

DEFENSE DIVIDED

Overcoming the Challenges of Overseas Contingency Operations



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Executive Summary

As the wars in Iraq and Afghanistan have drawn down, the Overseas Contingency Operations (OCO) budget, initially intended for “emergency” war funding, has been used increasingly for purposes far afield of its original design. Despite troop withdrawals and recapitalization of the equipment used in the wars, large amounts of defense spending have continued to be assigned to OCO, rather than the base Defense Department budget. As the 2011 Budget Control Act (BCA) began to curtail the base Defense budget, OCO now includes funds to support other overseas ventures, such as the European Reassurance Initiative (ERI), intended to deter Russian threats against Eastern Europe. Indeed, it may be argued that as US military operations in the Middle East shift toward the sustainment of US goals, rather than a quick military victory, much of what constitutes operational OCO-designated funding has become more predictable and less emergency in nature, and therefore could be shifted into the base Defense Department budget.

We conclude in this report that the uncertainty created by current reliance on OCO, particularly to fund base budget needs, could be detrimental to national security on three levels: (a) by undermining budget controls and contributing thereby to larger deficits, (b) by generating insecurity in the Defense workforce and in Defense suppliers, and (c) by creating long-term uncertainty in defense planning. The alternative, transitioning longer-term OCO expenses to the base budget, could be achieved through a combination of increased budget caps, targeted cuts in inefficient Defense programs, and increased revenues.

Given the consequences of continued misuse of OCO, we suggest that President Obama and his successor develop and commit to a credible plan to wind down OCO funding beginning with the expiration of the Bipartisan Budget Act in FY2018.

Introduction

Traditionally, at the onset of war, operations are funded as emergency appropriations. Historically, in the latter years of a conflict, when costs have become more predictable as the war winds down, some or all of this spending has been moved into the base Defense budget. The Iraq and Afghanistan Wars, however, have disrupted this pattern. Beginning with the US invasion of Afghanistan, war-related funding was initially provided through the use of emergency appropriations, as in the past. Later, this ongoing supplemental funding was designated “Overseas Contingency Operations (OCO).” These supplemental war funds rose to levels not seen since the Korean War. The OCO budget has continued to hover at relatively high levels, moreover, even as US force levels in the combat zones have drawn down and the US mission has shifted from combat operations to advisory roles.

The reason for this deviation from the historic pattern is clear. The 2011 Budget Control Act (BCA) placed limits on defense and non-defense discretionary spending, but allowed those funds appropriated under the OCO designation to operate free from the caps. For this reason, the administration and Congress have increasingly utilized the OCO designation as a loophole to fund base budget needs.

The BCA has been adjusted twice since 2011. First, the Ryan-Murray budget deal, the Bipartisan Budget Act (BBA) of 2013, raised caps set by the BCA for two years, thereby increasing the threshold for potentially damaging cuts, known as sequestration. In October 2015, following threats of a government shutdown, Congress passed the 2015 Bipartisan Budget Act (BBA).¹ The 2015 deal similarly raises the caps for two years.²³ Despite greater latitude for the base Defense budget permitted by these actions, however, the Pentagon has become increasingly comfortable with the use of OCO to circumvent the caps.

These trends continued, indeed worsened, in the president’s FY2017 budget request, which for the first time includes \$5.2 billion in undesignated base budget funds to comply with the terms of the 2015 BBA. Further, the president’s request continues to spend over the budget caps in the out-years, illustrating the stagnant nature of this problem.⁴ If the president plans to continue to submit requests that exceed the BCA caps, short of another budget deal OCO will remain the only option to pay the bill.

But budget transparency and responsibility is not the only issue at stake in the continued use of OCO to fund base budget needs. The Pentagon has made clear that the uncertainty created by this budgetary game-playing could be detrimental to national security over the long term. We agree: Continued reliance on OCO-designated spending undermines budget control, generates insecurity in the Defense workforce and among Defense suppliers, and creates long-term uncertainty for defense planners.

President Barack Obama’s FY2016 budget request committed his administration to develop a plan to wind down all OCO-designated spending by FY 2020.⁵ The consequences of OCO abuse documented in this report make it even more important for President Obama and his successor to develop and commit to a credible plan to wind down OCO funding beginning with the expiration of the BBA in FY2018.

1. H.R. 1314, 114 Cong., <<https://www.congress.gov/114/plaws/publ74/PLAW-114publ74.pdf>>. (2015) (enacted).

2. H.J. Res. 59, 113 Cong., <<https://www.gpo.gov/fdsys/pkg/BILLS-113hjres59enr/pdf/BILLS-113hjres59enr.pdf>>. (2013) (enacted).

3. S. 365, 112 Cong., <<https://www.gpo.gov/fdsys/pkg/BILLS-112s365enr/pdf/BILLS-112s365enr.pdf>>. (2011) (enacted).

4. United States. Office of Management and Budget. *The Budget of the United States Government*. Washington, D.C.: Executive Office of the President, Office of Management and Budget. <<https://www.whitehouse.gov/omb/budget>>.

5. *Ibid.*

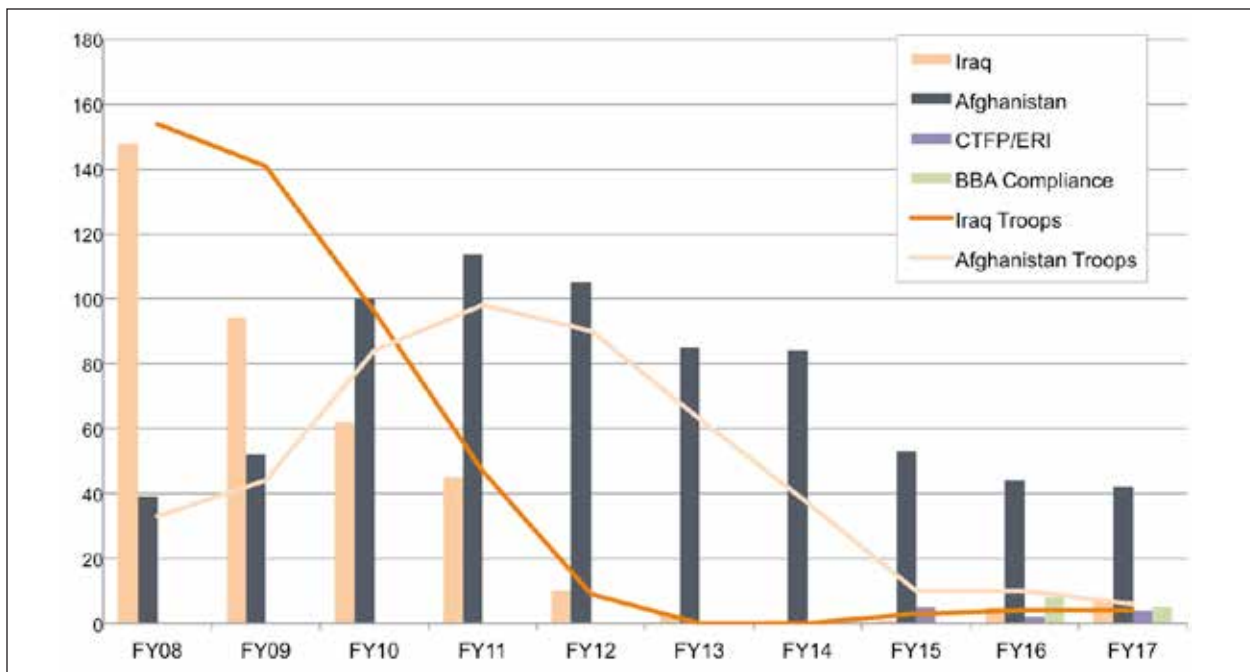
Historical Trends in Defense Spending

Overseas Contingency Operations, or OCO, is a designation given to appropriations by both Congress and the President. OCO, in its current form, came into existence in 2009 and was altered by the 2011 Budget Control Act. Previously, funds for the Afghanistan and Iraq wars had been classified as “emergency” funds.

Over this time, DOD’s base budget grew from \$408 billion in FY2000 to \$762 billion in FY2010, its most recent high point in 2016 dollars. In short, annual defense spending rose by \$354 billion over this period, or 87 percent in real terms. This is higher than the previous FY1990 Reagan-era peak of \$549 billion, and higher, in constant dollars, than spending during the Korean and Vietnam wars.⁶

Despite the drawdowns of US forces from Iraq and Afghanistan, the OCO budget has remained relatively high. Current funding levels cannot be explained by a corresponding uptick in activity in the fight against Daesh. While OCO-designated funding is currently dedicated to these operations, the cost remains relatively low, with estimates upwards of \$5.5 billion since the air war began in August 2014.⁷ Rather, an overall decrease in US troop levels overseas has been offset by other initiatives, such as the European Reassurance Initiative and the Counterterrorism Partnership Fund.

TRENDS IN RECENT TROOP LEVELS AND OCO-DESIGNATED SPENDING⁸
(in billions of current dollars/annual average in thousands)



6. Ibid.

7. Engel, Pamela. “The Air War against ISIS Is Costing the US about \$11 Million a Day.” *Business Insider*. 19 Jan. 2016. 9 May 2016. <<http://www.businessinsider.com/how-much-does-isis-war-cost-2016-1>>.

8. United States. Department of Defense. Defense Budget Materials FY 2017 Budget. Washington, D.C.: Dept. of Defense, 2016. <<http://comptroller.defense.gov/budgetmaterials.aspx>>.

As seen in the graph on page five, the gulf between troop levels and OCO-designated spending has widened significantly in recent years. At its peak, in FY2008, OCO spending rose to \$187 billion. At this time, 154,000 troops remained in Iraq and 33,000 in Afghanistan, for a total of 187,000. This ratio comes to a cost of \$1 million per troop. In FY2017, the administration has requested approximately \$59 billion for OCO, with 4,000 troops remaining in Iraq and 6,000 in Afghanistan, a total of 10,000. This comes to a cost of \$5.9 million per troop. Excluding funding for ERI, CTPF, and BBA Compliance, the FY2017 OCO request still requires \$4.9 million per troop, a 490 percent increase since FY2008.

The OCO Designation

To guide the Services in deciding the types and amounts of funding they can include in requests that would be classified as either “emergency” or “OCO” budgets, the Department of Defense issues financial management regulations for “contingency operations” funding. The key criteria is that funds are to be incremental or in addition to funds that support normal peacetime training, repair of equipment, or procurement of weapon systems -- and would not be needed if the nation were not conducting war operations. For example, while the basic pay and housing allowances for military personnel and the Operations and Maintenance funds to run a military installation are base budget funds, monies for imminent danger pay for deployed troops and to establish bases overseas and conduct combat operations could be classified as “emergency” or “OCO” designated funds.

While these distinctions are clear, other types of expenses are more obscure. For example, repairs conducted during depot maintenance of deployed equipment might be a result of combat operations, but they might also be a result of several years of peacetime training.

The issue is further complicated by the 2011 Budget Control Act (BCA), which places limits on defense spending during the years FY12-FY21. Under the BCA, if congressional appropriations exceed those spending caps, OMB is required to make automatic, across-the-board cuts in appropriated funds, a process known as sequester.

Defense leaders, including Secretary of Defense Ashton Carter, have stated that meeting the budget spending levels that would avoid a sequester, sometimes referred to as “sequester caps,” would be detrimental to military readiness and US national security.

In past years, Congress and the Pentagon have evaded this concern by employing the OCO designation, which operates outside the caps, to fund base budget needs. This is a trend that has increased in recent years, with Congressional proposals for shifting base budget funds to OCO ranging from \$6 billion to \$38 billion annually.

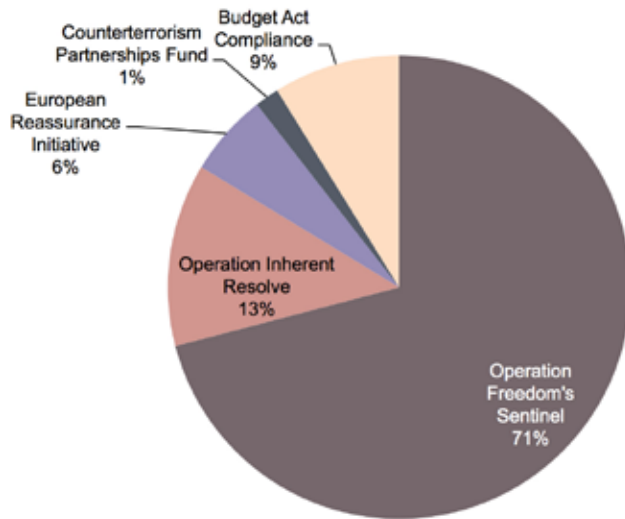
Current OCO-designated Spending

The Bipartisan Budget Act of 2015,⁹ provides \$80 billion in additional discretionary spending for defense and nondefense programs as compared to the limits incorporated in the 2011 BCA and an additional \$32 billion in sequester relief via caps-exempt Overseas Contingency Operations (OCO) designations, split evenly between defense and nondefense. It was cemented by the president’s FY2017 budget request, which continues to rely on OCO to augment defense spending, with \$58.8 billion for defense and \$14.9 billion for nondefense.¹⁰

BREAKDOWN OF OCO-DESIGNATED SPENDING IN FY2017
(in billions of current dollars)

OCO Budget	FY2017 Request
Operation Freedom’s Sentinel (Afghanistan)	41.7
Operation Inherent Resolve (Iraq)	7.5
European Reassurance Initiative (ERI)	3.4
Counterterrorism Partnerships Fund (CTPF)	1.0
Subtotal	53.6
Bipartisan Budget Act (BBA) of 2015 Compliance*	5.2
Total	58.8

* DoD officials have indicated that Bipartisan Budget Act Compliance funding will be used for unplanned requirements traditionally funded as OCO or to meet unfunded needs in the Pentagon’s base budget.



9. H.R. 1314, 114 Cong., <https://www.congress.gov/114/plaws/publ74/PLAW-114publ74.pdf> (2015) (enacted).

10. Current OCO designations include funding for both Defense programs, residing within the 050 (Defense) budget, and Non-Defense programs residing within the 150 (International Affairs) budget. This paper deals primarily with 050 funding.

As wartime operations have wound down, so have requested expenses that might clearly be classified as “emergency” funds. Enduring requirements have increasingly been designated OCO, with the duplicity becoming more transparent in recent years. The introduction of line-items such as the European Reassurance Initiative (ERI), and now \$5.2 billion for BBA compliance, to the OCO designation suggests that OCO has become a “slush fund,” with the sole purpose of providing the Pentagon support above and beyond the budget caps.

Multiple Pentagon officials, including Deputy Secretary of Defense Bob Work, who has noted that recent increases in OCO funding are not rooted in strategy, have acknowledged this fact. Work has noted that developments overseas, such as the threat posed by the rise of Daesh, and Russian aggression in Crimea and eastern Ukraine, haven’t changed the fundamental underpinnings of US defense strategy, and thereby do not necessitate a newly increased round of emergency funding:

“We started our fall budget review with an important question: did those surprises fundamentally change the assumptions underpinning the 2014 QDR strategy and its force-planning construct to the degree that the strategy must be changed? The short answer is ‘no’ – at least not yet,” Work said.¹¹

BREAKDOWN OF OCO-DESIGNATED SPENDING
BY FUNCTIONAL/MISSION CATEGORY
(in billions of current dollars)

OCO Budget	FY2017 Request
Operational/Force Protection	8.7
In-Theater Support	17.0
Joint Improvised-Threat Defeat Fund	0.3
Afghanistan Security Forces Fund (ASSF)	3.4
Support for Coalition Forces	1.4
Iraq Train and Equip Fund (ITEF)	0.6
Syria Train and Equip Fund (STEF)	0.3
Equipment Reset and Readiness	9.4
Classified Programs	8.1
Counterterrorism Partnerships Fund (CTPF)	1.0
European Reassurance Initiative (ERI)	3.4
Subtotal	53.6
Bipartisan Budget Act (BBA) of 2015 Compliance	5.2
Total	58.8

**Fully or partially enduring requirements in orange.*

11. Work, Bob. “The Third US Offset Strategy and Its Implications for Partners and Allies.” Deputy Secretary of Defense Speech. Willard Hotel, Washington, DC. 28 Jan. 2015. <<http://www.defense.gov/News/Speeches/Speech-View/Article/606641/the-third-us-offset-strategy-and-its-implications-for-partners-and-allies>>.

This shift is clear when one examines the administration's FY2017 OCO request. Line-items in orange are those that should, either fully or partially, appear within the base budget due to their enduring nature.

Funds included within the Joint Improvised-Threat Defeat Fund and Afghanistan Security Forces Fund (ASSF), for example, which are used to train Afghanistan's armed forces, though related to the conflicts in the Middle East, cover enduring requirements that no longer require emergency funding. Such efforts to better understand and counter improvised threats to US forces and ongoing training of the Afghan National Army (ANA) and Afghan National Police (ANP), at this point, can be anticipated and set aside within the base budget of the Department of Defense. This is doubly so for funds within the Counterterrorism Partnerships Fund (CTPF), which support the President's counterterrorism initiative in the US Africa Command (USAFRICOM) and US Central Command (USCENTCOM) areas of responsibility, and European Reassurance Initiative (ERI), which enhances the US commitment to members of the NATO Alliance.

Equipment reset, for its part, has largely taken place over the course of the wars. Among other base budget requirements, past OCO-designated funding has helped the Army to modernize and upgrade its armored vehicle fleet sooner than anticipated because of the additional wear and tear of war operations. Depot maintenance of equipment has also been carried out earlier than planned.¹² Future equipment reset can be anticipated in the Pentagon's annual base budget request, and supplemented with emergency funding as necessary.

There is, further, a case to be made that as operations shift toward sustainment of US goals in Afghanistan and Iraq, much of what lies in line-items for operational/force protection and in-theater support might also be better suited to the base budget, since the option for emergency supplemental funding will remain available to cover unanticipated expenses.

Classified programs are harder to categorize, as little detail is available. The opacity of this line-item, however, qualifies it for some skepticism, since there is no way to fully examine the nature of those programs that fall within it.

12. United States. Congressional Research Service. Defense Spending and the Budget Control Act Limits. By Amy Belasco. <<https://www.fas.org/sgp/crs/natsec/R44039.pdf>>.

Long-term Effects of OCO

Under BCA caps, the OCO designation has increasingly been cited as a “safety valve,” which allows Congress and the Pentagon to increase spending above the caps based on their perceptions of the armed services’ needs. Supporters of the use of OCO designations to avoid sequestration argue that national security would be harmed if defense spending is kept at the levels required by the BCA, particularly if sequestration were triggered by spending over those caps.

But some lawmakers, along with leaders at the Pentagon, have proposed stricter controls. Those critical of the continued use of OCO designations, including Secretary of Defense Ashton Carter, cite the uncertainty in future funding that is created through this process.

Central to consideration of the long-term impacts of the continued use of OCO-designated funding for base budget needs are the following four concerns:

Undermining Budget Control and Disrupting Defense Reform

Troublingly, the overuse of OCO aggravates concerns about the nation’s deficit, concerns that provided the original impetus for the BCA. Rather, the ease of using OCO-designations for non-emergency purposes provides an incentive to overspend and avoid potential reforms that might reduce defense spending. Relying on this loosely defined safety valve avoids the pressures that might otherwise arise to keep defense spending at reasonable peacetime levels.

This incentive fuels large budget deficits, which threaten national security by making the US more vulnerable to pressures from foreign actors.¹³ A large debt, further, detracts from the US’ ability to project stability overseas and may lower trust in the US’ ability to fulfill its global commitments. It also makes it more difficult for the nation to meet its other needs, such as refurbishing its decaying transportation infrastructure. Beyond the need for fiscal responsibility, interest payments on an increasing national debt have the potential to crowd out discretionary spending and threaten future defense budgets.

Moreover, the existence of OCO leads to the deferral of hard choices within the Pentagon, given the expectation that money will always be available above existing budgetary constraints. Additionally, the use of OCO as a “slush fund” does not incentivize Congress to consider critically how the US’ global security strategy lines up with the nation’s resources. A ways and means mismatch currently exists between what the Department of Defense is asked to do and what it is given the funds to do. The global strategy of the Department of Defense and resulting level of risk must be calibrated to the resources available and invested in the full spectrum of capabilities needed to address modern-day global threats.

At the 2015 Defense One Summit, Deputy Secretary of Defense Robert Work spoke of this struggle to balance ends and means.¹⁴ To ensure the strength and stability of the US armed forces, Work insisted that last-minute budget deals would not be enough, stating that it would ultimately be up to Congress to re-think either the ends (strategy) or means (budget) or both. Using OCO to fill the gap between ends and means does not incentivize action.

13. Seib, Gerald F. “Deficit Balloons Into National-Security Threat.” Wall Street Journal. 2 Feb. 2010. <<http://www.wsj.com/articles/SB10001424052748703422904575039173633482894>>.

14. “Defense One Summit 2015.” Defense One Summit 2015. 3 Nov. 2015. <<http://www.defenseone.com/ideas/2015/11/defense-one-summit-2015-age-everything/123168/>>.

Generating Insecurity in the Defense Workforce and among Defense Suppliers

In July 2015 testimony to the House Armed Services Committee, Secretary of Defense Ashton Carter stated that:

[OCO] doesn't provide a stable, multiyear budget horizon, this one-year approach is managerially unsound and also unfairly dispiriting to our force. Our military personnel and their families deserve to know their future, more than just one year at a time.¹⁵

The use of OCO creates a concern that programs that are currently considered essential requirements, and thereby designated OCO, may be defunded if the political atmosphere changes. Defense is never fully insulated from politics, but the continued use of OCO-designated funds may make the military budget more contingent upon yearly political whims rather than long-term strategic needs. This uncertainty has the potential to create trouble attracting “the best and brightest” to join the workforce as top candidates for Pentagon positions and instead look to the private sector for more stability. It also affects the outlook of aerospace companies and other defense suppliers, who cannot count on their programs to continue to be funded as they could if they were included in the base budget and multi-year FYDP. This lessens the incentive to invest in new technologies, prevents the Department from gaining savings through larger purchases of spare parts, and prevents non-traditional defense suppliers from considering competing for defense business.

Creating Security and Defense Planning Concerns

Deputy Secretary Work has complained that the DOD is the largest and most complex global institution, yet it has been forced to operate on a “nine-month fiscal year.”¹⁶ The continued use of OCO-designated funds for basic Defense budget functions aggravates this problem and makes planning for multi-year weapon modernization and shipbuilding programs difficult.

Vice Admiral John C. Aquilino, Deputy Chief of Naval Operations for Operations, Plans and Strategy, likewise has stated that discontinuous and uncertain funding, especially when it comes to long-term fleet strength plans, “impacts our ability to stay on path... it makes [planning] more challenging, it impacts operations... the unknowns really make it hard to build a plan that is consistent and [it] impinges on getting to execute the strategy we talked about.”¹⁷

These concerns reflect those issued by multiple Pentagon officials, including Secretary of Defense Ashton Carter during his July testimony to Congress. Amy Belasco summarizes for the Congressional Research Service:

Secretary of Defense Ashton Carter, DOD Comptroller Michael McCord, and the service chiefs all expressed concerns about providing DOD with a one-year increase using OCO-designated funds, saying this approach was not a “sustainable” path, and therefore would not alleviate their concerns. A one-time spike, without assurances of longer-term increases, could complicate defense planning. OMB Director Shaun Donovan signaled the President's opposition to this approach, stating that the FY2016 budget resolution would damage national security by

15. Pellerin, Cheryl. “Carter Urges Senators to Support Stable Defense Budget.” US Department of Defense, 6 May 2015. <<http://www.defense.gov/News-Article-View/Article/604586>>.

16. Peniston, Bradley. “Work: ‘The Age of Everything Is the Era of Grand Strategy’.” *Defense One*. 2 Nov. 2015. <<http://www.defenseone.com/management/2015/11/work-age-everything-era-grand-strategy/123335/>>.

17. “Defense One Summit 2015.” *Defense One Summit 2015*. 3 Nov. 2015. <<http://www.defenseone.com/ideas/2015/11/defense-one-summit-2015-age-everything/123168/>>.

funding national defense with gimmicks in the near term, shortchanging it altogether in the long term, and singling out key non-defense national security programs for deep cuts relative to the President's budget. . . [and] As the Secretary of Defense and the Chairman of the Joint Chiefs have explained, this is both bad budgeting and harmful to military planning.¹⁸

Further, uncertain budgets threaten the DoD's ability to attract efficient and competitive contracts. Defense Secretary Carter adds:

...our defense industry partners, too, need stability and longer-term plans, not end-of-year crises or short-term fixes, if they're to be efficient and cutting edge as we need them to be. Last and fundamentally, as a nation, we need to base our defense budgeting on our long-term military strategy and that's not a one-year project.¹⁹

These issues impact the Pentagon's ability to plan for the future and remain competitive in an environment that is constantly changing. The need to provide long-term stability in budgeting is integral to a solid national defense.

18. United States. Congressional Research Service. Defense Spending and the Budget Control Act Limits. By Amy Belasco. <<https://www.fas.org/sgp/crs/natsec/R44039.pdf>>.

19. United States. Congressional Research Service. War Funding and the Budget Control Act: In Brief. By Amy Belasco. <<https://www.fas.org/sgp/crs/natsec/R44067.pdf>>.

Alternatives to Continued Use of OCO-Designated Funds

Members of Congress and former defense officials have described a number of options for normalizing funds now appropriated in OCO:

1. Permanently adjust the BCA defense caps upward and make corresponding cuts to non-defense programs. Given the historically high levels of military spending, to say nothing of the nation's needs with regard to its infrastructure, education, and other domestic needs, cutting non-defense programs to pay for increases in the defense caps seems like a poor idea. Secretary Carter has further noted that adding funds for defense but not non-defense:

reflects a narrow way of looking at our national security ... [that] ignores vital contributions made by State Department, Justice Department, Treasury Department, Homeland Security Department and disregards the enduring long-term connection between our nation's security and many other factors ... like scientific R&D to keep our technological edge, education of a future all-volunteer military force and the general economic strength of our country.²⁰

2. Offset OCO-designated funds with new revenue. The simplest way to resolve the nation's budget needs in both defense and domestic programs would be to increase revenues. Although tax increases appear to be a non-starter politically, various proposals have been made to "reform" the tax code that would have the effect of increasing government revenues. Only modest changes would be required to provide sufficient funds to replace OCO.

3. Reduce future spending requests to comply with revised BCA caps. Options for defense cuts have been debated extensively, and could begin with \$5.2 billion in undesignated funds provided by the 2015 BBA. As seen below, this simple cut would account for 23 percent of the needed adjustment in FY2018. Numerous other proposals have been put forward by members of Congress, retired military leaders, experts, and the Department of Defense itself that would increase the efficiency of the Department of Defense and thereby make possible budgets that comply with the existing caps without diminishing US military capabilities. Virtually all experts, and the military services, agree that the base infrastructure far exceeds the needs of the armed forces, for example, yet the Congress has repeatedly denied requests for a new round of base closures and consolidations. Similarly, many experts and official DoD advisory boards suggest that reductions could be made in manpower by consolidating and reducing the size of command staffs and defense agencies. Again, the reforms necessary to resolve the OCO problem would not be substantial.

A sustainable path forward would include some combination of increased caps, targeted cuts, and increased revenue.

Transitioning longer-term OCO expenses to the base budget may be difficult under budget caps, since it could crowd out other programs. But at the same time, war funding has helped the military to modernize, upgrade, and maintain some equipment sooner than anticipated. In this way, DoD's OCO funding may have helped reduce future requirements, alleviating pressure on the defense budget.²¹

20. Pellerin, Cheryl. "Carter Urges Senators to Support Stable Defense Budget." US Department of Defense, 6 May 2015. <<http://www.defense.gov/News-Article-View/Article/604586>>.

21. United States. Congressional Research Service. Defense Spending and the Budget Control Act Limits. By Amy Belasco. <https://www.fas.org/spp/crs/natsec/R44039.pdf>

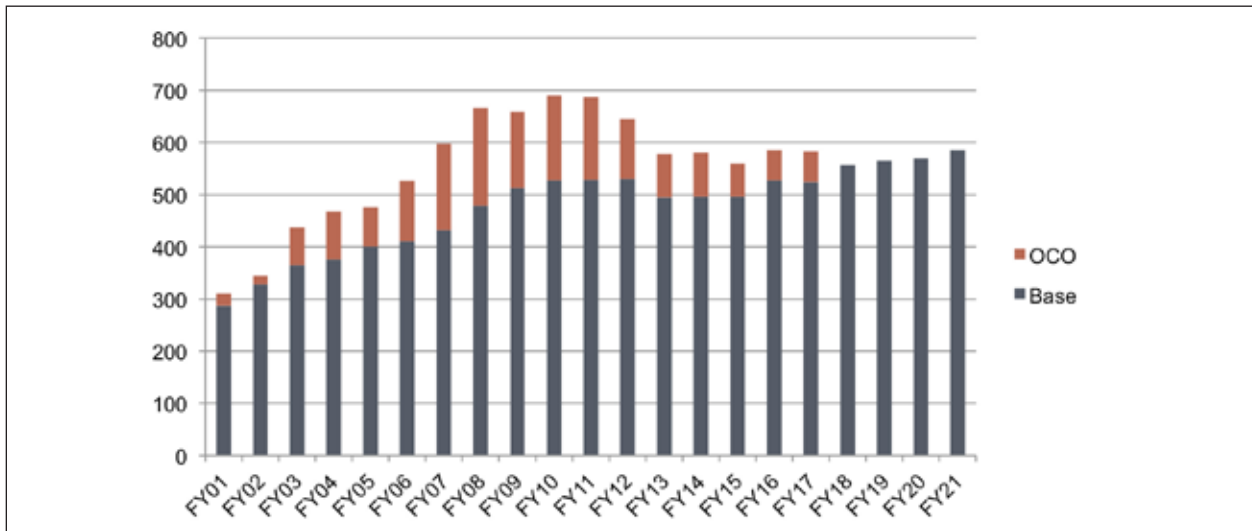
Using the FY2017 request as a guide, we see that bringing the current level of OCO-designated spending back in line with the projected base in this way would be a relatively small lift.

PROPOSED FYDP SPENDING ADJUSTMENT VS. REVISED BCA CONSTRAINTS
(in billions of current dollars)

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
2015 Amended BCA Caps ²²	555	518	520	521	548	551	549	562	576	590
2015 DOD Share ²³	530	495	496	496	523	526	524	536	550	563
FY17 Base Request						524	557	565	570	585
Delta						-2	+33	+29	+20	+22
OCO						59	0	0	0	0
Total Delta						+57	+33	+29	+20	+22
FYDP Adjustment							-24	-16	-11	+4

Assuming increases laid out in the President’s request, and further assuming current OCO-designated spending requests would hold steady at \$57 billion, the Pentagon would need to find \$24 billion in additional cuts and revenues in FY2018 to account for a corresponding decrease in OCO-designated spending. The topline Pentagon budget in FY2018, then, would total \$557 billion excluding spending on nuclear weapons at the Department of Energy and other defense-related funding. This is a 4.5 percent decrease from FY2017. A further adjustment totaling \$27 billion would be needed in FY2019 and FY2020. Beginning in FY2021, the final year of the 2011 BCA, spending could begin to rise.

PROPOSED FYDP SPENDING ADJUSTMENT OVER TIME
(in billions of current dollars)



22. Adjusted to reflect changes made to caps set by the Budget Control Act of 2011 (BCA; S 365; PL 112-75) by the American Taxpayer Relief Act (ATRA; HR 8; PL 112-240) the Bipartisan Budget Act of 2013 (BBA; HJ Res. 59; PL 113-67) and the Bipartisan Budget Act of 2015.

23. BCA limits are set for the National Defense budget function (050). Estimates of DOD’s share set at approximately \$95.4%.

Conclusion

Continued reliance on OCO-designated spending undermines budget control, generates insecurity in the defense workforce and supplier network, and creates long-term uncertainties in defense planning. The consequences of its continued use are too great, and the difficulty of normalizing the budget too small, to continue to rely on the status quo.

The end of the BBA in FY2018 will provide an opportunity for action. Given the shape and substance of current OCO-designated funding and the long-term consequences of its continued use, it is advised that President Obama and his successor develop and commit to a credible plan to wind down excess OCO funding beginning with expiration of the existing budget arrangement in FY2018.

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