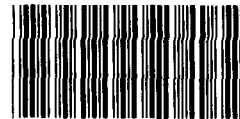


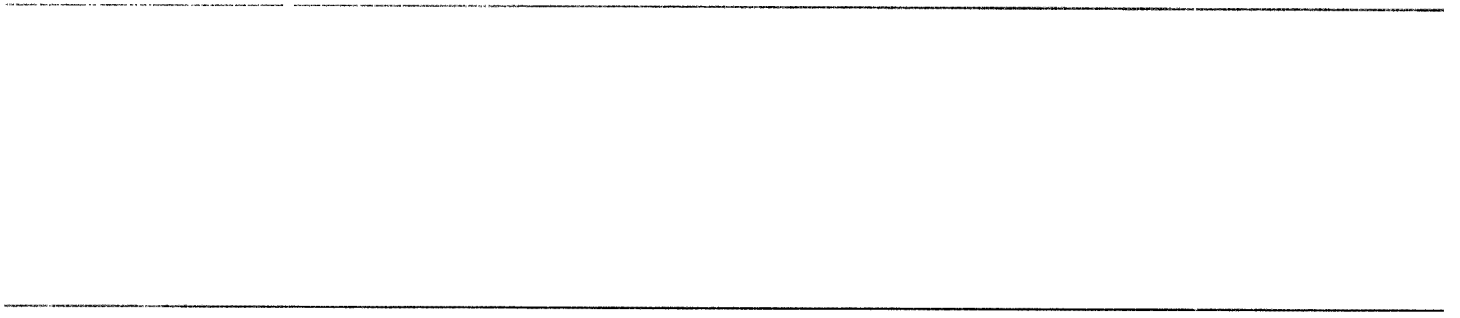
September 1990

ARMY BUDGET

Potential Reductions to the Operations and Maintenance Budget



142236



**National Security and
International Affairs Division**

B-240675

September 10, 1990

The Honorable Daniel K. Inouye
Chairman, Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable John P. Murtha
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives

The Honorable Earl Hutto
Chairman, Subcommittee on Readiness
Committee on Armed Services
House of Representatives

As requested, we reviewed the Army's justification for its fiscal year 1991 operation and maintenance (O&M) budget. Our objectives were to determine whether the defense programs should be funded in the amounts requested. Our review focused primarily on selected accounts in the Army's O&M request for two of its major commands—U.S. Army, Europe (USAREUR) and U.S. Army Forces Command (FORSCOM). We provided you with preliminary results of our analyses between March and July 1990.

We identified potential reductions of about \$734 million —\$326 million at USAREUR and \$407.8 million at FORSCOM—as shown in table 1.

Table 1: Proposed Reductions to the Fiscal Year 1991 O&M Requests for FORSCOM and USAREUR

Dollars in millions		
Account	FORSCOM	USAREUR
General purpose forces mission	\$194.8	\$26.4 ^a
Real property maintenance	176.6	214.0
Base operations	30.5	.0
Other programs	5.9	.0
Civilian personnel ^b	.0	84.5
Joint exercises	.0	1.1
Total	\$407.8	\$326.0

^aThe general purpose forces mission proposed reductions include \$4 million for air operating tempo (OPTEMPO) and \$22.4 million for ground OPTEMPO.

^bCivilian personnel funding is not identified as a separate account in the budget. Instead, it is included in each of the O&M accounts.

The reasons for proposed reductions are that (1) figures included in the budget submission to the Congress exceeded figures in budget planning guidance provided to USAREUR and FORSCOM by the Department of the Army, (2) the costs to repair and maintain facilities at installations to be closed had been included in the budget request, (3) the planned attrition of civilian personnel as a result of the hiring freeze had not been taken into account, (4) documentation was lacking to completely justify planned ground and air OPTEMPO amounts, and (5) training exercises had been canceled.

The Army expects that its O&M budget request will be reduced between 5 and 10 percent as a result of the congressional authorization and appropriation process. As such, the Army has instructed its major commands to begin planning to accept such a reduction. In turn, the major commands have instructed their activities to develop budget execution plans in accordance with a reduced amount. For example, FORSCOM, in April 1990, instructed its field activities to begin planning for budget reductions. FORSCOM told its activities that the amount of O&M funds included in the President's budget for them was "unrealistically high" and did not take into consideration the changing events in the world such as base closures and force structure changes. The results of our review are discussed in more detail in appendixes I and II.

As requested, we did not obtain written agency comments on this report. However, we discussed the report with responsible program officials during the course of our review and have included their comments where appropriate. Our objectives, scope, and methodology are described in appendix III.

We are sending copies of this report to the Secretaries of Defense and the Army; the Director, Office of Management and Budget; and interested congressional committees. Copies will be made available to others upon request.

Please call me on (202) 275-4141 if you or your staff have any questions concerning this briefing report. Major contributors to this report are listed in appendix IV.

A handwritten signature in cursive script that reads "Richard Davis".

Richard Davis
Director, Army Issues

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Abbreviations

FORSCOM	U.S. Army Forces Command
NATO	North Atlantic Treaty Organization
O&M	operation and maintenance
OPTEMPO	operating tempo
RPMA	Real Property Maintenance Activities
USAREUR	U.S. Army, Europe

Potential Reductions to the U.S. Army, Europe Fiscal Year 1991 Operation and Maintenance Budget

We identified potential budget reductions of \$326 million to USAREUR's fiscal year 1991 budget request for O&M funding. Table I.1 shows the proposed reductions by O&M account.

Table I.1: Proposed Reductions to USAREUR's Fiscal Year 1991 O&M Budget

Dollars in millions	
Account	Proposed reduction
Real property maintenance	\$214.0
Civilian personnel ^a	84.5
General purpose forces mission ^b	26.4
Joint exercises	1.1
Total	\$326.0

^aCivilian personnel funding is not identified as a separate account in the budget. Instead, it is a part of the other O&M accounts.

^bThe proposed reductions to the general purpose forces mission account consist of \$4 million for air OPTEMPO (flying hours) and \$22.4 million for ground OPTEMPO.

Real Property Maintenance Activities

Background

Real Property Maintenance Activities (RPMA) funding is used to pay the day-to-day costs of operating, maintaining, and repairing military facilities. For fiscal years 1989 and 1990, approximately 20 percent of USAREUR's RPMA funding was for variable expenses such as maintenance, repair, and minor construction of the facilities, and 80 percent was for fixed costs such as utilities and engineers' salaries. Table I.2 shows the funding received for USAREUR's RPMA in fiscal years 1989 and 1990 and the amount requested for fiscal year 1991.

**Appendix I
Potential Reductions to the U.S. Army,
Europe Fiscal Year 1991 Operation and
Maintenance Budget**

Table I.2: USAREUR's RPMA Funding for Fiscal Years 1989 and 1990 and the Amount Requested for Fiscal Year 1991

Dollars in millions

Cost	Fiscal year					
	1989		1990		1991	
	Funded	Percent	Funded	Percent	Requested	Percent
Variable	\$194	19	\$191	18	\$433	31
Fixed	824	81	892	82	975	69
Total	\$1,018	100	\$1,083	100	\$1,408	100

Source: Data provided by the Office of the Deputy Chief of Staff, Engineer, USAREUR.

Results of Analysis

USAREUR officials in the Office of the Deputy Chief of Staff, Engineer, estimate that, in fiscal year 1991, \$975 million will be needed to cover fixed costs and \$433 million will be available for maintenance, repair, and minor construction. The amount available for maintenance, repair, and minor construction in fiscal year 1991 represents a 127-percent increase over the \$191 million funded in fiscal year 1990. The official also said that a fiscal year 1991 funding level equal to the fiscal year 1990 funding level, adjusted for inflation (\$45 million), should be sufficient to cover the fixed costs and the maintenance, repair, and minor construction costs for those projects that cannot be delayed for a year.

The official further stated that, in addition to the adjustment for inflation, another \$66 million would be needed to comply with environmental requirements. Based on the above, an RPMA funding level of \$1.194 billion would be required for fiscal year 1991, as compared to USAREUR's request for \$1.408 billion. This would represent a \$214 million decrease from the amount included in the President's fiscal year 1991 budget. Table I.3 shows the reasons we identified for the overstated request.

Table I.3: Reasons for USAREUR's Fiscal Year 1991 Overstated RPMA Request

Dollars in millions	
Reason	Amount
Army's funding guidance to USAREUR was less than amount in the President's budget	\$46
USAREUR annually reallocates this amount of RPMA funds to other O&M accounts	35
Costs for maintenance, repair, and minor construction funds for installations due to close were included	42
Funds were included for nonspecified purposes	91
Total	\$214

**Funding Guidance Is Less Than
Amount Budgeted**

The Army's current budget planning guidance to USAREUR for RPMA in fiscal year 1991 is \$46 million less than what was included in the President's budget request. In other words, USAREUR expects to receive \$1.362 billion, not the \$1.408 billion reflected in the President's budget.

**USAREUR Does Not Spend All
Its RPMA Funds for RPMA
Purposes**

From fiscal years 1987 to 1989, USAREUR reallocated a total of \$105 million (an annual average of \$35 million) from the RPMA account to another O&M account, base operations. USAREUR officials in the Office of the Deputy Chief of Staff for Resource Management told us that the funds were reallocated from RPMA to base operations because the Congress has been more willing to authorize increases in RPMA funding than increases in less popular programs such as base operations.

Officials also told us that RPMA funds are reallocated to other O&M accounts by USAREUR's community commanders after the RPMA funds are allocated to them. They said that this happens because community commanders view project funds as discretionary money to be used as the "billpayer" for other unfunded needs. The officials, however, did not have data on the amounts of RPMA funds that the community commanders moved from their allocation of RPMA to other O&M accounts.

**Maintenance, Repair, and Minor
Construction Funds for
Installations to Be Closed**

In August 1988, USAREUR's Office of the Deputy Chief of Staff for Operations began planning for the eventual drawdown of USAREUR's forces. The planning efforts have focused on reducing USAREUR's forces and closing installations to reach the Army's portion of the 195,000 troop ceiling currently being negotiated as part of the Conventional Forces, Europe, negotiations.

Review of the list of installations USAREUR has identified for closing showed that 91 maintenance, repair, and minor construction projects, valued at \$42 million, had been included in the fiscal year 1991 budget but will not now be performed.

Nonspecified Purposes

The difference between what USAREUR believes is needed to meet its fiscal year 1991 RPMA requirements (\$1.194 billion) and the budget request adjusted to reflect funds not needed because of the reasons previously stated (\$1.285 billion) represents \$91 million of RPMA funds in the budget for other requirements not yet identified. As such, funds for these nonspecified purposes could be reduced from the budget request.

Civilian Personnel

Background

USAREUR's fiscal year 1991 budget request for civilian personnel was based on 63,907 civilian employees (61,460 staff years)¹ being paid from O&M funds. At the budgeted rate of \$28,000 per staff year, this would amount to \$1.721 billion.

Results of Analysis

In January 1990, DOD imposed a hiring freeze on civilian employees. As a result of the freeze, USAREUR's civilian employment has decreased from 65,193 as of January 31, 1990, to 63,690 as of May 31, 1990—a total decrease of 1,503 employees during the 4-month period—or an average of 376 positions a month. Assuming that the same attrition rate continues during the remainder of the fiscal year, we estimate that as of the beginning of fiscal year 1991, USAREUR will have approximately 62,187 civilian employees on its rolls of which 60,769 will be paid out of O&M funds.²

Converting the number of employees to staff years (using the 96.17 percent factor) results in a staff year total of 58,442 at the beginning of fiscal year 1991. The difference between this total and the 61,460 staff years included in the budget is 3,018 staff years. At an average rate of \$28,000 per staff year, this equates to \$84.5 million that is in the budget that may not be needed.

Flying Hour Program

Background

USAREUR's flying hour program consists of the cost of fuel and repair parts for the approximately 1,000 rotary- and fixed-wing aircraft stationed in Europe. USAREUR's fiscal year 1991 flying hour program consists of 210,000 hours at a cost of \$44.2 million.

¹For fiscal year 1991 budgeting purposes, the Army used a factor of 96.17 percent to convert the number of personnel to staff years.

²Approximately 97.72 percent of the USAREUR civilian employees are paid out of O&M funds. Therefore, we applied the same percentage to the estimated number of civilians on the rolls at the beginning of fiscal year 1991 to arrive at the number of employees paid with O&M funds.

Results of Analysis

The flying hours budgeted for USAREUR in fiscal year 1991 is comparable to USAREUR's level of effort for the last 3 fiscal years, as shown in table I.4.

Table I.4: USAREUR's Flying Hours for Fiscal Years 1988 to 1990

Fiscal year	Budgeted flying hours	Percent used
1988	219,000	100
1989	219,000	92
1990	213,000	100 (estimated)

According to a USAREUR aviation official, USAREUR's fiscal year 1989 flying hour program was overfunded by about \$4 million. The official stated that the \$4 million, plus an additional \$2.5 million, was reallocated from the flying hour program to other O&M accounts to meet other needs. The official also stated that at the beginning of fiscal year 1990, \$6 million in flying hour program funds were moved to fund other requirements. The official further stated that USAREUR's fiscal year 1990 flying hour program could absorb \$4 million of the reduction without affecting USAREUR's ability to meet its training requirements.

A USAREUR official in the Office of the Deputy Chief of Staff for Operations told us that the Army plans to deploy three battalions of Apache helicopters to Europe by March 1991 and that this will increase USAREUR's flying hour requirements for fiscal year 1991. Therefore, funds will not be available to reallocate to other O&M accounts as in prior years.

While the Army does plan to deploy three Apache battalions to Europe by March 1991, these battalions will replace existing Cobra battalions. Furthermore, there are fewer aircraft in an Apache battalion than in a Cobra battalion. This factor, plus the probability of troop reductions and reduced tensions in Europe, leads us to believe that the fiscal year 1991 flying hour program can be reduced by at least \$4 million—the same amount as in prior years.

Ground OPTEMPO

Background

Ground OPTEMPO represents the fuel and spare parts costs associated with operating tactical vehicles and other military equipment at a specified rate of usage to achieve a certain level of readiness. The costs for operating tactical vehicles and other military equipment are calculated by the Department of the Army using its Training Resource Model, which multiplies the cost per unit of usage by the number of authorized pieces of equipment and the related number of miles or hours and then sums the products. For example, if the fuel and spare parts cost \$1.50 per mile and USAREUR has 1,000 vehicles that it plans to operate 500 miles during the year, the estimated ground OPTEMPO for the vehicle is \$750,000.

Results of Analysis

Our calculation of USAREUR's OPTEMPO requirements, using the same methodology as the Training Resource Model, showed an OPTEMPO requirement of \$223 million as compared to the \$245.4 million that was included in the President's budget for fiscal year 1991.

A USAREUR official in the Office of the Deputy Chief of Staff for Operations told us that he could not explain the \$22.4 million difference between the two amounts (\$223 million and \$245.4 million). The official said that one possible explanation might be that the Training Resources Model does not calculate OPTEMPO for small equipment items such as radios and protective masks. Subsequent to our discussion, the official provided us with a computer printout that showed the OPTEMPO was \$22.4 million for the equipment not included in the Training Resources Model.

In discussion with Headquarters, Department of the Army officials, we determined that the OPTEMPO for equipment not included in the model is based on a percentage of the OPTEMPO costs for equipment that is included in the model. For example, OPTEMPO for equipment in a combat unit that is not included in the model is 5 percent of the OPTEMPO cost for equipment that is included in the model; 10 percent in a combat support unit, and 15 percent in a headquarters unit. The officials were not able to explain the rationale for the specific percentages or how the estimated amounts compare to the actual amounts.

In view of the uncertainties concerning the rationale or validity of the OPTEMPO amounts associated for nonmodeled equipment, we believe the \$22.4 million could be reduced from the USAREUR request.

Joint Training Exercises

Background

The incremental costs associated with USAREUR's participation in Corps, Echelons-Above-Corps, and the North Atlantic Treaty Organization (NATO) training exercises are paid from USAREUR Joint Chiefs of Staff training exercise funds. Incremental costs would include the cost of installing telephones and communication systems between USAREUR and NATO command units participating in the exercises. For fiscal year 1991, USAREUR requested \$23.9 million to fund these exercise-related costs.

Results of Analysis

One exercise scheduled for fiscal year 1991 (WINTEX/CIMEX) in which USAREUR was a planned participant has been canceled due to the changed political environment in Europe. USAREUR had included \$1.1 million in its budget for this exercise. As a result, these funds could be reduced from USAREUR's budget request.

Potential Reductions to the U.S. Army Forces Command Fiscal Year 1991 Operation and Maintenance Budget

We identified potential budget reductions of about \$408 million to the Army's fiscal year 1991 budget request for O&M funding for FORSCOM. The proposed reductions stem from the Army's budget guidance to FORSCOM and the other major commands, in which it advised the commands to plan on receiving significantly less than what was included in the President's January 1990 budget submission to the Congress. Table II.1 shows the proposed reductions by O&M account.

Table II.1: Proposed Reductions to FORSCOM's Fiscal Year 1991 O&M Budget

Dollars in millions	
Account	Proposed reduction
General purpose forces mission	\$194.8
Real property maintenance	176.6
Base operations	30.5
Other programs	5.9
Total	\$407.8

Background

FORSCOM, the largest U.S. Army major command, is responsible for providing combat ready, properly equipped and trained forces to other major commands and theater commanders located throughout the world. FORSCOM operates 18 major Army installations located in the United States.

Results of Analysis

The Army's fiscal year 1991 O&M budget request included \$2.534 billion for FORSCOM, an increase of \$215 million over the approved fiscal year 1990 funding level of \$2.319 billion as of July 1990. In March 1990, FORSCOM notified its installations that funding levels identified for FORSCOM in the Army's January 1990 budget submission to the Congress were "unrealistically high" and that the approved fiscal year 1991 O&M budget would probably reflect a 5- to 10-percent reduction as compared to the fiscal year 1990 amount.

According to FORSCOM, the changing world environment and lack of firm fiscal year 1991 funding levels for such things as base closures or force reductions make planning difficult. In an attempt to give recognition to these uncertainties, FORSCOM developed an estimate of what it could expect to receive after the congressional authorization and appropriation process was completed. FORSCOM's estimate was \$2.126 billion—about \$408 million less than what was included in the President's budget to the Congress. The reduction represents a 16-percent reduction

**Appendix II
Potential Reductions to the U.S. Army Forces
Command Fiscal Year 1991 Operation and
Maintenance Budget**

from what was requested for fiscal year 1991, but only a 3-percent reduction from the July 1990 authorized funding level for fiscal year 1990.

Table II.2 shows the difference between what was included in the President's January 1990 budget and FORSCOM's estimate for the base operations, mission, real property maintenance, and other minor accounts.

Table II.2: Comparison of Amounts in the January 1990 Budget to FORSCOM's Estimated Amounts (as of April 1990)

Dollars in millions			
Account	January 1990 budget	FORSCOM's best estimate	Difference
General purpose forces mission	\$1,190.3	\$995.5	\$194.8
Real property maintenance	673.4	496.8	176.6
Base operations	614.0	583.5	30.5
Other programs	56.7	50.8	5.9
Total	\$2,534.4	\$2,126.6	\$407.8

As an indication that FORSCOM is planning for the reduction, its March 1990 notification to FORSCOM installations instructed the installations to submit a budget execution plan showing how they would allocate the reduced funding levels for fiscal year 1991 in accordance with the priorities spelled out by FORSCOM. These priorities centered on maintaining training at specified levels, maintaining equipment to prescribed standards, and maintaining a decent quality of life for soldiers, their dependents, and civilian employees.

In many cases, the installation commanders expressed concerns about being able to carry out their commitments at the reduced funding levels. However, the commanders have responded to the FORSCOM request. In most instances, the budget execution plans showed that the commanders planned to fully fund their training requirements and significantly reduce base operations and real property maintenance to achieve the FORSCOM-proposed funding levels.

Objectives, Scope, and Methodology

This review is one of a series that examines defense budget issues. Our objectives were to assess the adequacy of the justifications for the Army's fiscal year 1991 O&M budget request to determine whether the programs should be funded in the amounts requested.

Our review was performed at the two major Army commands for which the largest amounts of O&M funds were requested in fiscal year 1991—USAREUR and FORSCOM. At the two commands, our review focused primarily on the general purpose forces O&M accounts, which comprised the vast majority of the budget request. These accounts included general purpose forces mission, real property maintenance activities, base operations, and joint training exercises. At USAREUR, our review also included subaccounts within the major accounts. For example, we reviewed civilian personnel and ground and air OPTEMPO.

In performing our review, we interviewed budget and program officials and reviewed pertinent program documents and budget support data obtained from the Department of the Army, Washington, D.C., and USAREUR and FORSCOM, Atlanta, Georgia.

Our review was performed from January to July 1990 in accordance with generally accepted government auditing standards.

Major Contributors to This Report

**National Security and
International Affairs
Division, Washington,
D.C.**

Henry L. Hinton, Associate Director
Robert J. Lane, Assistant Director
Frank A. Papineau, Evaluator-in-Charge
Marjorie L. Adams, Evaluator

**Atlanta Regional
Office**

Wilbur H. Crawford, Site Senior
Fred Jimenez, Evaluator

European Office

Donald R. Hunts, Site Senior
Robert E. Martin, Evaluator
Ann Calvaresi-Barr, Evaluator
Patrick E. Gallagher, Evaluator

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