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A Defense Budget Primer

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ABSTRACT

This report is a primer for those who wish to familiarize themselves with the defense budget process. The report defines basic defense budget-related terms, describes the structure of the defense budget, briefly reviews the budgeting process within the Department of Defense (DOD), and outlines the successive phases of the congressional defense budget process. It also provides a short review of the budget execution process. This report will be updated only in the event of significant changes to the defense budget process.

A Defense Budget Primer

Summary

This report is a primer for those who wish to familiarize themselves with the process through which Congress acts on the U.S. defense budget. The report defines basic defense budget-related terms, describes the structure of the defense budget, briefly reviews the budget planning process within the Department of Defense (DOD), outlines in some detail the successive phases of the congressional defense budget process, and provides a short review of budget execution.

The defense budget is not a single document or product, but more a series of spending commitments that can be measured and broken down in a number of different ways. It can be defined, first of all, in terms of budget authority, obligations, and outlays. Congress provides most of DOD's funds in the form of budget authority. Agencies may then obligate the funds, and outlays occur as paychecks are issued or progress payments are made on contracts. The defense budget can also be defined broadly as the National Defense Budget Function or more narrowly as the Department of Defense budget. The structure of the defense budget as considered in Congress differs significantly from the structure of the budget as it is formulated by the Department of Defense.

The defense budget process has three main phases. The first phase is preparation of a budget request by the Executive Branch. The Department of Defense has developed a sophisticated mechanism, known as the Planning, Programming, and Budgeting System (PBS), for formulating long-term budget plans and preparing annual budget requests to the Congress. The White House Office of Management and Budget (OMB) is involved in the PBS process and formally submits the defense budget request to Congress on behalf of the President.

The second part of the process is congressional consideration. The basic process has three phases: the budget resolution, the defense authorization bill, and defense-related appropriations bills. The annual budget resolution establishes targets for defense budget authority and outlays, but the mechanism for enforcing the targets allows considerable flexibility to appropriators. The authorization and appropriations bills approve the defense budget at similar levels of detail, though only the appropriations process actually provides budget authority to agencies. Congress frequently provides additional funds to the Department of Defense through supplemental appropriations bills, which may or may not be accompanied by offsetting rescissions of previously appropriated funds.

The final part of the process is the budget execution stage. After budget authority is provided by Congress, the DOD may obligate funds to acquire goods and services. The pace at which funds are made available for obligation is governed in part by a process of allocations overseen by OMB. Congress allows DOD some flexibility to reallocate appropriated funds under a process known as reprogramming.

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A Defense Budget Primer¹

Introduction

Under the Constitution, Congress is responsible for raising and supporting the Armed Forces of the United States. The Congress fulfills this responsibility in large part through reviewing and enacting annual defense budgets. The programs funded by the defense budget directly affect the ability of U.S. Armed Forces to defend the country and protect national interests.

The defense budget also has a significant domestic impact. The size and composition of the defense budget may affect the health of the economy, and the level of defense spending is often a major issue in debate over national priorities.

Both the defense budget itself and the process of congressional review and approval are complex. Even observers who regularly track the defense budget may occasionally be baffled by defense budget terminology and procedures.

This report is a primer for those who wish to familiarize themselves with the defense budget process.² The report defines basic defense budget-related terms, describes the structure of the defense budget, briefly reviews the budgeting process within the Department of Defense (DOD), and outlines the successive phases of the congressional defense budget process. It also provides a short review of the budget execution process. The reader should be aware that there are sometimes differences between the way the defense budget process works in theory and how it works in practice — not all variations in procedures are addressed here.

The report is divided into three chapters. The first two chapters describe the product — the defense budget itself. The first chapter defines basic defense budget terms, and the second chapter describes the structure of the defense budget. The third chapter describes the defense budget process from the initial planning stage in DOD through congressional action and budget execution. Finally, appendices provide guides to some of the more important defense budget documents and a glossary of key defense budget terms. A matrix labeled “Legislative History of the Defense Budget” is also included on the last page of this report to aid the reader in tracking legislative action on the defense budget as it unfolds over the course of a year.

¹This is a revised version of a report initially written in 1988 by Robert Foelber (CRS Report 88-349F). The report was later updated by Keith Berner and Stephen Daggett in 1993 (CRS Report 93-317F). This report supersedes those earlier versions.

²This report is not, however, a source of up-to-date defense budget estimates, which are provided in other CRS and U.S. government publications (see Appendix D for a bibliography). Nor does this report provide an analysis of substantive issues in the defense budget debate, such as the appropriate level of total funding or priorities among specific weapon systems. It is, rather, a guide to the defense budget process.

Chapter 1: Basic Defense Budget Terminology and Concepts

A Snapshot of the Defense Budget Process

In its outlines, the defense budget process is straightforward. The process begins with formulation of an annual defense budget request by the executive branch. In the case of defense spending, the budget request to the Congress is formulated mainly by the Department of Defense under guidelines established by the President through the White House Office of Management and Budget (OMB). The request is formally submitted to Congress by the President.

Submission of the budget is followed by congressional action. Congress provides funds for defense programs mainly by **appropriating** funds in annual appropriations acts, including the Department of Defense Appropriations Act, the Military Construction Appropriations Act, and other appropriations laws. Congress also **authorizes** defense programs through other legislation, mainly an annual National Defense Authorization Act. The authorization process does not, however, provide money for defense programs — instead it establishes the organizations responsible for defense, sets policies, and determines the conditions and limitations under which these organizations may carry on their activities. Annual authorization acts **authorize the appropriation** of funds, but they do not actually provide the money.

The final step in the budget process is **budget execution**. When Congress appropriates money for defense programs, it provides **budget authority** to government agencies. Agencies are prohibited, mainly by the Anti-Deficiency Act, from spending funds above the amount of budget authority appropriated or for purposes other than those for which funds were provided. In order to comply with these limitations, federal government agencies follow financial procedures that are governed by official regulations. A key step in the process is when budget authority provided by Congress is **obligated**. An obligation occurs when, for example, an employee is hired or a contract for goods and services is signed. At the end of the process are budget **outlays**, which occur when the government actually issues payments to employees or to private parties.

This chapter reviews basic terms which will be important in following the budget process discussed in later chapters. Terms discussed in this chapter include the national defense budget function and the Department of Defense budget; budget authority, outlays, and obligations; obligated, unobligated, and unexpended funds; and current and constant dollars. The chapter closes with a brief discussion of measures of the defense burden on the economy.

National Defense Budget Function and Department of Defense Budget

The phrase “defense budget” is commonly used both in a narrow and in a broad sense. In a narrow sense, the defense budget is the budget for the defense programs administered and managed by the Department of Defense (DOD). In a broad sense, funding for defense encompasses not only DOD programs but a number of defense-related activities administered by other federal agencies including: (1) atomic energy

defense activities, administered by the Department of Energy (DOE);³ (2) civil defense programs, administered by the Federal Emergency Management Agency (FEMA); (3) draft registration and preparations to resume the draft, administered by the Selective Service System; and (4) defense-related activities of some other agencies, including the Coast Guard, the Maritime Administration, and the Federal Bureau of Investigation.⁴

All of these activities are included in the national defense budget function, one of 19 functions used by the Office of Management and Budget (OMB) to sub-divide activities in the federal budget into related categories.⁵ The national defense budget function, identified by the numerical notation "050," is further divided into three sub-functions, each of which is similarly identified by a numerical notation:

050 — National Defense Budget Function⁶

- 051 — Department of Defense — Military (DOD programs only)
- 053 — Atomic energy defense activities (DOE national security programs)
- 054 — Defense-related activities (civil defense, operation of Selective Service System, defense-related activities of the FBI, etc.)

DOD also manages a number of civilian programs that are funded outside of the national defense budget function. Among the DOD civil programs are civilian construction projects of the Army Corps of Engineers (in budget function 301), operation of Arlington National Cemetery (in budget function 705), operation of the U.S. Soldiers' and Airmen's Home (in budget function 602), and a small portion of wildlife conservation on military reservations (in budget function 303). Funding for these programs is not generally reported in DOD budget totals and is not discussed in this report.

Prior to FY1985, the DOD budget included payments to military retirees. In FY1985, this practice changed, and payments to retirees now are financed through a trust fund in budget function 600, outside of the 050 National Defense Function. Therefore, actual payments from the trust fund to retirees are not charged to the defense budget. The DOD budget, however, does include amounts contributed to the military retirement trust fund to cover the actuarially determined costs of

³DOE defense programs include development of nuclear warheads and naval nuclear reactors; nuclear weapons safeguards and security; development of some arms control treaty verification systems; production of nuclear materials for defense programs; handling and reprocessing of defense nuclear waste; maintaining the nuclear stockpile; and environmental cleanup of weapons production facilities.

⁴The Defense Appropriations Act also provides unclassified amounts for CIA retirement and for intelligence community management and classified amounts for DOD and non-DOD intelligence activities, including activities of the CIA.

⁵For more information on budget functions, see Bill Heniff, *Basic Federal Budgeting Terminology*, CRS Report 98-410.

⁶What was formerly sub-function 052 (Foreign Military Sales) was transferred to Function 150 (International Affairs) in 1978.

retirement benefits for current personnel, through a system called "accrual accounting."

The definition of defense spending has sometimes been controversial. Some analysts argue that the 050 function does not actually include all the government programs that properly should be counted as "defense" for purposes of calculating the cost of military programs to the American taxpayer. These analysts say that the cost of national defense also includes veterans' benefits, international military assistance, military-related activities funded through the National Aeronautics and Space Administration (NASA), and the portion of interest payments on the national debt attributable to borrowing in the past for military programs. For some analysts, an even more comprehensive listing of defense programs would include the unfunded portion of civil service retirement for DOD civilian employees, the Coast Guard, the Maritime Administration, and the Impact Aid Program of the Department of Education.⁷

Table 1. National Defense Budget Function, FY1997-99
(budget authority in billions of current dollars)

	Actual FY1997	Estimate FY1998	Enacted FY1999
051 - Department of Defense, Military	258.0	258.0	265.1
053 - Atomic Energy Defense Activities	11.3	11.7	12.6
054 - Other Agencies - Defense-Related Activities	1.0	1.0	1.1
050 - TOTAL NATIONAL DEFENSE	270.3	270.7	278.8

Sources: U.S. Office of Management and Budget, *Budget of the United States Government: Historical Tables*, Fiscal Year 1999, Feb. 1998; Office of Management and Budget, "FY1999 Mid-Session Review," August, 1998; Congressional Budget Office.

Notes: FY1998 amounts reflect an OMB estimate of FY1998 levels after supplemental appropriations were enacted. FY1999 levels include supplemental appropriations for FY1999 provided in H.R. 4328 (P.L. 105-277), the omnibus, consolidated appropriations act for FY1999.

More typically, however, the 051 sub-function (DOD programs) is identified with the defense budget in the *narrow sense*, and the national defense budget function (050) is identified with the defense budget in the *broad sense*. The DOD portion of the national defense budget function reached a peak of 97 percent of the 050 total in Fiscal Year (FY) 1985 and held at about 95 percent from FY1993 - FY1999. The percentage may fall further in the future due to the likely growth of DOE defense-related activities, especially for environmental clean-up. **Table 1** provides budget totals for the 050 function and sub-functions for FY1997-99.

⁷For a discussion, see Paul Murphy, *The Military Tax Bite 1986: An Analysis of the Military Share of the Federal Income Tax*, (Washington: Military Spending Research Services, 1986).

Table 1 and all of the budget tables that follow report annual funding by **fiscal year**. A fiscal year is an accounting period of twelve months duration⁸. The fiscal year is designated by the calendar year in which it **ends**. Thus, FY1997 began on October 1, 1996 and ended on September 30, 1997. The Congressional Budget Act of 1974 (P.L. 93-344) changed the dates of the U.S. Government's fiscal year to October 1-September 30 beginning in 1976. Previously the fiscal year ran from July 1 to June 30.⁹

There are two important things to notice about **Table 1**. First, the dollars shown represent budget authority — the amount which Congress provides when it appropriates money for defense (and all other federal government) programs. Second, the dollars shown are current dollars, i.e., they are not adjusted to reflect the effects of inflation. The following sub-sections discuss these and related concepts.

Budget Authority, Outlays, and Related Terms

The defense budget — defined narrowly or broadly — can be measured in terms of budget authority or outlays. **Budget authority** (BA) is the authority provided by Congress to the Department of Defense and other government agencies to enter into **obligations** for the provision of goods and services. Obligations are incurred by signing contracts, placing orders, hiring personnel, making loans or grants, or the like. (See 31 USC 1501.) **Outlays** represent the actual expenditure of funds in payment for goods and services, usually in the form of a disbursement of cash, a check, or an electronic fund transfer.¹⁰

A common misunderstanding is that the congressional authorization process provides budget authority and the appropriations process provides outlays. In fact, the authorization process authorizes the appropriation of budget authority, and appropriations bills provide budget authority — Congress does not act directly on outlays levels.¹¹ Rather Congress provides budget authority through the appropriations process and outlays then occur as executive branch agencies execute their budgets.

⁸For more information on fiscal year, see Bill Heniff, *The Federal Fiscal Year*, CRS Report 98-325.

⁹The three-month period in 1976 from July 1 to September 30 between the end of FY1976 (old system) and the beginning of FY1977 (new system) is known as the **transition quarter** and is frequently labeled “197T” or “TQ” in budget documents.

¹⁰The phrase “defense budget” usually refers to budget authority for defense programs, while “defense spending” usually refers to outlays for defense programs. The distinction is not always made, however.

¹¹The following analogy may help to explain the difference between budget authority, obligations, and outlays. Suppose a parent decides to give money to a child to purchase a new automobile. Budget authority is analogous to receiving authority from the parent to draw on the parent's bank account to purchase the new automobile. An obligation is incurred when the contract is signed with the automobile dealer for delivery of the vehicle. The actual writing of the check in payment for delivery of the automobile constitutes an outlay of funds.

A budgeting concept related to budget authority but used only by DOD is **total obligational authority** (TOA). TOA represents “the value of the direct Defense program for a fiscal year,”¹² and is equivalent to the sum of all budget authority granted by Congress, plus amounts from other sources authorized to be credited to certain accounts, plus unobligated balances of funds from prior years which remain available for obligation. TOA will differ from budget authority for a given year because of rescissions, reappropriations, new offsetting receipts, and unused budget authority. In FY1998, Department of Defense TOA equaled \$256.8 billion, while BA amounted to \$254.9 billion.¹³ The difference of \$1.9 billion is accounted for by BA from previous years, transfers, and offsetting receipts.

The process through which budget authority is provided by Congress and leads to outlays involves several steps, each covered by specific policies and laws. Almost all budget authority for defense programs is provided by annual **appropriations**.¹⁴ In appropriating funds, Congress grants DOD the authority to incur obligations and provides the Treasury the authority to make payments for specified purposes. Thus, as a DOD budget manual explains, “[a]ppropriations do not represent cash actually set aside in the Treasury for purposes specified in the appropriations act [but rather] limitations of amounts which agencies may obligate during the time period specified in the respective appropriations acts.”¹⁵

When Congress appropriates money for defense programs, it generally provides all the costs of the activities approved up front in one fiscal year. This practice is known as **full funding**. It was mandated by Congress in the 1950s to give full visibility to the cost of weapons procured. Full funding means that all the money estimated to be necessary to complete an entire project — such as production of 21 Trident missiles, overhaul of an aircraft carrier, or construction of an ammunition depot — is approved at one time by the Congress, even though the actual work may span many years.

As an exception to this practice, Congress sometimes provides funding for **advance procurement** of “long-leadtime” weapons components, such as nuclear-power plants for Navy warships. There has been some congressional debate during

¹²Department of Defense Comptroller, *National Defense Budget Estimates for FY1999*, March 1998.

¹³U.S. Department of Defense, *Financial Summary Tables: Department of Defense Budget for Fiscal Year 1999*, Feb. 1998, p. A1. RD&TE historical accounts are often reported in TOA.

¹⁴Two other forms of budget authority are: (1) **contract authority**, or statutory authority that permits obligations in advance of appropriations but requires a subsequent appropriation or the collection of receipts to liquidate (pay) these obligations; and (2) **borrowing authority**, statutory authority that permits obligations to be incurred but requires that funds be borrowed, generally from the Treasury, to liquidate these obligations.” U.S. Office of Management and Budget, *The Budget System and Its Concepts: FY1999*, February 1998, p. 9.

¹⁵Department of Defense Comptroller, *Financial Management Regulation (DOD 7000.14-R), Volume 2A: Budget Presentation and Formulation*, July 1996, p. 1-2.

the 1990s about full funding, especially for Navy shipbuilding, and a number of ship programs have been only partially funded in annual appropriations measures.¹⁶

Full funding does not guarantee that the project can be completed within the amount appropriated, because costs may turn out to be higher than estimated due, for example, to an inflation rate higher than expected, unforeseen technical problems, or subsequent design changes.¹⁷ In the late 1970s, inflation consistently was higher than assumed in the budget estimates for purchases of weapons and fuel.¹⁸ As a result, the services were often forced to buy fewer items than Congress planned when defense appropriations were approved. From 1982 to 1987, however, inflation was less than projected, resulting in what some commentators called an inflation dividend. According to several estimates, defense was overfunded by anywhere from \$18 billion to over \$50 billion for the FY1982-86 period.¹⁹ In recent years, inflation has again frequently been overestimated, and inflation "savings" have sometimes been used as offsets for supplemental appropriations or for congressional additions to the defense budget.

After budget authority is appropriated by Congress, it becomes available for obligation by the relevant agency. Funds are obligated when the agency signs a contract with a supplier or otherwise makes a formal commitment to pay for goods and services. Appropriated funds must normally be obligated during the first fiscal year for which they are provided, otherwise they expire. Appropriations bills typically make money for some defense activities available for obligation for more than one year. The length of time for which funds are made available for obligation is specified

¹⁶According to the Department of Defense, **advanced procurement** is: "Authority provided in an appropriations act to obligate and disburse during a fiscal year before that in which the related end item is procured. The funds are added to the budget authority for the fiscal year and deducted from the budget authority of the succeeding year. Used in major acquisition programs for advance procurement of components whose long-lead-time requires purchase early in order to reduce the overall procurement lead-time of the major end item. Advance procurement of long lead components is an exception to the DOD 'full funding' policy." (*Financial Management Regulation*, Volume 2A, p. 1-2.)

¹⁷In 1970, DOD began including an inflation allowance in its estimates of the costs of major systems and construction. By 1976, costing to include inflation had been extended to all DOD purchases and operation and maintenance activities.

¹⁸According to the Congressional Budget Office, DOD budgets were underfunded by over \$11 billion in the FY 1978-81 period compared to the level of growth anticipated by Congress. See: U.S. Congressional Budget Office, *Budgeting for Defense Inflation*, Jan. 1986.

¹⁹These estimates are summarized in: U.S. House of Representatives, Armed Services Committee, "Coverage, Cumulation, and Compensation or Wherefore Art Thou Inflation Dividend?" by Les Aspin, Mimeo, Sep. 3, 1986. Rep. Aspin concluded that the inflation dividend probably amounted to between \$35 billion and \$50 billion. He also attempted to determine what happened to the excess funds. He concluded that no more than about \$18.5 billion of these funds could be accounted for through reprogrammings, expired appropriations, and/or congressional funding cutbacks, with some portion of the rest going to defense contractors in the form of excess payments.

in annual appropriations legislation. For example, the Navy has been given up to five years to sign contracts for shipbuilding projects funded by Congress.²⁰

After funds are obligated, the Department of Defense will expend the funds only as **progress payments** on contracts come due or as paychecks are issued. These expenditures constitute **outlays** by the government. Some defense programs (such as weapons procurement and military construction projects) may take several years for a contractor to complete, so outlays may occur only quite slowly over a period of time.

As a result of these and other factors, the **spend-out rate** — or the rate at which appropriated funds are converted to outlays — varies with different programs.²¹ For some activities, such as military personnel and operation and maintenance (O&M), most of the money appropriated is spent in the first fiscal year for which it is provided. DOD estimates that 94 percent of budget authority provided in FY1999 for military personnel and 75 percent of budget authority for O&M will be expended as outlays during the fiscal year. For other activities, such as procurement of complex weapons and military construction projects, both of which take several years to complete, only a small amount of the appropriated funds is spent in the first fiscal year for which it is provided (about 22 percent and 15 percent, respectively of FY1999 funds). The rest is spent in the years beyond the budget year, or the **out-years**, at rates that vary from program to program.

The relationship between budget authority and outlays is perennially an important factor shaping how Congress acts on the defense budget. In recent years, defense budgets, like other parts of the federal budget, have been constrained by strict limits on outlays imposed in an effort to meet deficit reduction targets. The ability to control defense outlays, however, is circumscribed by the fact that a large share of outlays in any one year actually results from budget authority provided in prior years. Thus, only part of the defense budget, measured in outlays, is controlled by congressional action on annual defense appropriations acts.²² In FY1999, for

²⁰Note that these periods of availability are specified in each appropriations act every year. For example, the FY1999 Defense Appropriations Act [P.L. 105-262] opens by saying, "*That the following sums are appropriated, out of any money in the Treasury not otherwise appropriated, for the fiscal year ending September 30, 1999,*" and Section 8003 specifies that "*No part of any appropriation in this Act shall remain available for obligation beyond the current fiscal year, unless expressly so provided herein.*" Exceptions to the one-year availability of funds under this clause are specifically noted in the text of the law. For example, the section of the FY1999 Defense Appropriations Act that provides funds for the Aircraft Procurement, Army, account reads, "*For construction, procurement, production, modification and modernization of aircraft, ...\$1,388,268,000 to remain available for obligation until September 30, 2001.*" Appropriations bills typically make research and development (R&D) funds available for two years; procurement funds (with the exception of shipbuilding) for three years; and military construction funds for five years.

²¹U.S. Department of Defense, *Financial Summary Tables: Department of Defense Budget for Fiscal Year 1999*, Feb. 1998 Table K.

²²Congress may, however, eliminate budget authority provided in prior years by means of
(continued...)

example, DOD estimated that about 67 percent of outlays would result from budget authority provided in FY1999 appropriations acts — the rest, 33 percent, would result from budget authority provided in prior years.²³ (For further discussion, see Appendix A, Spend-Out Rates and Defense Budget Reductions.)

Moreover, because different parts of the defense budget "spend out" at different rates, Congress must carefully manage the balance between "fast spending" and "slow spending" accounts when it makes adjustments to the defense request. If Congress is concerned about military readiness, for example, it may wish to add money for a military pay raise to the military personnel accounts or increase funding for training in the operation and maintenance accounts. Because these accounts spend out very rapidly, the effect would be a large, immediate increase in outlays as well as in budget authority. If Congress wants to trim other, slower spending accounts to offset the increases, a problem arises — it would require a disproportionately large cut in budget authority for weapons procurement to balance the outlay impact of a relatively small increase in personnel or O&M. The balance between budget authority and outlays, therefore, is often a major consideration in the defense budget process.

The relationship between budget authority and outlays has also affected the defense budget process in recent years simply because it is difficult to calculate precisely the outlay impact of new defense budget authority. Outlays in any given year, resulting from new budget authority and from budget authority provided in prior years, must be projected based on historical experience. Because these numbers are estimates, the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) often disagree on projected outlays. In 1997, OMB estimated that defense outlays in FY1998 would total \$259.4 billion if Congress were to approve the Administration request for \$265.3 billion in new budget authority for national defense. In its assessment of the same Administration plan, CBO estimated that approval of the Administration program would entail defense outlays in FY1998 of \$265.0 billion -- \$5.6 billion higher. The concurrent budget resolution that year resolved the issue by providing \$266.0 billion in national defense outlays, enough to accommodate CBO scoring with room for an additional \$2.6 billion in budget authority. The same problem, however, recurred in congressional action on the FY1999 budget. This time, Congress dealt with the problem by allowing collections from sales of Navy ships to foreign nations to be counted against the overall defense budget and by instructing CBO to score outlay savings from changes in managing DOD revolving funds — two exercises in accountancy designed to avoid painful cuts in defense programs.²⁴

²²(...continued)

budget "rescissions" — see below for a discussion.

²³U.S. Department of Defense, *Financial Summary Tables: Department of Defense Budget for Fiscal Year 1999*, Feb. 1998, Table J. Congress can reduce outlays from budget authority provided in prior years by rescinding funds, but the use of rescissions to control outlays presents the same problems as cutting funds from the annual budget — i.e., large cuts in budget authority for weapons procurement would produce only limited outlay savings in a given year.

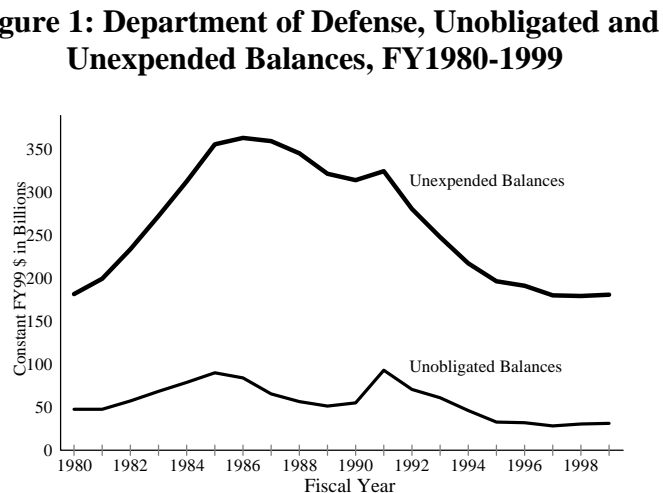
²⁴For a thorough discussion of the issue, see Congressional Budget Office, "An Analysis of (continued...)"

Unobligated and Unexpended Funds

Two budget concepts related to budget authority and outlays are **unobligated funds** and **unexpended funds**. Unobligated funds refer to budget authority that has been appropriated by Congress for specific programs, but has not yet been obligated. Unexpended funds include both unobligated and obligated funds which have not yet been spent as outlays. These two concepts — unobligated and unexpended funds — represent intermediate points in the process that extends from the provision of budget authority to the creation of outlays, discussed above. Appropriations create unobligated budget authority. Then, when contracts are signed or other financial commitments are made, the funds are obligated, but are still unexpended. Only when the funds are paid out (by check or otherwise) do the appropriated amounts result in outlays. It is important to note that unexpended funds, whether obligated or not, can only be used for specific programs that have been congressionally approved.

Unobligated and unexpended funds are a normal byproduct of the obligation and expenditure process. Unusually high unexpended and unobligated balances for particular programs, however, sometimes act as red flags for congressional appropriators overseeing military spending. Appropriators may consider the inability to spend already appropriated funds in a given area as a sign of problems in a program and as an indication that reductions in the next year's budget may be called for. Moreover, amounts of unobligated and unexpended funds may increase if inflation rates decline or if the dollar rises relative to foreign currencies in countries where the U.S. military operates. In recent years, appropriators have used unobligated funds caused by economic changes as a source of funds to offset supplemental defense appropriations (see below for a discussion of rescissions of appropriated funds).

Trends in the total amount of unobligated and unexpended balances have sometimes been construed as an indication of the ability of the Department of Defense to manage its funding. As **Figure 1**²⁵



²⁴(...continued)

CBO's Outlay Estimates for Appropriation Bills, Fiscal Years 1993-1997," CBO Memorandum, October 1998.

²⁵Sources for Figure 1: CRS calculations based on Department of Defense, *Financial Summary Tables: Department of Defense Budget for FY1999*, February 1998, and versions (continued...)

illustrates, unobligated and, especially, unexpended balances of funds grew substantially in DOD over the course of the military buildup of the 1980s. At the time, some analysts argued that the growth of these balances was evidence that DOD was not efficiently spending the money appropriated by Congress and that the rapid growth of funding for new weapons programs was unwarranted.²⁶ In recent years, some Members of Congress have proposed measures to transfer a portion of unobligated balances of DOD funds to other, non-defense purposes.

DOD officials point out, however, that unobligated and unexpended balances of funds may grow for many reasons. In general, one would expect unobligated and/or unexpended balances to grow (1) along with growth in the overall budget and (2) as the share of the budget devoted to procurement programs with relatively slow spend-out rates increases. In addition, part of the growth in unexpended balances may be explained by lower than expected inflation rates, which means that costs of various programs are lower than anticipated when funds were appropriated, so not all the appropriated funds must be obligated or expended.²⁷ Finally, changes in contracting practices mandated by congressionally initiated procurement reforms may lower rates of payments to contractors, thereby adding to unexpended balances.²⁸

Current and Constant Dollars

Budget authority and outlays can be measured in either **current dollars** or **constant dollars**. Current (or “then-year”) dollars measure the cost of goods and services in terms of prices prevailing at the time of purchase. Constant dollars measure the cost of goods and services in terms of prices in a given (constant) year. Fixing the purchasing power of the dollar to a given year eliminates changes in prices due to inflation in comparing budgets from year to year. By calculating defense funding in constant dollars, one can measure **real growth** (or real decline) in the size of the defense budget — that is, changes in purchasing power — over time. Growth in the defense budget measured in current dollars is called **nominal growth**.²⁹

²⁵(...continued)
from prior years.

²⁶See, for example, Jeffrey Colman and Raul Madrid, *The Pentagon Funding Backlog: Can the Defense Department Manage More Growth?*, Washington, Defense Budget Project, May 12, 1986.

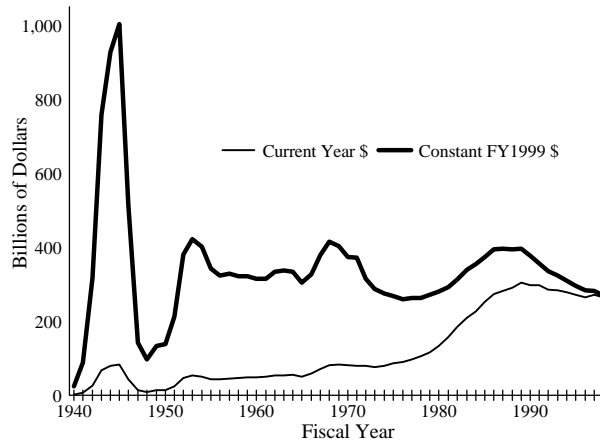
²⁷U.S. General Accounting Office, *Government-wide Analysis of the Growth in Unexpended Balances*, GAO/AFMD-86-24BR, Jan. 1986, pp. 27, 30.

²⁸See Pat Towell, "'Midnight Surprise' Sparks Questions in Congress," *Congressional Quarterly*, June 1, 1985, p. 1066.

²⁹**Real growth** is a measure of the change over time (increase or decrease) in funding for a program after the effect of price changes (inflation) has been eliminated. Real growth can be positive or negative; “negative real growth” is a decline in funding after inflation has been eliminated. **Nominal growth** measures both program growth and the effect of price changes over time without distinguishing between them.

The importance of the distinction between current and constant dollars can be seen in **Figure 2**.³⁰ The figure shows national defense outlays from FY1940 through FY1998 (1) in current and (2) in constant FY1999 dollars.³¹ While defense spending has almost always grown in nominal terms from year to year since World War II, the real amount of spending has fluctuated, with periods of rapid real growth coming during the Korean War, the Vietnam War, and the Carter-Reagan defense buildup of the late 1970s and early 1980s.

Figure 2: National Defense Outlays, Current and Constant FY1999 Dollars, FY1940-2003



A failure to distinguish between current and constant dollars, therefore, may be misleading in analyzing budget *trends*. A focus on current rather than constant dollars will either exaggerate the amount of growth or understate the extent of decline in defense spending. For example, in current dollar terms, U.S. national defense budget authority declined by 9 percent between FY1985 and FY1998. In real terms, however, defense budget authority for the period declined by 36 percent.

A useful concept for measuring the direction of the defense budget is that of **average real growth or decline**, which in effect smooths out all the “ups and downs” in the defense budget over a given period of time to give an indication of a general trend. The U.S. defense budget has fluctuated considerably over the past 25 years. When the “ups and downs” are smoothed out, however, national defense budget authority grew in real terms by about 5.3% percent per year on average from FY1975 to FY1985 and declined by about 3.4% percent per year from FY1985 to FY1998.³²

³⁰Sources for Figure 2: CRS calculations based on U.S. Office of Management and Budget, *Historical Tables: Budget of the U.S. Government for Fiscal Year 1999*, Feb. 1998; Department of Defense Comptroller, *National Defense Budget Estimates for FY1999*, March 1998; deflators from Department of Defense Comptroller.

³¹For purposes of measuring real growth in the defense budget the choice of “base year” is largely immaterial. The percentage change from one year to another will remain approximately the same for any base year chosen. FY1999 dollars were chosen as the constant dollar base to provide a measure of the size of the defense budget in currency meaningful to the contemporary defense budget debate. FY1999 budget deflators were obtained from the Department of Defense Comptroller.

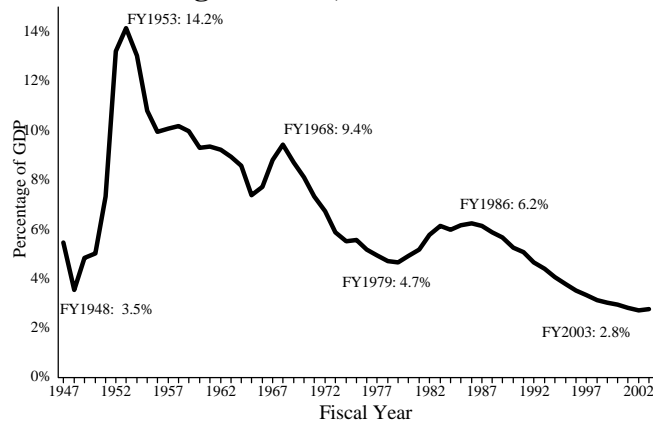
³²To calculate the average annual real growth between two years X and Y, first calculate the size of the defense budget in constant dollars for years X and Y. Next, divide the defense budget for the later year DB(Y) by the defense budget for the earlier year DB(X). Then take the nth root of the result, where n = the number of years between X and Y (including Y but

(continued...)

Measuring the Impact of Defense Spending on the Economy

Resources devoted to defense are not available for competing public or private uses and, in this sense, constitute a cost to the American economy. The most common measure of the defense cost is defense outlays as a percentage of **Gross Domestic Product (GDP)**. GDP represents the total value of goods and services produced by people, government, and firms in the United States, whether the firms and individuals involved are foreign or domestically owned.³³ **Figure 3** shows defense spending as a percentage of GDP from FY1947 through FY1998 and projected through FY2003.³⁴

Figure 3: National Defense Outlays, Percentage of GDP, FY1947-2003*



³²(...continued)

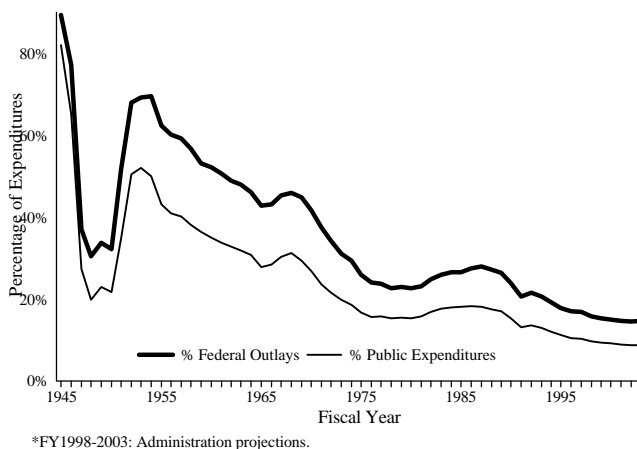
not X) and subtract 1 from that result.

³³Similar to GDP is **Gross National Product (GNP)**. GNP includes income earned by American firms and individuals abroad and excludes income earned by foreign firms and individuals in the United States. Because GDP is generally considered to correspond more closely to other indicators used in short-term economic analysis than GNP, the federal government shifted its emphasis from GNP to GDP in December 1991. See Council of Economic Advisors, *Economic Report of the President*, Washington, 1992, p. 246.

³⁴Sources for Figure 3: Office of Management and Budget, *Historical Tables: Budget of the United States Government for Fiscal Year 1999*, Feb. 1998 and Office of Management and Budget, "Midsession Review of the Budget, FY1999," August 1998.

Another common measure of cost is defense outlays as a percentage of total federal spending or of total government spending (including federal, state, and local). **Figure 4** shows defense spending as a percentage of total federal spending and of total public expenditures from FY1940 projected through FY2003.³⁵ By this measure, defense

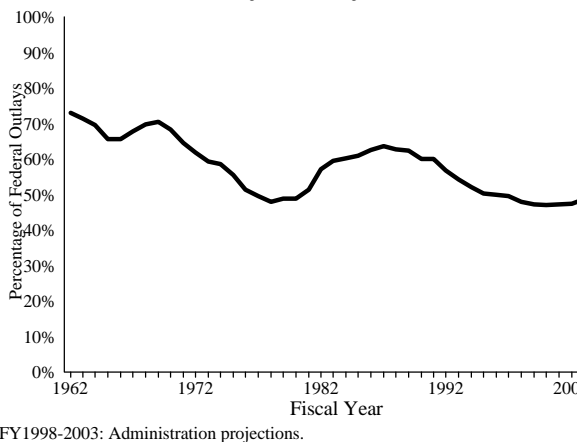
Figure 4: National Defense Outlays, Percentage of Federal and Total Public Expenditures, FY1945-2003



spending has steadily declined since the end of the Korean War, though the trend was briefly interrupted by the Vietnam War and the build-up of the 1980s.

Much of the increase in total federal spending since the end of the 1960s has been in areas of the budget such as Social Security, Medicare, and Medicaid, which are described as "mandatory" programs (see below for a further discussion). As **Figure 5** shows, defense spending has not declined nearly as rapidly as a share of so-called "discretionary" federal spending. This is the amount controlled by annual appropriations bills, which Congress must approve each year.

Figure 5: National Defense Outlays, Percentage of Total Discretionary Outlays, FY1962-2003



Two other measures of defense costs are also frequently cited. One is defense research and development spending as a share of government or of total of government plus private R&D expenditures. Another is defense-related employment as a percentage of the federal, total government, or total national labor force. Data on all of these measures are readily available from government sources, and are regularly reported to Congress.

³⁵Source for Figure 4: Department of Defense Comptroller, *National Defense Budget Estimates for FY1999*, March 1998.

Chapter 2: Structure of the Defense Budget

The DOD budget is traditionally presented in three ways — (1) by appropriations title, (2) by major force program, or (3) by component. Other ways of breaking down the budget are also common and may be more useful for specific analytical purposes. This chapter briefly describes the three formats generally used in presenting defense funding and reviews some other useful ways of categorizing the defense budget.

Defense Budget by Appropriations Title

The defense budget -- as enacted by Congress through the DOD and military construction appropriations bills (with smaller amounts in other appropriations bills) -- is divided into **appropriations titles**. The appropriation structure of the congressional defense budget has evolved over time, reflecting changing congressional interests. Since FY1960, the congressional defense budget has included the following major titles:³⁶

Military Personnel: includes pay and allowances (housing and other) for active duty officers and enlisted personnel and for cadets at the Service academies, contributions to military retirement funds, subsistence of enlisted personnel, permanent change of station travel, bonuses, National Guard and Reserve paid drill and initial training, and some other training and support costs.³⁷

Operation and Maintenance (O&M): includes salaries, benefits, and retired pay (DOD contribution) for most civilian DOD employees,³⁸ flying hours, ship operations, training of land forces, individual training and exercises, real property maintenance and minor construction projects, equipment maintenance and system overhauls, refits and refurbishment, the purchase of fuel, repair parts, supplies, minor items of repair equipment, and various personnel, base operating, and administrative support activities.

Procurement: includes acquisition of weapons and components of weapons, communication and support equipment, munitions, initial and replenishment spares, modernization equipment, and kits to upgrade existing equipment.

³⁶In addition to these major titles, there are also minor titles which may vary from year to year. Recently, separate titles have addressed such things as defense conversion programs and disarmament aid to the former Soviet Union.

³⁷Until FY1985 military retirement was paid out to retirees each year on a cash basis and was funded within the Military Personnel title. The FY1984 defense authorization act (P.L. 98-94), however, established an **accrual accounting** system for military retirement beginning in FY1985, whereby the Services are charged (in the military personnel title) for the future costs of retirement for military personnel currently on active or reserve duty. The actual payment of benefits to current retirees is made from a newly created Military Retirement Trust Fund in budget function 600.

³⁸Some pay for civilians is also funded in the RDT&E and military construction titles.

Research, Development, Test, and Evaluation (RDT&E): includes development and testing of weapons and equipment, development of prototypes, fabrication of technology-demonstration devices, and support of basic research and exploratory development of technologies with potential military applications.

Military Construction:³⁹ includes acquisition, construction, installation, and furnishing of temporary or permanent public works, military installations, facilities, and real property of the armed forces, as well as major repair and minor construction projects.

Family Housing: includes construction, improvements, operations, maintenance, and leasing of military family housing.

Revolving and Management Funds: includes DOD stock funds, industrial funds, management funds, and various trust funds.⁴⁰ Since December 1996, the Pentagon has used four Working Capital Funds for this purpose — the Army Working Capital Fund, the Navy Working Capital Fund, the Air Force Working Capital Fund and Defense-Wide Working Capital Fund.⁴¹

Funding for military personnel, procurement, O&M, and RDT&E programs has accounted for about 95 percent of the DOD budget in recent years. The other titles listed represent only a small percentage of the total DOD budget, though, in absolute terms, the dollars involved are sizable (\$9.8 billion in FY1998),⁴² and these titles finance important defense activities. The allocation of funds among appropriations titles has shifted substantially over time, reflecting trends in the overall defense budget total and changing defense priorities.

³⁹Construction performed by the Army Corps of Engineers (ACE) on civilian projects is excluded. ACE civilian projects are funded in the Energy and Water appropriations bill.

⁴⁰DOD **revolving funds** support self-sustaining activities in the Department of Defense that “sell” a product or service to DOD customers and then use the receipts from sales to pay operating expenses and purchase new stock. The funds finance a continuing cycle of operations without fiscal year limitations; hence the term “revolving fund”. Examples are stock funds and industrial funds. Stock funds provide such things as clothing, medical supplies, fuel, construction supplies, ordnance repair parts, consumable aircraft and missile parts, tank and automotive supplies, and general retail supplies. **Industrial funds** provide services such as equipment overhauls and transportation services. **Management funds** were established to simplify financing and accounting for operations supported by two or more appropriations. **Trust funds** are used to carry out a business activity in accordance with a trust agreement or statute and are credited with offsetting receipts.

⁴¹Beginning in FY1992, the Pentagon combined five industrial funds, four stock funds, and several appropriated fund support activities, including the Defense Finance and Accounting Service and the Defense Commissary Agency into a single revolving fund. This fund was called Defense Business Operations Fund (DBOF), and the DOD comptroller centrally managed the cash balance of this single fund. In December 1996, DBOF was abolished and replaced with four Working Capital Funds in order to devolve responsibility for cash balances to each DOD component.

⁴²Based on the Office of Management and Budget, *Historical Tables: Budget of the United States Government for Fiscal Year 1999*, Feb. 1998.

Appropriations titles are further subdivided into appropriations **accounts** — a complete list of accounts for the FY1999 DOD budget can be found in Appendix B. (The number and denotation of the appropriations accounts in the DOD budget has varied over time.) Appropriations accounts are further disaggregated into **budget activities, line-items, and program elements**.⁴³ For example, one of the 15 accounts in the FY1999 procurement title is “Aircraft Procurement, Navy.” This account is divided into five budget activities (combat aircraft, trainer aircraft, modification of aircraft, aircraft spares and repair parts, and aircraft support equipment and facilities), which are in turn composed of line-items (e.g., the “F/A-18 aircraft,” which is included under the budget activity “Combat Aircraft”).

The level of program detail in line-items varies with the appropriations title. For the Procurement, RDT&E, and Military Construction accounts, the congressional defense budget shows thousands of line-items for individual weapons and military construction programs. There are far fewer line-items in the Military Personnel accounts and, until recently, in the O&M accounts. Beginning with the FY1993 budget, Congress has reported action on O&M accounts in much finer detail than in the past. The term "program element" is used in the congressional defense budget structure only to refer to programs funded in the RDT&E title — it is equivalent to "line items" in other parts of the budget.

Defense Budget by Major Force Program

DOD organizes the defense budget for its own force programming and budgeting purposes into a format different from that used by Congress. The basic building blocks of the DOD budget are “program elements,” which, in this context, are collections of weapons, manpower, and support equipment. “F/A-18 squadrons,” for example, constitutes a program element, which is defined as follows:

⁴³Technically, “line item” refers to programs in the procurement title only. The RDT&E title is composed of “program elements” and the O&M title is composed of “programs.” In common parlance, the basic building blocks of all the appropriations titles are generally referred to as line items. Line items are roughly equivalent to the formal term "Program, Project or Activity (PPA)" as defined in the Balanced Budget and Emergency Deficit Control Act of 1985. Conference reports on the annual defense appropriations bills regularly include the following statement:

DEFINITION OF PROGRAM, PROJECT, AND ACTIVITY

The conferees agree that for the purposes of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99177) as amended by the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (Public Law 100-119) and by the Budget Enforcement Act of 1990 (Public Law 101-508), the term program, project, and activity for appropriations contained in this Act shall be defined as the most specific level of budget items identified in the Department of Defense Appropriations Act, 1999, the accompanying House and Senate Committee reports, the conference report and accompanying joint explanatory statement of the managers of the Committee of Conference, the related classified annexes and reports, and the P-1 and R-1 budget justification documents as subsequently modified by Congressional action. (Conference Report on the FY1999 Defense Appropriations Act, H.Rept. 105-746, p. 69).

0204136N F/A-18 Squadrons; X-4-03; Includes manpower authorizations, peculiar and support equipment, necessary facilities and the associated costs specifically identified and measurable to the following: Strike Fighter Squadrons. Planned follow-on for A-7 and F-4 Squadrons. Proposed missions are close tactical air support, deep strike and interdiction missions, air superiority, fleet air defense, air-to-ground weapons delivery and strike escort. Excludes Aircraft Readiness Squadrons — (see appropriate element in this program).⁴⁴

In the congressional budget format, the resources composing F/A-18 squadrons would be funded in separate appropriations titles, including Military Personnel, Procurement, O&M, RDT&E, and Military Construction. In presenting its budget request to Congress, DOD recasts its data into appropriations categories.

Program elements in the internal Department of Defense budget are grouped into eleven **Major Force Programs** (MFPs), as follows:⁴⁵

Program 1: Strategic Forces. Strategic forces are those organizations and associated weapon systems whose force missions encompass intercontinental or transoceanic inter-theater responsibilities. Program 1 is further subdivided into strategic offensive forces and strategic defensive forces, including operational management headquarters, logistics, and support organizations identifiable and associated with these major subdivisions.⁴⁶

Program 2: General Purpose Forces. General purpose forces are those organizations and associated weapon systems whose force mission responsibilities are, at a given point in time, limited to one theater of operation. Program 2 consists of force-oriented program elements, including the command organizations associated with these forces, the logistic organizations organic to these forces, and the related support units that are deployed or deployable as constituent parts of military forces and field organizations. Also included are other programs, such as JCS-directed and coordinated exercises, Coast Guard ship support program, war reserve material, ammunition, and equipment.

Program 3: Command, Control, Communications, Intelligence and Space (C3, I & Space). Consists of intelligence, security, communications and functions, such as mapping, charting, and geodesy activities, weather service, oceanography, special activities, nuclear weapons operations, space boosters, satellite control and aerial targets. Intelligence and communications functions that are specifically identifiable to a mission in the other major programs are included within the appropriate program.

⁴⁴Department of Defense Comptroller, *FYDP Program Structure (DOD 7045.7-H)*, January 1996, p. 2-59.

⁴⁵*Ibid.* Chapter 3, pp. 6-8.

⁴⁶MFP 1 includes funds for acquiring strategic nuclear delivery systems but not funds for acquiring nuclear warheads — warhead acquisition is funded through the Department of Energy, not the Department of Defense.

Program 4: Mobility Forces. Consists of program elements for airlift, sealift, traffic management, and water terminal activities, both direct-funded and through the Working Capital Funds, including command, logistics, and support units organic to these organizations.

Program 5: Guard and Reserve Forces. The majority of Program 5 resources consist of Guard and Reserve training units in support of strategic offensive and defensive forces and general purpose forces. In addition, there are units in support of intelligence and communication; space; airlift and sealift; research and development; central supply and maintenance; training, medical, and general personnel activities; administration; and support of other nations.

Program 6: Research and Development. Consists of all research and development programs and activities that have not yet been approved for operational use, and includes: (a) basic and applied research tasks and projects of potential military application in the physical, mathematical, environmental, engineering, biomedical, and behavioral sciences; and (b) development, test, and evaluation of new weapons systems equipment and related programs.

Program 7: Central Supply and Maintenance. Consists of resources related to supply, maintenance, and service activities, both direct-funded and funded through the Working Capital Funds, such as first and second destination transportation, overseas port units, industrial preparedness, commissaries, and logistics and maintenance support, depot maintenance and supply management. These functions or activities provide benefits and support for overall DOD activities.

Program 8: Training, Medical, and Other General Personnel Activities. Consists of resources related to training and education, personnel procurement services, health care, permanent change of station travel, transients, family housing, and other support activities associated with personnel. Excluded from this program is training specifically related to and identified with another major organic program. Housing subsistence, health care, recreation, and similar costs and resources that are organic to a program element, such as base operations in other major programs, are also excluded from this program. Program 8 functions and activities, which are mainly centrally managed, provide benefits and support necessary for the fulfillment of DOD programs.

Program 9: Administration and Associated Activities: Consists of resources for the administrative support of departmental and major administrative headquarters, field commands, and administration and associated activities not accounted for elsewhere. Included are activities such as construction planning and design, public affairs, contingencies, claims, and criminal investigations.

Program 10: Support of Other Nations. Consists of resources in support of international activities, including support to the Military Assistance Program (MAP), foreign military sales, and the North Atlantic Treaty Organization (NATO) infrastructure and humanitarian assistance.

Program 11: Special Operations Forces. Consists of force-oriented special operations forces (Active, Guard and Reserve), including the command organizations and support units directly related to these forces.

Table 2 shows the defense budget by MFP for FY1996-99.

Table 2. Department of Defense Budget by Major Force Program
(total obligational authority in millions of current dollars)

MFP	Actual FY1996	Actual FY1997	Estimate FY1998	Request FY1999
1. Strategic Forces	7,456	6,141	6,718	6,708
2. Gen'l Purp. Forces	88,234	88,981	91,189	92,748
3. C3, I & Space	30,083	29,970	30,357	31,523
4. Mobility Forces	10,314	10,556	10,304	10,944
5. Guard & Reserve	21,085	20,934	20,945	20,792
6. Research & Devel.	25,874	26,026	26,258	25,103
7. Cent. Sup. & Maint.	16,728	16,397	16,234	16,119
8. Train., Med. & Gen'l Personnel	44,181	43,713	43,166	42,992
9. Admin. & Assoc. Act.	6,879	7,331	7,279	7,330
10. Sup't Other Nations	890	999	900	974
11. Special Ops Forces	3,197	3,179	3,411	3,374
Undistributed				1
TOTAL DOD	254,919	254,224	256,760	258,610

Source: U.S. Department of Defense, *National Defense Budget Estimates for FY1999*, March 1998, p.78.

Notes: Figures for the year preceding the request (FY 1998) represent an estimate and include Administration-proposed supplemental appropriations and rescissions. Totals may not add due to rounding.

While this breakdown of the budget is useful to DOD in managing its activities, it must be used carefully in analyzing defense programs. It is sometimes assumed, for example, that Program 1 is roughly equivalent to nuclear forces. In fact, funding to develop strategic nuclear weapon systems is included in Program 6, funding for theater nuclear weapons falls into Program 2, and funding for nuclear warheads is not in the DOD budget at all, but, instead, is funded through the Department of Energy.

Moreover, even within DOD there have been questions about the value of this means of categorizing costs. Support programs (Programs 7, 8, & 9), are separated from force activities (Programs 1, 2, 4, & 5). Some argue that these costs should be connected to the actual forces. This has happened to some degree in recent years as an increasing number of functions in Central Supply (Program 7), especially, have

been financed indirectly through service operation and maintenance budget accounts that are reflected in force activities (Programs 1, 2, 4, & 5).

Defense Budget by Component

The third traditional method of aggregating defense funding is by component of the Department of Defense. The five major components are: (1) Army, (2) Navy (of which the Marine Corps is a part), (3) Air Force, and (4) Defense-Wide.⁴⁷ **Table 3** shows the defense budget by component for FY1995-98.

Table 3. Department of Defense Budget by Component
(budget authority in millions of current dollars)

Component	Actual FY1996	Actual FY1997	Estimate FY1998	Request FY1999
Army	64,505	64,418	60,534	63,815
Navy/Marine Corps	79,966	79,531	80,921	81,337
Air Force	72,992	73,216	74,410	76,658
Defense-Wide	36,955	40,810	39,043	35,448
TOTAL DOD	254,418	257,975	254,908	257,258

Source: U.S. Department of Defense, *National Defense Budget Estimates for FY1999*, March 1998, p. 111.

Notes: Figures for the year preceding the request (FY 1998) represent an estimate and include Administration-proposed supplemental appropriations and rescissions. Totals may not add due to rounding.

⁴⁷The Defense-Wide component encompasses programs that support the entire Pentagon. It is comprised of the Office of the Secretary of Defense, the Unified Commands, Defense Agencies, and Field Activities. As of October 1, 1998, there are 14 Defense Agencies and 7 Field Activities. The Defense Agencies include the Ballistic Missile Defense Organization, the Defense Advanced Research Projects Agency, the Defense Commissary Agency, the Defense Contract Audit Agency, the Defense Finance and Accounting Service, the Defense Information System Agency, the Defense Intelligence Agency, the Defense Legal Services Agency, the Defense Logistics Agency, the Defense Security Assistance Agency, the Defense Security Service, the Defense Threat Reduction Agency, the National Imagery and Mapping Agency, the National Security Agency. The Field Agencies include the Armed Forces Information Service, the Defense Prisoner of War/Missing Personnel office, the Defense Civilian Personnel Management Service, the DOD Education Activity, TRICARE Management Activity, the Office of Economic Adjustment, and Washington Headquarters Services.

Alternative Ways of Analyzing the Defense Budget

To some observers, the three traditional ways of organizing the DOD budget discussed above are of limited utility because they focus on artificial accounting inputs instead of mission outputs. Some critics have proposed reorganizing DOD budget submissions along so-called "mission" lines in order to more clearly reflect what military capabilities the United States is buying.⁴⁸ Missions might include, for example, strategic offense, sea control, or air superiority. Proponents say that such a reorganization would help coordinate DOD management and budgeting processes and aid in setting priorities.

An alternative analysis of the defense budget utilized frequently by some analysts shows spending in three other categories: manpower, readiness, and modernization.

Manpower. So-called "defense manpower" program costs are frequently contrasted with costs for major weapon systems and other procurement items to give some indication of relative spending for people versus hardware in the armed forces. The DOD appropriations title for military personnel, however, covers only the cost of pay and benefits for uniformed military personnel. Funding for DOD civilian personnel is provided mostly in the operation and maintenance account, with smaller amounts provided in the RDT&E and military construction accounts. DOD regularly provides a breakdown of the DOD budget that shows pay and benefits for civilian as well as uniformed personnel -- in FY1998, 44 percent of DOD budget authority was for pay and benefits of military and civilian employees.⁴⁹

Even this breakdown of the budget does not, however, capture all the DOD personnel-related costs. A broader definition of DOD "manpower" costs might include pay and benefits plus family housing, individual training, medical support, recruiting and examining, overseas dependent education, a portion of base operating support costs, and various other personnel support programs.⁵⁰

Readiness and Modernization. A major debate in recent years has revolved around the balance of funding between readiness and modernization. As defined by DOD, readiness is "the collective capability of the elements of the force to deliver outputs for which they were designed." Modernization is the "technical sophistication of all the elements of the force." Readiness and modernization are two of four pillars of military capability commonly defined by DOD.⁵¹

⁴⁸U.S. Congress, Senate, Committee on Armed Services Staff Report *Defense Organization: The Need for Change*, S. Rept. 99-86, October 16, 1985, pp. 596-98.

⁴⁹Department of Defense Comptroller, *National Defense Budget Estimates for FY1999*, March 1998, p. 123.

⁵⁰Department of Defense, *Manpower Requirements Report FY1998*, September 1997. Section IX -- Cost of Manpower, p. 6.

⁵¹The other two pillars are force structure (the numbers, size, and composition of the units that comprise our defense forces) and force sustainability (the "staying power" of the force during (continued...))

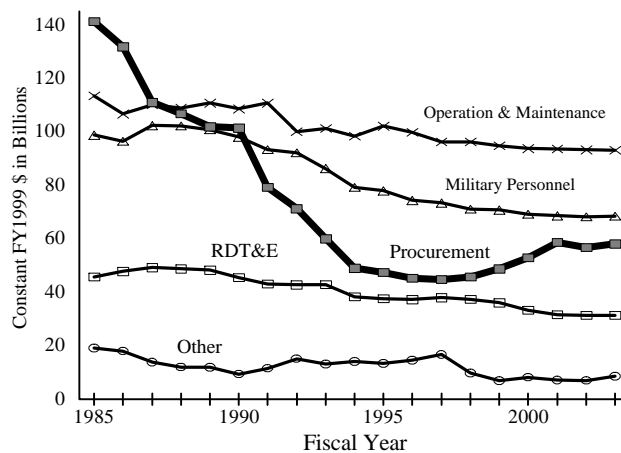
There are no categories in the three traditional DOD budget formats, however, called "readiness" and "modernization." Analysts frequently associate readiness with the O&M appropriations title and modernization with the procurement and R&D titles. This approach is imprecise, however. Many readiness-related items are funded in the procurement title (e.g., replenishment spares and ammunition for training). More importantly, much of O&M funding is for activities only indirectly related to readiness, including base operations, environmental cleanup, financial management and other overhead activities, and many other support functions.

Even with only rough measures available, however, certain trends stand out. A general trend is that the "modernization" part of the budget tends to vary much more than the "readiness"-related part of the budget. When total defense budgets are growing, modernization funding typically rises faster. When total defense budgets are declining, modernization funding plummets. Readiness-related budget accounts, in contrast, have grown at a fairly steady, modest pace relative to the size of the force, with variations due to increases or cuts in the number of troops.

This trend has been especially striking in recent years — total budget authority for national defense declined by 36% in real terms between peak of the Reagan buildup in FY1985 and FY1998, while weapons procurement declined by 67% and O&M by just 17% over the same period. **Figure 6** illustrates the trend. This has kindled an ongoing dispute about the adequacy of the Clinton Administration's defense budget plans. Critics argue that tight budgets in the 1990s have led the Administration to cut weapons modernization too deeply to protect near-term readiness. Low rates of modernization, they contend, will jeopardize the "future readiness" of the force, which depends on modern weaponry. Critics also believe that the industrial base needed to produce new weapons in the future is languishing.

For their part, Administration officials acknowledge that procurement levels have been extremely low in recent years. But, they argue, a "procurement holiday" was acceptable, first, because the new weapons bought during the buildup of the 1980s have only recently been delivered, so the current force is very modern and, second, because the drawdown in the size of the force led to the retirement of older equipment

Figure 6: Department of Defense Budget Authority by Title, FY1985-2003



Note: FY1998-2003, Administration projection

⁵¹(...continued)

combat operations, often measured in number of days). In popular parlance, sustainability is often included as a part of readiness.

so that the average age of weapons in the field has declined. Weapons procurement funding must now begin to turn up, they say, and, since the fall of 1995, the Joint Chiefs of Staff have urged that a procurement funding level of \$60 billion be achieved by the end of the decade.

The dispute over the adequacy of long-term modernization funding has been accompanied by a debate about the adequacy of readiness-related funding as well. Even with readiness-related funding apparently being protected, reports of shortfalls in training, spare parts, equipment repairs, and real property maintenance have grown over time. Meanwhile, the Department of Defense had projected that O&M funding growth would level off in the future because of several efficiency measures, including base closures that were approved in earlier years and ongoing efforts to reduce costs. These expectations have proven increasingly difficult to sustain, and, it now appears that the Department of Defense, with White House support, will propose substantial increases in planned budgets over the next few years in an effort to protect both readiness and modernization.

Chapter 3: The Defense Budget Process

The three major stages of the defense budget process are (1) formulation of the defense budget proposal by the executive branch; (2) review and approval of the budget by Congress; and (3) budget execution.⁵² As **Figure 7** shows, the two key benchmarks in the process dividing the three stages are (1) submission of the defense budget to Congress by the President — which, under current law, must take place by the first Monday in February⁵³ — and (2) the beginning of the new fiscal year on October 1.⁵⁴

Figure 7: Time Line of Defense Budget Process*

Executive Preparation & Submission (Planning, Programming & Budgeting System in DOD)		President Submits Defense Budget	Beginning of Fiscal Year
Aug.	Jan.	Feb.	Oct. 1 & continuing
FY Minus 26 Mos.		FY Minus 8 Months	

* For the first year of the biennial budget cycle. An abbreviated process is used for the executive preparation phase within DOD for the second year of each cycle

While many aspects of the budget process apply equally to all programs in the national defense budget function, this section discusses the defense budget process as it relates to the DOD budget only. The description provided here is based on the formal process as defined in DOD directives and legislation. Practice sometimes deviates from the formal procedure.⁵⁵

⁵²A fourth stage in the budget process — review and audit — is sometimes identified, but is not discussed in this primer.

⁵³As specified in the Budget Enforcement Act (BEA) of 1990, as amended. The 1985 Balanced Budget and Emergency Deficit Control Act (“Gramm-Rudman-Hollings” or GRH) required that the President submit a budget to Congress on the first Monday after January 3, but this deadline was seldom met. The BEA permits submission of the budget as late as the first Monday in February, but the conference report accompanying the legislation urges earlier submissions.

⁵⁴In practice, Congress very often doesn't complete the budget process until after the end of the current fiscal year. Temporary funding is generally provided in a continuing resolution. (See discussion below.)

⁵⁵For a general description of the federal budget process, see Robert Keith and Allen Schick, *Manual on the Federal Budget Process*, CRS Report 98-720.

Executive Stage

Since 1961, the formal process that the Department of Defense has followed in preparing its budget has been known as the **Planning, Programming, and Budgeting System** (PPBS).⁵⁶ The whole PPBS process, from the beginning of planning to commencement of the budget year, takes about 26 months — from the start of the planning phase to the time the budget request is submitted to Congress in February is about 18 months, while the budget year begins some 8 months later on October 1⁵⁷ (see **Figure 8**).

Figure 8. Department of Defense PPBS Timeline
(beginning 26 months before Fiscal Year)

	Planning	Programming	Budgeting
Dates	August to January	February to July	August to December
Action	Inputs from Office of the Secretary of Defense (OSD), Services, and Joint Chiefs of Staff (JCS)	Program Objective Memoranda (POMs) developed to meet requirements of DPG	Review of POMs and PDMs; restructuring of program elements into appropriations accounts
Actor	Office of the Undersecretary of Defense for Policy	Defense Resource Planning Board	DOD Comptroller and OMB
Outcome	Defense Planning Guidance (DPG)	Program Decision Memoranda (PDMs)	Budget (and justification materials)

*For the first year of the biennial budget cycle. An abbreviated process is used for the executive preparation phase within DOD for second year of each cycle.

Until recently, this process was followed for each annual budget, which meant that parts of the process for one year overlapped with the process for the following year. In 1985, however, the Congress mandated a change to a biennial budget cycle beginning with preparation of the FY1988-89 budget — i.e., the budget that began to be prepared in mid-1986 and that was submitted to Congress in January 1987.⁵⁸ As a result, DOD now goes through the whole PPBS process only every other year. An amended budget is submitted for the second year of each cycle, but this amended

⁵⁶The PPBS process was introduced in 1961 by then-Secretary of Defense Robert McNamara.

⁵⁷For more detailed information on the PPBS system, see the website: <http://www.dsmc.dsm.mil/pubs/pmnotebook/pmntoc.htm>.

⁵⁸The change was mandated by Congress in 1985 in Section 1405 of the FY1986 National Defense authorization Act, P.L. 99-145.

budget is prepared through a more limited process that generally follows the procedures used in the "budgeting" part of the full PPBS exercise.

The PPBS process is designed not only to prepare a budget for submission to Congress but also as the principal mechanism through which the Department of Defense prepares its own, internal, long-term financial plan. Indeed, the system produces not only an annual or biennial budget for congressional consideration, but also a long-term defense plan for the following four years. When the budget submission to Congress covered only one year, PPBS produced a Five-Year Defense Plan, or FYDP (pronounced "Fiddip"). Now, with a two-year budget submitted to Congress, the long-term plan extends over a six-year period and is known as the **Future Years Defense Plan** (i.e., still the FYDP).⁵⁹

As its name implies, the PPBS process can be divided into the three distinct phases of (1) planning, (2) programming, and (3) budgeting, each of which produces a specific product.

Planning. The planning phase of the PPBS process is designed to integrate assessments of potential military threats facing the country, overall national strategy and defense policy, ongoing defense plans and programs, and projected financial resources into an overall statement of policy. The formal outcome of the process is the **Defense Planning Guidance** (DPG), which provides the basic rationale for DOD programs and budgets in the next FYDP. The planning phase formally begins in August, a year-and-a-half before the next biennial budget is scheduled to be submitted to Congress. Even before this time, civilian officials in the Office of the Secretary of Defense (OSD) as well as military officials in each of the and, especially, on the Joint Staff (i.e., operating under the Chairman of the Joint Chiefs of Staff), are reviewing and commenting on the earlier DPG. The Joint Chiefs of Staff (JCS) also issue their own policy overview, called the **Joint Strategic Planning Document** (JSPD), which provides formal JCS recommendations to the Secretary of Defense on the DPG. The DPG, which is prepared in the Office of the Undersecretary of Defense for Policy, provides official guidance to the military services on the basic principles that they are to follow in preparing their own long-term budget plans.

Programming. The programming phase of the PPBS process lasts from about February through July of the year before the budget goes to Congress. In this phase, each military service prepares a **Program Objective Memorandum** (POM), which details the specific forces and programs that the service proposes over the FYDP period to meet the military requirements identified in the DPG within the financial limits that are mandated by the Secretary of Defense. Each service has its own process for preparing its POM, and service procedures differ substantially from each other. The service POMs are reviewed by the **Defense Resource Planning Board**

⁵⁹Section 1203 of the National Defense Authorization Act for FY1988 and FY1989 (P.L. 100-180) requires the Secretary of Defense to submit the FYDP to Congress by April 1 of each year. Since the FYDP is a working financial plan, its evolution does not stop after it is initially formulated. The FYDP is updated to reflect congressional changes in requested programs and other major and minor, short- and long-term adjustments. The FYDP is usually updated three times within each cycle.

(DRPB), a high-level group chaired by the Deputy Secretary of Defense and including representatives from organizations within OSD and the Joint Chiefs. The POM review process often involves vigorous back and forth debate, with key issues being identified by DRPB subgroups, decided initially by the DRPB, appealed by the services, and reviewed and decided again. Ultimately the DRPB makes final decisions about service plans in the form of **Program Decision Memoranda** (PDMs) that are officially approved and signed by the Secretary of Defense.

Budgeting. The budgeting phase of the PPBS process generally lasts from about August through late December. Primary responsibility for the budgeting process lies with the Office of the DOD Comptroller, which draws on other organizations within OSD for support and which works closely with the White House Office of Management and Budget (OMB).⁶⁰ In part, the budget review is a fairly technical exercise in which earlier budget allocations made in terms of program elements used in the FYDP and the POMs are restructured for submission to Congress according to appropriations accounts. The budget review also involves preparation and approval of justification material for submission to Congress with the budget request and, in some cases, a project-by-project review to ensure that programs are sufficiently well-justified to secure congressional support. As a result, the budget review is inherently a policy-oriented process, and the services sometimes complain that decisions presumably made during the POM process are revisited during the budget review. The outcome of the budgeting phase is the final preparation of the DOD budget request that is submitted through the White House to the Congress.

Even after the defense budget is submitted to Congress, the executive branch can revise its budget request. Major **budget amendments** are often submitted by incoming Administrations to modify budgets prepared by their predecessors.⁶¹ Minor budget revisions in response to changing threat perceptions, international events, or the domestic political and economic situation, may be submitted either formally or informally. Budget revisions can complicate the process of tracking congressional action on the budget because House and Senate committees reviewing the President's proposals may actually be considering different requests.

⁶⁰In fact, OMB officials are involved in the PPBS process throughout — OMB staff work directly at the Pentagon and participate in the POM review process as well as in the budget review. The defense budget is unique in the extent to which OMB is directly involved throughout the budgeting process.

⁶¹When it came into office in 1989, the Bush Administration proposed a budget amendment revising the Reagan budget request for FY1990. It also submitted minor (though formal) budget amendments for FY1991 and FY1992. When it was leaving office, the Bush Administration did not submit a budget to Congress, so the Clinton Administration simply submitted its own request. The Clinton Administration has frequently submitted minor defense budget amendments, such as an amendment to the FY1999 request asking Congress to provide emergency funding for operations in Bosnia. Formal budget amendments are printed as House documents.

Congressional Defense Budget Process

The Congressional Budget Act (CBA) of 1974 (P.L. 94-344), as amended,⁶² establishes the timetable for congressional action on the federal budget.⁶³ As currently practiced, the congressional budget process stems from the CBA of 1974. The authorization and appropriations process stems from House and Senate rules. These different processes are linked together in various ways.

Congressional action on the defense budget is a three-step process.⁶⁴ Step 1 is passage of the Concurrent Budget Resolution (CBR), which is designed to provide an overview of the entire federal budget, creating a framework for consideration of subsequent revenue and spending measures. Step 2 is the defense authorization process, which establishes the statutory authority for defense programs. Step 3 is the appropriations process, which creates the budget authority to fund defense programs. **Table 5** provides a timetable of the congressional budget process.⁶⁵ The actual sequence of events in Congress rarely adheres to the timetable prescribed by the Congressional Budget Act, but the timetable serves as a guideline and may, to some extent, exert pressure on Congress to act.⁶⁶

⁶²The CBA of 1974 has been amended by these five laws, among others:

1. the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), which is known as the Gramm-Rudman-Hollings (GRH) Act;
2. the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (P.L. 100-119);
3. the Budget Enforcement Act (BEA) of 1990, which was part of the Omnibus Budget Reconciliation Act (OBRA) of that year (P.L. 101-508);
4. the Omnibus Budget Reconciliation Act (OBRA) of 1993 (P.L. 103-66); and
5. the Budget Enforcement Act of 1997, which was part of the Balanced Budget Act of 1997 (P.L. 105-33).

⁶³The Congressional Budget Act of 1974 (P.L. 94-344) established the timetable for the congressional budget process; the Budget and Accounting Act of 1921 established the executive budget process; and the Balanced Budget and Emergency Deficit Control Act of 1985 established the sequestration process (see footnote 63 below).

⁶⁴There is a fourth step in GRH Act called sequestration, meaning a process that withholds or cancels already appropriated funds. An elaborate sequestration procedure comes into play if the spending caps and pay-as-you-go requirements (governing mandatory spending and revenues) are not met through the budget process. Funds are then sequestered through a formula set out in the law. Sequestration procedures have not been invoked since 1990, due to changes in congressional budget practices.

⁶⁵See Appendix D for the actual timetable of congressional action on the FY1999 budget.

⁶⁶See James V. Saturno, *The Appropriations Process and the Congressional Budget Act (CBA)*, CRS Report 97-947, for details on the timing of appropriations consideration and the CBA.

Table 5: Congressional Defense Budget Process

Timing	Action
By the first Monday in February	President submits defense budget to Congress Budget, Senate Armed Services & House National Security, and Appropriations Committees and relevant Sub-Committees commence hearings on the defense budget
Six weeks after budget submission	Senate Armed Services & House National Security and Appropriations Committees submit “views and estimates” on the defense budget level to Budget Committee
Apr. 1	Senate Budget Committee reports CBR
Apr. 15	Congress completes action on the CBR setting levels of budget authority and outlays for the national defense budget function
No Formal Deadline	Congress approves defense authorization act
June 10	House Appropriations Committee reports last annual appropriations act
June 30	House completes action on annual appropriations acts
Oct. 1	Beginning of new fiscal year. Funding provided either in regular appropriations acts or continuing resolutions

The congressional committees responsible for the defense budget are the Budget Committees, the Appropriations Committees, and the defense authorizing committees — the House National Security Committee and the Senate Armed Services Committee. As **Table 6** shows, the defense budget is voted on a minimum of 12 times on the floor, and 10 times in committee over the course of the annual congressional defense budget process.⁶⁷ The following discussion reviews the budget resolution, authorization, and appropriations processes in sequence. It also reviews related matters, such as the relationship between authorization and appropriations.

⁶⁷A form labeled “Legislative History of the Defense Budget” is printed on the last page of this report to help the reader track the defense budget through the major stages of the congressional budget process.

Table 6. Milestone Votes on the Defense Budget
(major stages of congressional action at which votes occur)

Action	House		Senate	
	Committee	Floor	Committee	Floor
Budget Resolution				
Budget Committee	X		X	
Floor Action		X		X
Conference Report Approval		X		X
Authorization Legislation				
Armed Services/ National Security Committees				
Subcommittee Markup	X		X	
Full Committee Markup	X		X	
Floor Action		X		X
Conference Report Approval		X		X
Appropriations Legislation				
Appropriations Committee				
Defense Subcommittee Markup	X		X	
Full Committee Markup	X		X	
Floor Action		X		X
Conference Report Approval		X		X
Total Votes	5	6	5	6

Notes: Represents the minimum number of votes likely to occur. Does not include possible votes on floor and committee amendments.

Concurrent Budget Resolution. The first formal defense budget action in each legislative year is consideration of the Concurrent Budget Resolution (CBR).⁶⁸ The Congressional Budget Act of 1974 mandated the consideration of a budget resolution as a means for Congress to review overall national budget priorities. The budget resolution allows Congress to review funding for particular programs in the context of the entire federal budget, instead of dealing with each budget activity in isolation. There has, however, been a great deal of controversy about how program-specific Congress should be at this stage of the budget process. Under the terms of the 1974 Budget Act, as amended, the budget resolution establishes revenue floors and sets ceilings on total budget authority and outlays. The concurrent budget resolution also allocates spending among functions, including the national defense budget function (i.e. the 050 function).⁶⁹ These functional allocations are not binding on subsequent appropriations however, since the means of enforcing budget ceilings and revenue floors allow considerable flexibility to revise functional allocations in the subsequent

⁶⁸A concurrent resolution must pass both houses of Congress but is not submitted to the President.

⁶⁹For more details, see James V. Saturno, *The Appropriations Process and the Congressional Budget Act*, CRS Report 97-947.

course of the budget process. The Concurrent Budget Resolution also sets separate targets for spending within two broad categories of expenditures — discretionary and mandatory.⁷⁰ Discretionary funds must be appropriated each year. Mandatory (also known as direct) spending, in contrast, is established by standing law for programs like Medicare and Social Security. The amount spent for such programs, therefore, can be adjusted only if Congress amends the underlying statutes.

Consistent with ceilings on total budget authority and outlays, the concurrent budget resolution allocates funds to the appropriations committees and may include so-called "reconciliation" instructions to congressional authorizing committees to achieve specified amounts of changes in standing laws governing so-called direct or mandatory accounts. These instructions may include directions to the defense authorizing committees to make adjustments in total amounts of money for military retirement benefits, which are a form of direct spending.

Action on the Concurrent Budget Resolution is formally governed by a timetable established by the Congressional Budget Act as amended. Within six weeks after submission of the President's budget proposal, the House and Senate defense authorizing and appropriations committees are required to submit their "views and estimates" on the size of the defense budget to the two budget committees. These "views and estimates" letters often make a case for an increase in defense spending, usually with little effect on the process, and may also call attention to particular issues, such as the balance between budget authority and outlays under Administration plans as reestimated the Congressional Budget Office (see below). The Senate Budget Committee is to report its version of the Budget Resolution by April 1. Congress is to complete action on the Budget Resolution by April 15. In practice, these timetables often slip. Indeed, in 1998, Congress did not pass a Congressional Budget Resolution at all — instead, action on authorization and appropriations bills for FY1999 proceeded on the basis of funding targets established by the long-term budget agreement reached in 1997.⁷¹

The CBA of 1974 provides for both substantive and procedural points of order to block violations of budget resolution policies and congressional budget procedures. For example, total discretionary amounts are binding only for the Senate, where bills or amendments that would lead to a violation of the ceilings are subject to a point of order. There is no binding ceiling on mandatory spending in the CBR, however.⁷²

⁷⁰“The Budget Enforcement Act (BEA) divides spending into two types — **discretionary appropriations** and **direct spending**. Discretionary spending is controlled through annual appropriations acts. ...Direct spending is more commonly called mandatory spending. Mandatory spending is controlled by permanent laws.” (Office of Management and Budget, *The Budget System and Concepts: Budget of the United States Government, Fiscal Year 1999*, Feb. 1998, p. 3.)

⁷¹In acting on FY1999 appropriations bills, the Senate approved resolutions (S.Res. 209 on April 2, 1998 and S.Res. 312 on October 21, 1998) which provided a formal allocation of funds to the Appropriations Committee in lieu of the concurrent budget resolution. These resolutions allowed action on appropriations bills under Senate rules.

⁷²For more information about budget enforcement procedures and points of order, see Robert (continued...)

It is important to note that the annual budget resolution simply establishes overall targets for budget authority and outlays for the national defense function (050) — the resolution does not specify how these funds should be allocated among specific defense programs. The House and Senate Budget Committees sometimes include language in their reports on the budget resolution explaining the assumptions underlying recommended functional funding levels, but these recommendations have no binding effect. Actual decisions on defense funding priorities, therefore, are made only in the defense authorization and appropriations bills. Moreover, even the total level of defense spending is not firmly established by the budget resolution. Mechanisms for enforcing budget targets in the budget resolution allow considerable flexibility to the appropriations committees in allocating total discretionary spending (see the discussion of the appropriations process, below, for an explanation of this point).

Though the annual budget resolution does not do so, in recent years Congress has sometimes established more rigid limits on defense discretionary spending as part of legislation implementing long-term White House-congressional budget agreements. The Budget Enforcement Act of 1990 established enforceable caps on defense discretionary spending (and on other categories of discretionary expenditures) in FY1991, FY1992, and FY1993, and set a cap on total discretionary spending through FY1995. These caps were enforced through automatic across-the-board reductions in spending known as sequestration. The caps on total discretionary spending, but not the separate caps on defense expenditures, were extended through FY1998 by the Omnibus Budget Reconciliation Act of 1995. The Budget Enforcement Act of 1997 further extended caps on total discretionary spending through FY2002 and reimposed separate caps on defense discretionary expenditures in FY1998 and FY1999.⁷³ **Table 7** shows the limits on defense and other categories of discretionary expenditures under the BEA of 1997 as estimated at the time the Act was approved.⁷⁴ Both the CBR levels and discretionary spending limits are adjustable for various factors, such as emergency spending.⁷⁵

⁷²(...continued)

Keith, *Manual on the Federal Budget Process*, CRS Report 98-720, esp. page 78.

⁷³For a more detailed discussion of the most recent amendment to the Congressional Budget Act - BEA of 1997, see Robert Keith, *Budget Enforcement Act of 1997: Summary and Legislative History*, CRS Report 97-931.

⁷⁴For more information on discretionary spending limits, see: James V. Saturno, *The Appropriations Process and the Congressional Budget Act*, CRS Report 97-947. The Budget Enforcement Act of 1990 and subsequent legislation also established mechanisms for controlling mandatory spending and revenues. Changes in tax revenues and in mandatory spending programs are required to balance each other in such a way that there is no net increase in total federal spending — these mechanisms are known as the “Pay-As-You-Go” or “PAYGO” process.

⁷⁵Discretionary spending limits can change over time, in accordance with the parameters established in Section 251(b) of the Balanced Budget and Emergency Deficit Control Act, as amended by Section 10203(a) of the Budget Enforcement Act of 1997 (P.L. 105-33). Under the 1997 changes, discretionary spending limits apply separately to defense and nondefense spending for FY1998-1999 and to violent crime reduction spending for FY1998-2000; for the

(continued...)

Table 7. Initial Discretionary Spending Limits in the Budget Enforcement Act of 1997 (P.L. 105-33)
(budget authority and outlays)

Fiscal Year	Defense Spending	Nondefense Spending	Total Discretionary Spending	Violent Crime Reduction Spending
1998	ba \$269,000,000,000 o \$266,823,000,000	ba \$252,357,000,000 o \$282,853,000,000		ba \$5,500,000,000 o \$3,592,000,000
1999	ba \$271,500,000,000 o \$266,518,000,000	ba \$255,699,000,000 o \$287,850,000,000		ba \$5,800,000,000 o \$4,953,000,000
2000			ba \$532,693,000,000 o \$558,711,000,000	ba \$4,500,000,000 o \$5,554,000,000
2001			ba \$542,032,000,000 o \$564,396,000,000	
2002			ba \$551,074,000,000 o \$560,799,000,000	

Source: James V. Saturno, *The Appropriations Process and the Congressional Budget Act*, CRS Report 97-947, August 5, 1997.

Authorization Process. The next phase in the congressional defense budget process is passage of authorizing legislation, a process which long predates the enactment of the 1974 Budget Act.⁷⁶ Authorization laws have two basic purposes. First, they establish, continue, or modify programs. Second, they are a prerequisite under House and Senate rules (and sometimes under statute) for the Congress to appropriate funds for programs⁷⁷. Authorization acts define the scope of programs and authorize funding levels for them, providing either a specific amount or “such funds as may be necessary” to implement the program. Authorization does not create budget authority — this is done only by appropriations acts.

Established in 1946, the Senate Armed Services Committee and its House counterpart, known as the House Armed Services Committee until 1995 and now as the House National Security Committee, are responsible for reporting defense authorization legislation to Congress. The breadth and detail of their work have evolved considerably over the years. Until 1959, most authorizations were permanent — with no time limit. The only programs authorized annually were manpower end-

⁷⁵(...continued)

remaining fiscal years, all discretionary spending is merged into a single category. In 1998, as part of the Transportation Equity Act for the 21st Century (P.L. 105-178), Congress added separate categories for highway and mass transit spending. See Robert Keith, *Introduction to the Federal Budget Process*, CRS Report 98-751 for more information on discretionary spending limits.

⁷⁶Defense authorization bills were common in the early nineteenth century.

⁷⁷Congressional Budget Office, *Unauthorized Appropriations and Expiring Authorizations*, January 15, 1998, p. 1-2.

strengths, military construction, and family housing programs. Since 1959, more and more defense programs have been made subject to annual authorization, beginning with procurement programs for aircraft, missiles, and naval vessels and continuing through working-capital funds, for which annual authorizations were first required in 1983 — **Table 8** provides a year-by-year list of authorization requirements.

The defense authorizing committees' work has become more extensive not only in the number of programs requiring annual authorization, but also in the level of detail in which programs are reviewed. While authorizations were originally quite broad,⁷⁸ the defense authorizing committees now authorize funding in their committee reports at the same line-item level as the Appropriations Committees.

The process by which annual defense authorization bills move through Congress is the same as for any other regular piece of legislation. Defense authorization bills are “marked up” in each committee, first by the relevant subcommittees and then by the full committee.⁷⁹ Following mark-up, each House begins floor action on its respective bill, with amendments offered and voted on followed by floor votes on approving the amended bill. Differences between the House and Senate versions of the bill are resolved in a conference committee, the results of which are returned to each House for final floor votes, following which the approved measure is then sent to the President for approval or veto.

There are no deadlines in law for action on authorization acts⁸⁰, and defense authorization bills are sometimes delayed past the beginning of a new fiscal year. Authorization bills have been held up because of extended debates over the budget resolution, disputes over major defense programs, veto threats, and, in the case of the FY1996 bill, by a presidential veto.

⁷⁸For example, in the 1950s, standing law authorized “for the Air Force 24,000 serviceable aircraft or 225,000 airframe tons of serviceable aircraft, whichever the Secretary of the Air Force considers appropriate.” At no time since FY1947, however, has the inventory of U.S. Air Force aircraft exceeded 9,519 — the FY1955 level. (Jeffrey Record, *Revising U.S. Military Strategy* (Washington: Pergamon Publishers, 1984), p. 103.)

⁷⁹A bill **mark-up** involves “going through the contents of a piece of legislation in committee or subcommittee, considering its provisions in large and small portions, acting on amendments to provisions and proposed revisions to the language, inserting new sections and phraseology, etc.” Congressional Quarterly, *Congressional Almanac*, Volume XXXIX, 1983, p. 7.

⁸⁰The Congressional Budget Act of 1974 originally established a May 15 deadline for the reporting of authorizing legislation, but this requirement was later repealed.

Table 8. Addition of Annual Authorization Requirements

Year	Public Law	Programs Added
1959	86-149	Procurement of aircraft, missiles, and naval vessels
1962	87-436	RDT&E for aircraft, missiles, and naval vessels
1963	88-174	Procurement of tracked combat vehicles
1967	90-168	Personnel strengths of each of the Selected Reserves
1969	91-121	Procurement of other weapons
1970	91-441	Procurement of torpedoes and related support equipment; active duty personnel strengths of each component of the Armed Forces
1973	92-436	Average military training student loads of each component of the Armed Forces
1975	94-106	Military construction of ammunition facilities
1977	95-91	National defense programs of the Department of Energy
1980	96-342	Operation and maintenance of DOD and all its components
1982	97-86	Procurement of ammunition and “other” procurement
1983	98-94	Working capital funds

Source: U.S. Congress. Senate. Committee on Armed Services. *Defense Organization: The Need for Change*. S. Prt. 99-86, Oct. 16, 1985. Washington, 1985. p. 575.

The fact that biennial defense budgets have been required each year since 1987 has not fundamentally affected either the authorization or the appropriations process in Congress. Authorizers bowed in the direction of biennial budgeting for three cycles — in calendar year 1989, Congress approved a defense authorization bill that formally covered the years FY1990-91; in 1991, Congress approved a bill for FY1992-93; and in 1993, Congress approved a bill for FY1994-95. In each of these years, however, Congress formally authorized funds only for relatively non-controversial programs in the second year of the biennial cycle along with funds for all defense programs in the first year of the cycle.⁸¹ In the following year of each cycle, Congress then passed a

⁸¹In 1991, for example, Congress passed a “National Defense Authorization Act for Fiscal Years 1992 and 1993” that authorized \$213.3 billion for FY1992 and \$165.9 billion for FY1993. All of the FY1993 funding, however, was revisited in action on the “National

(continued...)

one-year authorization bill that approved all programs for that year. Since 1993, authorizers have acted on only one year of the cycle. Appropriators have consistently provided only one-year appropriations.

Appropriations Process. The third major step in the congressional defense budget process is the appropriations process, which provides budget authority to fund defense and other discretionary programs. Each year, Congress acts on 13 regular appropriations bills, each of which is initially approved by a separate subcommittee of the appropriations committee in each House. The bulk of national defense funding is provided in three appropriations bills (1) national security (House)/defense (Senate), (2) military construction, and (3) energy and water development (for Department of Energy defense-related activities). Minor amounts of funding are provided in three other acts (see **Table 9**.)

The first formal step in the appropriations process is when the appropriations committee in each House decides how much money will be allocated to each subcommittee. While the Concurrent Budget Resolution establishes targets for the national defense budget function, these targets are only advisory. Under the Congressional Budget Act, the appropriations committees in each House have flexibility to allocate total discretionary funding — for defense and non-defense programs alike — as they see fit. If, for example, the annual budget resolution recommends \$270 billion in new discretionary budget authority for the national defense budget function, and includes another \$270 billion for various non-defense programs, the total amount of discretionary funding, \$540 billion, is available to the appropriations committees to allocate among the subcommittees as appropriators decide. Appropriators may decide to allocate only \$265 billion to subcommittees for defense programs, and \$275 billion for domestic programs or vice versa.

Section 302 of the Congressional Budget Act establishes procedures through which budget resolution ceilings on spending are implemented in the appropriations process. Under Section 302(a) the Concurrent Budget Resolution makes "allocations" of funds to committees. Section 302(b) requires that the appropriations committee in each House report how funds under its jurisdiction are then subdivided among the appropriations subcommittees. These suballocations of funds to the appropriations subcommittees are therefore commonly referred to as the "302(b) allocations."⁸² A point of order may be raised in the House and Senate against any appropriations bill or any amendment to an appropriations bill that would exceed the amounts provided in the 302(b) allocation. It is important to note that the 302(b)

⁸¹(...continued)

Defense Authorization Act for FY1993" which Congress approved in 1992.

⁸²The Budget Enforcement Act of 1990 temporarily created a slightly different process under a new Section 602, and the appropriations committee distributions were known as "602(b) allocations" from FY1992 through FY1997. Following passage of the Budget Enforcement Act of 1997, however, the FY1998 procedure reverted to the earlier "302(b)" process.

Table 9: FY1999 Appropriations for National Defense by Act and Programs Contained in Each Act*
(current year dollars in millions)

Department of Defense Appropriations Act	
Military Personnel	70,579
Operation and Maintenance	93,376
Procurement	48,870
Research, Development, Testing, and Evaluation	36,561
Revolving & Mgt Funds	1,521
Total DOD Appropriations	250,907
Military Construction Appropriations Act	
Military Construction	4,908
Family Housing	3,542
Total Military Construction Appropriations	8,450
DOD Offsetting Receipts (Net) & Other	(2,020)
TOTAL - Department of Defense, Military 051	257,337
053 - Energy & Water Development Appropriations	
Weapons Activities	4,400
Environmental Restoration & Waste Management	4,310
Defense Facilities Closure Projects	1,038
Other Defense Activities	1,697
Defense Waste Disposal	189
Nuclear Facilities Safety Board	17
Privatization	228
Remedial Action Program	140
TOTAL - Department of Energy Defense-Related 053	12,019
054 - HUD - Independent Agencies Appropriations	
Federal Emergency Management Agency (FEMA)	44
US Antarctic Logistics Support Act (NSF)	63
Selective Service System	24
Subtotal	131
054 - Department of Defense Appropriations Act	
Community Management Staff	102
CIA Retirement & Disability Fund	202
Coast Guard (Defense Related)	329
Subtotal	633
054- Commerce-Justice-State Appropriations Act	
Maritime Security Program	90
Radiation Exposure	2
Export Administration	2
FBI (Defense Related)	292
Subtotal	386
TOTAL - Other Defense Related 054	1,150
TOTAL - Atomic Energy/Other Defense Related 053/054	13,169
TOTAL National Defense 050 (051/053/054)	270,505

Source: Congressional Budget Office.

*Note: Does not include FY1999 supplemental appropriations in H.R. 4328 (P.L. 105-277).

allocations are adjusted frequently over the course of the appropriations process as appropriations bills are acted on.

In the Senate, the Defense Subcommittee of the Appropriations Committee and the Military Construction Subcommittee and, in the House, the National Security Subcommittee and the Military Construction Subcommittee have jurisdiction over military programs administered by the Department of Defense. The Energy and Water Development Subcommittee in each House chamber has jurisdiction over Department of Energy defense activities. These subcommittees hold hearings to review the President's defense budget request and to mark up defense appropriations legislation before full committee mark-up.⁸³ Floor action and conference committees then proceed in the same manner as with the authorization acts.

Under the Congressional Budget Act (CBA), as amended, the House Appropriations Committee is required to report all annual appropriations acts by June 10 and the House must complete action on them by June 30. These deadlines are rarely met. The CBA bars consideration of appropriations bills before the concurrent budget resolution is adopted. Under an exception, however, the House Appropriations Committee can proceed on May 15th. In the past, the Senate has waived the requirement for a concurrent budget resolution to permit consideration of individual appropriations bills. In acting on FY1999 appropriations bills, the Senate met the requirement by approving measures (S.Res. 209 on April 2, 1998 and S.Res. 312 on October 21, 1998) which provided a formal allocation of funds to the Appropriations Committee in lieu of the concurrent budget resolution. There is no formal deadline for final congressional action on appropriations, though government agencies must shut down non-essential operations if funding is not provided in some form (either in regular appropriations bills or in one or more continuing resolutions) by the beginning of the fiscal year on October 1.

Some particular characteristics of defense appropriations acts are worth noting. First, the national defense budget function is made up almost entirely of programs that require annual appropriations. The exceptions are a small amount of DOD trust funds that are funded through permanent appropriations.⁸⁴ In the case of **annual appropriations**, Congress must pass new appropriations acts every year to sustain a program. **Permanent appropriations**, in contrast, are usually made in substantive legislation and make funds available each year without new action by Congress.

Second, Congress does not formally specify in the language of the appropriations acts themselves levels of funding for every item in the defense budget. Instead, for the most part, defense appropriations acts appropriate a "lump sum" for all the programs funded in a given appropriations account, although specific amounts may be appropriated for individual programs of particular concern to Congress. The

⁸³Appropriation acts usually originate in the House, but because of delays in House action the Senate Appropriations Committee has occasionally proceeded to mark up its version of the defense appropriations act before House passage of its version.

⁸⁴For example in FY1998, budget authority for DOD Trust Funds equaled \$246 million. There are 16 small trusts, including funds such as: General Gift Funds for the Army, Navy and Air Force.

FY1998 defense appropriations act (P.L. 105-56), for example, provides \$6,535,444,000 for Navy aircraft procurement without specifying how much is for the F-18 aircraft or other particular weapons. Authorization acts approve funding at a similar level of detail.

While the acts themselves do not specify funding by line item, committee reports on the defense appropriations acts do specify levels of funding at the line item level. Moreover, the military departments provide detailed budget information on programs in “justification” material presented to Congress, and if appropriations reports do not specifically change the request, Congress assumes that DOD will carry out the programs as requested. In a strict legal sense nothing requires DOD to adhere either to the recommendations in congressional reports or to its own program budget proposals in spending money appropriated by Congress at the line item level. A failure to spend funds in accordance with the detailed justification material and committee reports, however, could cause Congress to lose confidence in the requests and might result in reduced appropriations or in line item appropriations acts.⁸⁵ As a result, DOD procedures require officials to act in accordance with congressional intent, as expressed in committee reports.

A third characteristic is that the overall funding level in the annual defense appropriations act is difficult to compare directly to the level in the annual defense authorization act. One reason, as noted earlier, is that the defense authorization bill includes funding for activities financed in several different appropriations bill. For example, the defense appropriations bill does not include funding for military construction and family housing, which is provided in the military construction appropriations bill. Nor does it include funding for Department of Energy defense-related activities, which is provided in the energy and water appropriations bill. Also, funds for the selective service system and for civil defense are provided in other appropriations bills. The defense authorization bill, in contrast, authorizes funds for all of these defense-related activities.

The defense authorization bill also takes account of offsetting receipts for sales of surplus equipment to the public and sales from the national defense stockpile, for example, while the defense appropriations bill does not. Moreover, until FY1998, the annual defense authorization bill did not specifically authorize an amount of money for military personnel, while the defense appropriations bill has always included such amounts. The defense appropriations bill also provides funds for some other functions, such as intelligence community management, which the authorization bill does not address.

Finally, within the total, the authorization and appropriations bills use a somewhat different account structure — the most significant difference is that the authorization bill includes defense health program funding within the operation and maintenance account, while the appropriations bill provides defense health funding

⁸⁵U.S. Congress, House Committee on Appropriations, "Report to accompany H.R. 11575, the Department of Defense Appropriation Bill 1974," H.Rept. 93-662, p. 16. Quoted and discussed in Louis Fisher, *The Constitution Between Friends: Congress, the President, and the Law* (New York, St. Martin's Press, 1979), pp. 33-36.

under a separate account for "Other Defense Activities." **Table 10** compares the FY1999 national defense authorization act to the FY1999 DOD appropriations act.

Three major kinds of appropriations acts may be used to fund defense (and other) programs: (1) regular appropriations acts, (2) continuing appropriations resolutions, and (3) supplemental appropriations acts.

Regular Appropriations Acts. Five major **regular appropriations** acts, listed in **Table 9**, in whole or in part provide national defense funding. The largest of the defense measures is the annual defense appropriations act, which, for FY1999, provided about 95% of the 050 budget function.

Continuing Appropriations Resolutions. If Congress fails to pass regular appropriations acts by the beginning of the fiscal year on October 1, DOD (and other affected agencies) can be left with no money to pay personnel, fund daily operations, or execute new contracts.⁸⁶ Standing law allows essential government activities, including national security-related functions, to continue even in the absence of funding, but non-essential programs may not continue, and day-to-day agency operations are disrupted. To avoid the disruptive effects of such funding cut-offs, **continuing appropriations legislation** is often enacted by Congress to provide "stop-gap" budget authority until regular appropriations acts are approved.⁸⁷ "Stop-gap" continuing appropriations resolutions sometimes provide funds for DOD for a certain specified time period at the level approved for the prior fiscal year or at the President's requested level, whichever is less, with the restriction that these funds cannot be used for new programs. Additional restrictions, however, are often included. A continuing resolution may, for example, specify that defense programs will be funded at levels recommended in committee reports on defense appropriations acts or in bills passed by one or both Houses of Congress.

Some continuing appropriations resolutions substitute for regular appropriations acts and provide full-year funding.⁸⁸ The language in these resolutions is the same

⁸⁶For more information on continuing appropriations acts, see Sandy Streeter, *Continuing Appropriations Acts: Brief Overview of Recent Practices*, CRS Report 97-892.

⁸⁷Short-term continuing resolutions were used for defense funding in FY1996, FY1997, FY1998, and FY1999. The longest recent period of time for which defense funding was provided under a continuing resolution was in FY1996. Of the thirteen regular FY1996 appropriations bills, only the military construction bill was completed by the September 30, 1995 deadline, and there were a series of temporary continuing resolutions for the FY1996 budget. DOD, along with other government agencies, was funded by three continuing resolutions in October and November and suffered a government shutdown from November 14 to 18, 1995. The defense appropriations bill finally passed the House and Senate on November 16, 1995 and became law without the President's signature on December 1, 1995.

⁸⁸For example, in FY1988 DOD was funded by a full-year continuing resolution, passed by Congress after four temporary continuing resolutions had expired. The House incorporated the version of the DOD appropriations act that it had earlier passed into its version of the continuing resolution (H.J.Res. 395), and the Senate followed the same strategy. Differences in defense funding levels were then resolved in the conference on the continuing resolution.

Table 10: Comparison of FY 1999 Defense Appropriations and Authorization Budget Amounts
(budget authority in billions of dollars)

Title	National Defense Authorization	Department of Defense Appropriations
Military Personnel	70.6	70.6
Operation & Maintenance /a/	93.5	84.0
Procurement /b/	49.5	48.6
RDT&E	36.0	36.8
Military Construction	4.9	NA
Family Housing	3.5	NA
Revolving & Mgmt. Funds	1.5	0.8
Other Defense Programs /c/	NA	11.8
Related Agencies /d/	NA	0.4
Other Defense-Related Activities /e/	1.0	NA
General Provisions	NA	-2.4
Scorekeeping Adjustments	NA	0.0
Trust Funds	0.3	NA
Receipts/Other	-2.3	NA
Atomic Energy Defense Activities	12.0	NA
Total DOD	270.5	250.5

Sources: Conference reports on the FY1999 Defense Appropriations bill (H.Rept. 105-746) and the FY1999 National Defense Authorization bill (H.Rept. 105-736).

Notes:

- a. O&M in the appropriations bills differs from O&M in the authorization bills mainly because the Defense Health Program and Drug Interdiction are included in O&M in the authorization but in "Other Defense Programs" in appropriations.
- b. Procurement in the appropriations bills differs from Procurement in the authorization bills mainly because Chemical Agents and Munitions Destruction is included in Procurement in the authorization but in "Other Defense Programs" in appropriations.
- c. Includes Defense Health Program, Chemical Agents and Munitions Destruction, Drug Interdiction, and Office of the Inspector General.
- d. Includes CIA Retirement and Disability System Fund, Intelligence Community Management Account, Payment to Kaho'olawe Island Fund, and National Security Education Trust Fund.
- e. Includes Selective Service System and defense-related civil defense activities of the Federal Emergency Management Agency.

as a regular appropriations act, with specific sums appropriated for all the appropriations accounts and for whatever individual programs Congress specifically mentions.

Supplemental Appropriations Acts. Frequently, Administrations request funds from Congress to cover additional expenses during the current fiscal year. Congress may approve such funding in **supplemental appropriations** acts. Prior to passage of the Congressional Budget Act in 1974, supplemental funding bills were regularly used to provide funding for day-to-day agency operations — pay raises for DOD and other federal employees, for example, were usually funded in supplemental appropriations measures. In recent years, supplemental appropriations bills have been

used mainly to provide funding for unanticipated expenses — though there is sometimes an argument about whether the requirements should have been anticipated or not.

In 1991 and 1992, for example, the Congress approved supplemental appropriations to provide funds for Operation Desert Shield/Desert Storm. Every year since then, Congress has provided some supplemental funding for the Department of Defense, mainly to cover costs of unplanned military operations abroad, including operations in Somalia, Haiti, Bosnia, and the Persian Gulf. Supplemental funds have also frequently been provided to cover storm damage to defense facilities and equipment — indeed, funds for defense programs have often been provided in supplemental appropriations measures that also include substantial amounts to respond to domestic disasters, such as earthquakes and floods. There also remain some vestiges of the older procedure — cost of living adjustments for veteran's benefits, for example, are annually approved as part of a supplemental appropriations bill. Still, there is no longer an expectation that an annual supplemental will be considered as part of the regular, yearly budget process.

Generally, supplemental funds are provided in response to Administration requests, and the Administration frequently sends one or more packages of supplemental appropriations requests to Congress for activities in the current year at the same time as it sends the regular budget request for the next fiscal year to Capitol Hill.⁸⁹ Congress often adds funding for unrequested items to the supplemental appropriations bills, however, and such "must pass" bills also often become vehicles for policy "riders" that may be controversial.

Over the past few years, procedures for acting on supplemental appropriations measures have been altered further by provisions of the Budget Enforcement Act (BEA) of 1990. As noted earlier, the BEA established enforceable caps on total discretionary spending and, in some years, it set separate caps on defense and other types of discretionary expenditures. In order to allow for supplemental appropriations to respond to emergencies without requiring offsetting rescissions, the BEA provided that the discretionary spending caps would be increased by amounts specifically designated as emergency appropriations by the President and Congress. The BEA also specifically provided that funding for Operation Desert Shield, which was underway when the Act was passed, would be counted as emergency appropriations.⁹⁰ These emergency spending provisions were included in later extensions of the BEA in 1993 and 1997.

The use of the emergency designation for defense — and other — supplemental funding has frequently been controversial, however. Some Members of Congress have argued that funding for military contingency operations, in particular, should be anticipated and should, therefore, either be absorbed within amounts provided in the regular defense appropriations bills or should be offset with rescissions of other defense funds. Others have argued that defense readiness will suffer if offsets are required. The 104th Congress (1995-96) generally tried to identify offsets for most

⁸⁹Supplemental appropriations requests are printed as House documents.

⁹⁰This provision was also interpreted to apply to Operation Desert Storm.

supplemental appropriations, including defense funds, in order to avoid adding to the federal budget deficit, and the issue continued to be debated in the 105th Congress (1997-98). The result, for defense programs, at least, has been inconsistent — Congress has sometimes offset supplemental defense funding with rescissions and sometimes has not.⁹¹

The Relationship Between Authorization and Appropriations. Some confusion, and occasionally some controversy, has arisen over time concerning the role of the defense authorizing committees compared to that of the defense appropriations committees. Some argue that the authorizing committees should focus their attention on larger defense policy issues, leaving line-item oversight and review to the appropriations committees. Others argue that line-item authorization contributes to more comprehensive congressional oversight of defense programs. The activities for which authorizations are required has expanded over time along with the growing breadth of annual authorization acts. (See Table 8.)

The issue of unauthorized appropriations can be particularly contentious. Title 10 of the U.S. Code — the body of law that governs the Department of Defense and the military services — provides that “no funds may be appropriated for any fiscal year to or for the use of any armed force or obligated or expended” for specified categories of expenditures “unless funds therefor have been specifically authorized by law.”⁹² Moreover, the rules of the House and the Senate each generally prohibit appropriation of funds for programs that have not been authorized, and these rules can be enforced by parliamentary points of order.

In practice, however, appropriations bills often provide funds over and above amounts approved in authorization bills and for activities that have not been specifically mentioned in authorization acts or governing report language. Legal opinions have consistently held that appropriations acts may provide more or less money for particular programs than has been authorized; may earmark funds for projects not specifically authorized; may, if enacted after an authorization measure, alter the purpose of a program established by an authorization; and may extend the availability of funds beyond the period provided in authorizing legislation. The general rules are (1) that later legislation prevails — which is almost always the appropriations bill — and (2) that more specific provisions of law prevail over less specific provisions.⁹³

In any event, defense authorization and appropriations laws themselves seldom conflict directly on particular programs because the laws usually do not specify funding levels for particular line items or program elements. Instead, both kinds of

⁹¹For a thorough review of the debate over emergency supplemental defense appropriations since enactment of the Budget Enforcement Act, see Stephen Daggett, "Emergency Appropriations for the Department of Defense," CRS General Distribution Memo, August 18, 1998.

⁹²10 U.S.C. 114.

⁹³For an extensive, definitive discussion of the legal relationship between authorizations and appropriations, see U.S. General Accounting Office, *Principals of Federal Appropriations Law*, Second Edition, GAO Report Number OBC-91-5, July 1991, Vol. I, Chapter 2.

laws provide specific amounts at the “account” level — for example, the FY1999 authorization act authorizes \$7,642,200,000 for Navy aircraft, while the FY1999 defense appropriations act provides \$7,541,709,000. Levels of funding for particular programs, like the F/A-18 fighter, are specified in committee reports, but, except in unusual circumstances, not in the language of the law. Differences in report language are not matters to be settled in the courts or even by points of order in Congress. Instead, disputes between the authorization committees and appropriations committees over funding for particular programs are matters that the committees have periodically tried to work out through consultation and informal compromises.⁹⁴

An obvious question then arises: What happens if the authorization bill is not passed at all or is substantially delayed? Sometimes, as in FY1996, the defense authorization bill has been vetoed and then has not been enacted until several months after the fiscal year has begun. In such cases, what happens to the workings of the Pentagon?

The answer is that without a defense authorization act for the current fiscal year, the Pentagon cannot make policy changes that are normally included in an authorization. As long as the appropriations act passes, the Pentagon has funding — but certain activities may be limited because of the lack of authorization by Congress. Under standing law, new military construction projects cannot go forward without both authorization and appropriations.⁹⁵ Moreover, authorization acts often make changes in standing law governing, for example, military end-strength levels and regulations regarding military pay and benefits. Finally, if a particular program has been authorized for only a limited period of time, and funding is not specifically provided in an appropriations act, and the authorization is delayed, that program may not continue.

In debate over the FY1998 defense authorization bill, Senator Bob Smith of New Hampshire outlined how the Pentagon would be affected if the bill were not enacted:⁹⁶

1. Higher end strengths will remain in effect without funding to sustain them;
2. There will be no reform of basic allowances for subsistence and quarters;
3. All bonuses will continue at present levels, which prevents authorized increases to aviation and nuclear officer bonuses;
4. The Navy will lose the ability to have the Chief of Naval Operation's choice for Chief of Chaplains;

⁹⁴The Budget and Accounting Act of 1921 provides that the Comptroller General may issue legal decisions regarding the availability of appropriated funds for particular purposes, a function earlier performed by officials of the Treasury Department. Decisions are binding on federal agencies. In some cases, private parties may request a decision by the Comptroller General or may have recourse to the courts. See U.S. General Accounting Office, *Principles of Federal Appropriations Law*, Second Edition, GAO Report Number OBC-91-5, July 1991, Vol. I, Chapter 1, Part E.

⁹⁵10 U.S.C. 2802 states "The Secretary of Defense and the Secretaries of military departments may carry out such military construction projects as are authorized by law."

⁹⁶*Congressional Record*, November 6, 1997, pp. S11817-11818.

5. Construction of 385 military construction and 45 family housing projects will not be initiated;
6. There will be no authority to continue the [National Guard] Challenge program [for youth];
7. There will be no authority to expand the counternarcotics Riverine Program in Peru and Colombia;
8. There will be no authority to increase counternarcotics support to Mexico;
9. There will be no authority for the Department of Navy to reprogram funding for the advanced procurement and construction of components for the next nuclear aircraft carrier; and
10. There will be no authority to accelerate the NATO JSTARS [aircraft] Program.

Some of these consequences refer to changes in legislation that are considered in authorization bills, but not in appropriations measures. Other consequences concern matters that happened to be addressed in the authorization bill, but not in the appropriations measure then being considered. If, as in other areas of the budget, defense authorization bills were not regularly enacted, it is likely that appropriations bills would begin to address issues now considered in the authorization process.

Congressional Earmarks and Additions to Administration Requests. Two other occasionally contentious issues — in the appropriations process, particularly — concern (1) congressional earmarking of funds for particular projects and (2) unrequested congressional additions to defense budget requests. What it means to "earmark" funds in appropriations bills is difficult to define precisely. One quite carefully worded definition was provided by Congressional Quarterly in a glossary of legislative terms — according to this definition to "earmark" is:

To set aside funds for a specific purpose, use, or recipient. Generally speaking, virtually every appropriation is earmarked, and so are certain revenue sources credited to trust funds. In common usage, however, the term is often applied as an epithet for funds set aside for such purposes as research projects, demonstration projects, parks, laboratories, academic grants, and contracts in particular congressional districts or states or for certain specified universities or other organizations.⁹⁷

Congressional reports on the defense authorization and appropriations bills allocate funds to particular programs in great detail, specifying, for example, how many weapons of what types are to be procured, how much money is available for recruiting, and which military construction projects may proceed. In a sense, therefore, funds in all defense bills are fully earmarked (directed). Usually, however, the term "earmark" is used in the case of defense-related legislation to mean allocating funds at a level of specificity below the normal line item level. Understood in this way, a congressional committee would not be said to earmark funds if it adds money to buy additional fighter aircraft, for example, but would be said to earmark funds if

⁹⁷From Congressional Quarterly's "Glossary of Congressional Terms," updated as of August 1997. The Glossary can be found at <http://www.loc.gov/crs/legproc/frames/glossary/cq.html>.

it specifies that a particular kind of radar is to be incorporated into an aircraft upgrade program.

Defined in this way, defense appropriations bills normally contain earmarks of funds for a variety of purposes. Occasionally, certain kinds of earmarks have come under criticism, and procedures have subsequently been devised to avoid them. Research grants to particular universities, for example, were once quite frequent, but such grants are now mainly made through a peer review process. Defense appropriations bills continue to earmark funds for a wide variety of research projects, for acquisition of particular items of hardware, and for a broad range of medical research programs. Defense authorization bills also often include such earmarks, and, unless appropriations measures specifically reject them, they are equally binding on federal agencies.

A closely related issue concerns congressional additions of funding for particular items to annual defense budget requests. In some years, Congress has added substantial amounts to the overall defense budget. Congress added almost \$7 billion in FY1996, \$10.5 billion in FY1997, and \$2.6 billion in FY1998 to Pentagon requests. For FY1999 Congress provided \$8.3 billion in a separate supplemental appropriations measure, of which it is estimated more than half was not requested. Obviously, in such years, Congress has added money for programs that the Administration did not include in its proposed budget. In other years, however, Congress has approved roughly the level of defense spending requested, or it has reduced funding. Even in those years, however, Congress has always trimmed funding for some programs and increased funding for others, so some items have been added.

Some Members of Congress and others have occasionally cited congressional earmarks of defense funds and congressional additions of unrequested projects as examples of wasteful practices. The counterargument is that congressional oversight of defense policy necessarily involves making adjustments in defense plans. The simple fact that the Department of Defense did not formally request something does not mean it is undeserving of funding — part of Congress's job is to determine whether agency priorities are appropriate. For their part, senior Defense officials have been more critical of some congressional additions to the budget than of others. Clinton Administration officials frequently have argued that if Congress is going to add money to the budget, the additions should be for items that are included in future plans of each of the .

Many recent congressional additions to the budget have, indeed, been within the DOD's future plans. In some cases, however, Congress clearly has had different priorities than those reflected in Administration defense plans. During the Bush Administration, for example, Congress insisted on continued development of the V-22 "Osprey" tilt-rotor aircraft, which Secretary of Defense Cheney wanted to cancel. During the Clinton Administration, Congress has frequently added money for missile defense programs and for programs like the B-2 bomber. Congress consistently has added money for National Guard and Reserve programs.

Budget Execution

The third stage of the defense budget process is **budget execution**. It begins with the Treasury authorizing agencies to draw funds from an account established by an appropriation and ends with the expenditure of appropriated funds.⁹⁸ As discussed earlier, the appropriations process makes budget authority **available for obligation**. Usually, budget authority is then obligated and spent for the purpose specified in legislation and in report language, but other dispositions are possible — specifically, funds may be reprogrammed or transferred to other programs or accounts; may expire without being expended; or may be deferred or proposed for rescission under procedures governed by the Impoundment Control Act of 1974.

Transfers and Reprogramming. Under procedures worked out between congressional committees and executive branch agencies, funds can be obligated for purposes other than originally approved. In technical language, they can be **transferred** or **reprogrammed**. Such flexibility is provided for many reasons. Often pay raises are not fully funded in annual defense appropriations bills, for example, so money must be reprogrammed from other accounts to meet payroll needs. Unplanned military operations may require funding if not financed through supplemental appropriations. Procurement, medical, or other operating costs often grow beyond planned levels. Conversely, extra money may be available from some sources. Program delays may prevent the timely obligation of funds. Savings may accrue from foreign currency fluctuations or from lower fuel costs or from lower than expected inflation.

Technically, a reprogramming is any shift of funds from one program to another within the same budget account, while a transfer is a shift of funds from one program to another in different accounts (either in the same budget year or from one budget year to another). DOD, however, uses the term "reprogramming" for both kinds of transactions. In annual appropriations bills, Congress formally grants the Department of Defense authority to transfer up to specified amounts between accounts. In recent years DOD has been given general transfer authority of \$2 billion per year, and additional amounts have been made available for transfer for specific purposes.⁹⁹

DOD regulations, reflecting instructions from the appropriations committees, distinguish between three different kinds of reprogramming actions:

- actions requiring congressional notification and approval, including (a) all transfers between accounts, (b) any change to a program that is a "matter of

⁹⁸After the Treasury issues warrants that authorize agencies to draw funds from their accounts, OMB apportions the funds by time period and by activity, function, project, or object classification. The agency then allocates the funds to administrative units.

⁹⁹Some appropriations accounts are established specifically as "transfer" accounts to which funds are appropriated in order to be transferred to other operating accounts. Drug interdiction, environmental restoration, and overseas contingency operations are all transfer accounts. Transfers from these accounts do not count against the limit on general transfer authority.

special interest" to Congress, and (c) increases to congressionally approved procurement quantities;

- actions requiring only notification of Congress, including reprogrammings that exceed certain threshold amounts; and
- actions not requiring any congressional notification, including reprogrammings below certain threshold amounts and those that reclassify dollar amounts "within an appropriation without changing the purpose for which the funds were appropriated."¹⁰⁰

The Department of Defense has also developed detailed procedures, first, to track congressional interest items and, second, to provide a basis for making the requests to Congress.

Over the years, Congress has provided various instructions to the Department of Defense governing reprogramming actions. Thresholds for congressional notification have changed only rarely — appropriations conference report language established the current thresholds for military personnel, procurement, and RDT&E in 1988 and for O&M in 1989. The appropriations committees have instructed DOD not to use reprogramming actions to alter items that Congress has added to the budget or to restore funding that Congress has denied, and they have strongly discouraged the use of reprogramming procedures to initiate new programs. In recent years, Congress has required that DOD provide a single annual request for reprogramming actions that require congressional approval.

Expiration of Funds. When provided in an appropriations bill, budget authority is generally made available for obligation within a specified period of time. In the case of defense funding, the period of availability varies depending on the account — funds in military personnel accounts and operation and maintenance accounts are available for obligation only for one year, in most procurement accounts for three years, and in the shipbuilding account for five years. Funding that is not obligated during its period of availability expires and may no longer be used to incur new obligations.¹⁰¹

¹⁰⁰For a discussion of the evolution of the reprogramming process, see, David W. Roberts, "A Historical Analysis of the Defense Reprogramming Process," *Armed Forces Comptroller*, Fall 1985. p. 21. As directed by Congress, current regulations establish the following thresholds for congressional notification: for military personnel, an increase of \$10 million or more in a budget activity; for O&M an increase of \$10 million or more in a budget activity; for procurement, an increase or decrease of \$10 million or 20 percent (whichever is greater) to a line item; for RDT&E, an increase or decrease of \$4 million or 20 percent to a line item.

¹⁰¹Under P.L. 84-798 (passed in 1956), the Congress established "M accounts" for expired budget authority which had been obligated and not expended and "merged surplus accounts" for expired budget authority which was unobligated. Money could be drawn from these accounts to meet certain obligations. The use of these accounts became a matter of contention in the 1980s, when tens of billions of dollars accumulated in them. Congress abolished these accounts in the FY1991 Defense Authorization Act (P.L. 101-510).

The Department of Defense and other agencies maintain separate expired appropriations accounts including both obligated and unobligated balances for five years.¹⁰² These accounts may continue to be used to pay for existing obligations, but after five years, expired accounts will be closed and no further disbursements from them will be possible.¹⁰³ The availability of funds can be extended for an additional period of time only if **reappropriated** in later appropriations acts. Reappropriated funds are counted as new budget authority in the year in which they are made available.

Repealing Budget Authority. The President has two ways NOT to spend appropriated funds — deferral and rescission. The Impoundment Control Act of 1974 allows the President to delay the expenditure of funds (deferral authority) and to cancel funds (rescission authority). The Line Item Veto Act of 1996 (P.L. 104-130, 110 Stat. 1200) provided the President with enhanced rescission authority, but it was subsequently ruled unconstitutional.

Deferrals are unobligated or unexpended funds, which are held back for later obligation or expenditure. Deferrals are permitted only for limited reasons, specifically, "contingencies, greater efficiency, and as otherwise specifically provided by law." Deferrals cannot extend beyond the end of the fiscal year in which the deferral message is reported to Congress. They are not to be used to institute changes in policy. Deferrals can be disapproved by both houses of Congress, at which time the funds in question must be released for obligation.¹⁰⁴

Rescission, which cancels appropriated funds, is a procedure which may be initiated either by the President or by the Congress. According to the 1974 Impoundment Control Act, all rescissions proposed by the President must be reported to Congress, following which Congress has 45 days of continuous session to approve

¹⁰²As opposed to the process under the 1956 law, expired appropriations accounts now maintain their fiscal year identity, which imposes restrictions on how they can be used. According to the Antideficiency Act (31 U.S.C. 1341(a)), agencies are prohibited from making expenditures or incurring obligations in excess of available appropriations. As long as expired appropriations had no fiscal year identity, the Antideficiency Act did not apply to their use. Currently, their use is limited by the amount appropriated for a specific appropriations account in a specific fiscal year — see U.S. General Accounting Office, *Expired Appropriations: New Limitations on Availability Make Improved Management by DOD Essential*, GAO/NSIAD-91-226, July 1991, pp. 8-9.

¹⁰³Note that the closing of expired accounts does not involve the "return" of money to the Treasury, since funds only leave the Treasury when they are expended, not when they are appropriated. Closing an expired account is simply a bookkeeping transaction preventing the obligation or expenditure of the funds in question.

¹⁰⁴A controversy regarding deferral of funds occurred during the Bush Administration when the Department of Defense imposed a "moratorium" on military construction programs from January, 24, 1990 until April 16, 1991. Responding to complaints by Members of Congress, the General Accounting Office (GAO) judged the moratorium to be a deferral which should have been reported and made subject to congressional approval. See Martin Cohen and Stephen Daggett, *Military Construction: Current Controversies and Long-Term Issues*, CRS Report 91-669 F, Sep. 3, 1991, pp. 19-24.

the proposal. If Congress fails to approve a proposed rescission, it is void and the executive branch must make the budget authority available for obligation. Rescission proposals often accompany supplemental appropriations requests. (See above.)

The **line item veto** procedure which Congress approved in 1996 represented a form of enhanced rescission authority.¹⁰⁵ In contrast to the rescission procedures of the Congressional Budget Act, the Line Item Veto Act of 1996 (P.L. 104-130) put the burden on Congress to disapprove a presidential veto within a 30-day period. Under the law, the President could propose rescission of certain items specifically identified in an appropriations law or in governing report language. Congress could overturn a presidential rescission only by passing a bill specifically rejecting the rescission. Any bill or joint resolution of disapproval could be vetoed by the President, so it would ultimately require a two-thirds majority in each chamber to override. In 1998, the Supreme Court found this to be an unconstitutional cession of congressional powers to the executive branch, which voided President Clinton's line item vetoes.¹⁰⁶

¹⁰⁵For details on the line item veto process see Louis Fisher and Virginia McMurtry, *The Line Item Veto Act: Procedural Issues*, CRS Report 96-973 and Virginia McMurtry, *Item Veto and Expanded Impoundment Proposals*, CRS Issue Brief 89148.

¹⁰⁶President Clinton used the line item veto authority in the FY1998 appropriations cycle. In October 1997, the President vetoed \$144 million from the FY1998 DOD Appropriations Act and \$287 million from the FY1998 Military Construction Act. In November 1997, the Congress passed H.R. 2631 disapproving the President's line item vetoes in FY1998 Military Construction Act. The President vetoed H.R. 2631 in November 1997, but the Congress then overrode the President's veto in February 1998.

Appendices

Appendix A: Spend-Out Rates and Defense Budget Reductions

Because Congress votes annually on budget authority (BA), not outlays, any strategy that calls for reducing the defense budget in order to cut the federal budget deficit must take into consideration the relationship between BA and outlays. The fact that funds for different defense programs are spent at different rates means that outlay savings resulting from cuts in budget authority in a given year depend on which programs are reduced.

Table 11 shows that funds for military personnel and O&M programs spend out at a higher rate than other national defense programs do. Hence, the quickest way to achieve outlay savings in defense is to cut budget authority in these areas. For every \$1 cut in BA for military personnel programs, for example, a 95¢ cut in outlays is achieved. The disadvantage of cutting mainly fast-spending accounts is that such reductions result in large cuts in personnel end-strengths (and, therefore, in force structure) or in "readiness" programs (such as training and equipment overhauls) which may dramatically reduce the effectiveness of defense forces.

**Table 11. Estimated Outlay Rates for
FY1999 DOD Appropriations by Title**
(outlays as percentage of budget authority)

Title	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004
Military Personnel	94.4	4.8	0.4	0.1		
Operation & Maintenance	75.5	18.9	3.1	1.1	0.4	0.1
Procurement	22.3	30.4	23.6	11.3	5.7	3.5
Research, Development, Test, & Evaluation	51.3	36.6	7.7	2.2	0.9	0.4
Military Construction	13.5	36.1	26.3	14.1	6.2	1.7
Family Housing	54.0	28.7	9.8	3.9	2.0	0.8
Revolving & Management Funds	44.5	24.6	17.0	4.4	4.1	

Source: U.S. Department of Defense, *Financial Summary Tables: Department of Defense Budget for Fiscal Year 1999*, Feb. 1998, Table K.

Notes: Spend-out rates vary widely within the procurement title. First fiscal year outlay rates range from 4.9% for Shipbuilding and Conversion, Navy, to 55.9% for Other Procurement, Air Force.

Reducing funding for procurement programs is another way of achieving reductions in the defense budget. Cutting budget authority for weapons procurement, however, generally achieves relatively small outlay savings in the first budget year because of the relatively slow rate at which procurement funds are spent. Savings achieved in this manner could be substantial in the long run, but would not cut the deficit by much in the current fiscal year.¹⁰⁷

¹⁰⁷One analyst pointed out in 1990 that eliminating the **entire** procurement account for FY1991 (totaling \$66.5 billion in budget authority) would result in first-year outlay savings of only \$12 billion. MacKubin Thomas Owens, "Micromanaging the Defense Budget," *Public Interest*, no. 100, Summer 1990, p. 142.

Appendix B: Department of Defense Budget Appropriations Accounts With Funding in FY1999

Military Personnel

Military Personnel, Army
 Military Personnel, Navy
 Military Personnel, Marine Corps
 Military Personnel, Air Force
 Reserve Personnel, Army
 Reserve Personnel, Navy
 Reserve Personnel, Marine Corps
 Reserve Personnel, Air Force
 National Guard Personnel, Army
 National Guard Personnel, Air Force

Operation and Maintenance

Operation and Maintenance, Army
 Operation and Maintenance, Navy
 Operation and Maintenance,
 Marine Corps
 Operation and Maintenance, Air Force
 Operation and Maintenance,
 Defense-Wide
 Operation and Maintenance,
 Army Reserve
 Operation and Maintenance,
 Navy Reserve
 Operation and Maintenance,
 Marine Corps Reserve
 Operation and Maintenance,
 Air Force Reserve
 Operation and Maintenance,
 Army National Guard
 Operation and Maintenance,
 Air National Guard
 Overseas Contingency Operations
 Transfer Fund
 United States Court of Appeals for the
 Armed Forces
 Environmental Restoration, Army
 Environmental Restoration, Navy
 Environmental Restoration, Air Force
 Environmental Restoration, Defense-
 Wide
 Environmental Restoration, Formerly
 Used Defense Sites

Overseas Humanitarian, Disaster, and
 Civic Aid
 Former Soviet Union Threat Reduction
 Pentagon Reservation Transfer Fund
 Contingency Operations MWR Fund
 Quality of Life Enhancements, Defense

Procurement

Aircraft Procurement, Army
 Missile Procurement, Army
 Procurement of Weapons and
 Tracked Combat Vehicles, Army
 Procurement of Ammunition, Army
 Other Procurement, Army
 Aircraft Procurement, Navy
 Weapons Procurement, Navy
 Procurement of Ammunition, Navy
 and Marine Corps
 Shipbuilding and Conversion, Navy
 Other Procurement, Navy
 Procurement, Marine Corps
 Aircraft Procurement, Air Force
 Missile Procurement, Air Force
 Procurement of Ammunition, Air
 Force
 Other Procurement, Air Force
 National Guard and Reserve
 Equipment
 Procurement, Defense-Wide

Research, Development, Test and Evaluation

Research, Development, Test and
 Evaluation, Army
 Research, Development, Test and
 Evaluation, Navy
 Research, Development, Test and
 Evaluation, Air Force
 Research, Development, Test and
 Evaluation, Defense-Wide
 Developmental Test and Evaluation,
 Defense
 Operational Test and Evaluation,
 Defense

Revolving and Management Funds

Defense Working Capital Funds

Reserve Mobilization Income
Insurance Fund
National Defense Sealift Fund

**Other Department of Defense
Programs**

Defense Health Program
Chemical Agents and Munitions
Destruction, Defense
Drug Interdiction and Counter-Drug
Activities, Defense
Office of the Inspector General

Related Agencies

Central Intelligence Agency Retirement
and Disability System Fund
Intelligence Community Management
Account
National Security Education Trust
Fund
Payment to Kaho'olawe Island
Conveyance, Remediation, &
Environmental Restoration Fund
National Security Education Trust
Fund

Military Construction

Military Construction, Army
Military Construction, Navy
Military Construction, Air Force
Military Construction, Defense-Wide

Military Construction, Army National
Guard

Military Construction, Air National
Guard

Military Construction, Army Reserve

Military Construction, Naval Reserve

Military Construction, Air Force
Reserve

Base Realignment and Closure
Account, Part II

Base Realignment and Closure
Account, Part III

Base Realignment and Closure
Account, Part IV

NATO Security Investment Program

Family Housing

Family Housing, Army

Family Housing, Navy and Marine
Corps

Family Housing, Air Force

Family Housing, Defense-Wide

Department of Defense Family
Housing Improvement Fund

Homeowners Assistance Fund,
Defense

Appendix C: Major Congressional Action on the FY1999 Defense Budget

- 02/02/98 -- President submitted the FY1999 Federal Budget to Congress.
- 03/20/98 -- Senate Budget Committee reported its version of Concurrent Budget Resolution (CBR) (S.Con.Res. 86, S. Rept. 105-170)
- 04/02/98 -- Senate passed its version of CBR
- 05/06/98 -- House Committee on National Security reported its version of national defense authorization act (H.R. 3616, H.Rept. 105-532)
- 05/07/98 -- Senate Committee on Armed Services reported its version of authorization act (S. 2057, S.Rept. 105-189)
- 05/21/98 -- House passed its version of authorization act (H.R. 3616)
- 05/27/98 -- House Budget Committee reported its version of CBR (H. Con. Res. 284, H. Rept. 105-555)
- 06/04/98 -- Senate Committee on Appropriations reported its version of DOD appropriations act (S. 2132, S. Rept. 105-200)
- 06/05/98 -- House passed its version of CBR
- 06/11/98 -- Senate Committee on Appropriations reported its version of military construction (MilCon) appropriations act (S. 2160, S.Rept. 105-213)
- 06/16/98 -- House Committee on Appropriations reported its version of MilCon appropriations act (H.R. 4059, H.Rept. 105-578)
- 06/17/98 -- House Committee on Appropriations reported its version of DOD appropriations act (H.R. 4103, H.Rept. 105-591)
- 06/22/98 -- House passed its version of MilCon act (H.R.4059)
- 06/24/98 -- House passed its version of DOD appropriations act (H.R.4103)
- 06/25/98 -- Senate passed its version of authorization act, as amended (H.R. 3616)
- 06/25/98 -- Senate passed its version of MilCon act, as amended (H.R.4059)
- 07/24/98 -- Conference report issued on MilCon act (H.Rept. 105-647)
- 07/27/98 -- House passed conference agreement on MilCon act (H.R.4059)
- 07/30/98 -- Senate passed its version of DOD appropriations act, as amended (H.R. 4103)
- 09/01/98 -- Senate passed conference agreement on MilCon act (H.R.4059)
- 09/20/98 -- President signed MilCon act (P.L. 105-237)
- 09/22/98 -- Conference report issued on authorization act (H.Rept. 105-736)
- 09/24/98 -- House passed conference agreement on authorization act (H.R.3616)
- 09/25/98 -- Conference report issued on DOD appropriations act (H.Rept. 105-746)
- 09/28/98 -- House passed conference agreement on appropriations act (H.R.4103)
- 09/29/98 -- Senate passed conference agreement on appropriations act (H.R.4103)
- 10/01/98 -- Senate passed conference agreement on authorization act (H.R.3616)
- 10/17/98 -- President signed authorization act (P.L.105-261)
- 10/17/98 -- President signed DOD appropriations act (P.L. 105-262)

Appendix D: Guide to Basic Defense Budget Documents

The following is an annotated list of some important defense budget documents and studies published annually and readily available. The list, divided into three major categories, includes items available from: (1) the executive branch¹⁰⁸, (2) legislative branch research organizations, and (3) non-governmental organizations.

Because of frequent changes in budget accounting by OMB and DOD, one is advised in doing any analysis of trends to use the most recent available figures that have been revised to reflect a consistent set of programs.

1. Executive Branch

Budget of the United States Government. The official statement of the President's federal budget request to Congress. Includes a brief overview of defense programs and priorities, an introduction to basic budget concepts, and a description of the defense budget divided by appropriations title, account, and major force program. Budget data for the most part is in current dollars.

Mid-Session Review of the Budget. Provides updates of the Administration's economic forecasts used in developing the President's budget and of the current status of legislation that would implement the budget.

The Secretary of Defense's Annual Report to Congress. The Defense Secretary's justification of the defense budget to Congress. In addition to budget data on major defense programs, usually includes a chapter on "The Defense Budget" with information on the defense budget by category, price-level assumptions, trends in real growth, the economic effects of defense spending, and the Future Year Defense Plan. Some historical budget data are included in the appendix.

Department of Defense Press Release on the Defense Budget. Issued at the time the defense budget is submitted to Congress. Includes a brief description of major defense initiatives in the budget and some useful tables.

National Defense Budget Estimates ("The Green Book"). Annual product of the DOD Comptroller. Contains historical data on the DOD budget in terms of budget authority (BA), total obligational authority (TOA), and outlays, in current and constant dollars, by account, title, and major force program; deflators, military and civilian pay increases; budget estimate chronologies; congressional action on DOD budget requests; and data on defense, the public sector, and the economy.

Program Acquisition Costs by Weapon System. Prepared by DOD "for the convenience and information of the public and the press." Provides a summary of acquisition costs (procurement, RDT&E, and military construction) for major weapons systems covering the budget year(s) and two prior years.

¹⁰⁸Many of these reports are available electronically on the OMB and DOD web pages.

Procurement Programs (P-1). A listing of procurement programs in the defense budget by line item, budget activity, account, and title covering the budget year(s) and two prior years. "The P-1 is provided annually to the DOD oversight committees of the Congress coincident with the transmission by the President of the Budget of the United States Government."

RDT&E Programs (R-1). A listing of RDT&E programs in the defense budget by program element, budget activity, account, and title.

Construction Programs (C-1). A listing of construction programs in the defense budget by state, country, and facility.

O&M Overview. A listing of Operation and Maintenance programs.

Justification Material. In addition to the above documents, DOD submits detailed justification material to the appropriate congressional committees on every defense program. Some of this material is made public during testimony by DOD officials before Congress. There are both classified and unclassified versions of much of this material.

2. Legislative Branch

Congressional Budget Office (CBO). CBO annually publishes several reports on the current year's federal budget request. The defense budget is discussed in:

1. "Reducing the Deficit: Spending and Revenue Options,"¹⁰⁹
2. "The Economic and Budget Outlook: Fiscal Years 19xx-19xx", and
3. "An Analysis of the President's Budgetary Proposals for Fiscal Year 19xx."

The first provides background information on the defense budget and analyzes various specific proposals for reducing growth in the defense budget. The second analyzes budget trends and presents CBO's economic and budget projections, including estimates required by the Budget Enforcement Act, the third analyzes the Administration's budget plans, including defense budget proposals. CBO also produces an update of "The Economic and Budget Outlook" later in the year.

Congressional Research Service (CRS). CRS regularly produces reports on various aspects of the defense budget. Relevant products include:

- "Appropriations for FY19xx: Defense" This annual report tracks the congressional defense appropriations and authorization process, including decisions on specific weapons programs. The FY1999 version is 98-205 and is electronically available on the CRS Home Page.
- "Appropriations for FY19xx: Military Construction" This annual report tracks the congressional military construction appropriations and authorization process. The FY1999 version is 98-210 and is electronically available on the CRS Home Page.

¹⁰⁹This report was not produced in 1998 for the FY1999 fiscal year. It will be produced in the future with a different title.

- "Defense Budget for FYxxxx: Data Summary." An annual CRS report presenting a range of data on the President's national defense budget request, including analyses that show the request in historical perspective. For FY1999, see CRS Report 98-155.

General Accounting Office (GAO). GAO produces a wide variety of studies of defense budget issues, as well as evaluations of specific defense programs.

Committee Publications. The six committees having primary jurisdiction over the defense budget publish hearings and reports on bills. (See Appendix C for the bill report numbers for FY1999.)

3. Non-Government Organizations

A number of private organizations regularly publish studies on the defense budget. The Brookings Institution sometimes publishes an analysis of the defense budget with proposed alternatives. The American Enterprise Institute, the Center for Defense Information, the Center for Strategic and International Studies, the Center for Strategic and Budgetary Assessment, and the Heritage Foundation also publish detailed studies analyzing the defense budget. The Association of the U.S. Army prepares a detailed annual review of the Army budget. The Electronics Industries Alliance prepares a ten-year projection of the defense budget.

Among the journals that track the defense budget on a regular basis are: Aerospace Daily, Armed Forces Journal International, Aviation Week and Space Technology, Congressional Quarterly, Defense Daily, Defense News, Defense Week, Inside the Pentagon, and National Journal.

Appendix E: Glossary of Defense Budget Terms

Accrual Accounting -- With respect to military retired pay, a method of recording costs designed to reflect the liability to the federal government for the future retirement costs of military personnel. Beginning in FY1985, the Services are charged (in the military personnel title) for the future costs of retirement for military personnel currently on active or reserve duty. The actual payment of benefits to current retirees is made from a newly created Military Retirement Trust Fund in budget function 600. This method of accounting for retired military pay represents a change from the previous method which reflected only actual payments to current retirees on a cash basis.

Advanced Procurement -- Authority provided in an appropriations act to obligate and disburse during a fiscal year before that in which the related end item is procured. The funds are added to the budget authority for the fiscal year and deducted from the budget authority of the succeeding year. Used in major acquisition programs for advance procurement of components whose long-lead-time requires purchase early in order to reduce the overall procurement lead-time of the major end item. Mostly used for nuclear submarine acquisition.

Appropriation -- One form of budget authority provided by Congress permitting federal agencies to incur obligations and to make payments out of the Treasury for specified purposes. Appropriated funds must be spent for purposes specifically designated by Congress but are not necessarily spent in the year in which they are provided.

Appropriations Title -- The most general category in the defense budget as approved by Congress. Major titles include military personnel; operation and maintenance (O&M); procurement; research, development, test and evaluation (RDT&E); military construction; family housing; and revolving and management funds. Appropriations titles are divided into accounts, which are further divided into budget activities, line items, and/or program elements.

Authorization -- Establishes or maintains a Government program or agency by defining its scope. May set a specific limit on how much Congress can appropriate for that program. Authorizing legislation is normally a prerequisite for appropriation. An authorization does not make money available.

Available for Obligation -- Appropriated funds are available for obligation for various lengths of time, depending on the appropriations law and program. Funds not obligated before the expiration of their availability lapse, i.e., the funds generally are no longer available for obligation and eventually revert to the Treasury.

Average Real Growth -- The compound annual rate of change in real funding or expenditures over a given period of time.

Borrowing Authority -- Statutory authority that permits obligations to be incurred but requires that funds be borrowed, generally from the Treasury, to liquidate these obligations.

Budget Amendment -- A formal request submitted to Congress by the President after his formal budget transmittal but before completion of appropriations action by Congress that revises previous requests.

Budget Authority -- The authority provided by law to a federal agency to enter into obligations for the provision of goods and services. It makes funds available for obligation for one or more years, depending on the appropriations law and program. Appropriations, borrowing authority and contract authority are forms of budget authority.

Component -- One of the four major divisions of the Department of Defense. Includes the Army, Navy/Marine Corps, Air Force, and Defense Agencies.

Concurrent Budget Resolution -- A resolution passed by both Houses of Congress, but not requiring the signature of the President, establishing targets for receipts and for budget authority and outlays of the major budget functions and the overall federal budget. A part of the budget process established by the Congressional Budget Act of 1974.

Continuing Resolution -- An act (in the form of a joint resolution) that provides budget authority to agencies or programs whose regular appropriation have not been enacted after the new fiscal year has started. A continuing resolution is usually a temporary measure that expires on a specified state or is superseded by enactment of the regular appropriations act. Some continuing resolutions, however, are in effect for the remainder of the fiscal year and are the means of enacting regular appropriations.

Contract Authority -- Statutory authority that permits obligations in advance of appropriations but requires a subsequent appropriation or the collection of receipts to liquidate (pay) these obligations.

Current/Constant Dollars -- Cost in current dollars is the dollar value of goods or services in terms of prices current at the time of purchase, sometimes called "then-year" dollars. Cost in constant dollars is the dollar value of goods and services in terms of prices fixed in a given (constant) year. Constant dollar figures eliminate the effects of inflation and are used to measure real growth.

Defense Planning Guidance (DPG) -- DOD planning document prepared by the Secretary of Defense and his staff in the first phase of the Planning, Programming, and Budgeting System.

Defense Resource Planning Board (DRPB) -- A high-level DOD group that assists the Secretary of Defense in managing the Planning, Programming, and Budgeting System process.

Deferral -- An action or inaction of a U.S. officer or employee that temporarily withholds, delays, or effectively precludes the obligation or expenditure of budget authority.

Deficit -- With respect to any fiscal year, the amount by which total federal budget outlays exceed total federal revenues.

Deficit Target -- The level to which the deficit must be reduced, as stipulated in the Gramm-Rudman-Hollings deficit reduction act (as amended).

Deobligation of Funds -- Changing the obligation status of funds through cancellation or renegotiation of a contract or price revision.

Direct Spending -- Spending provided in permanent laws (including most entitlement and other so-called mandatory spending) as opposed to that controlled through annual appropriations acts.

Discretionary Spending -- Spending that is generally controlled through annual appropriations acts.

Discretionary Spending Limits (Caps) -- Ceilings on budget authority and outlays for discretionary programs set by the Budget Enforcement Act. These spending limits are enforced by congressional rules and sequestration procedures.

Fiscal Year -- An accounting period of twelve months duration beginning October 1 and ending September 30.

Full Funding -- Appropriating all the funds in one year necessary to complete a project. A policy intended to facilitate full disclosure of the total cost of producing whatever end-item is funded.

Future Years Defense Plan (FYDP) -- The basic Department of Defense long-term financial plan for U.S. armed forces.

Gross Domestic Product (GDP) -- The total value of output produced by people, government, and firms in the Nation, whether the firms and individuals involved are foreign or American.

Industrial Funds -- Revolving funds providing services such as equipment overhauls and transportation to DOD military components.

Inflation Dividend -- Excess funds in the Department of Defense's budget due to lower than expected inflation.

Joint Strategic Planning Document (JSPD) -- DOD planning document prepared by the Joint Chiefs of Staff office in order to provide support to the Secretary of Defense in preparing the Defense Planning Guidance.

Major Force Program (MFP) -- The most general category in the Department of Defense budget used for internal programming and budgeting purposes. The 11

MFPs are: Strategic Forces; General Purpose Forces; Command, Control, Communication, Intelligence & Space; Mobility Forces;. Guard & Reserve Forces; Research & Development; Central Supply & Maintenance; Training, Medical and Other General Personnel Activities; Administration & Associated Activities; Support of Other Nations and Special Operations Forces. The basic building blocks of the MFPs are "program elements" -- collections of weapons, manpower, and support equipment.

Management Funds -- Special funds authorized by law to credit collections from two or more appropriations to finance activity not involving a continuing cycle of business activity.

Mandatory Spending -- See "direct spending."

Mark-Up -- The process of approving, amending, or rejecting provisions in proposed legislation undertaken by members of a committee or subcommittee.

National Defense Budget Function -- One of the major functions of the federal budget. Identified by the numerical notation 050. It consists of the Department of Defense (DOD) budget (051), which funds all direct DOD military programs, the defense-related activities of the Department of Energy (053), and other defense-related activities (054).

Nominal Growth -- A measure of the change over time in an appropriation or actual spending for a given program in current prices, not excluding inflation. Nominal growth measures both program growth and the effect of price changes over time.

Obligation -- A commitment of funds created when a federal agency awards a contract, places an order, receives a service, or the like. Requires outlays at some future time. Budget authority is normally obligated before it is spent.

Out-Years -- Years beyond the budget year.

Outlays -- Money spent by a federal agency from funds provided by Congress. Outlays in a given fiscal year are the result of obligations and have two sources: funds provided by Congress in the current fiscal year and funds provided by Congress in prior fiscal years.

Planning, Programming, and Budgeting System (PPBS) -- The formalized process used by the Department of Defense to plan, program, and budget for U.S. armed forces.

Program Decision Memoranda (PDMs) -- Formal decisions of the Defense Resource Planning Board governing funding for programs in the biennial DOD budget.

Program Objective Memoranda (POMs) -- Detailed list of proposed programs prepared by each of the military departments to cover a six-year period as part of the Planning, Programming, and Budgeting System.

Progress Payments -- Payments issued to defense contractors as work progresses in multi-year contracts.

Real Growth -- A measure of the change over time (increase or decrease) in an appropriation or actual spending for a given program after the effect of price changes (inflation) has been eliminated. In budget parlance, real growth can be positive or negative.

Reprogramming -- A shift of funds from one program to another within the DOD budget. Some reprogramming actions require congressional notification and approval. Others require only congressional notification. Still others are permitted without congressional notification or approval.

Rescission -- The cancellation of budget authority provided by Congress before the authority would otherwise lapse. A rescission proposal from the President must be approved by both Houses of Congress to become effective.

Revolving Funds -- An accounting entity in which all income is in the form of receipts derived from operations and for which funds remain available in their entirety to finance a continuing cycle of operations. Examples are stock funds and industrial funds.

Sequester or Sequestration -- The withholding from obligation and expenditure and the subsequent cancellation of new budget authority, new loan guarantee commitments, new direct loan obligations, and spending authority, and the reduction of obligation limitations.

Spend-Out Rate -- The rate at which appropriated funds are converted to outlays. It varies with each program. For example, appropriated funds for procurement programs spend out at a relatively slow rate because it takes considerable time to produce a major weapon system.

Supplemental Appropriations Act -- An act appropriating funds in addition to those provided in regular annual appropriations acts.

Total Obligational Authority (TOA) -- A financial accounting term unique to DOD, describing the value of the direct defense program for a fiscal year. TOA is equivalent to the sum of all budget authority granted by Congress, plus amounts from other sources authorized to be credited to certain accounts, plus unobligated balances of funds from prior years which remain available for obligation. TOA will differ from budget authority for a given year because of rescissions, reappropriations, new offsetting receipts, and unused budget authority.

Transfer of Funds -- A shift of funds from one program to another in a different budget account -- referred to as reprogramming in DOD.

Transition Quarter (TQ) -- The three-month period in 1976 from July 1 through September 30 between the end of FY 1976 (based on the old definition of the fiscal year) and the beginning of FY 1977 (based on the new system). Frequently labeled "197T" or "TQ" in budget documents.

Trust Funds -- Used to carry out a business activity in accordance with a trust or statute. They are often credited with offsetting receipts.

Unexpended Funds -- Appropriated funds that have been provided by Congress but remain unspent, representing future outlays. Unexpended funds, whether obligated legally or unobligated, are formally earmarked by Congress for specific programs that have been congressionally-approved.

Unobligated Funds -- Budget authority that has been appropriated by Congress for specific programs, but has not yet been pledged or obligated by contract.

Working Capital Funds -- Since December 1996, the Pentagon has used four working capital funds as stock funds, industrial funds, and management funds. They are called: the Army Working Capital Fund, the Navy Working Capital Fund, the Air Force Working Capital Fund and Defense-Wide Working Capital Fund.

Legislative History of the Defense Budget

Legislation	Request		Congressional Action				Public Law No.	
	Original	Revised	House		Senate			Conf.
			Committee	Floor	Committee	Floor		
Concurrent Budget Resolution								
National Defense Authorization ^a								
Defense Appropriations ^a								
Military Construction Appropriations								
DOE Appropriations ^b								
Civil Defense, Selective Service, etc. Appropriations ^c								
FBI (Defense-related) & Maritime Security Program ^d								

a. The DOD authorization and appropriations acts do not cover the same programs. The major differences are that the DOD authorization act covers civil defense, defense energy programs, and military construction, which the DOD appropriations act does not.

b. In Energy and Water Appropriations Act.

c. In HUD, Independent Agencies Appropriations Act.

d. In Commerce, Justice, State Appropriations Act.

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