion are programmed in fiscal years 2002 and 2003, respectively. The costs represent a net amount, since DOD anticipates savings from the avoidance of military construction and the cessation of some O&M activities. If Congress does not give DOD new base closure authority, DOD could budget these funds for other activities.

Infrastructure Reductions Are Critical to Achieving DOD's Modernization Plans

In 1997, infrastructure spending was 59 percent of DOD's total budget, the same percentage that was reported in DOD's bottom-up review report for 1994. Both the 1998 and the 1999 FYDPs projected that infrastructure spending would decline to 54 percent of DOD's budget in 2003.

To modernize the force, DOD plans to increase procurement funding to $60 billion per year. If DOD is to achieve a $60 billion budget goal, it must reduce funding for its infrastructure activities from the military personnel and O&M accounts. As explained in our previous reports and reflected in the 1999 FYDP, about 80 percent of DOD's infrastructure activities are funded from these appropriation accounts. However, as discussed in the next section, our review of the 1999 FYDP found substantial risks that DOD's plans may not occur, thereby jeopardizing DOD's attempts at fixing the migration of funds problem and adhering to procurement plans.

DOD's Program Continues to Have Substantial Risk

Although DOD made adjustments in the 1999 FYDP to decrease the risk that funds would migrate from procurement to unplanned operating expenses, we continue to see risks that DOD's program may not be executable as planned. These risks involve unrealized savings and other program needs.

Projected Savings From Favorable Inflation and Foreign Currency Exchange Rates Used for Additional Programs

We reported in May 1998 that as a result of lower projected inflation rates by the executive branch, DOD calculated that its goods and services over the 1999-2003 period would cost about $21.3 billion less than projected 1 year ago.[13] In addition, DOD projected savings of about $2.8 billion as a result of lower projected fuel costs and favorable foreign currency exchange rates. DOD said that with these assumed savings, it can fund additional procurement items and civilian and military pay raises, which account for $15 billion of the $24.1 billion.

The executive branch's projection of DOD's inflation rate for 1999 is 1.5 percent, which is a historically low rate of inflation.[14] If the projected savings from lower inflation, lower fuel costs, and favorable foreign currency exchange rates materialize, DOD can fund the additional programs. However, if those savings do not materialize, DOD will have to adjust its future budgets by cutting programs and/or requesting additional budget authority from the President and Congress.

Some Personnel Cuts and Associated Savings May Not Be Achieved

DOD's decision to reduce personnel as part of the QDR was driven largely by the objective of identifying dollar savings that could be used to increase modernization funding. We reported in April 1998 that considerable risk remains in some of the services' plans to cut 175,000 personnel and save $3.7 billion annually by 2003.[15] The projected cuts and savings are as a result of the QDR and are in addition to those previously planned.

The 1999 FYDP does not include all the personnel cuts directed by the QDR. With the exception of the Air Force, the services have plans that should enable them to achieve the majority of their active military cuts by the end of 1999. OSD determined that some of the Air Force's active military cuts announced in May 1997 to restructure fighter squadrons and consolidate bomber squadrons should not be included in the 1999 FYDP because the plans were not executable at this time.

[13]Defense Budget: Projected Inflation Savings (GAO/NSIAD-98-177R, May 11, 1998).

[14]Projected inflation rates are 1.6 percent for 2000 and 1.7 percent for 2001-2003.

[15]Quadrennial Defense Review: All Personnel Cuts and Associated Savings May Not Be Achieved (GAO/NSIAD-98-100, Apr. 30, 1998).

In addition, plans for some cuts included in the 1999 FYDP are still incomplete or based on optimistic assumptions. For example, there is no agreement within the Army on how 25,000 of the 45,000 reserve cuts will be allocated. This decision on how to allocate the reserve cuts will not be made before the next force structure review. Moreover, plans to achieve savings through outsourcing and reengineering may not be implemented by 2003 as originally anticipated.[16] For example, the Army plans to compete 48,000 positions to achieve the majority of its civilian reductions. However, according to an Army official, those reductions cannot be completed by 2003. Although it announced studies covering about 14,000 positions, it has not identified the specific functions or location of the remaining positions to be studied. In addition, the Army's plan to eliminate about 5,300 civilian personnel in the Army Materiel Command through reengineering efforts involves risk because the Command does not have specific plans to achieve these reductions.[17] Although outsourcing is only a small part of the Navy's QDR cuts, the Navy has an aggressive outsourcing program that involves risk. Specifically, the Navy has programmed savings of $2.5 billion in the 1999 FYDP based on plans to study 80,500 positions—10,000 military and 70,500 civilian—by 2003. Moreover, the Navy has not identified the majority of the specific functions that will be studied to achieve the expected savings. According to a Navy acquisition official, the Navy's ambitious projected outsourcing savings may not materialize, thereby jeopardizing its long-term O&M and procurement plans.

OSD recognizes that personnel cuts and the planned savings from those cuts have not always been achieved, which contribute to the migration of procurement funding. Therefore, OSD has established two principal mechanisms for monitoring the services' progress in reducing personnel positions. First, it expects to review the services' plans for reducing personnel positions during annual reviews of the services' budgets. Second, the Defense Management Council will monitor the services' progress in meeting outsourcing goals.

DOD's plans are based on the assumption that Congress will modify the permanent statutory minimum end-strength levels. These personnel levels, or floors, require the services to collectively employ at least 1,414,590

[16]The decision to outsource is based on the result of conducting private-public competitions. This process determines whether functions could be done more economically by contractors or by in-house civilian employees.

[17]The Army now plans to eliminate 7,410 personnel.

active duty military personnel.[18] This assumption risks the execution of DOD plans. If Congress does not lower the floors, costs for military personnel will be substantially higher. Currently, DOD plans to have 1,396,000 active duty military personnel in 1999, but if the services must retain about 19,000 personnel to meet the floors, they would need about $1.1 billion more in 1999 military personnel funds. Furthermore, costs to meet the floors in 2000-2003 would be higher because DOD projects lower end-strength levels than currently permitted by law. Notably, in 2003, DOD projects 1,366,000 personnel—about 49,000 below current statutory floors. If DOD is precluded from implementing its planned personnel reductions, it would have to make other compensating adjustments to its overall program.

Unprogrammed Bills Could Lead to Higher O&M Costs

The QDR reported that unprogrammed expenses arise that displace funding previously planned for procurement. The most predictable of these expenses are underestimated costs in day-to-day operations, especially for depot maintenance, real property maintenance, and medical care. The least predictable are unplanned deployments and smaller-scale contingencies.

The services and defense agencies plan to obligate $73 billion for depot maintenance between 1999 and 2003. This estimate, despite its magnitude, does not allow the defense agencies and services to achieve OSD's goal of funding 85 percent of their maintenance requirements during 1999-2003. According to DOD, the potential liability of unfunded depot maintenance in the 1999 FYDP is $300 million per year. For example, the Army—which added $362 million between 1999 and 2003—is projected to meet only 68 percent of its depot maintenance requirements in 1999 and 79 percent by 2003.

Despite four base realignment and closure rounds, DOD still has excess, aging facilities and has not programmed sufficient funds for maintenance, repair, and upgrades. Each service has risk embedded in its real property maintenance program to the extent that validated real property needs are not met. For example, in the 1999 President's budget submission, the Air Force plans to fund real property maintenance at the preventive or preservation maintenance level in 1999, which allows only for day-to-day recurring maintenance. This results in risk because the physical plant is degraded and the backlog of maintenance and repair requirements

[18]The National Defense Authorization Act for Fiscal Year 1998 identifies permanent end-strength floors—the lowest number of military end strength for each of the services. The services have a 1-percent flexibility (the Army has 1.5 percent) in meeting the permanent end-strength levels.

increases. Also, while the Marine Corps added funds during 1999-2003, the Commandant of the Marine Corps determined that the planned funding would merely minimize deterioration of its facilities. Further, although the Army added approximately $1 billion for real property maintenance in the 1999 FYDP, it was not projected to meet its funding goal until 2002.

According to a Defense Health Affairs official, the cumulative O&M funding increase of $1.6 billion over the 1998 FYDP adequately funds the core medical mission, which is comprised of 2 parts, direct care and managed care contracts. However, the 1999 FYDP funding is contingent on several assumptions that contain risk. First, the Defense Health Program assumes program-related personnel reductions due to outsourcing and privatization initiatives. Estimated savings for these efforts grow to $131 million by 2003. Second, the program assumes a 1-percent savings from utilization management, such as reducing the length of hospital stays from 4 days to 3 days. Third, population adjustments due to force structure reductions play a pivotal role. The projected program assumes that Congress will authorize QDR recommended reductions of 61,700 active military personnel and the reductions will be a mix of retirements and nonretirement attrition. If end-strength reductions are not authorized or a higher percentage of the reduction stems from retirements than originally planned, the program will experience higher costs than estimated. Without the authority to reduce active duty end strengths, the beneficiary population of service personnel and their dependents will not decrease. In addition, retirements do not reduce costs because retirees and their dependents remain part of the beneficiary population. According to a Defense Health Affairs official, the funded program does not include an allowance for the impact of advances in medical technology and the intensity of treatment that was identified in a previous GAO report as a risk factor.[19]

Our recent work raises questions about whether cost savings and efficiencies in defense health care will materialize. In August 1997,[20] we reported that a key cost-saving initiative of TRICARE, DOD's new managed health care system, was returning substantially less savings than anticipated and the situation was not likely to improve. In our

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

[20]Defense Health Care: TRICARE Resource Sharing Program Failing to Achieve Expected Savings (GAO/HEHS-97-130, Aug. 22, 1997).

February 1998 testimony to Congress,[21] we stated that implementation of TRICARE was proving complicated and difficult and that delays had occurred and may continue.

Notwithstanding the historical costs of several, often overlapping contingency operations, the 1999 FYDP provides funds only for the projected "steady state" costs of Southwest Asia operations—$800 million in 1999. According to OSD officials, by design the FYDP does not include funds for (1) the sustainment of increased operations in the Persian Gulf to counter Iraq's intransigence on United Nations inspections,[22] (2) the President's extension of the mission in Bosnia, or (3) unknown contingency operations. DOD's position is that costs for the mission in Bosnia should be financed separately from planned DOD funding for 1999-2003.[23] Further, the QDR concluded that contingency operations will likely occur frequently over the next 15 to 20 years and may require significant forces, given the national security strategy of engagement and the probable future international environment. Thus, it is likely that DOD will continue to have unplanned expenses to meet contingency operations.

Base Closure Savings Have Been Difficult to Estimate Precisely

In reporting on lessons learned from prior base closure rounds, we noted that savings, though not well documented, are expected to be substantial.[24] However, the precise amount and timing of net recurring savings realized from base closure actions is uncertain.[25] For example, when compared with the 1998 FYDP, the Air Force has revised its 1999 FYDP O&M savings for the fourth round of base closures. In the 1998 FYDP, the Air Force estimated net savings at $253 million, whereas in the 1999 FYDP it projects

[21]Defense Health Care: Operational Difficulties and System Uncertainties Pose Continuing Challenges to TRICARE (GAO/T-HEHS-98-100, Feb. 26, 1998).

[22]DOD programmed $150 million per year in 2000-2003 for additional military personnel costs that could result from increased Southwest Asia operations. OSD programmed the 2000-2003 funds in the O&M Overseas Contingency Operations Transfer Fund, rather than distributing this money to each service's military personnel account.

[23]In December 1997, the President extended DOD's Bosnia operations past June 1998. To cover 1999 Bosnia costs, in March 1998, the administration submitted a nonoffset emergency budget amendment of $1.9 billion. Moreover, the President's 1999 budget request contains an allowance for undistributed funds to cover contingencies such as Bosnia and natural disasters. The President considers Bosnia funding to have first claim on this allowance and has accordingly informed the relevant congressional committees.

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

[25]Savings can begin to accrue even as costs are being incurred to implement a base closure decision. One-time implementation costs may increase or decrease from initial estimates during the implementation period. Such increases or decreases can affect the point at which savings exceed implementation costs and net savings begin to accrue on an annual recurring basis.

net savings at $85 million—a difference of $167 million.[26] This is the second consecutive FYDP that the Air Force has lowered its expectations of near-term savings.

In our comparison of the 1997 and 1998 FYDPs, we reported that the Navy's savings estimates for the fourth round of base closures were incorrect in that the savings were for outsourcing and competition initiatives. In the 1999 FYDP, the Navy continues to report estimated outsourcing savings incorrectly as base closure savings. According to a Chief of Naval Operations official, the Navy will work with appropriate budget and programming offices to correct the reported FYDP information.

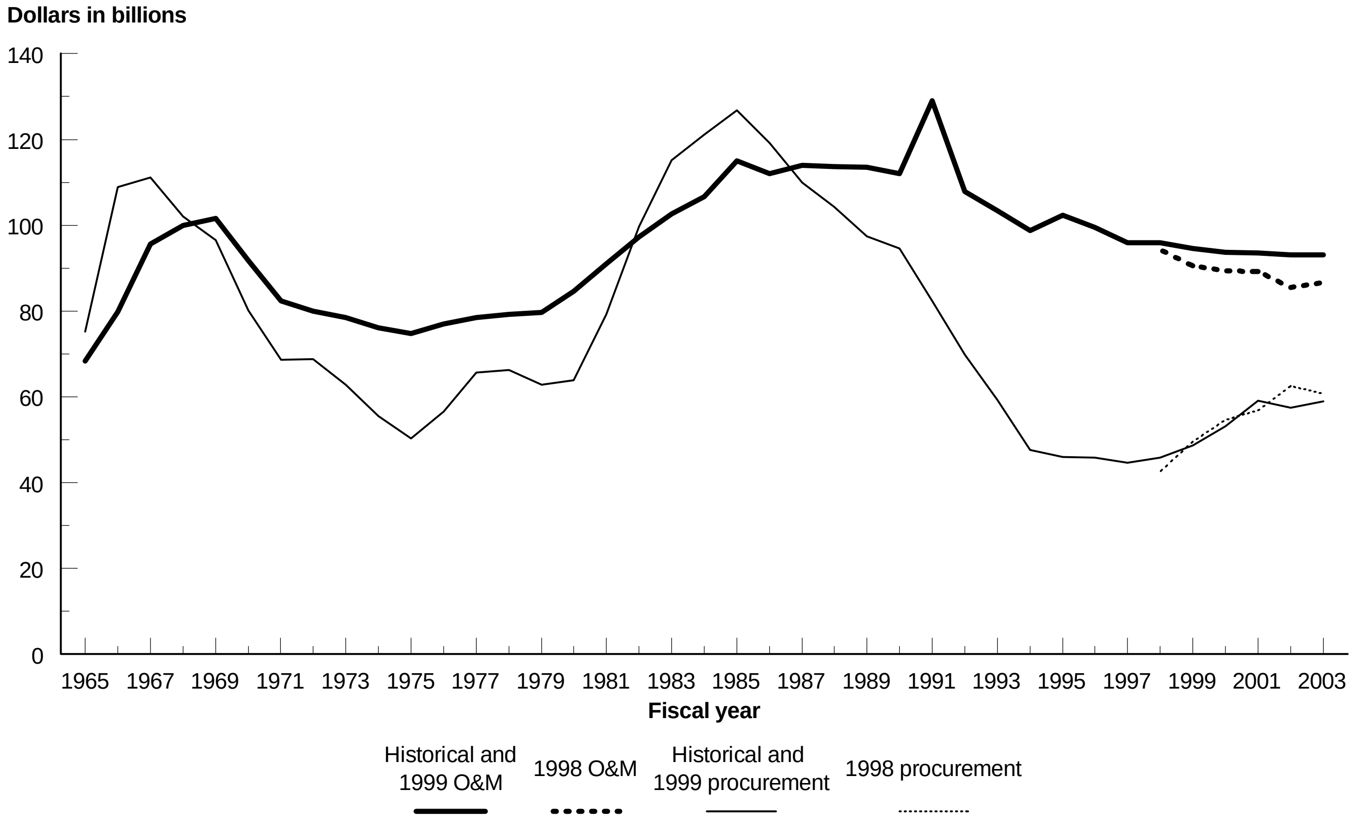
Risk in Meeting Procurement Goals

We reported that, since 1965, O&M spending has increased consistently with increases in procurement spending.[27] However, in its 1998 FYDP, DOD was optimistic in projecting increases in procurement together with decreases in O&M. In the 1999 FYDP, DOD takes a more moderate position, projecting that O&M spending in real terms will remain relatively flat while procurement increases at a moderate rate. Figure 3 shows the historical relationship between O&M and procurement spending and compares the projections of the 1998 and the 1999 FYDPs.

[26]The difference may not add due to rounding.

[27]Future Years Defense Program: DOD's 1998 Plan Has Substantial Risk in Execution.

Figure 3: Historical and Projected Relationship Between Procurement and O&M Spending in Constant 1999 Dollars



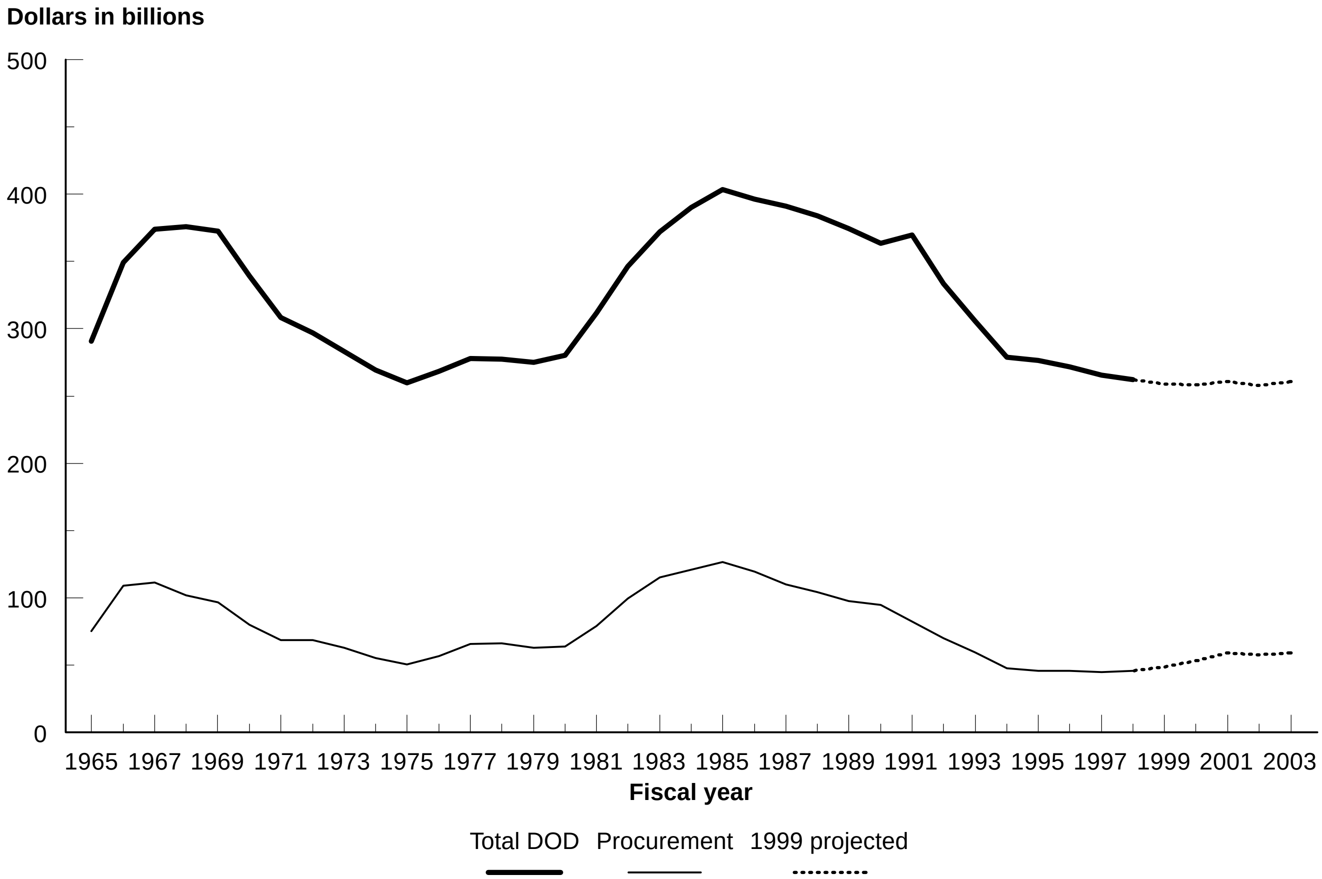
Source: DOD.

We reported that DOD's plans for procurement spending also run counter to another historical trend.[28] Specifically, DOD procurement spending rises and falls in nearly direct proportion to movements in its total budget; however, in the 1998 FYDP, DOD projected an increase in procurement of about 43 percent but a relatively flat total DOD budget. The 1999 FYDP procurement projections continue to run counter to the historical trend, although DOD has moderated its position. Specifically, DOD projects that procurement funding will rise in real terms during 1998-2003 by

[28]Future Years Defense Program: DOD's 1998 Plan Has Substantial Risk in Execution.

approximately 29 percent while the total DOD budget will remain relatively flat. Figure 4 shows the historical relationship between the total DOD budget and procurement spending and DOD's 1999 FYDP projections.

Figure 4: Historical and Projected Relationship Between Procurement Spending and DOD's Total Budget in Constant 1999 Dollars



Source: DOD.

Recent Procurement Trends Impact Longer-Term Affordability

Over the 1995-98 FYDPs, DOD did not meet its plans to increase procurement. For example, since 1995, DOD has lowered the estimated funding for 1998 procurement from about $57 billion in the 1995 FYDP to about $43 billion in the 1998 FYDP. The 1999 FYDP continues this trend, as table 3 shows.

Table 3: Comparison of DOD's Procurement Plans

Dollars in billions

	Planned procurement funding									
FYDP	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**Average**
1995	$43.3	$48.4	$49.8	$57.1	$60.1					
1996		39.4	43.5	51.4	54.2	$62.3	$67.3			
1997			38.9	45.5	50.5	57.7	60.1			
1998				42.6	50.7	57.0	60.7	$68.3	$68.0	
1999					48.7	54.1	61.3	60.7	63.5	
Unrealized procurement		–$9.0	–$10.9	–$14.5	–$11.4	–$8.2	–$6.0	–$7.6	–$4.5	–$9.0

Source: 1995, 1996, 1997, 1998, and 1999 FYDPs.

In its QDR report, DOD recognized that these trends have longer-term implications. Specifically, "some of these reductions have accumulated into long-term projections, creating a so-called 'bow wave' of demand for procurement funding in the middle of the next decade." The QDR report concludes that "this bow wave would tend to disrupt planned modernization programs unless additional investment resources are made available in future years."

The bow wave is particularly evident when considering DOD's aircraft modernization plans. In September 1997, we reported that DOD's aircraft investment strategy involved the purchase or significant modification of at least 8,499 aircraft in 17 aircraft programs at a total procurement cost of $334.8 billion (in 1997 dollars) through the aircrafts' planned completions.[29] DOD's planned funding for the 17 aircraft programs exceeds, in all but 1 year between fiscal year 2000 and 2015, the long-term historical average percentage of the budget devoted to aircraft purchases. Compounding these funding difficulties is the fact that these projections are very conservative. The projections do not allow for real program cost growth, which historically has averaged at least 20 percent, nor do the projections allow for the procurement of additional systems. However, as a result of

[29] Aircraft Acquisition: Affordability of DOD's Investment Strategy (GAO/NSIAD-97-88, Sept. 8, 1997).

the QDR, the 1999 FYDP service aircraft procurement accounts have been moderated. Compared with the 1998 FYDP, the 1999 FYDP reduces projected funding by $3.9 billion, or 4 percent.

Program Demands and Cost Growth

The QDR report cited cost growth of complex, technologically advanced programs and new program demands as two areas contributing to the migration of funds from procurement. For years, we have reported on the impact of cost growth in weapon systems and other programs such as environmental restoration. Specifically, we reported in 1994 that program cost increases of 20 to 40 percent have been common for major weapon programs and that numerous programs experienced increases much greater than that.[30] We continue to find programs with optimistic cost projections. For example, we reported in June 1997 that we were skeptical the Air Force could achieve planned production cost reductions of $13 billion in its F-22 fighter aircraft program.[31]

Other DOD programs have also experienced cost growth. For example, DOD estimated in December 1997 that the projected life-cycle cost of the Chemical Demilitarization Program had increased by 27 percent over the previous year's estimate.[32] As stated earlier, DOD has established a reserve fund that can be used to help alleviate disruptions caused by cost growth in weapon systems and other programs due to technological problems. However, it remains to be seen whether the need will exceed available reserve funds.

Policy decisions and new program demands can also cause perturbations in DOD's funding plans, according to the QDR report. DOD has programmed $1.4 billion more for the National Missile Defense System in the 1999 FYDP than the 1998 FYDP. Despite the increase, considerable risk remains with the program's funding. For example, technical and schedule risks are very high, according to the QDR, our analysis,[33] and an independent panel.[34] The

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

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

[32]The program was established by the National Defense Authorization Act of 1986 (P.L. 99-145, as amended). DOD is required to destroy the complete chemical stockpile by April 29, 2007.

[33]National Missile Defense: Schedule and Technical Risks Represent Significant Development Challenges (GAO/NSIAD-98-28, Dec. 12, 1997).

[34]Report of the Panel on Reducing Risk in Ballistic Missile Defense Flight Test Programs, February 27, 1998.

panel noted that based on its experience, high technical risk is likely to cause increased costs and program delays and could cause program failure. In addition to the technical and schedule risks, the 1999 FYDP does not include funds to procure the missile system. If the decision is made in 2000 to deploy an initial missile system by 2003, billions of dollars of procurement funds would be required to augment the currently programmed research and development funds.

As another example, the 1999 FYDP was predicated on the U.S. shifting to a Strategic Arms Reduction Treaty (START) II nuclear force posture. START II calls for further reductions in aggregate force levels, the elimination of multiple-warhead intercontinental ballistic missile launchers, the elimination of heavy intercontinental ballistic missiles, and a limit on the number of submarine-launched ballistic missile warheads. START II was approved by the U.S. Senate in January 1996 but is pending enforcement until ratification by Russia's parliament. In the absence of START II enforcement, the United States may decide to sustain the option of continuing START I force levels. According to the Secretary of Defense's 1998 Annual Report to the President and the Congress, the 1999 budget request includes an additional $57 million beyond what otherwise would have been requested to sustain the START I level. However, maintaining this force beyond 1999 will result in additional unplanned costs.

Conclusions

Recently, DOD has found itself in a counterproductive cycle. Past attempts at streamlining infrastructure and/or reengineering business practices have not produced the anticipated savings programmed in recent FYDPs. Money saved from these initiatives was to help fund modernization. For the past 5 years, projected procurement funding has slipped with each succeeding FYDP. Moreover, unanticipated contingency costs, higher day-to-day operating expenses, and new program demands also have caused the migration of funds from procurement to operating and support costs. In the QDR, DOD specified this problem, identified its causes, and directed measures to make the program more stable. In the 1999 FYDP, DOD has taken a step toward abating this chronic migration of funds. However, even with a rebalanced program, DOD faces substantial risk in its execution of this first, post-QDR plan. We found that several of DOD's projections are questionable and/or contain risk. Furthermore, as long as the national defense funding levels agreed to in the balanced budget agreement remain unaltered, solutions to DOD's funding issues must be found within its current and projected budget. Therefore, it is critical that DOD continues to strive for realistic assumptions and plans in its future budget cycles.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD took issue with some of our characterizations. DOD stated that the 1999 FYDP represents considerable progress toward the objectives of funding readiness-related O&M requirements, implementing plans to streamline and reduce infrastructure, and reducing the risk of migrating funds. DOD noted that our report does not acknowledge that the risks in achieving these objectives have been substantially reduced in the 1999 FYDP and the Department's program is on a sounder financial footing. Moreover, DOD acknowledges that all risks have not been eliminated and intends to pursue future initiatives to address the remaining risks. We agree, as stated in our report, that DOD made adjustments from the 1998 FYDP to the 1999 FYDP to increase O&M and decrease the risk that funds would migrate from procurement to operating expenses. Moreover, it has plans to reduce infrastructure. However, as explained in this report, we continue to see risks that DOD's program may not be executable as planned in part because the services' plans to reduce military and civilian personnel are incomplete or based on optimistic assumptions.

DOD said that it has been able to reduce the proportion of resources devoted to infrastructure activities from 47 percent in 1994 to 45 percent in 1997, as a percent of total obligation authority. Moreover, DOD states that we are inaccurate in reporting that infrastructure in 1997 remains at 59 percent of DOD's total budget, the same percentage as in 1994. Our method of calculating the infrastructure in DOD's budget is based on the methodology prescribed by OSD's Office of Program Analysis and Evaluation (PA&E) in late 1995. We have consistently used this methodology since then to report on DOD's progress in reducing its infrastructure and DOD has agreed with our prior reports, findings, and analysis. The methodology includes both direct infrastructure (that which can be clearly identified in the FYDP) and a percentage of the defense working capital funds that represents the infrastructure portion of these funds.

In discussing DOD's comments with PA&E officials, they stated that for a number of reasons, including the difficulty of estimating the infrastructure portion of defense working capital funds, PA&E is evaluating different methodologies to estimate infrastructure in its budget. One such measure, which DOD used to derive the percentages discussed in its letter, is to estimate only the direct infrastructure. However, there are important limitations in this methodology. While it is a simpler methodology, it excludes a significant part of the infrastructure, which PA&E previously considered important to capture. Moreover, DOD established an important baseline in its October 1993 bottom-up review report when it said that infrastructure activities in 1994 would account for approximately 59 percent of DOD's total obligational authority (including revolving funds) and that it needed to reduce that infrastructure. We strongly believe that it is important to maintain a consistent baseline to measure changes in infrastructure over time.

DOD believes that its assumptions of the savings rates for outsourcing personnel are conservative. According to DOD, the estimated savings reflected in the 1999 FYDP assume that the Department successfully executes the currently projected schedule of competitions. Moreover, DOD emphasizes that it needs to closely monitor implementation of projected competition schedules through the programming and budgeting cycles. We believe DOD has taken a step in the right direction to monitor implementation of the outsourcing process. However, considerable risk remains in the services' plans to cut planned personnel by 2003 because the plans are still incomplete or based on optimistic assumptions. DOD suggested several technical changes for clarification and accuracy, which we incorporated in the report where appropriate. DOD's comments are reprinted in their entirety in appendix II.

Scope and Methodology

To determine the major program adjustments in DOD's fiscal year 1999 FYDP, we interviewed officials in the Office of Under Secretary of Defense (Comptroller); the Office of Program Analysis and Evaluation; the Army, Navy, and Air Force program and budget offices; and Office of the Assistant Secretary of Defense (Health Affairs). We examined a variety of DOD planning and budget documents, including the 1998 and 1999 FYDPs and the QDR report. We also reviewed the President's fiscal year 1999 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 were in agreement. We did not test DOD's management controls of the FYDP data.

Our review was conducted from November 1997 through June 1998 in accordance with generally accepted government auditing standards.

We are sending copies of this report to other appropriate Senate and House 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 III.

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Analysis

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Figures

Abbreviations

DOD	Department of Defense
FYDP	Future Years Defense Program
O&M	operation and maintenance
OSD	Office of the Secretary of Defense
PA&E	Office of Program Analysis and Evaluation
QDR	Quadrennial Defense Review
RDT&E	research, development, test, and evaluation
START	Strategic Arms Reduction Treaty

Department of Defense's 1998 and 1999 Future Years Defense Programs, by Accounts

The following tables show the differences between accounts in the 1998 and 1999 Future Years Defense Programs (FYDP) for each appropriation. Totals may not add due to rounding.

Table I.1: Military Personnel Appropriation Accounts, 1998 and 1999 FYDPs

Dollars in millions

	FYDP	Fiscal year 1999	2000	2001	2002	2003	Total	Percent change 1999-2003
Military personnel, Army	1998	$20,963	$21,304	$21,816	$22,481	$23,188	**$109,752**	
	1999	21,002	20,807	21,300	21,939	22,629	**107,678**	
	Change	39	–497	–516	–542	–559	**–2,074**	–1.9
Military personnel, Navy	1998	16,388	16,749	17,284	17,729	18,235	**86,386**	
	1999	16,613	16,487	16,720	17,156	17,653	**84,630**	
	Change	225	–262	–564	–573	–582	**–1,756**	–2.0
Military personnel, Marine Corps	1998	6,330	6,525	6,702	6,892	7,087	**33,536**	
	1999	6,272	6,442	6,611	6,776	6,949	**33,049**	
	Change	–58	–83	–91	–116	–138	**–487**	–1.5
Military personnel, Air Force	1998	17,184	17,454	17,842	18,293	18,779	**89,553**	
	1999	17,312	17,374	17,305	17,357	17,623	**86,970**	
	Change	127	–80	–537	–936	–1,156	**–2,583**	–2.9
Reserve personnel, Army	1998	2,064	2,094	2,158	2,202	2,280	**10,799**	
	1999	2,152	2,169	2,204	2,196	2,265	**10,985**	
	Change	88	74	46	–6	–16	**186**	1.7
Reserve personnel, Navy	1998	1,398	1,429	1,459	1,497	1,541	**7,325**	
	1999	1,387	1,385	1,404	1,428	1,463	**7,067**	
	Change	–11	–44	–56	–69	–78	**–258**	–3.5
Reserve personnel, Marine Corps	1998	391	403	414	422	432	**2,062**	
	1999	402	404	401	399	403	**2,008**	
	Change	11	1	–13	–24	–29	**–54**	–2.6
Reserve personnel, Air Force	1998	852	877	900	923	948	**4,500**	
	1999	856	893	916	940	965	**4,570**	
	Change	4	16	16	17	17	**70**	1.6
National Guard personnel, Army	1998	3,184	3,207	3,281	3,375	3,473	**16,520**	
	1999	3,405	3,352	3,342	3,354	3,410	**16,863**	
	Change	220	145	61	–21	–63	**342**	2.1
National Guard personnel, Air Force	1998	1,344	1,368	1,399	1,442	1,486	**7,040**	
	1999	1,376	1,403	1,437	1,480	1,525	**7,220**	
	Change	32	35	38	38	38	**180**	2.6
Total	**1998**	**$70,099**	**$71,410**	**$73,256**	**$75,257**	**$77,450**	**$367,472**	
	1999	**$70,777**	**$70,715**	**$71,639**	**$73,024**	**$74,884**	**$361,039**	
	Change	**$678**	**–$695**	**–$1,617**	**–$2,232**	**–$2,566**	**–$6,432**	**–1.8**

Table I.2: Operation and Maintenance Appropriation Accounts, 1998 and 1999 FYDPs

Dollars in millions

		Fiscal year						
	FYDP	**1999**	**2000**	**2001**	**2002**	**2003**	**Total**	**Percent change 1999-2003**
Operation and maintenance (O&M), Army	1998	$16,891	$17,157	$17,340	$17,890	$18,297	**$87,575**	
	1999	17,273	17,533	17,833	18,337	18,541	**89,517**	
	Change	382	376	493	447	243	**1,941**	2.2
O&M, Navy	1998	21,518	20,199	20,763	21,137	21,252	**104,869**	
	1999	21,927	21,706	21,527	21,771	22,284	**109,216**	
	Change	409	1,507	764	634	1,032	**4,346**	4.1
O&M, Marine Corps	1998	2,404	2,482	2,511	2,567	2,621	**12,585**	
	1999	2,524	2,568	2,566	2,638	2,739	**13,035**	
	Change	120	86	56	71	118	**450**	3.6
O&M, Air Force	1998	18,628	19,456	20,506	20,414	21,311	**100,316**	
	1999	19,177	20,426	21,584	21,878	22,607	**105,672**	
	Change	549	969	1,079	1,464	1,295	**5,356**	5.3
O&M, defense-wide	1998	10,543	10,622	10,876	11,122	11,399	**54,562**	
	1999	10,751	10,672	10,890	11,138	11,405	**54,856**	
	Change	208	50	14	16	6	**294**	0.5
O&M, Army Reserve	1998	1,210	1,241	1,262	1,286	1,317	**6,316**	
	1999	1,203	1,244	1,234	1,285	1,309	**6,275**	
	Change	–7	3	–28	0	–8	**–41**	–0.6
O&M, Navy Reserve	1998	858	885	857	952	859	**4,412**	
	1999	929	941	904	1,052	899	**4,725**	
	Change	71	56	47	100	40	**313**	7.1
O&M, Marine Corps Reserve	1998	115	116	116	119	122	**588**	
	1999	115	114	107	108	110	**553**	
	Change	–1	–2	–9	–12	–13	**–36**	–6.1
O&M, Air Force Reserve	1998	1,631	1,598	1,614	1,646	1,697	**8,186**	
	1999	1,745	1,671	1,692	1,734	1,778	**8,620**	
	Change	113	73	79	88	81	**434**	5.3
O&M, Army National Guard	1998	2,367	2,478	2,533	2,598	2,735	**12,711**	
	1999	2,437	2,389	2,452	2,508	2,623	**12,408**	
	Change	70	–90	–81	–90	–112	**–303**	–2.4
O&M, Air National Guard	1998	2,982	2,970	2,991	3,054	3,125	**15,122**	
	1999	3,094	3,072	3,114	3,214	3,285	**15,779**	
	Change	112	102	123	160	160	**657**	4.3

(continued)

Dollars in millions

	FYDP	Fiscal year 1999	2000	2001	2002	2003	Total	Percent change 1999-2003
Drug interdiction and counter-drug activities, defense	1998	652	663	688	702	720	**3,425**	
	1999	728	712	726	735	748	**3,649**	
	Change	75	49	38	32	28	**223**	6.5
Defense Health Program	1998	9,743	10,143	10,568	10,730	10,908	**52,092**	
	1999	10,056	10,443	10,934	11,042	11,211	**53,686**	
	Change	313	300	366	312	303	**1,594**	3.1
Former Soviet Union threat reduction	1998	345	504	237	0	0	**1,085**	
	1999	442	451	466	255	448	**2,062**	
	Change	98	–53	229	255	448	**977**	90.0
Overseas contingency operations transfer fund	1998	0	0	0	0	0	**0**	
	1999	747	150	150	150	150	**1,347**	
	Change	747	150	150	150	150	**1,347**	
Management initiatives	1998	0	0	–600	–4,200	–3,000	**–7,800**	
	1999	0	0	0	0	0	**0**	
	Change	0	0	600	4,200	3,000	**7,800**	
Other O&M	1998	1,481	1,531	1,541	1,807	1,867	**8,228**	
	1999	1,477	1,597	1,494	1,612	1,583	**7,762**	
	Change	–4	66	–47	–195	–285	**–466**	–5.7
Total	**1998**	**$91,369**	**$92,045**	**$93,802**	**$91,826**	**$95,232**	**$464,274**	
	1999	**$94,623**	**$95,687**	**$97,673**	**$99,458**	**$101,720**	**$489,160**	
	Change	**$3,254**	**$3,642**	**$3,871**	**$7,632**	**$6,487**	**$24,886**	**5.4**

Note: Service O&M budgets contain funds that were formerly represented in defense-wide revolving funds under the heading "Military Commissary Revolving Funds."

Table I.3: Procurement Appropriation Accounts by Service, 1998 and 1999 FYDPs

Dollars in millions

		Fiscal year						
	FYDP	**1999**	**2000**	**2001**	**2002**	**2003**	**Total**	**Percent change 1999-2003**
Army procurement	1998	$8,373	$9,351	$10,114	$10,616	$11,055	**$49,509**	
	1999	8,173	9,128	10,022	11,239	12,260	**50,822**	
	Change	–200	–223	–93	623	1,205	**1,313**	2.7
Navy/Marine Corps procurement	1998	20,447	23,384	23,975	25,920	24,364	**118,090**	
	1999	20,160	21,669	26,376	23,094	24,215	**115,513**	
	Change	–287	–1,715	2,400	–2,826	–149	**–2,577**	–2.2
Air Force procurement	1998	18,183	19,609	21,335	22,216	21,543	**102,886**	
	1999	17,475	18,860	20,751	21,950	22,437	**101,473**	
	Change	–708	–749	–584	–266	895	**–1,413**	–1.4
Defense-wide procurement	1998	3,711	4,653	5,237	9,584	11,044	**34,229**	
	1999	2,897	4,466	4,119	4,378	4,610	**20,471**	
	Change	–814	–187	–1,118	–5,205	–6,434	**–13,758**	–40.2
Total	**1998**	**$50,714**	**$56,996**	**$60,662**	**$68,335**	**$68,006**	**$304,714**	
	1999	**$48,705**	**$54,122**	**$61,267**	**$60,661**	**$63,523**	**$288,279**	
	Change	**–$2,009**	**–$2,874**	**$606**	**–$7,674**	**–$4,483**	**–$16,435**	**–5.4**

Table I.4: Army Procurement Appropriation Accounts, 1998 and 1999 FYDPs

Dollars in millions

		Fiscal year						
	FYDP	**1999**	**2000**	**2001**	**2002**	**2003**	**Total**	**Percent change 1999-2003**
Aircraft procurement, Army	1998	$1,241	$1,219	$1,391	$1,672	$1,789	**$7,311**	
	1999	1,326	1,372	1,456	2,007	2,074	**8,234**	
	Change	85	153	65	335	285	**923**	12.6
Missile procurement, Army	1998	1,541	1,881	2,008	2,501	2,211	**10,143**	
	1999	1,206	1,432	1,514	1,488	1,285	**6,924**	
	Change	–336	–449	–494	–1,013	–927	**–3,218**	–31.7
Procurement of weapons and tracked combat vehicles, Army	1998	1,475	1,621	1,688	1,517	1,912	**8,213**	
	1999	1,434	1,566	1,615	1,794	1,911	**8,319**	
	Change	–41	–55	–73	277	–1	**106**	1.3
Procurement of ammunition, Army	1998	976	1,164	1,184	1,253	1,382	**5,959**	
	1999	1,009	1,157	1,232	1,495	1,664	**6,556**	
	Change	33	–7	48	242	282	**597**	10.0
Other procurement, Army	1998	3,140	3,467	3,844	3,673	3,760	**17,884**	
	1999	3,199	3,602	4,204	4,456	5,327	**20,788**	
	Change	59	136	360	783	1,567	**2,904**	16.2
Total	**1998**	**$8,373**	**$9,351**	**$10,114**	**$10,616**	**$11,055**	**$49,509**	
	1999	**$8,173**	**$9,128**	**$10,022**	**$11,239**	**$12,260**	**$50,822**	
	Change	**–$200**	**–$223**	**–$93**	**$623**	**$1,205**	**$1,313**	**2.7**

Table I.5: Navy/Marine Corps Procurement Appropriation Accounts, 1998 and 1999 FYDPs

Dollars in millions

	FYDP	Fiscal year 1999	2000	2001	2002	2003	Total	Percent change 1999-2003
Aircraft procurement, Navy	1998	$7,669	$9,164	$8,579	$8,404	$8,526	**$42,342**	
	1999	7,467	8,128	7,777	8,055	7,990	**39,418**	
	Change	–203	–1,036	–801	–349	–536	**–2,924**	–6.9
Weapons procurement, Navy	1998	1,436	1,821	2,018	2,173	2,394	**9,842**	
	1999	1,328	1,615	1,707	1,888	2,042	**8,580**	
	Change	–108	–206	–311	–285	–352	**–1,262**	–12.8
Shipbuilding and conversion, Navy	1998	5,958	6,576	8,048	9,760	7,617	**37,959**	
	1999	6,253	6,218	11,533	7,305	7,998	**39,306**	
	Change	295	–358	3,486	–2,455	380	**1,347**	3.5
Procurement of ammunition, Navy and Marine Corps	1998	503	561	499	524	579	**2,666**	
	1999	430	489	475	500	577	**2,470**	
	Change	–73	–72	–24	–24	–2	**–196**	–7.3
Other procurement, Navy	1998	4,185	4,297	3,880	4,128	4,327	**20,817**	
	1999	3,938	4,241	3,841	4,321	4,594	**20,934**	
	Change	–248	–56	–39	193	267	**117**	0.6
Procurement, Marine Corps	1998	696	965	953	930	921	**4,464**	
	1999	746	978	1,042	1,025	1,015	**4,806**	
	Change	50	13	90	95	94	**342**	7.7
Total	**1998**	**$20,447**	**$23,384**	**$23,975**	**$25,920**	**$24,364**	**$118,090**	
	1999	**$20,160**	**$21,669**	**$26,376**	**$23,094**	**$24,215**	**$115,513**	
	Change	**–$287**	**–$1,715**	**$2,400**	**–$2,826**	**–$149**	**–$2,577**	**–2.2**

Table I.6: Air Force Procurement Appropriation Accounts, 1998 and 1999 FYDPs

Dollars in millions

		Fiscal year						Percent change
	FYDP	**1999**	**2000**	**2001**	**2002**	**2003**	**Total**	**1999-2003**
Aircraft procurement,	1998	$8,080	$8,730	$10,103	$10,920	$10,084	**$47,916**	
Air Force	1999	7,756	8,215	9,485	10,388	10,157	**46,001**	
	Change	–323	–514	–618	–532	73	**–1,915**	–4.0
Missile procurement,	1998	2,892	3,304	3,354	3,453	3,601	**16,604**	
Air Force	1999	2,360	2,799	3,185	3,342	3,596	**15,282**	
	Change	–532	–505	–169	–112	–5	**–1,322**	–8.0
Procurement of ammunition,	1998	457	619	788	813	943	**3,620**	
Air Force	1999	384	547	722	693	813	**3,159**	
	Change	–72	–72	–67	–120	–131	**–462**	–12.7
Other procurement,	1998	6,755	6,956	7,090	7,030	6,915	**34,745**	
Air Force	1999	6,974	7,298	7,360	7,528	7,872	**37,032**	
	Change	220	342	270	498	957	**2,286**	6.6
Total	**1998**	**$18,183**	**$19,609**	**$21,335**	**$22,216**	**$21,543**	**$102,886**	
	1999	**$17,475**	**$18,860**	**$20,751**	**$21,950**	**$22,437**	**$101,473**	
	Change	**–$708**	**–$749**	**–$584**	**–$266**	**$895**	**–$1,413**	**–1.4**

Table I.7: Defense-wide Procurement Appropriation Accounts, 1998 and 1999 FYDPs

Dollars in millions

		Fiscal year						Percent change
	FYDP	**1999**	**2000**	**2001**	**2002**	**2003**	**Total**	**1999-2003**
Procurement, defense-wide[a]	1998	$2,616	$1,774	$1,858	$2,013	$2,061	**$10,322**	
	1999	2,042	3,315	3,101	3,228	3,730	**15,416**	
	Change	–575	1,541	1,243	1,215	1,669	**5,094**	49.3
National Guard and Reserve equipment	1998	0	0	0	0	0	**0**	
	1999	0	0	0	0	0	**0**	
	Change	0	0	0	0	0	**0**	
Chemical agents and munitions destruction, defense	1998	1,094	1,096	924	931	980	**5,026**	
	1999	855	1,149	1,016	1,149	879	**5,048**	
	Change	–239	53	92	218	–101	**23**	0.5
Modernization reserve	1998	0	1,783	2,454	6,640	8,003	**18,881**	
	1999	0	0	0	0	0	**0**	
	Change	0	–1,783	–2,454	–6,640	–8,003	**–18,881**	
Defense export loan guarantees	1998	1	0	0	0	0	**1**	
	1999	1	2	2	2	2	**7**	
	Change	0	2	2	2	2	**6**	1154.8
Total	**1998**	**$3,711**	**$4,653**	**$5,237**	**$9,584**	**$11,044**	**$34,229**	
	1999	**$2,897**	**$4,466**	**$4,119**	**$4,378**	**$4,610**	**$20,471**	
	Change	**–$814**	**–$187**	**–$1,118**	**–$5,205**	**–$6,434**	**–$13,758**	**–40.2**

[a]In the 1998 FYDP for 1999, $965 million was programmed for the modernization reserve.

Table I.8: Research, Development, Test, and Evaluation Appropriation Accounts, 1998 and 1999 FYDPs

Dollars in millions

	FYDP	Fiscal year 1999	2000	2001	2002	2003	Total	Percent change 1999-2003
Research, development, test, and evaluation (RDT&E), Army	1998	$4,497	$4,496	$4,674	$4,791	$4,675	**$23,132**	
	1999	4,781	4,755	4,900	4,887	4,885	**24,206**	
	Change	284	259	225	96	210	**1,074**	4.6
RDT&E, Navy	1998	7,756	7,044	6,765	7,370	7,934	**36,869**	
	1999	8,109	7,605	7,231	7,671	8,269	**38,885**	
	Change	353	561	466	302	335	**2,016**	5.5
RDT&E, Air Force	1998	13,800	12,965	12,558	13,374	14,486	**67,183**	
	1999	13,598	12,614	12,287	12,791	13,142	**64,431**	
	Change	–202	–351	–271	–583	–1,345	**–2,751**	–4.1
RDT&E, defense-wide	1998	8,689	8,586	8,580	8,397	8,383	**42,636**	
	1999	9,315	8,658	8,288	7,898	7,749	**41,907**	
	Change	625	72	–292	–500	–634	**–729**	–1.7
Developmental test and evaluation, defense	1998	279	288	295	292	309	**1,463**	
	1999	251	263	263	259	273	**1,309**	
	Change	–28	–25	–32	–33	–36	**–154**	–10.5
Operational test and evaluation, defense	1998	23	24	25	25	26	**124**	
	1999	25	26	25	26	26	**128**	
	Change	2	1	0	0	0	**4**	3.2
Total	**1998**	**$35,045**	**$33,403**	**$32,897**	**$34,249**	**$35,814**	**$171,407**	
	1999	**$36,079**	**$33,920**	**$32,993**	**$33,531**	**$34,344**	**$170,867**	
	Change	**$1,034**	**$517**	**$96**	**–$718**	**–$1,470**	**–$540**	**–0.3**

Table I.9: Military Construction Appropriation Accounts, 1998 and 1999 FYDPs

Dollars in millions

		Fiscal year						Percent change
	FYDP	1999	2000	2001	2002	2003	Total	1999-2003
Military construction,	1998	$697	$606	$580	$736	$696	**$3,315**	
Army	1999	791	948	877	972	769	**4,357**	
	Change	94	342	298	236	73	**1,043**	31.5
Military construction,	1998	475	696	734	815	863	**3,584**	
Navy	1999	468	709	752	815	945	**3,690**	
	Change	–7	13	19	–0	82	**106**	3.0
Military construction,	1998	465	522	539	647	680	**2,854**	
Air Force	1999	455	452	518	624	649	**2,698**	
	Change	–11	–70	–21	–23	–31	**–156**	–5.5
Military construction,	1998	709	750	705	628	610	**3,402**	
defense-wide	1999	492	811	535	524	862	**3,224**	
	Change	–218	61	–170	–104	252	**–178**	–5.2
Military construction,	1998	66	77	77	77	77	**374**	
Army Reserve	1999	71	80	75	74	74	**374**	
	Change	5	3	–2	–3	–3	**0**	0.0
Military construction,	1998	15	11	25	28	44	**122**	
Naval Reserve	1999	15	21	21	24	37	**119**	
	Change	–0	11	–3	–4	–7	**–4**	–2.9
Military construction,	1998	34	45	31	34	37	**181**	
Army National Guard	1999	48	61	48	48	48	**253**	
	Change	14	16	17	14	11	**72**	39.7
Military construction,	1998	32	111	127	58	61	**389**	
Air National Guard	1999	35	107	123	56	59	**380**	
	Change	3	–4	–4	–2	–2	**–9**	–2.4
Military construction,	1998	12	29	31	35	37	**145**	
Air Force Reserve	1999	11	26	30	33	35	**135**	
	Change	–2	–3	–1	–2	–2	**–10**	–6.8

(continued)

Dollars in millions

	FYDP	Fiscal year 1999	2000	2001	2002	2003	Total	Percent change 1999-2003
North Atlantic Treaty Organization Security Investment Program	1998	200	200	200	200	200	**1,000**	
	1999	185	293	341	388	386	**1,593**	
	Change	–15	93	141	188	186	**593**	59.3
Base realignment and closure account, II-IV	1998	1,551	1,240	1,183	131	116	**4,221**	
	1999	1,731	1,380	1,072	159	118	**4,459**	
	Change	179	140	–111	28	2	**239**	5.7
Total	**1998**	**$4,258**	**$4,287**	**$4,231**	**$3,390**	**$3,420**	**$19,586**	
	1999	**$4,301**	**$4,889**	**$4,393**	**$3,717**	**$3,982**	**$21,282**	
	Change	**$43**	**$603**	**$162**	**$327**	**$562**	**$1,696**	**8.7**

Table I.10: Family Housing Appropriation Accounts, 1998 and 1999 FYDPs

Dollars in millions

		Fiscal year						Percent change
	FYDP	**1999**	**2000**	**2001**	**2002**	**2003**	**Total**	**1999-2003**
Family housing, Army	1998	$1,256	$1,323	$1,324	$1,355	$1,376	**$6,634**	
	1999	1,208	1,245	1,235	1,263	1,319	**6,271**	
	Change	–48	–77	–88	–92	–58	**–363**	–5.5
Family housing, Navy and Marine Corps	1998	1,272	1,287	1,309	1,349	1,375	**6,591**	
	1999	1,196	1,204	1,211	1,243	1,259	**6,112**	
	Change	–75	–83	–98	–106	–116	**–480**	–7.3
Family housing, Air Force	1998	1,093	1,121	1,145	1,172	1,191	**5,722**	
	1999	1,016	1,082	1,101	1,122	1,136	**5,457**	
	Change	–77	–39	–44	–50	–55	**–264**	–4.6
Family housing, defense-wide	1998	35	35	36	36	37	**179**	
	1999	37	38	38	38	38	**189**	
	Change	2	3	2	1	1	**10**	5.7
Homeowners assistance fund, defense	1998	132	0	0	0	0	**132**	
	1999	110	0	0	0	0	**110**	
	Change	–22	0	0	0	0	**–22**	–16.7
DOD family housing improvement fund	1998	180	175	172	0	0	**526**	
	1999	7	341	338	200	400	**1,286**	
	Change	–173	166	166	200	400	**759**	144.3
DOD military unaccompanied housing improvement fund	1998	0	0	0	0	0	**0**	
	1999	0	0	0	0	0	**0**	
	Change	0	0	0	0	0	**0**	
Total	**1998**	**$3,966**	**$3,941**	**$3,985**	**$3,913**	**$3,979**	**$19,784**	
	1999	**$3,574**	**$3,910**	**$3,923**	**$3,866**	**$4,151**	**$19,424**	
	Change	**–$392**	**–$31**	**–$62**	**–$47**	**$172**	**–$360**	**–1.8**

Table I.11: Revolving and Management Funds, 1998 and 1999 FYDPs

Dollars in millions

	FYDP	Fiscal year 1999	2000	2001	2002	2003	Total	Percent change 1999-2003
DOD working capital funds	1998	$31	0	0	0	0	**$31**	
	1999	95	$450	0	0	$700	**1,245**	
	Change	64	450	0	0	700	**1,214**	3,940.6
National defense sealift fund	1998	690	369	$404	$413	421	**2,296**	
	1999	418	337	369	374	381	**1,878**	
	Change	–272	–32	–35	–39	–40	**–418**	–18.2
Reserve mobilization income insurance fund	1998	0	0	0	0	0	**0**	
	1999	37	0	0	0	0	**37**	
	Change	37	0	0	0	0	**37**	
Military commissary revolving fund[a]	1998	939	944	943	942	942	**4,709**	
	1999	0	0	0	0	0	**0**	
	Change	–939	–944	–943	–942	–942	**–4,709**	
Total	**1998**	**$1,659**	**$1,313**	**$1,347**	**$1,355**	**$1,363**	**$7,036**	
	1999	**$550**	**$787**	**$369**	**$374**	**$1,081**	**$3,160**	
	Change	**–$1,110**	**–$526**	**–$978**	**–$981**	**–$282**	**–$3,876**	**–55.1**

[a]For the 1999 FYDP, commissary funds were transferred into each service's O&M budget and thus are no longer captured as a DOD revolving fund

Table I.12: Defense-wide Contingencies, 1998 and 1999 FYDPs

Dollars in millions

	FYDP	Fiscal year 1999	2000	2001	2002	2003	Total	Percent change 1999-2003
Undistributed contingencies, defense	1998	$85	$85	$85	–$115	$85	**$225**	
	1999	1	2	2	832	1,449	**2,284**	
	Change	–84	–84	–84	947	1,364	**2,059**	915.3

Comments From the Department of Defense

OFFICE OF THE SECRETARY OF DEFENSE
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July 8, 1998

PROGRAM ANALYSIS
AND EVALUATION

Mr. Richard Davis
Director, National Security Analysis
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: Substantial Risk Remains in DoD's 1999-2003 Plan," dated June 18, 1998 (GAO Code 701127, OSD Case 1641). The DoD has reviewed the draft report and takes issue with some of the GAO characterizations.

The draft report states that even with its rebalanced program, DoD faces substantial risk in executing its first post-Quadrennial Defense Review (QDR) program plan. The FY 1999 President's Budget Future Years Defense Program (FYDP) reflects considerable progress toward the objectives of funding readiness-related operations and maintenance (O&M) requirements at realistic levels, thus reducing the risk of migration of funds, and implementing plans to streamline and reduce infrastructure, which is necessary to pay for modernization programs. The draft report does not acknowledge that the risks entailed in achieving these objectives have been substantially reduced in the FY 1999 President's Budget FYDP, and the Department's program is on a sounder financial footing. That is not to say that all risks have been eliminated. The Department will continue to work with the Congress on additional initiatives that address the remaining risks to DoD's program.

The draft report states that the Department has made no progress in reducing infrastructure, and describes infrastructure spending in FY 97 as 59 percent of DoD's total budget, the same percentage that was reported in DoD's Bottom-Up Review report for FY 94. This statement is inaccurate. In fact, the Department has been able to reduce the proportion of resources devoted to infrastructure activities from 47 percent in FY 94 to 45 percent in FY 97 (measured as a percent of total obligation authority). Moreover, this trend will continue as the Department implements the Quadrennial Defense Review and Defense Reform Initiative. Therefore, the Department expects to devote only 42 percent of its resources for infrastructure activities by FY 03.

The draft report describes DoD plans to reduce personnel through outsourcing and reengineering as incomplete or based on optimistic assumptions. From FY 1997 to FY 2001, the military services and defense agencies will be reviewing more than 200,000 positions that will be candidates for competition under the A-76 guidelines established by the Office of Management and Budget. The actions resulting from these assessments are projected to result in steady-state savings of roughly $2.3 billion per year. This estimate is based on conservative assumptions about savings rates. The estimated savings reflected in the FY 1999 President's Budget FYDP do assume that the Department successfully executes the currently projected schedule of competitions. The Department will need to closely monitor implementation of these plans through the Planning, Programming, and Budgeting System (PPBS), with the Defense Management Council and the Defense Resources Board providing the necessary oversight. In addition to the positions programmed for competition in the FY 1999 budget, the Department now is evaluating its entire military and civilian work force to identify additional functions that are commercial in nature and could be opened up for competition under the A-76 guidelines.

Suggested technical changes for clarification and accuracy have been provided separately to the GAO staff.

The Department appreciates the opportunity to comment on the GAO draft report.

Sincerely,

Robert R. Soule
Director
Program Analysis and Evaluation

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