DoD Update
FY15 - 16

DCUC Midwest Sub-Council Conference
Davenport, IA
10 - 12 June 2015

BG Roger W. Scearce, USA (Ret)
“THE FUTURE JUST AIN’T WHAT IT USED TO BE!”

--Great American Philosopher, Yogi Berra
The Growth of DoD/Fed Programs Has Been Daunting…

Many TOUGH Choices Across Competing Priorities!
Immediate Security Challenges

• **Cyber Domain** – The single most challenging security issue we face
  – No rules, no natural defenses; *many predators*, some are nation states

• **Ebola / Pandemics** – renewed interest in CBR, DoD responsibilities, etc

• **Iran** – Nuclear program has been moving forward; new deal now. *Gen Mike Hayden (former Dir, CIA): “Soon we’re at a fork in the road, we must do something or let it happen - - no more off ramps”*

• **China** – the rise of another primary world player and economic power
  – China is investing in its military and “the World”
  – Economic growth can’t be sustained; unequal distribution of wealth; environmental issues – *problems ahead w implications to all*

• **Syria** – Over 100K dead. Assad still in power… Ruthless dictator
  – Sunni opposition becoming militant, more radical - - *ISIS inroads*

• **North Korea** – Nuclear capable; unpredictable

• **Ukraine** – unclear as to ultimate desired outcome/strategy

• **ISIS** – destabilizing entire region; emerging threat to West
DoD - Today, Not a Place for the Faint of Heart!

Leadership Challenge: Given Overall DoD Budget will be Smaller, Must Cut Support Programs to Shift Funding to the Warfighter!

Pie chart: Tooth 60%, Tail 40% → Tooth 75%, Tail 25%
DoD Still In the Crosshairs!

Unsustainable Trends

- DoD Health Care Cost Growth
- Mil Retirement Benefits
- Contractor Costs
- Growth in Overhead Functions/Costs
- Congressional –mandated Laws, Regulations & Oversight
- Acquisition Shortcomings
- “DoD Business Ops” IT/ERP Failures
- Contractor Support Growth 23% → 39%

Potential Fixes

- Convert Overhead to Production
- DoD Acquisition Reform
- Work w/Congress on Mandates
- Apply Industry Best Practices
- Cut Hierarchy & Layers
- Zero-base programs
- More “Effective Use” of Manpower
- Reduce Contractor Support
• Smaller, leaner force
  - Continue force reductions:
    - Army, USMC reductions continue
    - Ship and aircraft retirements

• Continue Rebalancing to Asia Pacific/Sustain in Middle East
  - Asia & Pacific: Enhanced, Continuing Presence
  - Modernize and strengthen alliances and partnerships
  - Most capable forces forward
  - Enhance presence in region
    - Expand access and cooperation with Australia, NZ, Philippines, Singapore
    - Develop Guam as strategic hub

• Middle East: Maintain presence/strengthen relationships to:
  - Pressure ISIS, Syria, and Iran
  - Provide a stabilizing presence somewhere in Region (Kuwait? Qatar?)
  - Be prepared to respond to regional unrest
- Continue reducing current Gulf regional posture

Source: Office of the Under Secretary of Defense (Comptroller),
PB 15 DoD Strategic Guidance

• **Protect and prioritize key investments and new capabilities**
  – Sustain Counter-Terrorism (CT) activities and Special Operation Forces (SOF) growth
  – Space and **cyberspace**
  – Intelligence, Surveillance, & Reconnaissance (ISR); Ballistic Missile Defense (BMD); and countering Weapons of Mass Destruction (WMD)

• **Confront and defeat aggression**
  – Maintain the world’s finest fighting force *(Implicit Medical; QOL, Base Improvements)*
  – **Deter aggression on the Korean Peninsula and in Europe**
  – Continue investments in enhanced power projection capabilities

Source: Office of the Under Secretary of Defense (Comptroller),
Federal Spending Trends

FY 62: National Defense ~49% of Federal Budget

FY 16 Request

FY 20: National Defense ~12% of Federal Budget

Options to Reduce Federal Deficit

• Decrease spending
  – Sequestration
  – Balanced Budget approach
• Increase revenues

Source: Fiscal Year 2016 Historical Tables, Budget of the U.S. Government
Historical Budget Trends
DoD Budget

- Discretionary spending is ~30% total federal budget...Defense budget is ~50% discretionary spending (PB2013 Request)
- Increasing emphasis on reducing spending/deficit – Congress and the Administration
- Historically, funding levels have decreased as military demand decreases

Diagram:
- Korean War Armistice (1953)
- Height of Vietnam War (1968)
- Height of Cold War (1985)
- Gulf War Ends (1991)
- 9/11 (2001)

Bar chart with years FY 1948 to FY 2016 showing budget trends.
Budget Totals in President’s FY 2015 Budget Request
DoD Topline, FY 2001 – FY 2019

(Base Budget in Current Dollars in Billions)

FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08 FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19

Base Budget OCO Other

* Reflects FY13 Enacted level excluding Sequestration
* Placeholders only

Base Budget is Key!
PB15 DoD Base-Budget Topline

FY 2014 President’s Budget (PB14) “Request”

Requested: $526B

Enacted: $496B

PB15: $551B (or even lower...)

Sequester - Level Budgets: $535B

-$115B Cut!!

FY14: $496B
FY15: $541B
FY16: $551B
FY17: $535B
FY18: $559B
FY19: $577B

PB14
Sequester - Level Budgets
PB15
FY 2015 President’s Budget
(Dollars in Billions)

Base Budget

Military Construction
Family Housing $6.6
Others $1.2
RDT&E $63.5
Procurement $90.4
Military Personnel $135.2
Operation & Maintenance $198.7

Budget By Military Department

Defense Wide $89.8
Army $120.3
Air Force $137.8
Navy $147.7

Budget Request: $495.6 Billion
## Reduce Numbers of Personnel

<table>
<thead>
<tr>
<th></th>
<th>Planned End FY 2014</th>
<th>Planned End FY 2015</th>
<th>Goals w/o Sequester End FY 2019</th>
<th>Δ% FY19/FY14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active end strength</td>
<td>1,345K</td>
<td>1,309K</td>
<td>1,264K</td>
<td>-6%</td>
</tr>
<tr>
<td>Guard/Reserve end strength</td>
<td>831K</td>
<td>821K</td>
<td>798K</td>
<td>-4%</td>
</tr>
<tr>
<td>Civilian full-time equivalents</td>
<td>791K</td>
<td>782K</td>
<td>751K</td>
<td>-5%</td>
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</tbody>
</table>
## Goals For Forces and End Strength

<table>
<thead>
<tr>
<th></th>
<th>End FY 2014</th>
<th>Goal w/o Sequester FY 2019</th>
<th>Sequester FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Army active end strength</td>
<td>510K</td>
<td>440-450K</td>
<td>420K*</td>
</tr>
<tr>
<td>Army Guard end strength</td>
<td>354K</td>
<td>335K</td>
<td>315K*</td>
</tr>
<tr>
<td>Army Reserve end strength</td>
<td>202K</td>
<td>195K</td>
<td>185K*</td>
</tr>
<tr>
<td>Marines active end strength</td>
<td>189K</td>
<td>182K</td>
<td>175K*</td>
</tr>
<tr>
<td>Carriers</td>
<td>10</td>
<td>11</td>
<td>10*</td>
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*Level of end strength shown in PB15 FYDP*
Sequestration…

FY 16 - - Still a BIG Concern!
**A Review: Budget Control Act of 2011**

**Sequestration Process**

- **Size of $1.2T Budget Reduction**

  - Total “triggered” Cut: $1.2 trillion
  - Distribute $984 billion across FY13-21
  - Subtract 18% debt service savings
  - **$984 billion** split evenly each year between defense and non-defense
    - Defense*: $54.7 B
    - Non-Defense**: $54.7 B

  *Defense includes DoD, military construction, and atomic energy defense accounts (DoD ~$52B/yr)
  **Non-defense includes health, education, drug enforcement, other agencies, as well as, non-exempt mandatory accounts (e.g. agriculture) and 2% cut to Medicare

- **Allocate cuts across Defense and Non-Defense Accounts**

<table>
<thead>
<tr>
<th>Discretionary Accounts (FY13)</th>
<th>Discretionary Accounts (FY14-21)</th>
<th>Mandatory Accounts (All years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equal percentage cuts across the board for all “programs, projects, and activities”</td>
<td>Lowers caps on discretionary spending</td>
<td>Uniform percentage cut to non-exempt programs</td>
</tr>
<tr>
<td>OMB reports ~9.4% for DoD accounts (MILPERS exempt)</td>
<td>Flexibility to allocate resources IAW defense priorities</td>
<td>Medicare cannot exceed 2%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Exempt: Social Security; Medicaid; Civilian &amp; Military Retirement; Low-income assist</td>
</tr>
</tbody>
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Adapted from *CQ Today* (Nov 28, 2011)
The Budget Control Act of 2011

Spread Caps

DoD = - $1Trillion FY16-26!!
Sequestration Challenges

- Civilian hiring freezes
- **Military RIFs**
- Release temps/terms
- Travel, conferences
- Facilities maintenance
- Base operating cuts
- Review/delay contracts

- **Readiness**
  - Training cutbacks
  - Equipment maintenance cutbacks
  - Deployment shortfalls

- **Furloughs**
  - Consistency and fairness
  - Concern for morale/productivity

- Health Delivery / TRICARE concerns
- Disruption of as many as 2,500+ acquisition programs

Source: OSD/C
Warfighting Impacts of Sequestration...
CAR BOMBS MUST EXIT
IRAQI PHOTO'S
LOOK HERE
SMILE
WAIT FOR
FLASH
So, Is the Sky Really Falling??
## Some Myths vs Realities

<table>
<thead>
<tr>
<th>Myths</th>
<th>Realities</th>
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<tbody>
<tr>
<td>Sequestration will kill everything!</td>
<td><strong>Budgets flat - but still at $500+ Billion</strong></td>
</tr>
<tr>
<td>Critical Programs at risk - “hitting bone”</td>
<td><strong>Military best, most lethal in history</strong></td>
</tr>
<tr>
<td>Impotent Military</td>
<td>– Nuclear posture review</td>
</tr>
<tr>
<td>Pace of technology slowing drastically</td>
<td>– New Weaponry and support capabilities</td>
</tr>
<tr>
<td>FM and Audit a waste of time</td>
<td>– Long-range strike</td>
</tr>
<tr>
<td>Acquisition Process Streamlined</td>
<td>– Intel and Sensors</td>
</tr>
<tr>
<td>“Hair on Fire” - can’t plan; all is a crisis</td>
<td>– Smaller global footprint</td>
</tr>
<tr>
<td><strong>Catastrophies</strong></td>
<td><strong>Catalysts</strong></td>
</tr>
<tr>
<td>ISIS; Ebola/other outbreaks/pandemic</td>
<td><strong>Shrinking Base Budgets → painful “efficiencies”</strong></td>
</tr>
<tr>
<td>Iran; N.Korea; Ukraine</td>
<td><strong>European Theater Consolidations (EIC)</strong></td>
</tr>
<tr>
<td>Domestic Terrorists – DoD impacts and involvement</td>
<td><strong>Afghanistan Drawdown and RESET</strong></td>
</tr>
<tr>
<td>DoD military &amp; civ force structure shrinking</td>
<td><strong>SECDEF Directed 20% Headquarters Reductions</strong></td>
</tr>
<tr>
<td>VA Wounded warrior &amp; family support shortfalls</td>
<td><strong>Fed Shared Services/IT and Facility Consol’s</strong></td>
</tr>
<tr>
<td>Nuclear Weapon readiness</td>
<td><strong>Audits still a priority / Internal Controls do matter</strong></td>
</tr>
<tr>
<td>Sequestration – FY16??</td>
<td><strong>BRAC?? (Needed but Unlikely)</strong></td>
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</table>
Other Variables/Contributing Factors…
DoD Funds Flow vs. Program Management & Execution

A Dysfunctional Operating Model

Congress DoD $
DoD Business Operations Efficiencies (- $9 to 14B): Progress remains elusive … thwarted by stovepipes, culture, and adoption vs speed of technology…
Multiple, Nonstandard, Nonintegrated Processes and Systems
So, *To Summarize*....
Major DoD Themes & Cost Drivers

Taking Care of People
- Reduction in force structure/end strength – morale issues; SERBs; as well as Stationing questions
- Maintain military pay raises: 1% or higher; GOs pay frozen
- Civilian pay - no growth; no raises/bonuses -5yrs
- Disability retirement costs likely to rise
- Quality of Life & Healthcare - some compromises!!
- BRAC?? Implement EIC decisions

Maintain Readiness and Operations
- DoD will continue to search for ‘business’ efficiencies
- Reduced funding supports smaller, more lethal force structure
  - Mx of complex weapons systems
  - Soldier lethality & sustainment programs
  - USN presence / power projection
- Wounded warrior, family support priorities
- Need to plan for stability & flat budgets

Reshape and Recapitalize
- High-priority Warfighting initiatives
  - Terrorism/Irregular warfare
  - Asia/Pacific Focus
  - ISIS; Mideast Instability
  - Cyber-warfare; Data Center Consol; Info Sharing
- Ongoing re-capitalization needs
  - Shipbuilding; Airframes; Facilities/Infrastructure
- New capabilities
  - Nuclear posture review
  - Long-range strike and BMD
  - Intel and Sensors; CYBER
- Procurements reduced by MWS program cancellations/restructuring

OCO
- OCO Funding Disappearing - Effects on the “Base Budgets”
- Afghanistan Drawdown - NLT EOY 2016
- Asia/Pacific Regional Priority Shift
- RESET requirements
  - Repair or replace theater-provided equipment
  - Will occur gradually as equipment returns
  - Sequestration implications – “sit in yard”

Source: OSD/C
.... Why Should This Matter to Us?
Because: IT’S ALL ABOUT THE WARFIGHTER!
✓ Concluding Comments/Wrap Up

- Implications for DCUC CUs?
- Opportunities for DCUC CUs?
“HOOAH!!”

HOOAH; (Who-a) adj: {Slang used by **Real Soldiers**: primarily Air Assault, Airborne, Special Operations Forces, Rangers & the **Finance Corps**}

Referring to or meaning anything and everything except “NO”

1) Good Morning. 2) Yes. 3) Roger. 4) Thank you. 5) You’ve got to be kidding. 6) Good copy. 7) Good. 8) Next slide. 9) Great. 10) You’ve taken the correct action. 11) Message received. 12) Welcome. 13) Understand. 14) OK. 15) Action. 16) I don’t know what you mean. 17) Glad to meet you. 18) Amen!!
Please Keep in Touch:

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