



## DEPARTMENT OF DEFENSE

### Funding Highlights:

- Provides \$525.4 billion in discretionary funding for the base Department of Defense budget, a decrease of 1 percent, or \$5.1 billion, below the 2012 enacted level. This will provide the necessary resources to implement the President's new defense strategy, keep our military the finest in the world by investing in priorities, and help achieve \$486.9 billion in savings by 2021.
- Reprioritizes investments in weapons programs to reflect the new strategy, provide service members with state of the art equipment, and maintain the industrial base. This includes making investments in high-priority programs, such as unmanned surveillance aircraft and upgraded tactical vehicles, while terminating unnecessary and lower-priority programs such as the C-27 airlift aircraft and a new weather satellite and maintaining programs such as the Joint Strike Fighter at a reduced level.
- Maintains ready forces for the full range of contingencies, including sustaining a robust counterterrorism capability, and continues to invest in our critical alliances, including NATO.
- Keeps faith with servicemembers by protecting well-deserved benefits for active duty personnel and their families, provides support for servicemembers returning from war, and at a time of tight discretionary caps, finds the resources to give the military the full pay increase as authorized by law.
- Continues strong support for servicemembers and military families—including access to medical care for over 9.6 million servicemembers, retirees, and their families—and takes steps to modernize military health and retirement systems.
- Enhances the Administration's commitment to maintain a reliable nuclear deterrent by increasing investments in the nuclear weapons complex and in weapon delivery technologies, and to nonproliferation by investing in securing, detecting, and neutralizing nuclear threats around the world.
- Reshapes and resizes military forces to ensure the size, balance, and flexibility to preserve core capabilities and meet future challenges.

- Continues to focus on acquisition reforms and management efficiencies, such as the consolidation of numerous data centers, to achieve savings.
- Invests in long-term scientific and technological innovation to ensure that the Nation has access to the best defense systems available in the world. High-priority research and development areas include: advanced manufacturing, cybersecurity, and autonomous systems.

The United States of America is the greatest force for freedom and security that the world has ever known. In no small measure, that is because we have built the best-trained, best-led, best-equipped military in history. The President, as Commander-in-Chief, is committed to keeping it that way. Over the past three years, we have made historic investments in our troops and their capabilities, military families, and veterans. Now, we are at an inflection point after a decade of war: American troops have left Iraq; we are undergoing a transition in Afghanistan so Afghans can assume more responsibility; and we have decimated al Qaeda's leadership, putting that terrorist network on the path to defeat.

At the same time, we have to renew our economic strength here at home, which is the foundation of our strength in the world, and that includes putting our fiscal house in order. That is why the President directed the Department of Defense (DOD) to undertake a comprehensive strategic review so that our defense budget is driven by a clear strategy that reflects our national interests.

There are several key elements to this strategy. To sustain a global presence, DOD will strengthen its presence in the Asia Pacific region and continue vigilance in the Middle East. The Administration will also invest in critical partnerships and alliances, including NATO, which has demonstrated time and again—most recently in Libya—that it is a force multiplier. Looking past Iraq and Afghanistan to future threats, the force will no longer be sized for large-scale, prolonged stability operations. Instead, DOD will focus modernization on emerging threats, sustaining efforts to get rid of outdated Cold War-era systems so that we can invest in

the capabilities we need for the future, including intelligence, surveillance and reconnaissance. The Administration will continue to enhance capabilities related to counterterrorism and countering weapons of mass destruction. We will also maintain the ability to operate in environments where adversaries try to deny us access. And, we will keep faith with those who serve by giving priority to our wounded warriors, servicemembers' mental health, and the well-being of military families.

With this strategy as a guide, over the 10 years beginning in 2012, DOD will spend \$486.9 billion less than was planned in last year's Budget. The Department will realize these savings through targeted reductions in force structure and modernization; reprioritization of key missions and the requirements that support them; and continued reforms and efficiencies in acquisition, management, and other business practices. From the 2012 enacted level, base defense spending will fall by 1 percent to \$525.4 billion in 2013, while DOD Overseas Contingency Operations funding will fall by 23 percent (these costs are addressed in a separate chapter). However, over the next 10 years, the base budget will grow modestly.

### ***Invests in Critical Areas to Implement New Defense Strategy***

**Funds Military Readiness and Training.** The Administration is committed to providing servicemembers with the equipment and resources they need to respond to the complex and often unconventional threats posed by today's security environment. The Budget provides \$176.2 billion to support the operations, training,

and maintenance needed for our troops to meet current and future threats.

**Provides Needed Weapons Systems for Challenges of Today and Tomorrow.** The Budget continues to invest in the weapons systems needed by our Armed Forces to meet the challenges laid out by the new defense strategy. For example, the Budget provides \$3.7 billion to fund unmanned air surveillance systems, such as the Predator and Reaper, which provide critical and timely intelligence to our troops on the ground in Afghanistan and other operational areas. In addition, the Budget provides \$2 billion for upgrading tactical vehicles including the newest and most effective version of armor protection, and \$4.1 billion for the Virginia class submarine program that will improve the Navy's ability to operate in coastal waters and support special operations forces.

**Secures Defense Information Networks from Intrusion.** Preparing for emerging threats includes being able to operate across the full spectrum in cyberspace. The Budget sustains and enhances all aspects of DOD's cybersecurity capabilities. It also funds DOD's support for the Department of Homeland Security's (DHS's) cybersecurity efforts to protect the Federal Government's unclassified civilian information technology networks and improve the security of U.S. critical infrastructure. Funding allows DOD to invest in improving capabilities to implement the DOD Strategy for Operating in Cyberspace; conducting the full spectrum of operations, including defending the Nation's networks as directed by the President; and supporting the defense of infrastructure that is critical to national security.

The Budget sustains funding for U.S. Cyber Command to conduct its cyber mission and lead efforts to secure the Department's networks. The Budget also funds leading edge cybersecurity science and technology efforts, and cybersecurity pilot efforts (in partnership with DHS) to determine how best to protect critical information infrastructures owned and operated by the private sector.

**Works to Defeat al Qaeda and Prevent Terrorist Attacks.** Building on recent successes against al Qaeda and its leadership, protecting the United States from terrorist attacks and defeating al Qaeda remain the Administration's highest national security priorities. As part of the *National Strategy for Counterterrorism*, the Administration continues to strengthen counterterrorism programs and develop partner capabilities to prevent terrorist attacks on the United States and other countries. The Budget protects resources in this high-priority area and makes necessary investments to protect the homeland; defeat al Qaeda and its affiliates; build partner capacity; and prevent the development, acquisition, and use of weapons of mass destruction by terrorists.

**Deters and Counters the Spread of Weapons of Mass Destruction.** DOD continues to pursue a comprehensive strategy to reduce the risk of intentional nuclear, biological, chemical, and radiation related attacks. The Budget helps to counter the challenge of weapons of mass destruction by funding improved infrastructure and modernization of detection, neutralization, and treatment capabilities. Additionally, the Administration will enhance international stability by reducing the risks of global nuclear proliferation. The Budget continues the President's global lockdown initiative to secure nuclear materials worldwide within four years, detect and deter nuclear testing and smuggling, and support verification and implementation of international nonproliferation treaties.

**Modernizes the Nation's Nuclear Deterrent.** Even as we work to reduce the number and role of nuclear weapons in our national security strategy, the Administration remains committed to modernizing the Nation's nuclear weapons complex and supporting the goals of the Nuclear Posture Review (NPR) as the United States and Russia implement the New Strategic Arms Reduction Treaty. DOD and the National Nuclear Security Administration (NNSA) are working together to refine weapons system requirements so that these systems focus on the highest-priority capabilities. While still meeting the NPR goals, DOD

and NNSA are reducing the scope and stretching out the schedule of several warhead weapons life extension programs, and are restructuring plans for maintaining plutonium capabilities to stay within the discretionary spending caps set in the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by the Budget Control Act of 2011. Reflecting their close partnership and shared commitment, DOD has included in its outyear budget a portion of future funding for NNSA, with allocations to be made to NNSA within each budget year.

The Administration also continues its commitment to sustaining and modernizing U.S. strategic delivery systems, thus ensuring an effective deterrent in the face of evolving challenges and technological developments. This includes specific commitments to maintain continuous at-sea deployments of ballistic missile submarines in the Atlantic and Pacific Oceans, as well as the ability to surge additional submarines during crises; procure the lead ship for the OHIO Replacement program in 2021; sustain the Air Force's Minuteman III missile through 2030; and modernize the heavy bomber force so it can serve for the indefinite future.

Finally, the Budget includes \$9.7 billion for ballistic missile defense. The Administration is committed to developing and fielding proven capabilities to defend the United States from the threat of limited ballistic missile attack, and to defend against regional ballistic missile threats to U.S. forces and U.S. allies and partners. These capabilities must be flexible enough to adapt as the ballistic missile threats change. In Europe, the United States is focused on addressing near-term threats from short- and medium-range ballistic missiles, and is working with our NATO allies to this end as we continue to implement the European Phased Adaptive Approach.

**Cares for Servicemembers and Their Families.** Keeping faith with servicemembers—which the President has called a “moral obligation”—is a key component of the new defense strategy. The high quality and readiness of our All-Volunteer Force is the Nation's most

important military advantage, so it is critical that military members and their families receive the compensation and benefits that they deserve. The Budget provides a 1.7 percent increase to basic pay in calendar year 2013, the full increase authorized by current law.

The Administration prioritizes the care of servicemembers and their families by providing \$48.7 billion for the DOD Unified Medical Budget to support the Military Health System, which provides medical care for over 9.6 million eligible beneficiaries. The Budget continues strong programs to support wounded, ill and injured servicemembers and to help servicemembers transition into civilian life and the workforce.

The Administration is committed to improving access to military family programs, integrating services to ensure the highest impact, and pursuing innovations to better reach and serve military families. Key Administration priorities include enhancing the well-being and psychological health of military families, ensuring excellence in military children's education, developing career and educational opportunities for military spouses, and ensuring child care availability and quality for the Armed Forces.

The Budget emphasizes our commitment to honor those who have served the Nation and to maintain the hallowed grounds where they are laid to rest. In 2013, the Army will provide \$128 million for Arlington National Cemetery improvements. These funds will be combined with the \$46 million requested directly for Arlington National Cemetery to almost quadruple support for planning and construction to extend burial availability, strengthen accounting and gravesite accountability systems, and improve service to families.

**Funds Research and Development for the Military of the Future.** The Administration will continue its strong commitment to funding the Nation's long-term scientific and technical needs, including those for national security. Accordingly, the Budget proposes \$69.4 billion for research, development, test, and evaluation, including \$11.9 billion for early-stage science and

technology programs, focusing our efforts on those projects most likely to enhance our capability to respond to new threats. The Budget invests in the Defense Advanced Research Projects Agency and department-wide basic research slightly above the 2012 enacted levels. Such investments will allow the Nation to explore diverse scientific principles and technological applications, including bio-defense, cybersecurity, information access, and cleaner and more efficient energy use, robotics, and advanced computing. Funding in this area will also capitalize on the role that DOD plays in advanced manufacturing by establishing a number of public-private partnerships in targeted technologies to expedite their development and production. DOD-funded research provides future options for new defense systems, helps the Nation avoid a technological surprise by potential adversaries, results in cost savings by solving technical problems early in the life cycle of acquisition programs, and takes advantage of emerging technical opportunities. The funding proposed in the Budget will be awarded through competitive processes, with experts guiding the choices of research topics to be undertaken, and reviewing and selecting projects for funding based on proposals submitted by universities, non-profit organizations, for-profit companies, and Government laboratories.

### ***Cuts and Reforms Spending to Reflect the New Defense Strategy***

**Resizes and Reshapes Military Forces.** In response to the President's direction to conduct a fresh review of its roles, missions, and capabilities, DOD is resizing and reshaping U.S. military forces to meet future challenges and preserve core assets while retaining the ability to regenerate lower priority capabilities as necessary. The Administration is committed to supporting properly sized, balanced, and flexible forces that will continue to be the core of our dominant and capable military power. The Budget preserves core military capabilities and better integrates active and reserve forces to provide a smaller but more agile military force that will remain a strong deterrent against our adversaries. Re-

flecting this reduced end strength and the new defense strategy, DOD will eliminate several Brigade Combat Teams, as well as 130 transport aircraft and seven cruisers, over the next five years. At the same time, DOD will manage the force in ways that protect its ability to regenerate capabilities that may be needed to address emergent demands, sustaining the intellectual capital and rank structure to facilitate the expansion of key elements of the force if required.

**Reassesses Base Structure.** The force structure that emerges from the new defense strategy will require a properly aligned infrastructure from which to operate, deploy, and train. The Budget requests the authority for DOD to commence two additional rounds of base realignment and closure (BRAC) and to establish an independent Commission that will provide an objective, thorough, and non-partisan review and analysis of DOD's recommendations. While this is a difficult process, additional rounds of BRAC will enable DOD to align infrastructure to meet the needs of a leaner, more agile, and flexible force.

**Adjusts Health Care Benefits and Initiates Retirement Review.** DOD has implemented a variety of internal efficiencies within its medical program and continues to seek cost savings, but it is imperative to better manage the health benefit. The Budget introduces new TRICARE copays and fees to help constrain the cost of healthcare while continuing to provide high quality care. The Budget includes additional increases to TRICARE Prime enrollment fees, initiation of Standard/Extra annual enrollment fees, and adjustments to deductibles and catastrophic caps. The Budget also modifies pharmacy copays to encourage the use of less expensive mail-order and military treatment facility pharmacies. Finally, the Budget includes modest annual fees for TRICARE beneficiaries over age 65 when they transition to Medicare coverage. These reforms will reduce DOD costs over five years by an estimated \$12.9 billion in discretionary funding and \$4.7 billion in mandatory savings in the Medicare-Eligible Retiree Health Care Fund.

The Budget also includes the Administration's proposal for a Military Retirement Modernization Commission, which, if enacted, will recommend improvements to the military retirement system. Under the proposal, the President would appoint the Commissioners; DOD would transmit to the Commission initial recommendations to change the military retirement system; the Commission would hold hearings, make final recommendations, and draft legislation to implement its recommendations; the President would review and decide whether to transmit the Commission's recommendations to the Congress; and Congress would vote "up or down" on the legislation. The Administration believes that any major military retirement reforms should include grandfathering for current retirees and those currently serving in the military.

**Reprioritizes Investments in Weapons Systems.** The Administration is committed to providing our servicemembers with the necessary equipment and support to meet future modernization goals. The Budget reflects continued reevaluation of the magnitude and timing of planned modernization efforts to maintain the finest military in the world—a force capable of deterring conflict, projecting power, and winning wars. For example, expensive programs such as the Joint Strike Fighter, which are designed to counter the potential threat from a sophisticated adversary, will continue but at a reduced level. In support of the new defense strategy, where possible, DOD will continue to rely on proven existing systems rather than developing new ones, and lower-priority programs will be terminated or reduced, including the C-27 airlift aircraft, High Mobility Multi-Purpose Wheeled Vehicle Recapitalization, and a new weather satellite. In addition, the Navy will truncate the Joint High Speed Vessel program after buying 10 ships, sufficient to meet its core requirement. The Administration is committed to maintaining a healthy industrial base and will work to mitigate adverse effects on workers and industry. As these reductions are implemented, the Administration will monitor and manage the industrial base to ensure that the Nation has the ability to develop and produce the future weapons systems it needs.

**Reforms Acquisition.** DOD contracts account for approximately 70 percent of all Federal procurement. The Budget requests \$280 billion for DOD contracts in 2013. Through its "Better Buying Power" acquisition reform initiative, DOD is charting a new path that will result in greater efficiency and productivity throughout the defense acquisition system. In particular, DOD is: 1) decreasing the use of high-risk contracts based on time-and-materials and labor-hours; 2) continuing to develop the acquisition workforce to provide needed oversight; 3) eliminating or restructuring lower-priority acquisitions; 4) reducing contract spending on management support services; 5) taking full advantage of contract vehicles that reflect the Government's buying leverage; 6) increasing the use of strategic sourcing; 7) increasing small business participation; and 8) improving financial management systems. In addition, DOD has instituted a number of acquisition management best practices: applying lessons learned from past acquisitions; establishing process teams to review qualifications of acquisition professionals; and instituting peer reviews to ensure affordability and effective competition.

**Improves Business Processes.** The Budget supports DOD's ongoing efforts to upgrade its financial management business processes in several ways. First, to verify its ability to track spending and improve fiscal discipline, DOD will have Statements of Budgetary Resources for general funds "audit ready" by 2014, three years earlier than previously planned. This audit of the Department's Statement of Budgetary Resources will encompass a complete review of how the Department receives and spends its funds. Second, DOD continues to upgrade its logistics management business processes by pursuing initiatives designed to acquire, manage, and deliver cargo and personnel more efficiently and effectively. These Department-wide logistics initiatives build on previously successful business process re-engineering initiatives over many years. Overall, the Budget helps improve Departmental business processes and thus enables DOD to streamline the joint global distribution system, manage inventory in more efficient and cost effective ways, improve

demand forecasting, speed movement of wounded warriors from the battlefield, and manage the return of equipment from Iraq and Afghanistan more responsibly.

**Focuses on Management Efficiencies.** The Budget creates a balanced approach to funding priorities within spending caps by freeing up resources from lower priorities, eliminating duplication, trimming overhead, and improving competition and management in operating and investment programs. For example, to reduce its information technology footprint—and in turn lower staffing and energy needs—the Department plans to continue consolidating its numerous data centers. In addition, across its global distribution system, DOD continues to pursue initiatives designed to acquire, manage, and deliver cargo and personnel more efficiently and effectively. Finally, as stated above, in lieu of costly new acquisition programs, DOD strives to upgrade existing equipment to provide equivalent capabilities wherever possible.

**Conserves Energy.** DOD consumes almost three-fourths of all Federal energy resources. To reduce consumption, the Budget includes approximately \$1 billion for energy conservation investments—up from \$400 million in 2010—increasing by two and one-half times the support of DOD’s Priority Goal to Improve Energy Performance. These investments include energy retrofits of existing buildings, meeting energy efficiency standards for new buildings, and developing renewable energy projects. DOD is steadily improving its installation energy performance by reducing the demand for traditional energy and increasing the supply of renewable energy sources, currently at nearly 8.5 percent of DOD energy production and procurement. The request includes \$150 million for the Energy Conservation Investment Program, which improves the energy efficiency of DOD facilities worldwide. In addition, the Budget provides \$32 million, a 7 percent increase compared to 2012, for the Installation Energy Test Bed Program to demonstrate new energy technologies to reduce risk, overcome barriers to deployment, and facilitate wide-scale commercialization.

**Department of Defense**  
(In millions of dollars)

	Actual 2011	Estimate	
		2012	2013
<b>Spending</b>			
Discretionary Base Budget Authority:			
Military Personnel .....	137,046	141,819	135,113
Operation and Maintenance.....	192,649	197,198	208,744
Procurement .....	103,909	104,464	98,823
Research, Development, Test and Evaluation .....	75,733	71,375	69,408
Military Construction .....	14,768	11,367	9,572
Family Housing .....	1,819	1,683	1,651
Revolving and Management Funds .....	2,348	2,641	2,123
Subtotal, Discretionary base budget authority .....	528,272	530,547	525,434
Discretionary Cap Adjustment: <sup>1</sup>			
Overseas Contingency Operations (OCO) .....	158,753	115,083	88,482

**Department of Defense—Continued**  
(In millions of dollars)

	Actual 2011	Estimate	
		2012	2013
Total, Discretionary budget authority (Base and OCO).....	687,025	645,630	613,916
Total, Discretionary outlays (Base and OCO) .....	673,848	682,995	666,159
Total, Mandatory outlays .....	4,226	5,260	6,721
Total, Outlays .....	678,074	688,255	672,880
<b>Credit activity</b>			
Direct Loan Disbursements:			
Family Housing Improvement Direct Loan Financing Account .....	309	202	195
Total, Direct loan disbursements .....	309	202	195

<sup>1</sup> The Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA), as amended by the Budget Control Act of 2011, limits—or caps—budget authority available for discretionary programs each year through 2021. Section 251(b)(2) of BBEDCA authorizes certain adjustments to the caps after the enactment of appropriations. Amounts in 2011 are not so designated but are shown for comparability purposes.