

GAO

Report to the Honorable
Andy Ireland, House of Representatives

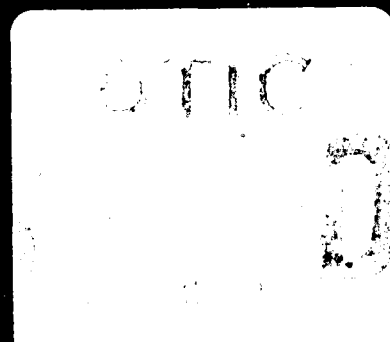
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April 1991

DOD BUDGET

Observations on the Future Years Defense Program



91-05976



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

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National Security and
International Affairs Division

B-238512

April 25, 1991

The Honorable Andy Ireland
House of Representatives

Dear Mr. Ireland:

This letter is in response to your December 12, 1990, request regarding the Department of Defense's (DOD) Future Years Defense Program (FYDP). The FYDP represents DOD's 6-year plan of estimated expenditures and anticipated appropriation needs. You requested that we determine whether DOD had complied with legislation requiring the annual submission of a FYDP that was consistent with the President's annual budget submission. The legislation also places restrictions on obligations of advance procurement funding pending a timely FYDP submission. You also requested that we monitor DOD's advance procurement spending and provide any observations we had regarding the FYDP.

Background

Section 114a of title 10 of the United States Code specifies that "The Secretary of Defense shall submit to Congress each year, at or about the time that the President's budget is submitted . . . a multiyear defense program . . . reflecting the estimated expenditures and proposed appropriations included in that budget." This section also requires consistency between the amounts reported in the budget submission and those reported in the multiyear defense program.

Section 1402 of the National Defense Authorization Act for Fiscal Year 1991 further provided that if DOD did not submit the fiscal year 1992 FYDP within 90 days following the President's budget submission, DOD could not obligate more than 10 percent of its fiscal year 1991 advance procurement funds available for obligation at the end of the 90-day period. If after an additional 30 days the FYDP was still not submitted, the legislation prohibited DOD from obligating further fiscal year 1991 advance procurement funds until the FYDP was submitted.

Results in Brief

DOD complied with the legislative requirement that it submit the FYDP "at or about" the time that the President's budget is submitted, and the program is consistent with the amounts in the President's budget.

The restriction on advance procurement spending did not apply since the FYDP was submitted within 90 days. DOD had obligated about 23 percent of its approximately \$3 billion in fiscal year 1991 advance procurement authority prior its submission of the FYDP.

Our analysis of the FYDP indicates that it contains \$172 billion in planned or anticipated savings and funding reductions. The net base closure savings estimate in the FYDP is \$5.5 billion higher than the more recent estimates in the *Base Realignment and Closure* report released on April 12, 1991. To the extent that base closure and other planned savings and reductions are not achieved, additional offsetting reductions will be required to stay within the planned budget.

Previous FYDP concerns regarding unrealistic out-year funding projections and inflation rates have been addressed. The out-year funding projections reflect the agreed upon spending levels contained in the Budget Enforcement Act of 1990 and the out-year projection inflation rates are consistent with rates reported by the Congressional Budget Office (CBO) and other economic forecasters.

FYDP Submission Met Legislative Requirements

DOD's FYDP for fiscal years 1992 through 1997 was dated February 23, 1991, and submitted on March 5, 1991, 29 days after the President's budget was submitted on February 4, 1991. The amounts reported in the FYDP are consistent with those in the President's budget. We compared the top line appropriation accounts and did limited comparisons at the line item level and found the amounts to be consistent in all cases. Thus, DOD met both the timing and content requirements of the legislation.

Status of Fiscal Year 1991 Advance Procurement Funds

According to the DOD Comptroller's Office, DOD was authorized \$2,994 million in fiscal year 1991 advance procurement funding. As of February 1, 1991, \$688 million, or 23 percent, of this total had been obligated, and \$2,306 million, or 77 percent, was still available for obligation. However, the advance procurement restrictions would not have applied until May 5, 1991, at which time a much higher percentage of the advance procurement funds would have been obligated. Since DOD complied with the FYDP submission requirements, the advance procurement restrictions do not apply.

FYDP Contains Planned Savings and Reductions That May Not Be Fully Achieved

DOD's FYDP for fiscal years 1992 through 1997 includes \$172 billion in savings and reductions that may not fully materialize. These savings and reductions include about \$82 billion in reductions resulting from proposed major program terminations, \$70 billion in anticipated savings resulting from initiatives identified in the Defense Management Report (DMR), \$19 billion for other expected savings not distributed to any appropriation account including the \$6.9 billion estimated savings for anticipated base closures announced April 12, 1991, and about \$1 billion for base realignments and closures proposed in fiscal year 1988. To the extent that any of these planned savings and reductions are not achieved, offsetting reductions will be required to stay within the planned budget.

Proposed Terminations Estimated to Save \$82 Billion

The FYDP reflects about \$82 billion in budget reductions resulting from proposed terminations of such programs as the A-12 aircraft and the Trident submarine programs. According to DOD, terminating major programs will save almost \$10 billion in fiscal year 1992 and reduce the 1993-97 FYDP by almost \$72 billion. Table 1 contains a list of major programs planned for termination. Should these or any previously terminated programs be restored, additional offsetting reductions will be required to stay within the FYDP totals. For example, amendments to a bill proposing dire emergency supplemental appropriations for fiscal year 1991 require DOD to release \$987.9 million approved in the 1991 budget for the F-14 remanufacture program and \$200 million approved in the 1989 budget for the V-22 Osprey tilt rotor aircraft program even though DOD had planned to terminate these programs.

Table 1: Savings Expected From Terminating Major Planned Programs

Dollars in billions

Program	Fiscal year	
	1992	1993-97
Bradley Fighting Vehicle	\$0.7	\$1.7
Trident Submarine	1.4	2.8
LHD Amphibious Ship	0	2.1
P-7A Anti-Submarine Warfare Aircraft	0.6	5.4
F-14D Remanufacture	1.4	13.4
Naval Advanced Tactical Fighter	0.1	2.0
A-12 Aircraft	2.7	19.5
Air Force Advanced Tactical Aircraft	0	0.8
F-16 Aircraft	1.6	13.8
Peacekeeper Missiles	0.7	2.2
Mark XV Combat Identification System	0.1	0.2
BSTS Warning System	0.4	5.5
Tacit Rainbow Program	0.2	2.3
Total	\$9.9	\$71.7

Anticipated Savings of \$70 Billion Resulting From DMR

DOD has provided summary information on \$70 billion it anticipates saving through a number of DMR initiatives. DOD's goal is to save \$70 billion between fiscal years 1992 and 1997 through management efficiencies and other changes. The savings projections by appropriation account are provided in table 2. As with any new initiative, it is not certain these anticipated savings will be fully achieved. In December 1990 we reported that most of the savings estimates identified in the DMR were based primarily on management judgments and not supported by historical facts or empirical cost data.¹ While this does not mean these savings will not be achieved, it does indicate that the reliability of the estimates may vary. For example, DOD has recently indicated that about \$3.3 billion of the original \$39 billion in anticipated DMR savings will not be achieved during fiscal years 1991 through 1995 due to various program changes.

¹Acquisition Reform: Defense Management Report Savings Initiatives (GAO/NSIAD-91-11, Dec. 4, 1990).

Table 2: DOD-Wide Savings From Defense Management Report Initiatives by Appropriation Account for Fiscal Years 1992 Through 1997

Dollars in billions

Appropriation account	Anticipated savings
Operation and maintenance	\$37.4
Military personnel	11.9
Procurement	6.7
Other procurement	5.5
Research, development, test, and evaluation	5.5
Military construction	0.3
Other	
Stock fund	2.2
Industrial fund	1.8
Contingency and other investment funds	-1.3
Total	\$69.8^a

^aTotal varies slightly from DOD estimates due to rounding

Planned Savings of \$19 Billion Not Distributed by Appropriation Account

The FYDP included a negative "undistributed contingency" entry totaling \$19 billion for fiscal years 1992 through 1997. DOD states that the \$19 billion represents (1) \$0.9 billion in anticipated reductions or savings resulting from proposed changes to the Davis-Bacon Act, (2) \$7.4 billion in anticipated savings from base closures and other proposed legislative changes, and (3) \$10.7 billion in anticipated reduced payments to the military retirement fund. The retirement savings are expected to result from a plan to revise the method for calculating the amount of money set aside for future retirement pay. This revision would reduce the amounts set aside and make the savings available for distribution to other DOD accounts. Revising the retirement accrual method, however, will likely require amending existing legislation.

FYDP Base Closure Net Savings Is \$5.5 Billion Higher Than Current Estimates

The February 23, 1991, FYDP reflected a net \$6.3 billion in anticipated base closure savings (\$6.9 billion savings shown in the undistributed contingencies account minus \$0.6 billion in base closure costs shown in the Base Realignment and Closure Commission account). On April 12, 1991, DOD released its Base Realignment and Closure report showing a net savings of \$0.8 billion for the fiscal year 1992 to 1997 period. The report estimated savings of \$6.5 billion rather than the \$6.9 billion estimated in the FYDP and costs of \$5.7 billion rather than the \$0.6 billion reported in the FYDP. Consequently, the FYDP's projected savings are \$0.4 billion higher and the cost \$5.1 billion lower than current estimates, resulting in a higher net savings of \$5.5 billion.

A commission will review the Office of the Secretary of Defense's proposal for base realignments and closures and make recommendations for consideration by the President and the Congress in 1991. Accordingly, anticipated savings may change.

The FYDP also includes \$1.1 billion in revenues expected to result from the sale of federal land based on the 1988 base realignments and closures. It is not certain that such revenues if realized would be made available to DOD.

Other Prior Concerns About FYDPs Have Been Addressed

We have expressed concerns about previous FYDP's overly optimistic inflation rates and out-year funding projections. These concerns have been largely addressed in the fiscal year 1992 FYDP.

Inflation Rates

In previous years, the administration's inflation estimates contained in the FYDPs were considerably more optimistic than those of CBO. For example, our analysis of the 1990 FYDP showed that using CBO's inflation estimates would have increased planned defense spending by about \$3 billion. The inflation estimates used in preparing the 1992-97 FYDP closely match those of CBO and other economic forecasters. The inflation adjustments used by the administration and the CBO projections are shown in table 3.

Table 3: The Administration's and CBO's Inflation Estimates

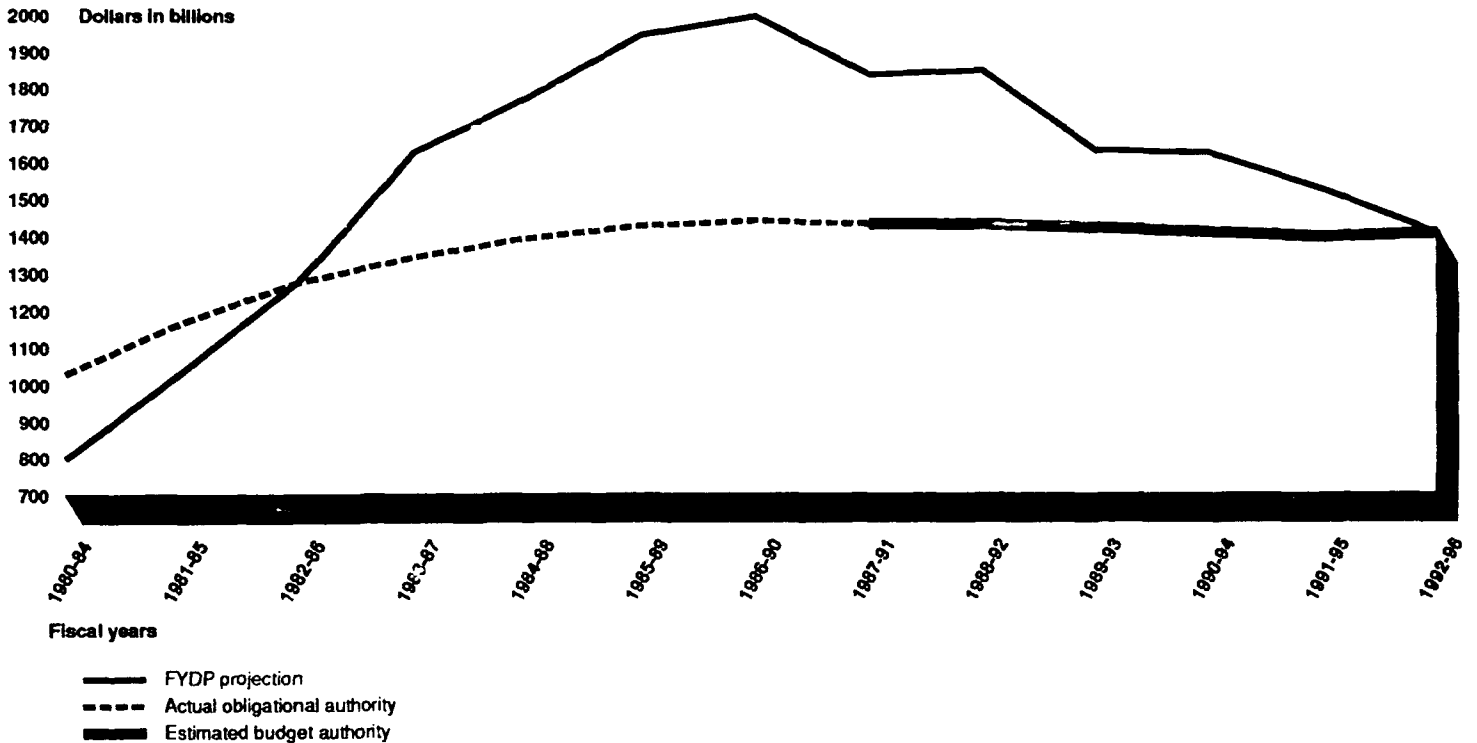
	1992	1993	1994	1995	1996
Administration	3.9	3.6	3.5	3.4	3.3
CBO	3.7	3.5	3.5	3.5	3.5

Note: Inflation estimates for 1997 are not available

Planned Spending Versus Fiscal Reality

We previously reported that since the mid-1980s the FYDPs had been fiscally unrealistic. For example, in 1986, the 5-year spending plan for 1986 through 1990 projected almost \$553 billion more than what was ultimately funded. As can be seen in figure 1, the spending plans in the more recent FYDPs have been more closely coincide with budget realities. The current FYDP reflects the agreed-upon defense spending levels contained in the Budget Enforcement Act of 1990.

Figure 1: Closing the Gap Between DOD's Plans and Budget Realities



Note: Budget authority for fiscal years 1991 through 1996 is estimated using the administration's assumptions about inflation and planned real growth.

Scope and Methodology

To determine whether the amounts in the FYDP were consistent with those in the President's budget, we compared the totals for the major appropriations accounts and spot-checked data on line item appropriations within specific accounts.

To analyze the FYDP, we examined program details, concentrating on developing data involving negative accounts and/or anticipated savings. When we found such entries or savings, we discussed their derivation with DOD officials and reviewed applicable prior GAO reports. We also compared the administration's and CBO's inflation estimates and the gaps between the FYDP projections and the agreed-upon spending levels.

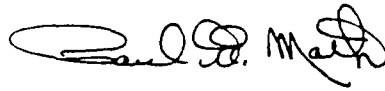
We conducted our review during March and April 1991 in accordance with generally accepted government auditing standards. Throughout

our review, we discussed these matters with DOD officials and have incorporated their comments where appropriate.

We are providing copies of this report to appropriate House and Senate Committees; the Secretary of Defense; and the Director, Office of Management and Budget. We will also provide copies to other interested parties upon request.

Please contact me on (202) 275-4587 if you or your staff have any questions concerning the report. Major contributors to this report were James Wiggins, Assistant Director; Russ Reiter, Evaluator-in-Charge; and Steven Sternlieb, Assignment Manager.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Paul F. Math". The signature is stylized with a large initial "P" and a flourish at the end.

Paul F. Math
Director of Research, Development,
Acquisition, and Procurement Issues