

“The Fiscal Year 2015 Military Construction Budget Request”

Statement

of

The Honorable Michael J. McCord
Principal Deputy Under Secretary of Defense (Comptroller)

before the

U.S. Senate

Committee on Appropriations
Subcommittee on Military Construction,
Veterans Affairs, and Related Agencies

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Mr. Chairman, members of the Committee, thank you for the opportunity to present the Military Construction and Family Housing portion of the Fiscal Year (FY) 2015 budget for the Department of Defense.

As you know, your support is critical for ensuring that America's Armed Forces continue to have the infrastructure and facilities they need to carry out their missions and provide for the security of the United States.

Before Mr. Conger summarizes the Military Construction and Family Housing request in more detail, however, I would like to provide some context by briefly discussing the President's Budget for the entire Department.

Base Budget Request

For FY 2015 the Department of Defense is requesting \$495.6 billion in discretionary budget authority. That is about \$400 million dollars less than the enacted FY 2014 appropriation, and it is consistent with the current budget caps. To meet defense requirements in the outyears, FY 2016 to FY 2019, we are projecting a budget that would exceed estimated budget caps by about \$115 billion, which we believe is necessary in order to execute the defense strategy at manageable levels of risk. Under this plan, Defense base spending will grow to \$535 billion in FY 2016 and \$559 billion in FY 2019.

The 2015 base request of \$495.6 billion supports the strategy outlined in the 2014 Quadrennial Defense Review, which was released concurrently with the budget. The QDR took its lead from the strategy, "Sustaining U.S. Global Leadership: Priorities for 21st Century Defense," that was completed in January 2012. This strategy prepared for the future by rebalancing our defense efforts in what Secretary of Defense Hagel has termed, "a period of great uncertainty regarding the future level of resources DoD will have to defend the nation."

In addition to the base request, we have included a placeholder of \$79 billion for DOD's Overseas Contingency Operations (OCO) request in FY 2015. This is equivalent to last year's request and does not reflect policy for FY 2015. We are unable to be more precise until a decision is made about an enduring U.S. presence in Afghanistan. When that decision is finalized, the Administration will submit a formal request to fund OCO needs in FY 2015.

Besides the base budget and funding for OCO, the President's budget is also asking for \$26 billion for DoD's portion of the government-wide Opportunity, Growth, and Security Initiative that will enable the Department to pay for important readiness and modernization needs. This initiative will be fully paid for with a balanced package of spending reductions and tax reforms. Of DoD's \$26 billion in the OGS, \$3.1 billion will fund Military Construction, Family Housing, and BRAC environmental restoration at DoD installations across the country, generating jobs and avoiding some larger-than-necessary future cuts to replace buildings, roads, runways, and other facilities. Further,

\$4.6 billion is also included in the OGSIs for O&M-funded facilities sustainment, restoration, and modernization to arrest the degradation and improve the condition of the existing facilities.

The Department's FY 2015 budget request was put together with a number of fundamental principles very much in mind:

Balancing Readiness, Capability, and Capacity

The FY 2015 request places a priority on balancing readiness, capability, and capacity, ensuring that no matter their size, America's Armed Forces are properly trained, equipped, compensated, and prepared to accomplish their mission.

Approximately two-thirds of the requested budget (\$336.3 billion) pays for the Department's compensation and day-to-day operations, including pay and benefits for 1.3 million active military personnel, 0.8 million Reserve and Guard personnel, and 0.7 million civilians, as well as healthcare benefits for over 9 million beneficiaries, both active and retired. Also included are funds for training, logistics, fuel, maintenance, service contracts, administration, family housing, and much more.

The remaining third of the budget (\$159.3 billion) pays for investments in future defense needs, including modernization and recapitalization of equipment and facilities. That includes \$90.4 billion for procurement, \$63.5 billion for research and development, and \$5.4 billion for military construction.

Most of this funding will be divided between the military departments: 24.2 percent (\$120.3 billion) for the Army, 29.8 percent (\$147.8 billion) for the Navy/Marine Corps, and 27.8 percent (\$137.8 billion) to the Air Force. The balance of the requested budget – 18.1 percent (\$89.8 billion) – funds the Defense-Wide account, which includes the Defense Health Program, intelligence agencies, Missile Defense Agency, Defense Advanced Research Projects Agency, and the many smaller DoD agencies.

Greater Efficiency

To make more funding available for mission needs, the FY 2015 budget continues the recent emphasis on improved efficiency across the Department. Institutional reforms will save \$18.2 billion in FY 2015 and an estimated \$93 billion through FY 2019. Efficiencies include a 20 percent cut in headquarters operating budgets, reduced contractor funding, targeted reductions in civilian personnel, reductions in funding for defense support agencies, savings in military health care, and savings from deferred military construction projects and family housing.

The Department will also continue to monitor ongoing cost-cutting efforts that were launched in recent years, including \$150 billion in cost reductions from the FY 2012 budget, \$60 billion in FY 2013, and \$35 billion in FY 2014. In addition, DoD will

continue to make progress towards auditability, with a goal of achieving audit-ready budgets by this fall and full audit-readiness by 2017. DoD will also aggressively pursue Better Buying Power initiatives aimed at improvements in acquisition efficiency.

The FY 2015 budget also requests authority for DoD to commence an additional round of base realignment and closures (BRAC) in FY 2017 and to establish an independent commission that will provide an objective, thorough, and non-partisan review and analysis of DoD's recommendations. Annual recurring savings are estimated to be on the order of \$2 billion. Delays in approving this request will mean that funds needed for investments in readiness and modernization will be spent instead on unneeded infrastructure.

Compensation Changes

In another effort to free up funds to support high-priority readiness and modernization, our budget proposes slowing the growth of military compensation. Men and women in uniform certainly deserve the best support possible, and taxpayers have provided substantial increases in military compensation in recent years. Now there is a need to slow that growth to increase funding for training and modernization.

Obviously, this must be done while upholding core principles – including full support for the All-Volunteer Force, assurance that compensation is and will remain generous enough to recruit and retain needed personnel, and a guarantee that current Service Members will not see their pay and allowances cut. All of the savings realized will be used to close shortfalls in training, maintenance, and equipment, helping to ensure that our troops are well-equipped and well-trained.

Consistent with these fundamental principles, and with full support from the Secretary of Defense and the Joints Chiefs of Staff, we are proposing that the basic pay raise for most military personnel be limited to 1 percent next year, with some limits in future years as well. General and Flag Officer basic pay will not increase at all in FY 2015.

The request also slows the growth in the Basic Allowance for Housing (BAH) until out-of-pocket costs average 5 percent. In addition, the budget eliminates reimbursement for renters insurance from BAH rates. These changes will be phased in over several years to allow members to plan accordingly. Additionally, the rate protection feature already in place for BAH will remain in effect. A member's BAH will not be reduced so long as that member retains eligibility for BAH at the same location and does not change dependency status or lose rank. Service members in the same pay grade but living in different areas would have their BAH rates adjusted by the same dollar amount to ensure members retain the same purchasing power regardless of the cost of housing in their local area. Adjusted rates will be publicly available (as they are today) to allow members to make informed decisions when making housing choices. Depending on a member's actual housing choices, they may or may not have to pay any out of pocket costs.

The budget reduces DoD's commissary subsidies, saving \$200 million in FY 2015, \$600 million in FY 2016, and \$1 billion a year thereafter. The remaining subsidy of about \$400 million will go to overseas commissaries and those in remote locations. It is important to note that no commissaries will be directed to close. They will continue to be exempt from rent or taxes and should be able to provide their customers with discounts.

The FY 2015 request also simplifies and modernizes TRICARE by consolidating the three largest healthcare plans into a single, modernized health plan. Modest increases to deductibles and co-pays will help to guide beneficiaries to the most affordable and effective health care. The Department is also resubmitting changes proposed last year affecting pharmacy co-pays and military health care enrollment fees for retirees age 65 and older in the TRICARE-for-Life program.

Sustaining a Ready and Capable Force

Despite these efforts to improve efficiency and to slow growth in compensation, the current budget limits require that the military also get smaller and streamline modernization programs. At the same time, the Services must recover from readiness problems caused by 13 years at war, as well as last year's sequestration cuts. Each of the military Services is facing these challenges.

Army

The FY 2015 request will support 32 Active Army brigade combat teams and 28 Army National Guard brigade combat teams. Since DoD strategy will no longer size the force for large and prolonged stability operations, the Army will accelerate the pace of its post-war drawdown, attaining a range of 440,000 to 450,000 Active Duty soldiers, compared to 490,000 today. When combined with the Marine Corps, these end strength numbers will be sufficient to meet the needs of the President's defense strategy, including capability to decisively defeat aggression in one theater, while defending the homeland and supporting air and naval forces in a second theater. There will be somewhat increased risks at these force levels, particularly for missions involving multiple and simultaneous conflicts.

To maintain a balanced force, the Army National Guard and Reserves will also draw down, reducing 355,000 Guardsmen to 335,000 and 205,000 Reservists to 195,000. In addition, the Army's Ground Combat Vehicle program has been terminated and alternative options are being evaluated. Changes are also planned for the helicopter force.

Navy

Under the President's budget, the Navy will have funds to support a fleet of 283 ships in FY 2015, increasing to about 309 ships by FY 2019. The President's budget plan protects investments in attack submarines, guided missile destroyers, and afloat staging bases. The Navy is also requesting \$3.3 billion in FY 2015 for 8 Joint Strike Fighters – 2 for the Navy and 6 for the Marine Corps – and \$22.9 billion for 105 aircraft over the FYDP.

This request requires offsets. As a result, the Navy will put 11 cruisers in long-term phased modernization. These ships will be placed in reduced operating status while they are modernized. They will eventually be returned to service with greater capability and a longer lifespan. The Navy will also re-examine its program for the Littoral Combat Ship.

Marine Corps

The budget requests \$22.7 billion to support end strength of 182,700 Marines for FY 2015. Funds will also support a geographically distributed force posture in the Asia-Pacific, which will be increasingly important as U.S. forces are rebalanced to that region.

Air Force

In FY 2015, the Air Force is asking for funds for modernization, including \$4.6 billion for 26 Joint Strike Fighters in FY 2015 and \$31.7 billion for 238 planes over the Future Years Defense Program (FYDP). The Long Range Strike Bomber is funded at \$900 million for FY 2015 and \$11.4 billion over the FYDP. The budget requests \$2.4 billion for seven KC-46 Tankers in FY 2015 and \$16.5 billion for 69 aircraft over the FYDP. In addition, the budget invests \$1 billion over the next five years in a next-generation jet engine.

These investments required tradeoffs. Accordingly, the A-10 Warthog is being phased out. The 50-year-old U-2 is being retired in favor of the unmanned Global Hawk system. The growth of Predator/Reapers forces is being slowed. And plans for the new combat rescue helicopter are under review.

Defense-Wide

The FY 2015 request includes \$7.5 billion for the Missile Defense Agency and \$5.1 billion to fully fund cyber operations, which will enable both offensive and defensive capabilities across the full range of contingencies.

U.S. Special Operations Command is allocated \$7.7 billion, a 10 percent increase over the appropriated level in FY 2014, which will support a Special Operations

force of 69,700 personnel. At this level, SOCOM will have resources for full-spectrum training, global capabilities, and regional expertise.

Effects of Sequester-Level Budgets

Lastly, we need to recognize that prolonged funding at sequestration levels would work against these efforts and starve the Department of funds needed for maintenance and training and for the capabilities that give the U.S. military its technological edge. Resumption of sequester-level cuts would lead to immediate and severe risks to our strategy. If sequester-level cuts persist, our Joint Force will become too small and too outdated to fully implement our defense strategy.

Under sequester-level cuts, the Navy would need to eliminate one aircraft carrier starting in 2016. The Air Force would need to retire 80 more aircraft, including the entire fleets of KC-10 tankers and Global Hawk Block 40. Flying hours would be reduced, and F-35 buys would have to be cut. The Army would decline further in size to 420,000 active duty troops and about 500,000 Guard and Reserve personnel. The Marines would shrink to 175,000 active-duty personnel. In short, our ability to carry out our defense strategy would be significantly reduced.

Military Construction and Family Housing

Mr. Chairman, that is a brief summary of our overall budget request for FY 2015, its basis, and our concerns about continued sequestration. It is the context in which we present our Military Construction request.

For FY 2015, we are asking for \$5.4 billion for Military Construction. That is \$3.3 billion less than the FY 2014 enacted budget of \$8.7 billion or a decrease of 38 percent. The request is lower in part because of an era of constrained resources, the deferral of investments for facilities that may no longer be required due to force structure reductions and in order to provide more funding for O&M- funded readiness accounts. Our construction request continues to emphasize investment in operational and training facilities (\$1.8 billion) that support the deployment of weapons systems and readiness; funds for the recapitalization of medical facilities (\$500 million); and funds for seven Dependents Schools projects (\$400 million).

In addition, we are asking for \$1.2 billion for the Family Housing program, which will help to provide and maintain quality, affordable housing for military personnel and their families. Of this amount, \$1.1 billion will support the operation and maintenance of over 41,300 Family Housing units world-wide, though mostly overseas. The remaining \$95 million is requested to fund Family Housing Construction and Improvements. I would add that no privatization projects are funded in the FY 2015 request. At the end of FY 2014, over 205,000 family housing units will have been privatized, or almost 99 percent of the domestic inventory. Ultimately, less than 1 percent of the original domestic inventory will remain government owned due to their remote location and/or a small number of units that make privatization financially unviable.

Global Defense Posture

This request is critical to supporting our Global Defense Posture initiatives. In addition to the \$857 million military construction investment planned for overseas military facility investments, we are asking for another \$267 million of military construction to continue strengthening forward capabilities, ensure U.S. commitments to alliance goals, and rebalance to the Asia-Pacific region. Funding is included to:

- Continue working with Japan to achieve an end state Marine presence remaining in Okinawa consistent with the April 2012 Joint Statement on planned force posture adjustments;
- Enable the development of Guam as a strategic hub for the Western Pacific and facilitate the movement of assets into the region;
- Enhance base resiliency to increase survivability where U.S. defense posture is vulnerable to emerging capabilities; and
- Provide infrastructure support for training and partnering with allied nations to develop tactics, techniques, and procedures.

The FY 2015 investments in the Asia-Pacific region are critical to establishing a more enduring U.S. role in order to preserve peace and stability in the region. Furthermore, our funding request supports global posture initiatives in accordance with defense strategic priorities outlined in both the 2012 Defense Strategic Guidance and the 2014 Quadrennial Defense Review.

Sequestration for Military Construction and Family Housing

Resumption of sequester-level cuts would lead to significantly lower funding levels for the military construction accounts to allow for the rebalancing of resources to higher Departmental priorities, such as readiness and training. The military construction accounts will only be able to support the most critical facility requirements, including projects that protect life, health, and safety. Most recapitalization efforts will be deferred, increasing risk and the degradation of overall facility conditions that will drive higher facility sustainment costs. If we return to sequester-level funding caps beginning in FY 2016, we project the military construction accounts would be reduced by one-sixth, or over \$5 billion, during FY 2016-2019 compared to the levels projected in our Future Years Defense Plan.

Conclusion

In conclusion, I believe that the Fiscal Year 2015 budget request is appropriate given current needs of the Armed Forces and fiscal reality. In particular, the budget supports a reasonable and financially responsible Military Construction and Family Housing program. We seek your support for our request. We also ask your help, and

the help of others in Congress, to repeal sequestration and end its harmful impact on America's military.

Mr. Chairman, Members of the Committee, thank you again for your support for the Department of Defense, including the men and women who wear America's uniform and the civilians who support them. That concludes my statement. I welcome your questions.

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