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FEW SURPRISES IN THE FY 2011 DEFENSE BUDGET REQUEST

By Todd Harrison

Overview

The Obama Administration today unveiled its defense budget request for FY 2011, which totals \$549 billion in discretionary funding for the peacetime costs of the Department of Defense (DoD) and \$4 billion in mandatory funding. In addition to the “base” budget, the administration also requests \$159 billion for Overseas Contingency Operations (OCO) and \$26 billion for national defense activities in the Department of Energy and other agencies. Altogether, the total national defense budget request is \$739 billion for FY 2011. The budget also includes a supplemental request for \$33 billion in additional funding for OCO for the remainder of FY 2010.

This request increases the base defense budget by 3.4 percent in nominal terms over the \$531 billion appropriated by Congress for FY 2010, or 1.8 percent in real terms using the DoD adjustment for inflation and 2.3 percent using the GDP Price Index for inflation.¹ Including the supplemental request for additional war funding in FY 2010, the cost of the wars in Iraq and Afghanistan will actually decline slightly from \$163 billion in FY 2010 to \$159 billion in FY 2011. Below is a summary of the budget request by account with comparisons to the previous levels of funding and the real annual rate of growth over the past ten years. Operations and Maintenance (O&M) and Procurement are the fastest growing accounts in the budget this year. Research, development, testing, and evaluation (RDT&E) funding declines, although if historical trends hold true Congress will add roughly 5 percent to what the administration is requesting for this account.² The precipitous decline in military construction funding was expected with the winding down of the 2005 Base Realignment and Closure (BRAC) process in this year’s budget.

¹ The remainder of this analysis uses the GDP deflator, which assumes an inflation rate of 1.1 percent from 2010 to 2011.

² Todd Harrison, *Looking Ahead to the FY 2011 Defense Budget*, p. 10. Accessed at http://www.csbaonline.org/4Publications/PubLibrary/B.20100126.Looking_Ahead_to_t/B.20100126.Looking_Ahead_to_t.pdf

Table 1: Summary of Budget Request

	FY 2010 (Approp. by Congress)	FY 2011 Request	Real Growth (FY 2010 to FY2011)	10-Year Real Annual Growth (FY 2000 to FY 2010)
Military Personnel	\$135.0	\$138.5	1.5%	3.8%
Operation and Maintenance	\$184.5	\$200.2	7.4%	3.1%
Procurement	\$104.8	\$112.9	6.5%	4.2%
RDT&E	\$80.1	\$76.1	-6.0%	5.1%
Construction, Housing, and Other	\$26.4	\$21.1	-20.8%	6.0%
Total Base Budget	\$530.7	\$548.9	2.3%	3.9%
Overseas Contingency Operations	\$162.7	\$159.3	-3.1%	N/A
Total DoD Budget	\$693.4	\$708.3	1.0%	6.7%

The challenge for DoD in this budget is to balance the competing demands of rising personnel costs, a growing list of equipment requiring replacement or upgrade, the need to prepare for future adversaries, and funding the ongoing wars in Iraq and Afghanistan. In the CSBA Backgrounder released last week, *Looking Ahead to the FY 2011 Defense Budget*, we identified several items to watch in the FY 2011 defense budget that would signal how the DoD intended to balance these competing demands. Below is a summary of how each of these items fared in the budget released today.

Operations and Support

Pay: As in previous years, the proposed budget includes pay increases for both military and civilian DoD employees of 1.4 percent, in keeping with the Employment Cost Index but not exceeding it as Congress has done in recent years. It also increases the basic allowance for housing (BAH) and basic allowance for subsistence (BAS) by 4.2 and 3.4 percent, respectively.

Healthcare: The budget continues the rapid growth in military healthcare, climbing 5.9 percent in real terms to a total of \$50.7 billion in the budget request. Some \$300 million of this growth is to be used to modernize electronic health records and technology infrastructure.

End Strength: The request funds the temporary increase of 22,000 Army soldiers and an additional 4,400 Naval Individual Augmentees through the OCO budget at a cost of \$2.6 billion in FY 2011.

Acquisition Workforce: Funding is included in the budget request to increase the acquisition workforce by 20,000 people, a 16 percent increase in the size of the existing acquisition workforce.

Acquisition

Joint Strike Fighter: The Joint Strike Fighter program is restructured to extend development by one year and to fund the program to the higher cost estimates of the Joint Estimate Team (JET). The budget includes \$2.3 billion in RDT&E funding and \$8.5 billion in procurement funding for FY 2011. This represents an increase in development costs above what was planned, and it is funded by cutting aircraft procurement by 122 aircraft over the Future Years Defense Program (FYDP).

Future Combat System (FCS) Follow-On: A total of \$3.2 billion is provided in the FY 2011 budget request for the Brigade Combat Team (BCT) Modernization program, which will leverage technologies from FCS to incrementally field capabilities to all BCTs over the next fifteen years.

Navy Shipbuilding: Shipbuilding funding increased from \$13.8 billion in FY 2010 to \$15.7 billion in FY 2011, but is still far below the estimated \$21 billion in annual funding the Navy would need to be on track to reach the 313 ships in its thirty-year shipbuilding plan.

European Missile Defense: The budget request funds Aegis Weapons Systems upgrades for three Aegis ships, in addition to the six that were funding in last year's budget.

Interceptor Missiles: The budget funds the procurement of eight SM-3 Block IB interceptor missiles for use with the Aegis BMD system, up from six procured last year. It more than doubles procurement funding for Theater High Altitude Area Defense (THAAD) to buy sixty-seven interceptors and two additional THAAD batteries.

Transformational Satellite Communications System (TSAT) Follow-On: The budget request includes funding for the procurement of long-lead parts for a fifth Advanced Extremely High Frequency (AEHF) satellite—a down payment on the first of two additional AEHF satellites promised in the wake of the TSAT program's termination last year. It also provides funding for the procurement of the seventh Wideband Global SATCOM (WGS) satellite and long-lead parts for an eighth satellite.

Joint Tactical Radio System (JTRS): The JTRS program was approved to continue, with a budget of \$1.1 billion in FY 2011, which includes low rate initial production of some radios.

Reset Costs: Funding for reset costs are up in the OCO budget request from \$18.7 billion in FY 2010 to \$21.3 billion in FY 2011. For the first time, the reset costs include the procurement of one Joint Strike Fighter at a cost of \$205 million. In supporting materials, DoD says that it is including long-term reconstitution costs, which it defines as “the repair or replacement of equipment and stocks that are normally available in a theater

of operations, but whose repair and replacement does not get accomplished with normal annual rotation of combat units.”

Military Construction and Family Housing

BRAC: The FY 2011 budget continues the process of winding down the 2005 BRAC process with a final installment of \$2.7 billion and begins a new process to modernize more than half of the 194 DoD schools.

Guam: Funding is included to support the movement of 8,000 marines from Okinawa to Guam as part of the agreement negotiated with Japan.

Overall Funding Level: Both military construction and family housing funding continue their decline in the FY 2011 budget request. Family housing funding is down to \$1.8 billion, less than half of the average annual funding over the past decade in real terms. While military construction funding is down to \$16.9 billion, it is still well above pre-BRAC funding levels.

Overall

War Funding: The budget requests \$159.3 billion for the wars in Iraq and Afghanistan for FY 2011. It also includes a supplemental request for \$33.0 billion in FY 2010, which would bring FY 2010's total to \$162.7 billion. The budget does not provide an estimate of future war costs for the remainder of the FYDP. Instead, it includes the same placeholder allowance of \$50 billion annually for FY 2012 to FY 2015 as it did last year. Even if the drawdown in Iraq continues as planned and the drawdown in Afghanistan begins in FY 2011, it is likely the administration will need to request more than \$50 billion in funding for FY 2012.

Next Generation Bomber: The budget request includes \$200 million for the Next Generation Bomber in FY 2011 and a total of \$1.7 billion over the FYDP.

Program Terminations: The budget again requests the termination of the C-17 and JSF Alternate Engine programs for the same reasons cited last year. It also cancels the CG(X) next generation cruiser, the EP(X) aircraft, and the Third Generation Infrared Surveillance (3GIRS) satellite.

Deficit Reduction: The spending freeze proposed by the administration applies to non-security related discretionary spending (13.6 percent of total outlays in FY 2011) and is projected to save a modest \$14 billion in FY 2011, compared to a projected \$1,267 billion deficit. While national defense spending, which consumes 19 percent of federal outlays, was not part of the spending freeze, efforts aimed at deficit reduction are likely to exert a downward pressure on the entire budget in the coming years, including national defense.

Conclusion

While some funding is moved between accounts and the overall rate of growth is slowed, the FY 2011 defense budget request does not signal a significant change in direction for the defense program. Overall, the FY 2011 budget continues the major program decisions made in FY 2010 and contains few program terminations or new program starts. The changes that are contained in the budget, such as increased funding for unmanned aerial systems and Special Operations Forces, are consistent with, but do not go much further than, the major changes announced by Secretary Gates in April 2009. In short, there are few surprises in the FY 2011 defense budget request.

The QDR, likewise, is an evolution of the strategies and policies contained in the previous QDR. There is evidence of the QDR's influence on the budget in several areas, such as funding for Long Range Strike capabilities like the Next Generation Bomber, but what is missing from the budget and the QDR is an indication of where DoD intends to take risks—i.e., where it intends to do less. No major weapon systems are terminated and there are no major shifts in funding between personnel, O&M, and acquisition accounts. For the Department to place a higher priority on “the urgent demands of today and the most likely and lethal threats of the future” as stated in the opening paragraph of the QDR, it must necessarily consign other threats to a lower priority.³ However, the FY 2011 defense budget offers few specifics on where increased risk is to be taken.

³ Robert Gates, *Quadrennial Defense Review Report* (Washington, DC: Department of Defense, February 1, 2010), p. i.

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