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Report to the Chairman, Committee on the Budget, House of Representatives

November 1999

FUTURE YEARS DEFENSE PROGRAM

Funding Increase and Planned Savings in Fiscal Year 2000 Program Are at Risk

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Abbreviations

DOD	Department of Defense
FYDP	Future Years Defense Program
O&M	operation and maintenance
RDT&E	research, development, test, and evaluation
REDUX	Military Retirement Reform Act of 1986

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

National Security and
International Affairs Division

B-283583

November 22, 1999

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

Dear Mr. Chairman:

The Department of Defense's (DOD) Future Years Defense Program (FYDP) is the official document that summarizes the force levels and funding associated with specific programs that the Secretary of Defense would like to see approved by Congress. The FYDP presents estimated appropriation needs for the budget year for which funds are being requested from Congress and at least the 4 years following it. The fiscal year 2000 FYDP requested an additional $50.8 billion to the previously requested $1,053 billion total funding for fiscal years 2000-2003.[1] As requested, this report identifies the major changes and adjustments in the 2000 FYDP as compared to the 1999 FYDP and discusses the risks that the 2000 FYDP faces that may prevent it from being implemented as planned.

The FYDP reflects decisions made in the DOD Planning, Programming, and Budgeting System, which is intended to produce the best possible mixture of forces, equipment, and support to accomplish DOD's mission. In reporting the results of the 1997 Quadrennial Defense Review, a congressionally mandated review of defense strategy and force requirements, DOD noted that it had not always been able to implement past FYDPs as planned because DOD underestimated some costs of its day-to-day operations and often did not fully achieve savings projected for efficiency enhancing initiatives. In addition, DOD or Congress can modify policies or begin new programs and operations that can require changes to the FYDP. The 2000 FYDP was DOD's second FYDP since the Quadrennial Defense Review in which DOD attempted to achieve a better balance in DOD's financial plans to meet its military forces' current requirements and address long-term modernization needs. The Review examined the likely and emerging security threats and opportunities facing the United States and developed recommendations for the post-Cold War era.

[1]Unless otherwise stated, the years and dollars shown in this report are on a fiscal year basis and in constant fiscal year 2000 dollars.

The 1999 FYDP supported the President's 1999 budget and included budget estimates for 1999-2003. The 2000 FYDP supported the President's 2000 budget and included budget estimates for 2000-2005. This report concentrates on the period common to both FYDPs, 2000-2003. Our report reflects only that portion of the first 1999 supplemental appropriation that had been declared "emergency" and released by the Office of Management and Budget prior to the 2000 budget submission in February 1999, and does not reflect the additional 1999 and 2000 resources provided to DOD in the second 1999 emergency supplemental appropriation because it was not reflected in the President's budget and FYDP.[2] The report also discusses recent actions taken by Congress on DOD's budget for 2000 during its consideration and enactment of the Fiscal Year 2000 National Defense Authorization and Appropriations Acts.

[2]The first 1999 emergency supplemental appropriation was provided in the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999 (P.L. 105-277, Oct. 21, 1998), and the second 1999 emergency supplemental appropriation was provided in the 1999 Emergency Supplemental Appropriations Act (P.L. 106-31, May 21, 1999). The second emergency supplemental provided DOD with $10.7 billion for such items as overseas contingency operations, spare parts, depot maintenance, and military pay and retirement.

Results in Brief

DOD planned to increase the funding of its three priority areas in the 2000 FYDP from an expected overall increase in its budget, as compared to past FYDPs where it planned to finance increases to its priority areas from other program reductions and savings. More specifically, total funding in the 2000 FYDP was $50.8 billion (4.8 percent) higher than in the 1999 FYDP over the 2000-2003 period. Of the $50.8 billion, DOD requested congressional approval for $45.4 billion in additional budget authority and $1.65 billion in rescissions of previously appropriated funds.[3] The remainder was to come from unobligated funds from prior years, which remain available for future obligations. Over half of the funding increase in the 2000 FYDP was for operation and maintenance accounts, 23 percent for military personnel accounts, and 16 percent for procurement accounts, which reflects DOD's three priority areas: readiness, quality of life, and modernization. In addition to the $50.8 billion, DOD expected to apply $15.5 billion in savings achieved from existing programs in the 1999 FYDP to the priorities in the 2000 FYDP. Most of the savings—over $11 billion—were expected to occur because of lower inflation rates than projected in the 1999 FYDP.[4]

There are risks that DOD may not be able to implement its 2000 FYDP as planned because it may not receive all the funds it expects. Of DOD's total budget for the common years (2000-2003), at least $50 billion is at risk. The FYDP, which supported the President's budget, projected that the $45.4 billion increase in additional funding for the 2000 FYDP was to come from a share of the overall anticipated government budget surplus, which is uncertain. The surplus is contingent upon several factors, including continued economic growth, legislative agreements that address the financial soundness of the Social Security program, and adherence to statutory budget caps that limit spending for certain programs. Importantly, these budget caps apply to all discretionary spending, and the defense budget is included within the overall discretionary spending limit. Also, both Congress and the administration must agree to allocate some of the

[3]DOD has requested congressional approval to use $1.65 billion for other purposes.

[4]Each year, the Office of Management and Budget provides DOD with guidance to use in preparing DOD's budget request and FYDP. The guidance includes the executive branch's assumptions for inflation. DOD uses these assumptions to reestimate the cost of its programs. As a result of lower projected inflation rates over the last few years, DOD has projected inflation savings and has been authorized to retain most of these projected savings. This year, the President directed DOD to retain the projected savings from the 1999 FYDP to the 2000 FYDP and allocate them to the Department's most pressing needs.

anticipated surplus to DOD. In addition, DOD planned on congressional approval of a $1.65 billion rescission of previously appropriated funds; however, as of the beginning of November, Congress had not fully supported the requested rescission.

Some of the expected $15.5 billion in savings and adjustments in the 2000 FYDP may not occur as planned. DOD's expected savings of $2.82 billion from lower fuel prices may not materialize because current fuel projections are higher than those used to develop the 2000 FYDP. DOD's expected savings of $1.22 billion from military payroll adjustments are still questionable since they are dependent on pending legislation. Also, DOD requested congressional approval to fund fiscal year 2000 military construction projects over 2 years instead of 1 year, but Congress rejected DOD's proposal to spread military construction funding over 2 years.

There are several other areas of risk that may impact DOD's ability to implement its 2000 FYDP as planned. First, Congress authorized a larger military pay and benefits package in the National Defense Authorization Act for Fiscal Year 2000 than proposed by DOD, and provided funds for this larger pay package for only fiscal year 2000. Without higher levels of funding than currently planned after fiscal year 2000, DOD will need to look elsewhere in its budget to fund these increased benefits. Second, funding requirements for the Defense Health Program are routinely understated. DOD stated that the operation and maintenance portion of the Defense Health Program is underfunded by almost $73 million. Third, no funds were included in the 2000 FYDP for U.S. involvement in Kosovo, and currently available funding may not be sufficient to cover the $2.5 billion estimated cost of Kosovo operations in fiscal year 2000. Fourth, DOD has had difficulty in recent years meeting its planned growth in procurement funding because it has had to move those funds to other priorities, such as readiness. Fifth, family housing accounts may require more funding than programmed in the 2000 FYDP. Finally, DOD assumed savings from reductions in infrastructure through further implementation of competitive sourcing–which allows the private sector to bid on performing selected activities and functions–and two new rounds of base closures. We have previously reported that DOD's projected savings from competitive sourcing are overly optimistic at least in the short term. In addition, Congress did not authorize additional base closure rounds.

Background

The 2000 FYDP reflected the recommendations of DOD's May 1997 Quadrennial Defense Review, which analyzed U.S. military strategy, force structure readiness, modernization, and infrastructure. In its 1999 *Annual Report to the President and the Congress*, DOD stated that the armed forces remain fully capable of executing the Quadrennial Defense Review strategy, but ensuring readiness today and in the future has become increasingly difficult. Further, forces that would deploy in the later stages of a conflict are less ready, recruiting and retention rates have declined, and modernization schedules are harder to maintain. The 2000 FYDP was developed to address these problems. The areas targeted for higher funding levels in the 2000 FYDP continue to be readiness and weapons modernization, as in the 1999 FYDP, with an added emphasis on personnel issues, specifically recruiting and retention.

Our earlier report on DOD's 1999 FYDP showed that although DOD made adjustments to decrease the risk that funds would be transferred from procurement to unplanned operating expenses, the 1999-2003 program, like previous programs, was based on optimistic assumptions about savings and procurement plans.[5] We found that DOD made optimistic assumptions about the potential to achieve savings through competitive sourcing and reengineering, and these plans may not be completed on schedule.[6] We also stated that if the projected savings from other sources do not materialize, DOD would have to adjust future budgets by cutting programs and/or requesting additional budget authority. Further, we pointed out that the 1999 FYDP projected that procurement funding would increase in real terms by about 29 percent while DOD's total budget would remain relatively flat, despite the experience over the past 32 years that DOD procurement funding rises and falls in direct proportion to movements in its total budget. Also, planned funding increases for modern weapon systems were shifted further into the future, as in previous FYDPs. This movement creates a large demand for procurement funds in later years, which, according to DOD, tends to disrupt planned modernization programs unless additional funds are made available.

[5]*Future Years Defense Program: Substantial Risks Remain in DOD's 1999-2003 Plan* (GAO/NSIAD-98-204, July 31, 1998).

[6]Competitive sourcing is a process by which DOD and other federal agencies conduct cost comparisons to determine whether the public or private sector can perform selected activities and functions more cheaply.

Total Funding in DOD's 2000 FYDP Is Higher Than in the 1999 FYDP

Unlike prior FYDPs where DOD planned to increase funds for priorities by reducing costs in other areas and applying the savings to the priorities, the 2000 FYDP included DOD's plan to fund priorities from an increase in total funding. Over the common 4-year period, 2000-2003, in the 1999 and 2000 FYDPs, as shown in table 1, DOD increased its planned total funding by $50.8 billion, a 4.8-percent increase over the funding levels projected in the 1999 FYDP. DOD projected that the $50.8 billion will come from a $45.4 billion increase in DOD's overall funding and a $1.65-billion rescission of previously appropriated funds to offset fiscal year 2000 funding. The remainder was from unobligated funds from prior years, which remain available for obligation. Also, there was growth within each FYDP over the common period. In the 2000 FYDP, the total program was projected to grow by 2.8 percent over the common period. This funding growth was over three times the 0.9-percent growth identified in the 1999 FYDP for this period.

Table 1: DOD's 1999 and 2000 FYDPs, by Primary Appropriation Category (total obligational authority in billions of fiscal year 2000 dollars)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent Change 2000-2003
Military personnel	1999	$71.7	$70.7	$70.0	$69.8	**$282.2**	
	2000	73.7	73.8	73.4	73.2	**294.1**	
	Change	2.0	3.1	3.3	3.4	**11.8**	4.2
Operation and maintenance	1999	94.4	94.3	93.9	93.9	**376.5**	
	2000	103.3	100.8	99.4	99.5	**402.9**	
	Change	8.9	6.5	5.5	5.6	**26.4**	7.0
Procurement	1999	53.3	59.2	57.5	59.0	**228.9**	
	2000	53.0	60.7	60.2	63.0	**236.9**	
	Change	-0.2	1.5	2.7	4.0	**8.0**	3.5
Research, development, test, and evaluation	1999	33.5	32.0	31.9	32.0	**129.4**	
	2000	34.4	33.7	33.4	32.6	**134.1**	
	Change	0.9	1.7	1.5	0.6	**4.7**	3.6
Military construction	1999	4.8	4.3	3.5	3.7	**16.3**	
	2000	2.3	7.0	4.1	4.1	**17.5**	
	Change	-2.5	2.7	0.6	0.4	**1.2**	7.3
Family housing	1999	3.8	3.8	3.7	3.9	**15.2**	
	2000	3.2	3.8	3.5	3.6	**14.0**	
	Change	-0.7	0	-0.2	-0.3	**-1.2**	-7.7
Revolving and management funds	1999	0.8	0.4	0.4	1.0	**2.5**	
	2000	0.4	0.8	0.5	0.7	**2.4**	
	Change	-0.3	0.4	0.2	-0.3	**-0.1**	-4.3
Defensewide contingencies	1999	0	0	0.8	1.3	**2.1**	
	2000	0	0	0.8	1.3	**2.1**	
	Change	0	0	0	0	**0**	-0.4
Total	**1999**	**$262.3**	**$264.5**	**$261.7**	**$264.6**	**$1,053.1**	**0.9**
	2000	**$270.3**	**$280.5**	**$275.2**	**$278.0**	**$1,104.0**	**2.8**
	Change	**$8.0**	**$15.9**	**$13.5**	**$13.4**	**$50.8**	**4.8**

Note: Totals may not add due to rounding.

Source: Our analysis of FYDP data.

Over half of the increase was programmed in operation and maintenance accounts, 23 percent in military personnel accounts, and 16 percent in procurement accounts. These increases reflected DOD's plan to provide

additional resources for readiness, quality of life, and modernization priorities. DOD stated that this plan strikes a balance between immediate military needs, most notably force readiness and quality of life, and long-term safeguards, including the development and procurement of new weapons and technology, as recommended by the Quadrennial Defense Review. (App. I shows the differences between accounts in the 1999 and 2000 FYDPs for each appropriation over the common years, 2000-2003.)

Numerous Risks Exist in the 2000 FYDP

DOD may not achieve its 2000 FYDP as planned due to risks in several areas. Of DOD's total budget for the common years, at least $50 billion is at risk. The majority of the funding increase DOD programmed in the 2000 FYDP was projected to come from a share of the overall federal budget surplus, which is uncertain. DOD planned on congressional approval of a $1.65-billion rescission of previously appropriated funds, however, as of the beginning of November, Congress had not fully supported the requested rescission. Some of the expected $15.5 billion in savings and adjustments in the 2000 FYDP may not occur as planned. Savings from lower fuel costs and infrastructure reduction initiatives, such as competitive sourcing, may not occur to the extent DOD programmed in the 2000 FYDP. DOD requested congressional approval to fund fiscal year 2000 military construction projects over 2 years instead of 1 year, but Congress rejected DOD's proposal. Funding requirements for the Defense Health Program are routinely understated and DOD has had difficulty in recent years meeting its planned growth in procurement funding because it has had to move those funds to other priorities. Two new risks have emerged since the 2000 FYDP was submitted to Congress. First, Congress authorized an even larger military pay and benefits package in the National Defense Authorization Act for Fiscal Year 2000 than proposed by DOD, and these additional benefits will have ongoing costs that are not factored into the FYDP.[7] Second, no funds were included in the 2000 FYDP for U.S. involvement in Kosovo, and current funding available for obligation in 2000 may not be sufficient to cover the estimated cost of Kosovo operations.

[7]P.L. 106-65, Oct. 5, 1999.

Most of the Additional Resources Planned for in the 2000 FYDP Are Uncertain

Both the projected budget surplus from which the administration plans to receive the additional funding and an agreement on the amount of the surplus that would be allocated to DOD are uncertain. Also, Congress has not fully supported DOD's requested rescission.

Of the $50.8 billion in additional funding programmed in the 2000 FYDP, $45.4 billion was projected to come from the total federal budget surplus. This estimated amount is uncertain for several reasons. First, budget surplus projections are uncertain. The administration recognizes that budget projections for any future period are inherently uncertain. Likewise, the Congressional Budget Office reported that the average change between its estimates of annual deficits or surpluses 5 years into the future and the actual results was substantial.[8] Second, the surplus is contingent on continued economic growth, which in itself is uncertain. Third, the administration's proposal to allocate a portion of the surplus to DOD is contingent upon the enactment of legislation that would address the financial soundness of the Social Security program. As of the end of October 1999, no legislation had been passed. Lastly, both the President and Congress must agree on using part of the budget surplus to increase DOD's overall annual funding levels. Although both the President and Congress want to increase funds for DOD, there is no agreement as to how much that increase will be over the period covered by the 2000 FYDP. As a result, the programmed funding increases are uncertain.

DOD also requested $1.65 billion in unspecified rescissions of prior year funding to offset total fiscal year 2000 defense funding. Congress approved $31.4 million in rescissions in the second Fiscal Year 1999 Emergency Supplemental Appropriations Act. The Fiscal Year 2000 Defense Appropriations Act rescinded $802.3 million from specified appropriation accounts. Therefore, DOD did not get the entire $1.65 billion in rescissions it requested, but Congress could take further action at a later date.

[8] *Evaluating CBO's Record of Economic Forecasts*, Congressional Budget Office, July 30, 1999.

Inflation Savings Appear Probable, but Other Savings Are at Risk

As shown in table 2, DOD estimated that it would save $15.5 billion as a result of lower inflation rates and fuel costs, and a reduction in military payroll costs. The President directed DOD to retain the savings and allocate them to the Department's most pressing needs. In addition, to free up funds in 2000, DOD requested only $5.4 billion of the $8.5 billion projected cost of fiscal year 2000 military construction projects, and requested the remaining $3.1 billion as an advance fiscal year 2001 appropriation.[9]

Table 2: Sources of DOD's 2000 FYDP Savings

In billions of constant fiscal year 2000 dollars

Source	2000	2001	2002	2003	Total 2000-2003
Savings from lower estimated inflation rates	$2.47	$2.81	$2.97	$3.17	**$11.42**
Savings from lower estimated cost of fuels	0.97	0.64	0.60	0.61	**2.82**
Military payroll adjustments	0.32	0.31	0.30	0.29	**1.22**
Total savings	**$3.76**	**$3.76**	**$3.87**	**$4.07**	**$15.46**

Note: Totals may not add due to rounding.

Source: Our analysis of DOD data.

In the 2000 FYDP, DOD included $11.4 billion in inflation savings for the 2000-2003 period due to a decline in projected inflation rates provided by the Office of Management and Budget. These savings resulted from using mostly lower projected inflation rates to develop the 2000 FYDP than for the 1999 FYDP. The administration's mid-year budget update, which revised the projections for 1998–2005 and beyond, reflected lower inflation rates for 1999 and 2000 and slightly higher inflation rates for 2002 and beyond. According to an Office of Management and Budget official, the reductions in fiscal years 1999 and 2000 compounded over time combined with the small increase in the later years result in almost no net change from the inflation savings estimate included in the 2000 FYDP. Therefore, the most

[9]An advance appropriation is budget authority provided in an appropriation act that is first available in a fiscal year beyond the fiscal year for which the appropriation act is enacted.

recent inflation rate projections continue to support DOD's projected inflation savings in the 2000 FYDP.

DOD projected an additional $2.8 billion in savings during the 2000-2003 period from lower fuel costs for ship and jet fuel, diesel oil, and gasoline. The Office of Management and Budget provided DOD with revised inflation estimates for fuel purchases for inclusion in the 2000 President's budget. The estimates lowered the projected cost of fuel from previously budgeted levels. However, the fuel cost factors the Office of Management and Budget provided to DOD in May 1999 were higher than those used to develop the 2000 President's budget. Additionally, as of August 1999, the Department of Energy projected fuel costs would be higher than the Office of Management and Budget's estimates through 2000. Given the projected fuel cost increases, there are risks associated with DOD's ability to achieve all of the savings that were based on lower fuel costs.

The remaining $1.2 billion in expected savings come from military payroll adjustments. DOD pays wage credits into the Social Security Trust Fund for non-taxed benefits for which servicemembers pay no social security tax. DOD, however, has submitted a legislative proposal to eliminate these credits, which would result in savings to DOD. As of September 1999, no congressional action had been taken on this proposal. If this proposal does not pass, these savings will not be realized.

To free up more resources for fiscal year 2000, DOD proposed a plan to finance fiscal year 2000 military construction projects by combining regular and advance appropriations. The regular appropriations only funded DOD's expected fiscal year 2000 obligations for military construction projects scheduled to begin in 2000. The remaining funding for the fiscal year 2000 projects were to come from advance fiscal year 2001 appropriations. This proposal was designed to allow DOD to continue with planned fiscal year 2000 construction projects while providing additional funds to support other high priority programs in 2000 as well as keep the budget within the 2000 budget caps as mandated by the 1997 Budget Enforcement Act.[10] Congress rejected DOD's proposal because it was concerned that incremental funding would lead to increased costs and delayed completion of projects, and that this funding approach would be implemented permanently, creating a large demand for military construction funds beyond 2000. The Fiscal Year 2000 Military Construction Appropriations Act provides $8.4 billion in funding for DOD's fiscal year 2000 military construction priorities, $100 million less than full funding.[11]

DOD Will Likely Require Military Pay Funding Above Levels Programmed in the 2000 FYDP

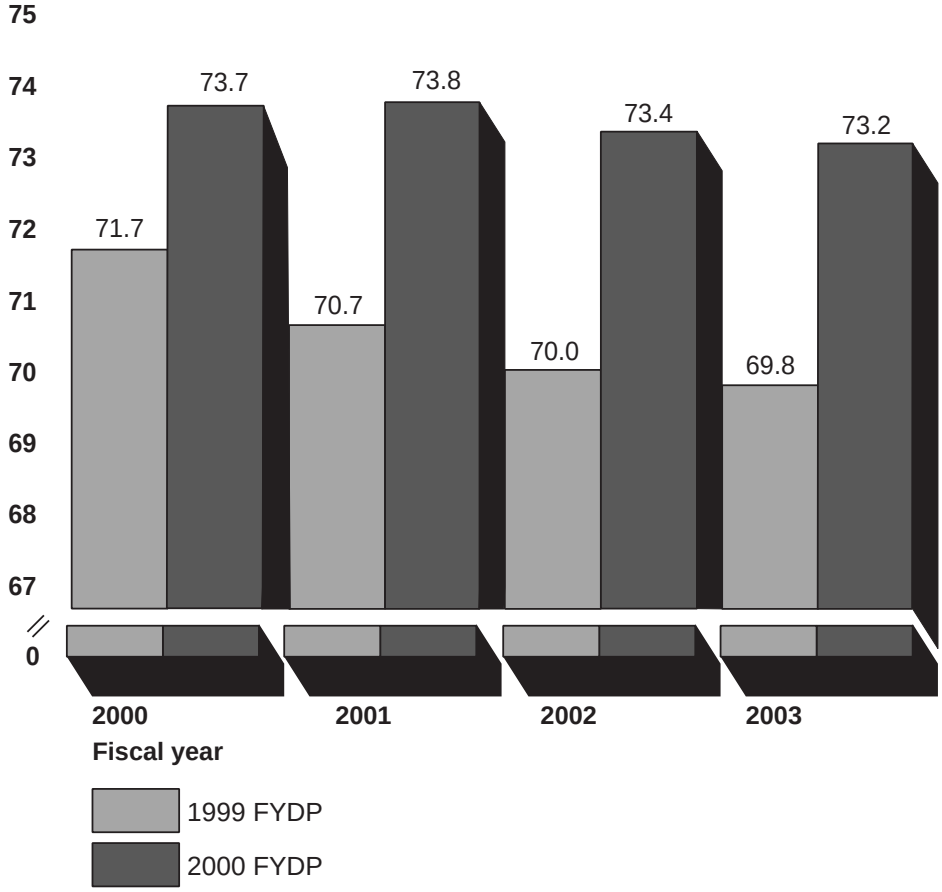
DOD proposed four changes to the current military compensation system to address the services' recruiting and retention problems. The 2000 FYDP included funding for these four proposals, resulting in the higher annual funding levels for military personnel salaries and benefits, as shown in figure 1. Legislative action, though, introduced risk into the Department's 2000 FYDP military pay program because the National Defense Authorization Act for Fiscal Year 2000 provides an even larger military compensation package than proposed by DOD. The second 1999 emergency supplemental appropriations act and the Fiscal Year 2000 Defense Appropriations Act only provide sufficient funding for this larger package in fiscal year 2000.[12] Therefore, DOD will require higher annual funding levels to meet the additional military pay requirements.

[10]1997 Budget Enforcement Act–Title X of P.L. 105-33, Aug. 5, 1997.

[11]P.L. 106-52, Aug. 17, 1999.

[12]P.L. 106-79, Oct. 25, 1999.

Figure 1: Annual Military Personnel Funding Levels in 1999 and 2000 FYDPs (in billions of fiscal year 2000 dollars)



Source: Our analysis of FYDP data.

Proposed changes to military base pay account for the largest part of the funding increase in the 2000 FYDP. DOD proposed to partially alleviate the perceived military-civilian pay gap by raising military base pay by 4.4 percent in 2000, the Employment Cost Index of 4.3 percent plus 0.1 percent.[13] DOD proposed annual raises of 3.9 percent thereafter for the remainder of the 2000 FYDP period, which is the projected Employment Cost Index rate in the future.

[13]The Employment Cost Index is a measure of overall compensation trends in the economy.

Pay table reform was another military pay initiative. The proposal provides progressively higher pay increases for servicemembers for each promotion they receive, so pay increases for promotions would generally be higher than those tied to longevity. These increases were meant to be incentives to remain in the service for noncommissioned and mid-grade commissioned officers with the experience, skills, and knowledge most needed by the services.

DOD also proposed to increase funding for other incentives to enlist and retain people with certain skills. The services are currently using special and incentive pays to retain personnel with the most critical skills, such as pilots. Since skill areas, such as surface warfare officers, are experiencing shortages, the 2000 FYDP added retention bonuses for personnel possessing those skills. To help meet recruiting goals, the services increased funding for recruiting incentives. For example, the Army and the Navy included funding for enlistment bonuses during slow recruiting months (Feb. through May) and increases for college fund incentives, while the Air Force planned to increase its advertising budget for recruiting.

Finally, DOD proposed to reverse the changes made to the military retirement system by the Military Retirement Reform Act of 1986.[14] This act, commonly known as REDUX, reduced anticipated future retired pay levels for personnel who entered the military service after August 1, 1986, from 50 to 40 percent of base pay for servicemembers retiring with 20 years of service. In addition, DOD's proposal provided cost-of-living increases for retirees during periods of low inflation. All of the services believe that the REDUX system negatively affects career retention behavior.

The National Defense Authorization Act for Fiscal Year 2000 was passed on October 5, 1999. This law provides a substantially larger pay and benefits package than the administration proposed. For example, the law provides a 4.8-percent pay raise in 2000 instead of the 4.4 percent proposed by the administration. Pay and benefits increases constitute permanent legislation. They are included in defense authorization legislation, not in appropriation measures, though the amount of money provided for military personnel in the appropriations act is directly affected by any changes. Pay increases for 2001-2006 will be based on the Employment Cost Index plus

[14]Military Retirement Reform Act of 1986–P.L. 99-348, July 1, 1986.

0.5 percent instead of the administration's proposed annual 3.9 percent increases for 2001-2005.

The second 1999 supplemental appropriations act and the Fiscal Year 2000 Defense Appropriations Act have sufficient funding to cover the larger congressionally approved military pay and benefits packages for 2000. However, without higher levels of funding than currently planned after 2000, DOD will need to look elsewhere in its budget to fund these benefits, possibly adversely affecting its current plans to meet its procurement and readiness goals.

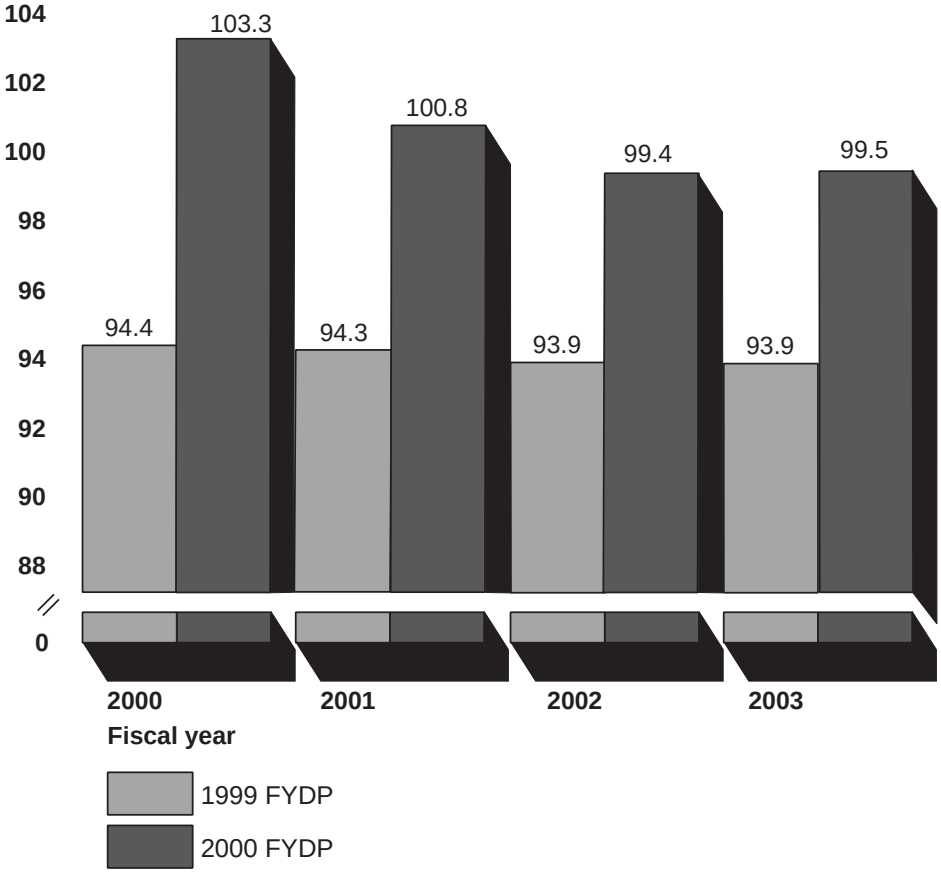
Risks Exist in Achieving Higher Operation and Maintenance Funding Levels

Like the 1999 FYDP, the 2000 FYDP provided for increased operation and maintenance (O&M) funding. According to DOD, the additional funds are needed to maintain U.S. forces' readiness. DOD may not be able to execute its O&M program as planned, though, due to several factors. First, it is unclear at this point if congressional action on the 2000 budget provided DOD with more or less O&M funding than DOD stated is required to maintain readiness. Second, the funding requirements for the Defense Health Program, which is over 10 percent of DOD's annual O&M budget, are routinely underestimated. Finally, DOD may not have sufficient funding for its ongoing contingency operations in locations such as Kosovo.

To address growing readiness concerns, DOD allocated higher annual funding levels for O&M in the 2000 FYDP than in the 1999 FYDP, as shown in figure 2.[15] For the 2000-2003 period, total funding was $26.4 billion higher, a 7-percent increase. The O&M portion of the defense budget is most closely related to readiness. The O&M budget funds the costs of purchasing fuel, spare parts, and other items associated with training and military operations.

[15]As noted earlier, the values in our report reflect only that portion of the first 1999 supplemental appropriation that had been declared "emergency" and released by the Office of Management and Budget prior to the 2000 budget submission in February 1999, and do not reflect the additional 1999 and 2000 resources provided to DOD in the second 1999 emergency supplemental appropriation because it was not reflected in the President's budget and FYDP.

Figure 2: Annual Operation and Maintenance Funding Levels in 1999 and 2000 FYDP (in billions of fiscal year 2000 dollars)



Source: Our analysis of FYDP data.

According to DOD, its readiness indicators in 1998 showed declines in readiness. In September 1998, the service chiefs testified before the Senate Committee on Armed Services that they needed more resources to fully address emerging readiness concerns, and in October 1998, the Office of Management and Budget, on behalf of the administration, submitted a supplemental appropriations request for a $1-billion defense readiness package to the Chairmen of the Appropriations Committees. In response, Congress provided $1.3 billion in additional readiness funding in the first 1999 emergency supplemental appropriations act of 1999. Although DOD testified before the House Armed Services Readiness Subcommittee in February 1999 that the principal purpose of the overall funding level increase in the 2000 FYDP was to meet the most urgent near and long-term

readiness needs, Congress provided $2.35 billion in additional readiness funding in the second 1999 emergency supplemental appropriations act.

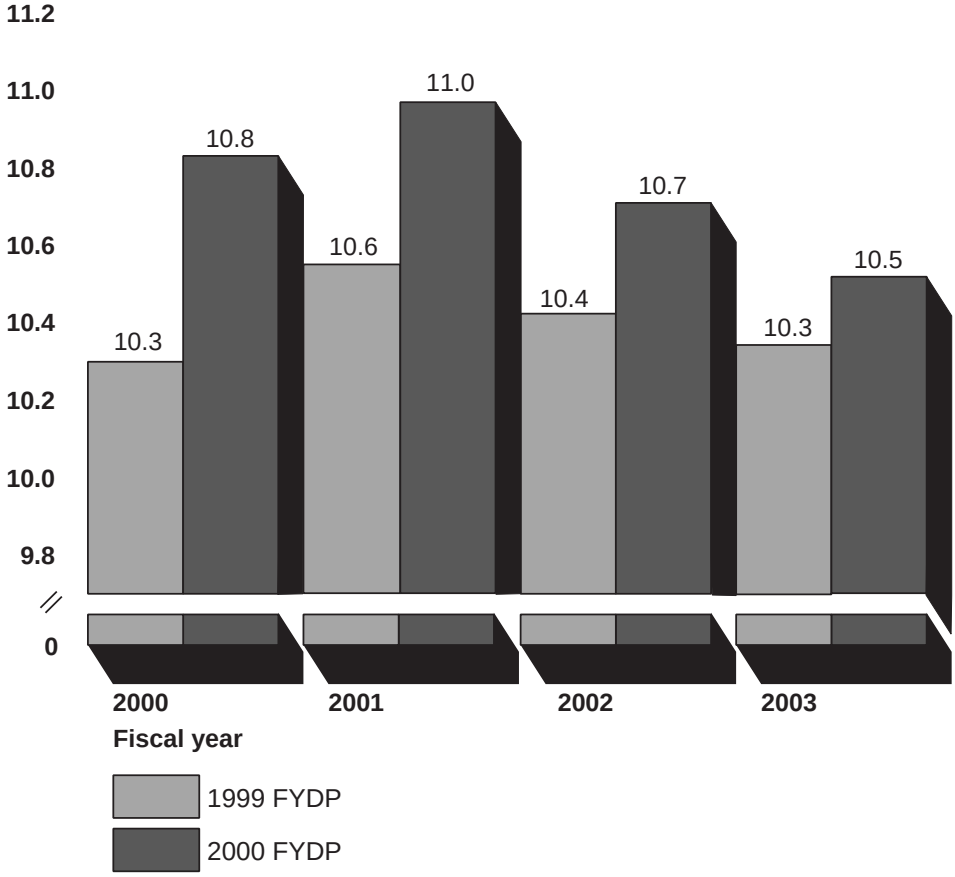
The readiness items included in both 1999 emergency supplemental appropriations were some of the same items that are priority items for the services in the 2000 FYDP. For example, the Army planned to increase funds for flying hours, training, barracks, depot maintenance, and installation improvements. The Navy increased funding for additional flying hours, ship maintenance, and spare parts. The Air Force increased funding for spare parts and recruiting and retention initiatives. In addition, DOD's O&M program also included $10 billion in planned pay raises for DOD civilians.

There is some indication that DOD may not get the O&M funds it said it needed to sustain readiness. In addition to the funding provided in the second fiscal year 1999 emergency supplemental appropriation, the Fiscal Year 2000 Defense Appropriations Act provides DOD with more O&M funding than it requested in its budget. However, there are offsets that may result in DOD receiving less O&M funding than it requested. The act includes offsets to the amount of O&M funding provided in the act equal to $1.05 billion, which was provided in the second fiscal year 1999 emergency supplemental appropriation. The act also includes O&M offsets of $363 million to reflect savings from civilian pay, favorable foreign currency fluctuations, and competitive sourcing.

DOD Has Difficulty Estimating Funding Requirements of the Defense Health Program

In 2000, the Defense Health Program was projected to account for over 10 percent of DOD's 2000 O&M appropriations. Defense Health Program funding was projected to receive $1.4 billion (3.4 percent) more funding over the 2000-2003 period in the 2000 FYDP than in the 1999 FYDP. Figure 3 shows annual funding level projections from both FYDPs.

Figure 3: Annual Defense Health Program Funding Levels in 1999 and 2000 FYDPs (in billions of fiscal year 2000 dollars)



Source: Our analysis of FYDP data.

The funding levels projected for the Defense Health Program in the 2000 FYDP may not be adequate to execute the program as planned. In the last few years, funding requirements for the program, as presented to Congress as part of the President's budget in February, have been underestimated. The Fiscal Year 1997 Defense Appropriations Act added about $475 million to the program to address a shortfall discovered after the initial budget was submitted.[16] In 1998, DOD's Comptroller submitted a budget amendment to add $274 million to the program to fully fund it.

[16]P.L. 104-208, Sept. 30, 1996.

Despite DOD's testimony in February 1998 that the core programs of the 1999 Defense Health Program were fully funded, the services later reported that the funding shortfall could be as much as $613 million. The Defense Health Program received an additional $347 million for 1999 than requested in DOD's original budget.

The Department of Defense Appropriations Act for Fiscal Year 2000 provides $320 million more in funding than requested by DOD for the Defense Health Program. Over 85 percent of these funds are allocated to research, development, test, and evaluation activities. Congress added $108 million in new O&M programs, which were not requested by the administration. Congress offset this $108 million by $63 million of budget execution savings, for a net $45-million increase in O&M funding. In addition, the Appropriations Act reduces the total amount appropriated to the Defense Health Program by $9.8 million to reflect savings from favorable foreign currency fluctuations. DOD stated that these actions underfund the O&M portion of the Defense Health Program by almost $73 million, and as a result will likely require additional funding.

We recently reported that there is risk to the sufficiency of the projected annual funding levels for the Defense Health Program.[17] Program officials told us that the beneficiary population is largely undefined because neither military treatment facilities nor managed care support contractors require enrollment for most of the beneficiaries and that this is a major impediment to submitting realistic Defense Health Program budget requests. DOD currently relies on surveys to estimate how many beneficiaries use military facilities and managed care and to what extent DOD is their primary or secondary source of coverage. We estimated that at the end of 1998 less than half of the 8.2 million DOD-eligible beneficiaries were enrolled in the military health system. We and the Congressional Budget Office concluded that for DOD to better estimate costs and efficiently manage the Defense Health Program system, it needs a universal beneficiary enrollment system to clearly identify the population for whom health care is to be provided.[18] DOD's budgeting uncertainties in the Defense Health Program stem, in large measure, from its lack of a universal beneficiary enrollment requirement.

[17] *Defense Health Program: Reporting of Funding Adjustments Would Assist Congressional Oversight* (GAO/HEHS-99-79, April 29, 1999).

[18] *Restructuring Military Medical Care*, July 1995, Congressional Budget Office.

DOD May Need Additional O&M Funds for Ongoing Contingency Operations

Current estimated costs for fiscal year 2000 ongoing contingency operations costs are likely to exceed $5 billion. The President's budget for 2000 included $1.8 billion for ongoing Bosnia operations and $1.1 billion for Southwest Asia. Since there were no operations in Kosovo at the time the 2000 budget was submitted, no funds were included for U.S. involvement in Kosovo. DOD's current, but not finalized, estimate for the cost of U.S. military participation in the Kosovo peace enforcement force in 2000 is $2.5 billion.

We estimated that as much as $475 million provided for fiscal year 1999 contingency operations were in excess of 1999 costs.[19,20] The excess was due primarily to the fact that combat operations in Kosovo ended in June rather than continuing to the end of the fiscal year as anticipated by DOD's supplemental appropriations request and the funding provided by Congress. The majority of these funds for fiscal year 1999 contingency operations have been appropriated to the Overseas Contingency Operations Transfer Fund, which are available until expended.

If DOD's $2.5 billion estimate for fiscal year 2000 U.S. participation in Kosovo is correct, and DOD does have $475 million available from fiscal year 1999 appropriations to apply to fiscal year 2000 costs, DOD will still require over $2 billion in additional funds for its ongoing Kosovo operations to pay for the costs not covered by the excess 1999 funds. Also, DOD may need more funds for both Bosnia and Southwest Asia operations than projected when the 2000 FYDP was finalized because the Fiscal Year 2000 Defense Appropriations Act provides less for these operations than proposed in the 2000 FYDP. Finally, DOD programmed only minimal amounts for new unexpected contingencies (less than $300 million in 2002 and 2003), which will place a further burden on DOD's resources, if additional funds are required during that period.

[19]*Military Operations: Some Funds for Fiscal Year 1999 Contingency Operations Will Be Available for Future Needs* (GAO/NSIAD-99-244BR, Sept. 21, 1999).

[20]The contingency funding values for 1999 are in current dollars.

Even if Congress appropriates supplemental funds for the ongoing and unexpected contingencies, Congress continues to debate whether rescissions from other defense programs should be imposed to offset some or all of the funding provided. If the funding is designated as an "emergency" requirement, Congress can approve supplemental funds without offsetting the amounts with rescissions in previously enacted discretionary appropriations or mandatory spending programs. The controversy has been that if Congress and the President agree to define the supplemental appropriations as an emergency, discretionary spending rises beyond the discretionary spending caps and the size of the budget surplus declines. In 1993 through 1997, Congress offset some, but not all, of the emergency supplemental appropriations.[21] In 1998, Congress provided DOD with emergency appropriations without offsets. The two emergency supplemental appropriations for 1999 provided DOD with $7.7 billion and $10.7 billion, respectively, and required less than $100 million each in offsets of DOD programs, but only after extensive debate and a threat of presidential veto.[22] In the past, rescissions came from inflation savings, fuel savings, and large unobligated budget authority, but such savings from less contentious sources are not always possible according to the Congressional Research Service. Since historically, DOD has only programmed for and Congress has only appropriated for ongoing contingency operations, the services generally have borrowed funds from other activities that they planned to conduct later in the fiscal year to pay for new or expanded contingencies. Although Congress has appropriated supplemental funding to pay for the added costs of contingencies, DOD may be required, as it has in the past, to reduce funding in the short term for other programs through reprogramming and rescissions, adversely impacting those programs such as readiness.

Planned Increase in Procurement Funding at Risk

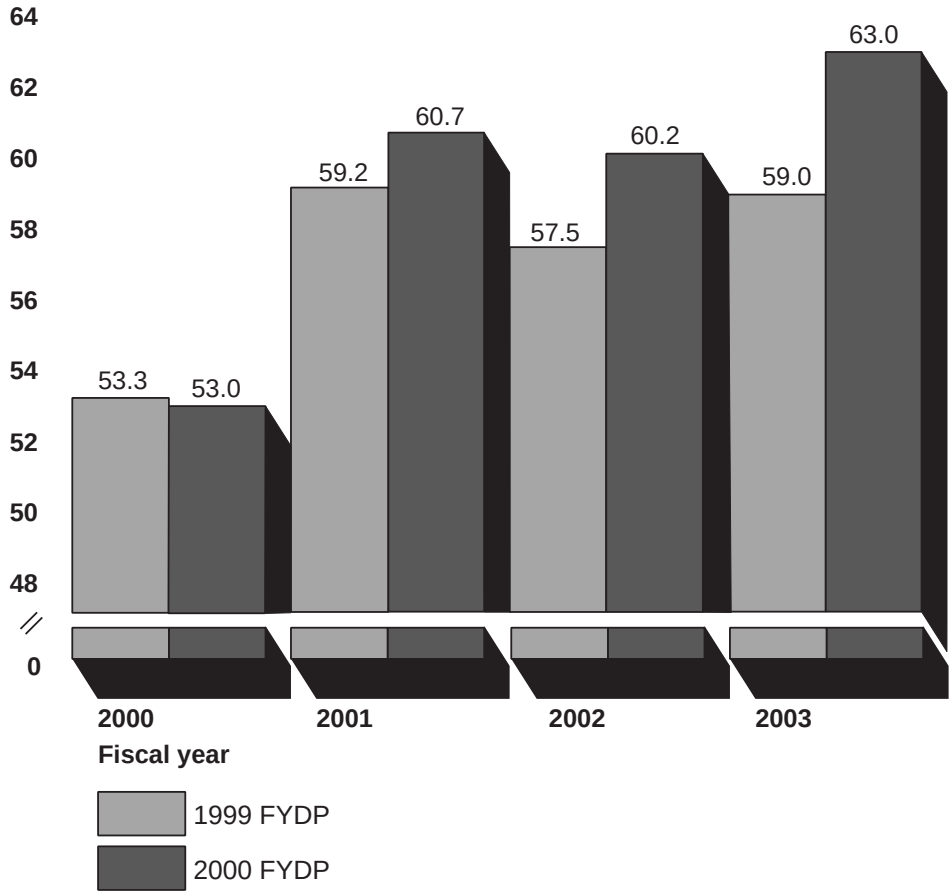
DOD programmed $8 billion (3.5 percent) more in procurement funds over the 2001-2003 period in the 2000 FYDP than in the 1999 FYDP. About half of the increase occurred in 2003 when the discretionary spending caps are

[21] *Emergency Appropriations for the Department of Defense, Congressional Research Service memorandum*, Aug. 18, 1998.

[22] *Appropriations Supplemental for FY1999: Emergency Funding in P.L. 105-277 for Agriculture, Embassy Security, Y2K Problems, Defense, and Other Issues*, Congressional Research Service Report for Congress, RL 30056, Feb. 25, 1999 and *Supplemental Appropriations for FY1999: Central America Disaster Aid, Middle East Peace, and Other Initiatives*, Congressional Research Service Report for Congress, RL30083, May 26, 1999.

expected to end. DOD planned to add to the procurement of items in its Quadrennial Defense Review modernization plan. For example, the 2000 FYDP included an additional new attack submarine in the Navy's shipbuilding plan and accelerated the rate of procurement of the Marine Corps' tilt-rotor V-22 aircraft. Despite the net increase, procurement funding for both the Army and defensewide components was projected to decrease during the same period. Figure 4 compares total procurement funding in the 2000 FYDP with annual procurement funding projections in the 1999 FYDP.

Figure 4: Annual Procurement Funding Levels in the 1999 and 2000 FYDPs (in billions of fiscal year 2000 dollars)



Source: Our analysis of FYDP data.

In recent years, DOD has had difficulty in meeting its planned growth in procurement funding. Although the 2000 FYDP projected that DOD will meet the Quadrennial Defense Review's goal of $60 billion in procurement funding by 2001, this plan follows the pattern of previous FYDPs by putting most of the procurement funding increase in the outyears of the FYDP. We have reported that DOD reduced programmed procurement in successive FYDPs and reprogrammed some procurement to the years beyond the FYDP.[23] The 2000 FYDP is no exception. The level of procurement funding for 2000 was slightly reduced in the 2000 FYDP from the level projected in the 1999 FYDP. In addition, procurement plans were either canceled or reprogrammed to the outyears of the FYDP. For example, Army officials stated that the Army terminated the Improved Recovery Vehicle program and moved funding for the CH-47 cargo helicopter upgrades to the outyears. The Army stated that funds originally slated for these programs would be used to increase O&M funding for such activities as depot maintenance, real property maintenance, and active component flying hours for training. According to the Army, these cuts in procurement will adversely affect future readiness because the Army will have to rely on older, more maintenance intensive equipment.

The Quadrennial Defense Review stated that as successive FYDPs reduced the amount of programmed procurement, some of these reductions have accumulated into long-term projections, creating a large demand for procurement funds in the outyears. This movement of procurement funding to the outyears is a source of risk to the long-term affordability of the Department's modernization plans. The Quadrennial Defense Review stated that to ensure that DOD meets and maintains its $60-billion minimum funding level for procurement, DOD must stop the movement of funding planned for procurement in the FYDP to other accounts and achieve the overall funding increases it has programmed in its FYDPs to pay, in part, for its modernization plans.

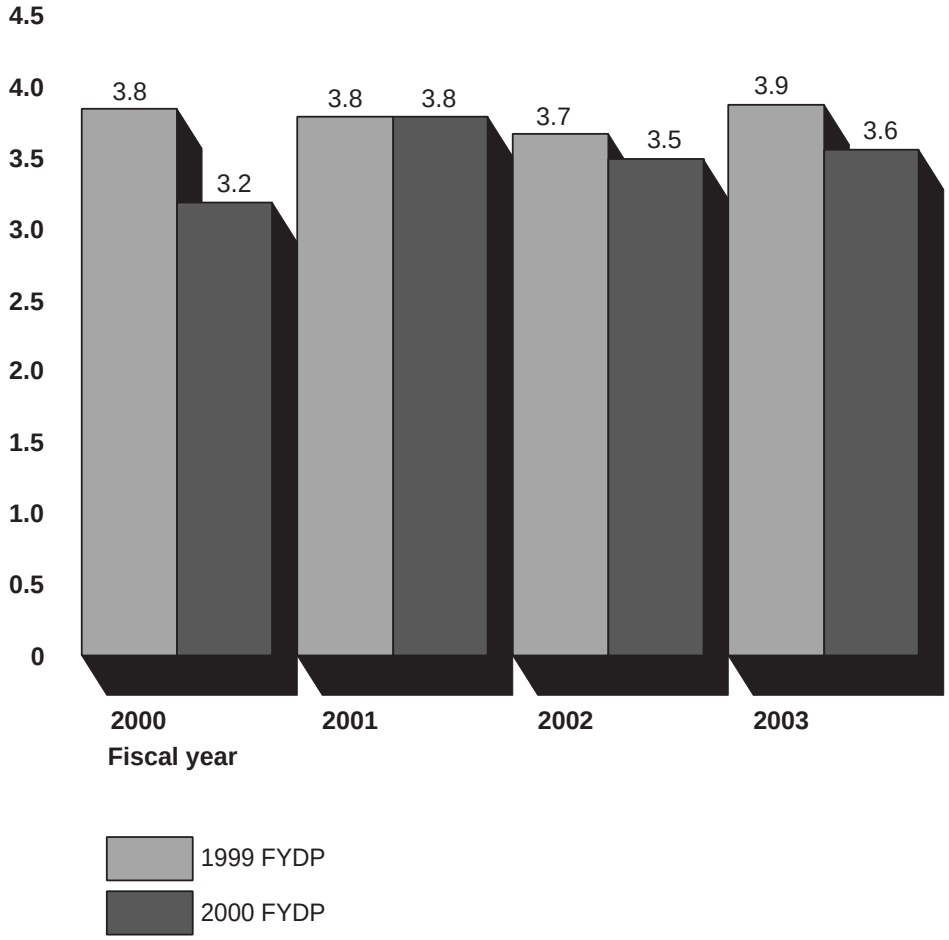
[23] *Future Years Defense Program: Substantial Risks Remain in DOD's 1999-2003 Plan* and *DOD Budget: Substantial Risk in Weapons Modernization Plans* (GAO/T-NSIAD-99-20, Oct. 8, 1998).

Family Housing Accounts May Require More Funding Than Programmed in the 2000 FYDP

DOD programmed less money in the 2000 FYDP for family housing due to planned further implementation of the Military Housing Privatization Initiative. The purpose of the Initiative is to encourage private sector investment, rather than use government funding, to build and operate housing on military installations or in nearby communities where local markets could not meet military housing needs. The House Appropriations Military Construction Subcommittee, though, was concerned with some of the services' plans to move to greater use of the Initiative instead of using the Initiative as a supplement to traditional military housing construction financing, which funds the construction and operation of military housing solely through DOD funding. As a result, the Army and the Navy scaled back their privatization plans and stated that the 2001 FYDP will show higher projected funding levels in the family housing construction and operations appropriation accounts.

Funding for family housing operations and construction activities was projected to be lower in the 2000 FYDP than in the 1999 FYDP over the 2000-2003 period, as shown in figure 5. Total funding for this period was projected to be about $1.1 billion less in the 2000 FYDP.

Figure 5: Annual Family Housing Funding Levels in the 1999 and 2000 FYDPs (in billions of fiscal year 2000 dollars)



Source: Our analysis of FYDP data.

Over the past several years, DOD had expressed concern over the poor condition of military family housing. To more quickly and economically remedy the housing problems, the Fiscal Year 1996 National Defense Authorization Act gave DOD the authority to test a new initiative, known as the DOD's Military Housing Privatization Initiative.[24] DOD's goal was to reduce the government's near-term outlays for housing revitalization by

[24]P.L. 104-106, Feb. 10, 1996.

encouraging the private sector to invest at least $3 in military housing development for each dollar that the government invested. By leveraging government funds by a minimum of 3 to 1, the military can stretch its available construction funds so that significantly more housing can be revitalized in comparison to traditional military housing financing. Under the Initiative, funds can be moved from military housing construction and operations accounts to military housing allowance accounts for use by military personnel for rent payments.

Progress in implementing the Initiative has been slow. Currently, DOD has only privatized 3,083 housing units under the Initiative although it had expected to privatize 15,000 units by 1999 according to the Defense Reform Initiative. DOD took steps in the 2000 FYDP to speed implementation of the program. When the 2000 FYDP was developed, DOD identified 7 privatization projects for 2000 that would improve or build an additional 10,500 units and moved funding from family housing appropriations to military personnel appropriations, reducing the level of annual family housing appropriations in the 2000 FYDP.

In June 1999, the House Appropriations Military Construction Subcommittee expressed concern that some of the services were not using the Initiative as intended by the legislation, which was to use the Initiative to supplement traditional military housing construction financing. The Army and the Navy planned aggressive use of the Initiative to reduce their housing deficiencies. The Army's fiscal year 2000 program did not include any conventional military family housing construction funding for installations within the United States. The Navy's fiscal year 2000 plan did not build any new family housing units within the continental United States during that fiscal year. Given the extent of the housing problems, and the slow pace of execution under the Initiative, the Subcommittee did not believe that the Army's and the Navy's aggressive use of the Initiative was appropriate. The Subcommittee stated that no further privatization approval would be forthcoming and that approved projects should be thoroughly reviewed by DOD. As a result of these concerns, DOD revised the privatization plans to include only five projects in 2000, not seven. Based on the revised plan, some funds will shift back to the family housing construction and operation accounts from the military housing allowance accounts in the 2001 FYDP.

We have also questioned how much DOD saves per unit by constructing family housing under the Initiative.[25] In our review of two privatization projects, we found that the difference in the cost of privatization and traditional military construction financing was about 10 percent or less, considerably lower than the services' estimates. Also, according to DOD, some projects under the Initiative may require more funding than originally projected.

DOD Unable to Shift Funds to Modernization and Readiness Through Infrastructure Reductions

Despite DOD's continued emphasis to reduce its infrastructure to free up funds for its priorities, most notably modernization and readiness, our analysis found almost no reduction in the proportion of resources allocated to infrastructure in the 2000 FYDP from the allocation in the 1999 FYDP.[26] Total funding for infrastructure and mission programs increased in the 2000 FYDP, with over two-thirds of the increase provided to mission programs, resulting in almost no change to the overall proportion of mission and infrastructure in the total DOD program. In addition, DOD may not be able to reduce its infrastructure using two of its major infrastructure reduction initiatives–competitive sourcing and base realignment and closure. Our work to date has shown that although DOD has achieved some savings through competitive sourcing, savings are overestimated, at least in the short term, and it has taken longer to begin and complete the competitions than originally planned.[27] Also, the National Defense Authorization Act for Fiscal Year 2000 contained no authorization for either of the two additional rounds of base closures DOD requested and included in the 2000 FYDP. Therefore, DOD will have less infrastructure savings available than planned in the 2000 FYDP to fund its priorities.

The Quadrennial Defense Review concluded that the downsizing of DOD's infrastructure had fallen behind the downsizing of its force structure, and DOD could not afford to waste resources on an infrastructure "stuck in the past." The Secretary of Defense stated that despite the additional funding in

[25] *Military Housing: Privatization Off to a Slow Start and Continued Management Attention Needed* (GAO/NSIAD-98-178, July 17, 1998).

[26] DOD defines infrastructure as those activities that provide support services to mission programs, such as combat forces, and primarily operate from fixed locations.

[27] *Defense Outsourcing: Challenges Facing DOD as It Attempts to Save Billions in Infrastructure Costs* (GAO/T-NSIAD-97-110, March 12, 1997) and *Defense Reform Initiative: Organization, Status, and Challenges* (GAO/NSIAD-99-87, Apr. 21, 1999).

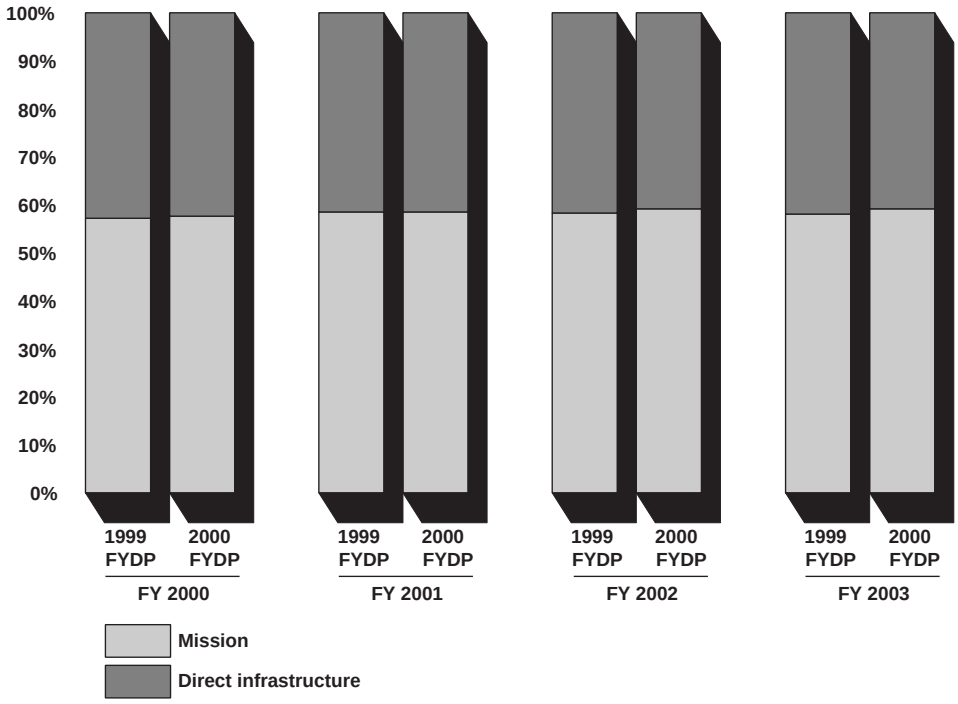
DOD's 2000 budget, DOD still needs to reduce excess support activities and infrastructure that continue to take resources away from readiness, modernization, and the quality of life of DOD's personnel. Despite this emphasis on reducing DOD's infrastructure to free up resources for DOD's most pressing requirements, our reviews of DOD's 1996-2000 FYDPs have shown that DOD has not made any significant reductions in the proportion of resources allocated to infrastructure.

The portion of DOD's 2000 FYDP allocated to its direct infrastructure during the 2000-2001 period remained at about the same level as DOD projected its level of infrastructure funding in the 1999 FYDP.[28] DOD projected only about 1 percent decline in the portion of resources allocated to infrastructure in 2002 and 2003 compared to the portion allocated to infrastructure in the 1999 FYDP, as shown in figure 6. In addition to this direct infrastructure, there are parts of the total infrastructure funding that cannot be clearly identified in the FYDP. These funds pay for goods and services sold by the four Defense Working Capital Funds and mostly represent logistics purchases.[29] In the past, DOD estimated that this "indirect" infrastructure was on average an additional 14 percent of its total program.

[28]Using the FYDP, DOD has clearly identified program elements that fund infrastructure activities and refer to these as "direct infrastructure."

[29]The Defense Working Capital Funds are revolving funds, which support self-sustaining activities in DOD that sell a product or service to DOD customers and then use the receipts from sales to pay operating expenses and purchase new stock. There is a Working Capital Fund for each service and defensewide to devolve the responsibility for cash balances to each DOD component.

Figure 6: Mission and Direct Infrastructure Programs in 1999 and 2000 FYDPs



Source: Our analysis of FYDP data.

DOD projected increases in funding for both its mission and infrastructure programs in the 2000 FYDP. Over two-thirds of the annual increases in the 2000 FYDP were for mission programs, and the remainder of the increases was for direct infrastructure, which had almost no impact on the overall proportion of mission to infrastructure in the total DOD program. Most of the increase in mission program funding was due to changing the designation of programs from infrastructure to mission, specifically direct support forces. For example, the Air Force personnel and funds in base operations and medical functions that have wartime missions were redesignated from infrastructure to combat support programs. Similarly, according to the Army, it moved considerable funding and personnel resources from central personnel and training programs (infrastructure programs) into direct support forces programs.

Several infrastructure categories were projected to have funding increases over the 2000-2003 period. For example, central training infrastructure funding was projected to increase between 8 and 10 percent each year over the 2001-2003 period in the 2000 FYDP from the levels projected in the 1999 FYDP.[30] This increase was not surprising because we recently found that the Army, the Navy, and the Air Force may not have been able to accomplish their training programs at the reduced annual funding levels in the 1999 FYDP.[31] Service officials agreed and told us that some training categories were underfunded and may require higher funding levels in the 2000 FYDP. For example, since the services were experiencing lower-than-expected retention rates for enlisted personnel, future training requirements would increase to replace the personnel not retained. However, all of the services projected that the number of personnel to be trained would be reduced, resulting in lower levels of training funding in the 1999 FYDP.

DOD continued to emphasize the reduction of unneeded support activities and infrastructure and its goal of having infrastructure consume a smaller portion of the defense budget through ongoing and proposed initiatives. DOD planned to use the savings to offset current funding shortfalls in modernization and quality of life initiatives. Its major initiative to reduce infrastructure is the ongoing Defense Reform Initiative, which included the proposed 2001 and 2005 rounds of base realignment and closures. The 2000 FYDP included savings and costs from these initiatives.

DOD May Not Achieve All of the Savings Programmed in the 2000 FYDP From Competitive Sourcing Initiatives

The 1999 FYDP was the first to reflect savings from DOD's Defense Reform Initiative. The intention of the Initiative was to change how DOD does business internally and with the private sector. The Initiative has four basic tenets: (1) reduce excess infrastructure and redundancies, (2) adopt modern business practices to achieve world class standards of performance and continue to reform the acquisition process, (3) streamline organizations to remove redundancies and maximize synergy, and (4) expand the use of competition between the public and private sectors to improve performance and reduce the cost of DOD business and support activities. Quantifiable long-term savings, to pay for future modernization

[30]Central training programs include individual training activities that provide training for active military personnel, reserve component personnel, and DOD civilians.

[31]*Defense Infrastructure: Funding Risks in Services' 1999 Central Training Programs* (GAO/NSIAD-99-56, Feb. 24, 1999).

have been estimated for only two initiatives: public/private competitions (competitive sourcing) and base realignment and closures.

DOD estimated that competitive sourcing will save about $11.2 billion over the 1997 through 2005 period and $3.4 billion each year thereafter.[32] Under competitive sourcing, a federal agency identifies the work to be performed; and prepares an in-house cost estimate, based on its most efficient organization; and compares it with the best offer from the private sector to determine which entity can perform the work more cost-effectively. For example, the Army's program reflected anticipated savings of $3.1 billion from competitions over the 2000-2005 period. The Army expected that all of its competitive sourcing studies, which would determine whether it is less expensive to have in-house organizations or private contractors perform certain functions, will be completed by 2005 and that subsequent decisions will achieve "steady-state" savings of about $800 million per year. All of its projected savings in the 2000 FYDP were reprogrammed to pay for other Army high priority programs.

DOD's past competitive sourcing efforts for various activities yielded some savings. However, because these efforts achieved lower savings than anticipated, we see risk in that DOD may not achieve all of the savings programmed in the 2000 FYDP for several reasons.[33] First, DOD has established far greater and more aggressive goals for competitions than in the past. Second, our recent work concluded that the savings estimates provided to Congress from the use of competitive sourcing are overstated at least in the short term because DOD has not fully determined the up-front investment costs required to perform the competitive sourcing studies or the personnel separation costs likely to be associated with implementing the studies. Third, Defense components have fallen behind in beginning and completing many of the initial studies. DOD officials have raised concerns about the number of positions that can be reasonably studied during the prescribed time frame and the likelihood that the projected savings can be realized.

[32]These values are in current dollars.

[33]*Defense Reform Initiative* (GAO/NSIAD-99-87, Apr. 21, 1999).

Congress Did Not Approve Additional Base Realignment and Closure Rounds

To enable DOD to close unneeded bases, Congress enacted base closure legislation that instituted base closure rounds in 1988, 1991, 1993, and 1995. The 2000 FYDP, like the 1999 FYDP, requested congressional approval for two more rounds of base realignment and closure (referred to as base closures) in 2001 and 2005. Both FYDPs included approximately $790 million in 2002 and $1.3 billion in 2003 to begin implementation of a 2001 base closure round. The 2000 program also contained $525 million in base closure funding in 2004. DOD estimated that initial net savings from a 2001 base closure round would occur in 2005 and showed $162 million in savings for that year in the 2000 program. In total, DOD estimated that the two base closure rounds would yield savings of over $20 billion over the 2008-2015 period and $3 billion annually thereafter.[34] DOD continued to emphasize that it needs two more base closure rounds to reduce excess base capacity and to free up additional funds for readiness, weapon modernization, and quality of life plans. DOD stated that although force structure has been reduced by 36 percent, base capacity has only been reduced by 26 percent through the four previous base closure rounds.

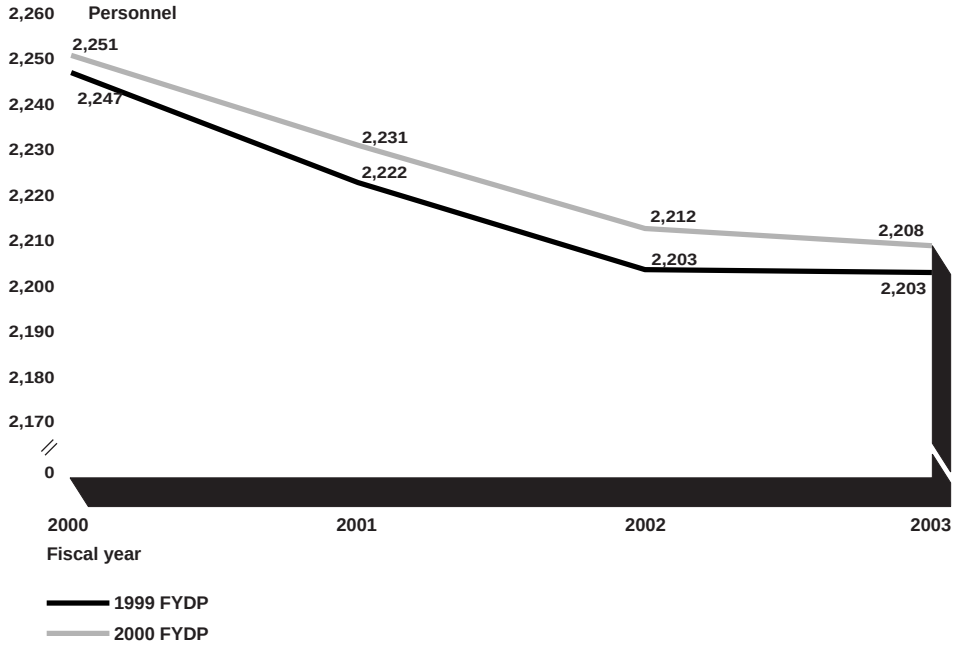
Congress did not authorize new base closure rounds. Many Members of Congress have been reluctant to support additional base closure rounds because they were concerned about the costs and savings from prior base closure rounds, their economic impact, and executive branch implementation of the 1995 base closure commission's recommendations regarding McClelland and Kelly Air Force bases in California and Texas, respectively. In May 1999, the Senate rejected a proposed amendment to the National Defense Authorization for Fiscal Year 2000 bill to establish another base closure round in 2001. Thus, DOD will need to make some changes to the 2000 program, especially in 2005 when DOD expects the first net savings to appear. Also, until additional rounds are approved, DOD will have the net cost of these rounds to reallocate to other programs. DOD stated that without base closure authority, it will need to continue spending scarce funds on maintaining excess infrastructure, and identify other funding sources to meet these needs, including modernization.

[34]These values are in current dollars.

Most Savings From Base Closings and Other Initiatives Come From Lower Civilian Personnel Employment Levels

The personnel levels in the 1999 FYDP reflected the Quadrennial Defense Review's recommendations–reductions in military personnel and civilians. In the 2000 FYDP, DOD continued to project a decline in military personnel levels, but the decline was about 2,000 people less than projected in the 1999 FYDP, as shown in figure 7.

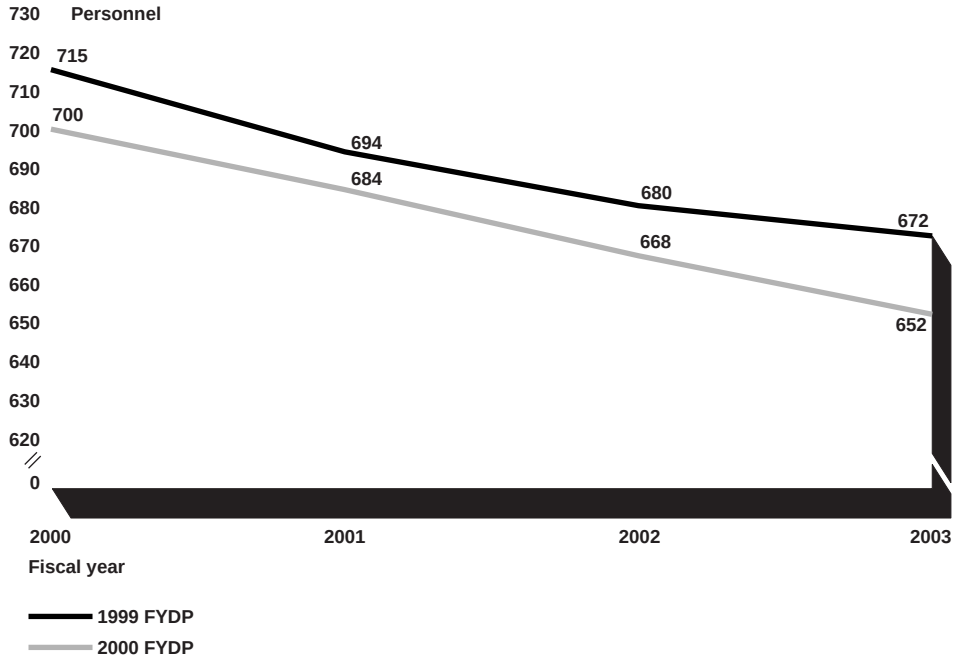
Figure 7: Military Personnel Levels in the 1999 and 2000 FYDPs (military personnel in thousands)



Source: DOD FYDP data.

Figure 8 shows that the number of civilian personnel continues to decline, but DOD projected over 20,000 fewer civilians in 2003 in the 2000 FYDP than projected in the 1999 FYDP. Programmed lower levels of civilian personnel employment provided most of the eventual savings from base closings and other initiatives.

Figure 8: Civilian Personnel Levels in the 1999 and 2000 FYDPs (civilian personnel in thousands)



Source: DOD FYDP data.

The ability of DOD to make such significant reductions in civilian personnel levels will depend on whether DOD receives authority for a 2001 base closure round, if competitive sourcing and other Defense Reform Initiative projects are completed on time, and if the timing and estimates of the savings are accurate. For example, the Navy projected almost 13,370 fewer civilians in 2003 as competitive sourcing is implemented. The Air Force was the only service that projected that its civilian personnel levels would be higher in the 2000 FYDP than in the 1999 FYDP over the 2001-2003 period, although the annual levels in the 2000 FYDP were projected to be lower in 2003 than in 2000. According to the Air Force, these increases resulted from more refined estimates of reductions in civilian personnel requirements from implementing competitive sourcing. As mentioned previously, the services' ability to achieve these reductions when planned is questionable since several services have fallen behind in beginning and completing the initial competitive sourcing studies.

Agency Comments

In written comments on a draft of this report, DOD provided technical comments, which we included 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 defense plan, we analyzed funding data from the 1999 and 2000 FYDPs for fiscal years 2000–2003. We adjusted the current dollars to constant 2000 dollars using appropriate DOD Comptroller inflation indexes. We did not test DOD's management controls of the FYDP data or verify the data contained in either the 1999 or the 2000 FYDPs. However, we compared DOD's automated FYDP data with published documents DOD provided. Specifically, we compared total budget estimates, appropriation totals, military and civilian personnel levels, force structure levels, and some specific program information. Based on our comparisons, we were satisfied that the automated FYDP data and published data were in agreement.

To identify risks in the 2000 FYDP and determine how DOD will achieve savings programmed in that FYDP, we interviewed program and budget officials in the Office of the Secretary of Defense, Army, Navy, and Air Force Headquarters. We also examined various DOD planning and budget documents, including the *1999 Report of the Secretary of Defense to the President and the Congress*, Programming and Budget Decisions for the 2000 budget, the President's fiscal years 1999 and 2000 budget submissions, the *Mid-Session Review of the Fiscal Year 2000 Budget*, Selected Acquisition Reports, the *Report of the Quadrennial Defense Review*, and the *Defense Reform Initiative Report*. We also reviewed congressional testimonies of various DOD officials to support the 1999 and 2000 budget submissions; our prior reports; and pertinent reports by the Congressional Budget Office, the Congressional Research Service, and others. In addition, we provided each services and the Office of the Secretary of Defense (Program Analysis and Evaluation) with questions about the changes between the two FYDPs. We included their responses throughout the report as appropriate.

Our review was conducted from April through October 1999 in accordance with generally accepted government auditing standards.

We are sending copies of this report to other appropriate congressional committees; the Honorable William Cohen, Secretary of Defense; the Honorable F. Whitten Peters, Secretary of the Air Force; the Honorable Louis Caldera, Secretary of the Army; and the Honorable Richard Danzig, Secretary of the Navy. We will also provide copies to others upon request.

If you have any questions concerning this report, please call Robert Pelletier on (202) 512-4032. Key contributors to this report were Edna Thea Falk, Gaines R. Hensley, Patricia Lentini, and Dale Wineholt.

Sincerely yours,

Norman J. Rabkin
Director, National Security
Preparedness

Department of Defense's 1999 and 2000 Future Years Defense Programs by Account

The following tables show the differences between accounts in the 1999 and 2000 Future Years Defense Programs (FYDP) for each appropriation over the years common to the two programs, 2000-2003.

Table 3: Military Personnel Appropriation Accounts, 1999 and 2000 FYDPs (total obligational authority in millions of fiscal year 2000 dollars)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
Military personnel, Army	1999	$21,102	$21,008	$21,040	$21,098	**$84,248**	
	2000	22,007	21,957	21,906	21,920	**87,790**	
	Change	904	949	866	822	**3,542**	4.2
Military personnel, Navy	1999	16,721	16,491	16,453	16,458	**66,123**	
	2000	17,207	17,311	17,323	17,295	**69,137**	
	Change	487	820	870	837	**3,014**	4.6
Military personnel, Marine Corps	1999	6,533	6,520	6,498	6,478	**26,030**	
	2000	6,545	6,619	6,618	6,611	**26,394**	
	Change	12	99	120	133	**364**	1.4
Military personnel, Air Force	1999	17,621	17,068	16,645	16,430	**67,763**	
	2000	17,900	17,787	17,498	17,351	**70,537**	
	Change	279	720	853	922	**2,773**	4.1
Reserve personnel, Army	1999	2,199	2,173	2,106	2,111	**8,590**	
	2000	2,271	2,290	2,267	2,300	**9,129**	
	Change	72	117	161	189	**539**	6.3
Reserve component personnel, Army	1999					**0**	
	2000		-29	-92	-137	**-259**	
	Change	0	-29	-92	-137	**-259**	
Reserve personnel, Navy	1999	1,405	1,385	1,369	1,364	**5,522**	
	2000	1,446	1,429	1,422	1,416	**5,713**	
	Change	42	45	53	52	**191**	3.5
Reserve personnel, Marine Corps	1999	410	395	383	375	**1,563**	
	2000	409	410	407	398	**1,624**	
	Change	0	14	25	22	**61**	3.9
Reserve personnel, Air Force	1999	906	903	901	900	**3,610**	
	2000	881	910	908	904	**3,604**	
	Change	-25	7	7	5	**-6**	-0.2
National Guard personnel, Army	1999	3,399	3,296	3,216	3,179	**13,091**	
	2000	3,571	3,588	3,600	3,634	**14,393**	
	Change	171	291	384	455	**1,301**	9.9
National Guard personnel, Air Force	1999	1,423	1,417	1,419	1,422	**5,681**	
	2000	1,487	1,502	1,504	1,507	**5,999**	
	Change	$64	$85	$85	$85	**$319**	5.6

(Continued)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
Total	**1999**	**$71,719**	**$70,657**	**$70,030**	**$69,815**	**$282,221**	
	2000	**$73,723**	**$73,775**	**$73,363**	**$73,199**	**$294,060**	
	Change	**$2,004**	**$3,118**	**$3,332**	**$3,384**	**$11,839**	**4.2**

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Note: Totals may not add due to rounding.

Source: Our analysis of FYDP data.

Table 4: Operation and Maintenance Appropriation Accounts, 1999 and 2000 FYDPs (total obligational authority in millions of fiscal year 2000 dollars)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
Operation and	1999	$17,296	$17,212	$17,316	$17,111	**$68,935**	
maintenance (O&M),	2000	18,661	18,690	19,038	19,006	**75,396**	
Army	Change	1,365	1,478	1,723	1,895	**6,460**	9.4
O&M, Navy	1999	21,413	20,778	20,558	20,566	**83,315**	
	2000	22,239	21,799	21,503	21,506	**87,047**	
	Change	825	1,021	944	940	**3,731**	4.5
O&M, Marine Corps	1999	2,533	2,477	2,491	2,528	**10,030**	
	2000	2,559	2,623	2,575	2,539	**10,297**	
	Change	26	146	84	11	**267**	2.7
O&M, Air Force	1999	20,150	20,833	20,660	20,864	**82,507**	
	2000	20,363	21,337	21,248	21,598	**84,547**	
	Change	213	504	589	735	**2,040**	2.5
O&M, defensewide	1999	10,528	10,511	10,518	10,526	**42,082**	
	2000	11,419	11,119	11,072	11,024	**44,634**	
	Change	892	608	554	498	**2,552**	6.1
O&M, Army Reserve	1999	1,227	1,191	1,214	1,208	**4,840**	
	2000	1,369	1,442	1,491	1,497	**5,799**	
	Change	142	252	277	289	**959**	19.8
O&M, Army Reserve	1999					**0**	
Component	2000		-17	-49	-66	**-132**	
	Change	0	-17	-49	-66	**-132**	
O&M, Navy Reserve	1999	928	872	994	830	**3,624**	
	2000	918	865	893	971	**3,648**	
	Change	-10	-7	-100	141	**23**	0.6
O&M, Marine Corps	1999	112	103	102	101	**418**	
Reserve	2000	123	126	124	124	**498**	
	Change	11	23	22	23	**80**	19.0
O&M, Air Force	1999	1,649	1,634	1,637	1,641	**6,560**	
Reserve	2000	1,728	1,737	1,756	1,768	**6,990**	
	Change	80	103	119	127	**430**	6.6
O&M, Army National	1999	2,356	2,366	2,369	2,421	**9,512**	
Guard	2000	2,904	2,962	3,005	3,021	**11,892**	
	Change	$547	$596	$637	$600	**$2,380**	25.0

(Continued)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
O&M, Air National Guard	1999	$3,031	$3,006	$3,035	$3,032	**$12,103**	
	2000	3,100	3,165	3,167	3,153	**12,584**	
	Change	69	159	132	121	**481**	4.0
Environmental restoration fund, Army	1999	379	376	375	375	**1,505**	
	2000	378	373	333	332	**1,416**	
	Change	-1	-4	-42	-42	**-88**	-5.9
Environmental restoration fund, Navy	1999	295	291	374	316	**1,275**	
	2000	284	288	269	244	**1,084**	
	Change	-11	-2	-105	-72	**-191**	-14.9
Environmental restoration fund, Air Force	1999	381	379	377	375	**1,512**	
	2000	377	369	367	364	**1,477**	
	Change	-4	-9	-10	-12	**-36**	-2.4
Environmental restoration fund, defensewide	1999	25	23	23	22	**93**	
	2000	25	23	22	22	**92**	
	Change	0	0	0	0	**-1**	-0.8
Environmental restoration fund, formerly used sites	1999	298	184	184	182	**848**	
	2000	199	183	182	180	**743**	
	Change	-99	-1	-2	-2	**-105**	-12.4
Drug interdiction and counterdrug activities, defense	1999	702	701	694	690	**2,788**	
	2000	788	749	737	726	**3,001**	
	Change	86	48	43	36	**213**	7.6
Defense Health Program	1999	10,302	10,554	10,427	10,347	**41,629**	
	2000	10,835	10,973	10,713	10,523	**43,043**	
	Change	533	419	286	176	**1,414**	3.4
Former Soviet Union threat reduction	1999	444	450	241	413	**1,549**	
	2000	476	488	429	466	**1,857**	
	Change	31	38	188	52	**309**	19.9
Overseas contingency operations transfer fund	1999	148	145	142	138	**573**	
	2000	2,388	1,261	280	273	**4,202**	
	Change	2,240	1,116	139	135	**3,629**	633.5
Other O&M	1999	196	190	190	191	**767**	
	2000	2,134	213	214	213	**2,774**	
	Change	1,937	24	24	23	**2,008**	261.8
Total	**1999**	**$94,395**	**$94,274**	**$93,918**	**$93,877**	**$376,464**	
	2000	**$103,266**	**$100,769**	**$99,369**	**$99,484**	**$402,888**	

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Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
	Change	**$8,870**	**$6,495**	**$5,451**	**$5,607**	**$26,424**	**7.0**

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Note: Totals may not add due to rounding.

Source: Our analysis of FYDP data.

Table 5: Procurement Appropriation Category by Component, 1999 and 2000 FYDPs (total obligational authority in millions of fiscal year 2000 dollars)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
Army procurement	1999	$8,982	$9,683	$10,653	$11,382	**$40,700**	
	2000	8,569	9,371	10,290	11,770	**40,001**	
	Change	-413	-312	-363	388	**-700**	-1.7
Navy/Marine Corps procurement	1999	21,322	25,484	21,890	22,481	**91,178**	
	2000	21,987	26,588	23,488	25,194	**97,257**	
	Change	665	1,104	1,598	2,713	**6,079**	6.7
Air Force procurement	1999	18,558	20,050	20,807	20,831	**80,245**	
	2000	19,166	20,947	22,127	22,092	**84,333**	
	Change	608	898	1,320	1,261	**4,088**	5.1
Defensewide procurement	1999	4,394	3,980	4,150	4,280	**16,804**	
	2000	3,299	3,833	4,250	3,955	**15,337**	
	Change	-1,095	-147	100	-326	**-1,467**	-8.7
Total	**1999**	**$53,256**	**$59,196**	**$57,501**	**$58,975**	**$228,928**	
	2000	**$53,022**	**$60,740**	**$60,155**	**$63,011**	**$236,928**	
	Change	**$-235**	**$1,543**	**$2,655**	**$4,036**	**$8,000**	**3.5**

Note: Totals may not add due to rounding.

Source: Our analysis of FYDP data.

Table 6: Army Procurement Appropriation Accounts, 1999 and 2000 FYDPs (total obligational authority in millions of fiscal year 2000 dollars)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
Aircraft procurement, Army	1999	$1,350	$1,407	$1,902	$1,925	**$6,584**	
	2000	1,230	1,290	1,858	2,142	**6,519**	
	Change	-120	-117	-45	217	**-65**	-1.0
Missile procurement, Army	1999	1,409	1,463	1,410	1,193	**5,475**	
	2000	1,358	1,389	1,304	1,503	**5,554**	
	Change	-51	-74	-107	310	**79**	1.4
Procurement of weapons and tracked combat vehicles, Army	1999	1,541	1,560	1,700	1,774	**6,575**	
	2000	1,417	1,474	1,642	1,646	**6,180**	
	Change	-124	-86	-58	-128	**-396**	-6.0
Procurement of ammunition, Army	1999	1,138	1,190	1,417	1,545	**5,290**	
	2000	1,141	1,236	1,365	1,448	**5,189**	
	Change	3	45	-52	-97	**-101**	-1.9
Other procurement, Army	1999	3,544	4,062	4,224	4,945	**16,776**	
	2000	3,424	3,982	4,122	5,031	**16,559**	
	Change	-121	-80	-102	86	**-217**	-1.3
Total	**1999**	**$8,982**	**$9,683**	**$10,653**	**$11,382**	**$40,700**	
	2000	**$8,569**	**$9,371**	**$10,290**	**$11,770**	**$40,001**	
	Change	**$-413**	**$-312**	**$-363**	**$388**	**$-700**	**-1.7**

Note: Totals may not add due to rounding.

Source: Our analysis of FYDP data.

Table 7: Navy/Marine Corps Procurement Appropriation Accounts, 1999 and 2000 FYDPs (total obligational authority in millions of fiscal year 2000 dollars)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
Aircraft procurement, Navy	1999	$7,998	$7,515	$7,635	$7,418	**$30,566**	
	2000	8,229	7,875	8,270	8,381	**32,755**	
	Change	231	361	635	963	**2,189**	7.2
Weapons procurement, Navy	1999	1,590	1,649	1,789	1,896	**6,924**	
	2000	1,357	1,533	1,619	1,849	**6,359**	
	Change	-232	-116	-170	-46	**-565**	-8.2
Shipbuilding and conversion, Navy	1999	6,118	11,144	6,924	7,425	**31,611**	
	2000	6,678	12,019	7,323	8,264	**34,285**	
	Change	560	875	399	839	**2,674**	8.5
Ammunition procurement, Navy and Marine Corps	1999	481	459	474	536	**1,950**	
	2000	485	472	532	610	**2,099**	
	Change	4	13	58	75	**149**	7.7
Other procurement, Navy	1999	4,173	3,711	4,096	4,265	**16,244**	
	2000	4,100	3,579	4,571	4,787	**17,036**	
	Change	-73	-132	475	522	**792**	4.9
Procurement, Marine Corps	1999	962	1,007	972	942	**3,883**	
	2000	1,137	1,111	1,173	1,303	**4,724**	
	Change	175	104	201	361	**841**	21.7
Total	**1999**	**$21,322**	**$25,484**	**$21,890**	**$22,481**	**$91,178**	
	2000	**$21,987**	**$26,588**	**$23,488**	**$25,194**	**$97,257**	
	Change	**$665**	**$1,104**	**$1,598**	**$2,713**	**$6,079**	**6.7**

Note: Totals may not add due to rounding.

Source: Our analysis of FYDP data.

Table 8: Air Force Procurement Appropriations Accounts, 1999 and 2000 FYDPs (total obligational authority in millions of fiscal year 2000 dollars)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
Aircraft procurement, Air Force	1999	$8,084	$9,164	$9,846	$9,429	**$36,524**	
	2000	9,302	9,755	10,607	10,637	**40,302**	
	Change	1,218	591	761	1,208	**3,778**	10.3
Missile procurement, Air Force	1999	2,754	3,077	3,168	3,339	**12,338**	
	2000	2,360	3,281	3,573	3,351	**12,564**	
	Change	-395	204	405	12	**226**	1.8
Procurement of ammunition, Air Force	1999	539	697	657	754	**2,647**	
	2000	420	637	603	601	**2,261**	
	Change	-119	-60	-54	-154	**-387**	-14.6
Other procurement, Air Force	1999	7,182	7,111	7,136	7,308	**28,736**	
	2000	7,085	7,274	7,343	7,503	**29,206**	
	Change	-96	163	208	195	**470**	1.6
Total	**1999**	**$18,558**	**$20,050**	**$20,807**	**$20,831**	**$80,245**	
	2000	**$19,166**	**$20,947**	**$22,127**	**$22,092**	**$84,333**	
	Change	**$608**	**$898**	**$1,320**	**$1,261**	**$4,088**	**5.1**

Note: Totals may not add due to rounding.

Source: Our analysis of FYDP data.

Table 9: Defensewide Procurement Appropriation Accounts, 1999 and 2000 FYDPs (total obligational authority in millions of fiscal year 2000 dollars)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
Procurement, defensewide	1999	$3,262	$2,996	$3,060	$3,463	**$12,781**	
	2000	2,129	2,862	3,176	3,151	**11,319**	
	Change	-1,133	-134	117	-312	**-1,463**	-11.4
Chemical agents and munitions destruction, defense	1999	1,131	982	1,089	816	**4,018**	
	2000	1,169	969	1,074	804	**4,016**	
	Change	38	-12	-15	-12	**-2**	0.0
Defense export loan guarantees	1999	1	1	1	1	**6**	
	2000	1	1			**2**	
	Change	0	0	-1	-1	**-3**	-57.0
Total	**1999**	**$4,394**	**$3,980**	**$4,150**	**$4,280**	**$16,804**	
	2000	**$3,299**	**$3,833**	**$4,250**	**$3,955**	**$15,337**	
	Change	**$-1,095**	**$-147**	**$100**	**$-326**	**$-1,467**	**-8.7**

Note: Totals may not add due to rounding.

Source: Our analysis of FYDP data.

Table 10: Research, Development, Test, and Evaluation Appropriation Accounts, 1999 and 2000 FYDPs (total obligational authority in millions of fiscal year 2000 dollars)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
Research, development, test, and evaluation (RDT&E), Army	1999	$4,696	$4,751	$4,651	$4,555	**$18,654**	
	2000	4,426	4,665	4,747	4,427	**18,266**	
	Change	-270	-86	96	-128	**-388**	-2.1
RDT&E, Navy	1999	7,512	7,011	7,302	7,711	**29,536**	
	2000	7,984	7,832	8,009	7,760	**31,585**	
	Change	472	820	708	49	**2,049**	6.9
RDT&E, Air Force	1999	12,459	11,914	12,174	12,255	**48,802**	
	2000	13,078	12,527	12,301	12,471	**50,377**	
	Change	619	613	127	216	**1,575**	3.2
RDT&E, defensewide	1999	8,551	8,037	7,517	7,226	**31,331**	
	2000	8,609	8,376	8,115	7,684	**32,785**	
	Change	58	339	598	458	**1,453**	4.6
Director test and evaluation, defense	1999	260	255	246	255	**1,016**	
	2000	253	249	240	248	**991**	
	Change	-6	-6	-6	-7	**-25**	-2.5
Director, Operational test and evaluation, defense	1999	25	24	24	24	**98**	
	2000	24	24	24	23	**95**	
	Change	-1	-1	-1	-1	**-3**	-3.5
Total	**1999**	**$33,503**	**$31,993**	**$31,915**	**$32,026**	**$129,437**	
	2000	**$34,375**	**$33,673**	**$33,436**	**$32,614**	**$134,098**	
	Change	**$872**	**$1,679**	**$1,521**	**$588**	**$4,661**	**3.6**

Note: Totals may not add due to rounding.

Source: Our analysis of FYDP data.

Table 11: Military Construction Appropriation Accounts, 1999 and 2000 FYDPs (total obligational authority in millions of fiscal year 2000 dollars)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
Military construction, Army	1999	$935	$849	$922	$713	**$3,419**	
	2000	656	1,581	1,032	872	**4,141**	
	Change	-279	732	110	160	**722**	21.1
Military construction, Navy	1999	700	728	772	876	**3,077**	
	2000	320	1,240	846	954	**3,359**	
	Change	-380	512	73	78	**282**	9.2
Military construction, Air Force	1999	446	501	592	602	**2,141**	
	2000	179	898	590	580	**2,247**	
	Change	-267	397	-2	-22	**106**	5.0
Military construction, defensewide	1999	800	517	497	799	**2,614**	
	2000	193	1,107	783	926	**3,009**	
	Change	-607	590	286	126	**395**	15.1
Military construction, Army Reserve	1999	79	73	70	69	**290**	
	2000	23	140	68	57	**288**	
	Change	-56	68	-2	-12	**-2**	-0.7
Military construction, Navy Reserve	1999	21	21	22	34	**99**	
	2000	5	29	23	21	**78**	
	Change	-16	9	1	-14	**-20**	-20.7
Military construction, Army National Guard	1999	60	46	45	45	**197**	
	2000	16	88	51	46	**201**	
	Change	-44	41	5	2	**4**	2.0
Military construction, Air National Guard	1999	106	119	53	55	**332**	
	2000	21	107	48	54	**230**	
	Change	-84	-13	-5	0	**-102**	-30.7
Military construction, Air Force Reserve	1999	26	29	32	33	**119**	
	2000	12	35	23	29	**99**	
	Change	-13	5	-9	-3	**-20**	-16.8
North Atlantic Treaty Organization Security Investment Program	1999	289	330	368	358	**1,345**	
	2000	202	205	255	249	**911**	
	Change	-87	-125	-113	-109	**-434**	-32.2
Base realignment and closure accounts, III-IV	1999	1,361	1,037	151	109	**2,658**	
	2000	689	1,540	59	25	**2,313**	
	Change	$-672	$503	$-92	$-84	**$-346**	-13.0

(Continued)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
Base realignment and	1999					**0**	
closure accounts,	2000			$319	$283	**$602**	
environmental restoration	Change	0	0	319	283	**602**	
Total	**1999**	**$4,824**	**$4,250**	**$3,523**	**$3,692**	**$16,290**	
	2000	**$2,317**	**$6,969**	**$4,095**	**$4,097**	**$17,478**	
	Change	**$-2,507**	**$2,719**	**$572**	**$404**	**$1,188**	**7.3**

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Note: Totals may not add due to rounding.

Source: Our analysis of FYDP data.

Table 12: Family Housing Appropriation Accounts, 1999 and 2000 FYDPs (total obligational authority in millions of fiscal year 2000 dollars)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
Family housing, Army	1999[a]	$1,225	$1,194	$1,199	$1,228	**$4,846**	
	2000[a]	1,112	1,044	975	1,018	**4,150**	
	Change	-113	-150	-224	-210	**-696**	-14.4
Family housing, Navy and Marine Corps	1999[a]	1,184	1,170	1,180	1,172	**4,706**	
	2000[a]	960	1,222	1,103	1,069	**4,354**	
	Change	-224	52	-77	-103	**-352**	-7.5
Family housing, Air Force	1999[a]	1,064	1,064	1,065	1,058	**4,252**	
	2000[a]	924	1,256	1,301	1,338	**4,818**	
	Change	-140	192	236	280	**567**	13.3
Family housing, defensewide	1999[a]	38	37	36	35	**145**	
	2000[a]	41	43	43	42	**169**	
	Change	4	6	7	7	**24**	16.4
Homeowner's assistance fund, defense	1999					**0**	
	2000	63	50			**113**	
	Change	63	50	0	0	**113**	
DOD family housing improvement fund	1999	335	327	190	373	**1,224**	
	2000	79	172	71	84	**406**	
	Change	-256	-154	-119	-288	**-818**	-66.8
Total	**1999**	**$3,845**	**$3,792**	**$3,669**	**$3,866**	**$15,172**	
	2000	**$3,178**	**$3,788**	**$3,492**	**$3,551**	**$14,010**	
	Change	**$-666**	**$-4**	**$-177**	**$-315**	**$-1,162**	**-7.7**

[a]Includes both Family Housing, Construction and Family Housing, Operations appropriations.

Note: Totals may not add due to rounding.

Source: Our analysis of FYDP data.

Table 13: Revolving and Management Funds, 1999 and 2000 FYDPs (total obligational authority in millions of fiscal year 2000 dollars)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
DOD working capital funds	1999	$443	0	0	$654	**$1,097**	
	2000	90	$384	$149	299	**922**	
	Change	-353	384	149	-354	**-174**	-15.9
National defense sealift fund	1999	331	356	354	356	**1,398**	
	2000	355	372	369	371	**1,466**	
	Change	23	15	15	15	**68**	4.9
Total	**1999**	**$775**	**$356**	**$354**	**$1,009**	**$2,494**	
	2000	**$445**	**$756**	**$517**	**$670**	**$2,388**	
	Change	**$-329**	**$399**	**$163**	**$-339**	**$-106**	**-4.3**

Note: Totals may not add due to rounding.

Source: Our analysis of FYDP data.

Table 14: Defensewide Contingencies, 1999 and 2000 FYDPs (total obligational authority in millions of fiscal year 2000 dollars)

Appropriation category	FYDP	2000	2001	2002	2003	Total	Percent change 2000-2003
Undistributed contingencies, defense	1999	$1	$1	$791	$1,346	**$2,139**	
	2000	0	0	$790	$1,342	**$2,132**	
	Change	$-1	$-1	$-1	$-4	**$-7**	-0.3

Note: Totals may not add due to rounding.

Source: Our analysis of FYDP data.

Comments From the Department of Defense

PROGRAM ANALYSIS
AND EVALUATION

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

October 29, 1999

Mr. Norman J. Rabkin
Director, National Security Preparedness Issues
National Security and International Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Rabkin:

This is the Department of Defense (DoD) response to the GAO draft report, "FUTURE YEARS DEFENSE PROGRAM: Funding Increase and Planned Savings in Fiscal Year 2000 Program Are At Risk," dated September 30, 1999 (GAO Code 702003/OSD Case 1905).

I recommend that the following changes be made to the draft report:

- Now that the FY 2000 DoD Appropriations Act has been signed, all references to FY 2000 House and Senate action should be updated to reflect final action.

- For the Defense Health Program (DHP), page 17, the last sentence of the first paragraph should either be deleted or revised to reflect the FY 2000 DoD Appropriations Act. The Congress added $275 million to the DHP to continue Congressionally-sponsored RDT&E efforts. The conference actions increased O&M funding by $115 million offset by a $70 million reduction for day-to-day operations, the budget area that has experienced under-funding in prior years. Enclosed is a further explanation of DHP funding.

- For Overseas Contingency Operations, page 18, delete the last two sentences of the middle paragraph. The statement implies that the Department will use $337 million for purposes other than contingencies. This is incorrect. Funds were held over into FY 2000 with the intent of using them for contingency requirements that carried into FY 2000.

Thank you for the opportunity to comment on your draft report.

Sincerely,

Robert R. Soule
Director

Enclosure

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