



"The Commission shall undertake a comprehensive study of the structure of the Army ... to make recommendations ... in a manner consistent with available resources and anticipated future resources."

2015 NDAA, Section 1703(a)(1)(B)

FISCAL CHALLENGES

Top-line budget projections for the Department of Defense (DoD) have changed substantially in almost every year since 2011. Congress enacted the Budget Control Act (BCA) in August 2011. The American Taxpayer Relief Act of 2012, enacted in January 2013, made significant changes in BCA funding levels, as did the Bipartisan Budget Act of 2013, enacted in December 2014. Yet another Bipartisan Budget Act (BBA15), passed in October 2015, made still more changes. These budgetary fluctuations have made it almost impossible for DoD

and the Army to program effectively for the future. Figure 8 shows the effects of these many changes on the DoD base budget (the budget excluding Overseas Contingency Operations, or OCO, funding).

This budget uncertainty adds to the problems created by declining defense spending. From fiscal years 2010 to 2015, total DoD base funding declined by 7 percent while Army base funding declined by 14 percent. Investment (procurement plus research, development, test and evaluation, or RDT&E)

fell by 15 percent across DoD during that same period, and by 35 percent in the Army.

There is some relatively good news. Though the Congress has funded DoD's base budget more than 3 percent below Presidential Budget requests since fiscal year 2012, it has provided more money in defense spending than the levels initially set by the BCA (which would have resulted in an almost 15 percent cut). The Army also has received substantial levels of funding from the OCO account and has used some of that to meet readiness and other key needs. In the fiscal year 2016 budget, the Administration and the Congress permitted the Army to use OCO funding to pay for some activities that had at least some relation to contingency operations but would normally have been in the non-OCO or base budget.

Despite the use of OCO funding, no satisfactory long-term funding approach provides DoD and the Army the funds needed to build and maintain military readiness, invest in modernization, and ensure the health of the force. In this constrained budget environment, the Army prioritized manpower numbers and force readiness to hedge against near-term demands, accepting substantial risk in modernization. The Commission finds this solution regrettable but understandable, given the persistence of challenges to the United States and the ongoing strain those challenges are putting on ground forces, especially Regular Army combat formations and Army National Guard and Army Reserve enablers. Nevertheless, as discussed in the next chapter, these risks to modernization cannot be sustained if the Army is to protect the mission readiness of the force in the long term.

The current fiscal environment also complicates the Commission's task to examine Army trends well into the future. In order to carry out this mandate, the Commission first considered a range of potential future levels of budgetary resources that could be available to the Army. The Commission also considered the effects these alternative resource levels would have on the Army's ability to meet current and anticipated mission requirements at acceptable levels of risk.

With this information in mind, the Commission made assumptions about future resource levels that guided its assessment of changes in Army programs. The Commission did not attempt to create or recommend specific alternative Army budgets; rather it developed general assumptions about available resources to use in assessing alternatives.

Photo on page 39

Members of the Maryland Army National Guard's 290th Military Police Company return after nearly a yearlong deployment to Bagram Airfield, Afghanistan.

“At the Defense Department, we are forced to make hasty reductions when choices should be considered carefully and strategically.”

The Honorable Ashton Carter, Secretary of Defense, in Wall Street Journal Op-Ed article, October 20, 2015.

ALTERNATIVE RESOURCE LEVELS AND THEIR EFFECTS

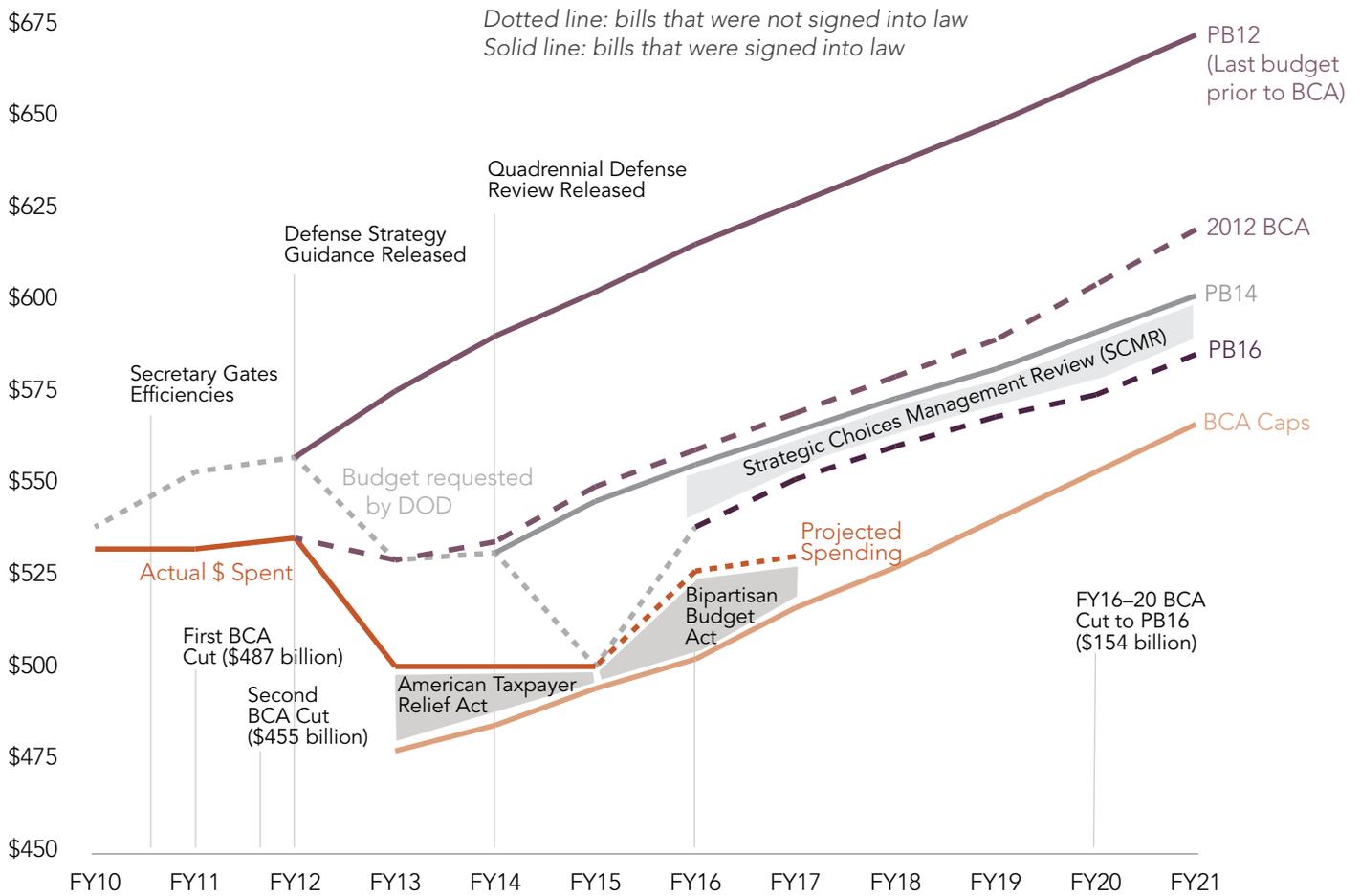
Sequester-Level Funding

The Army might only receive the funding permitted by the Budget Control Act of 2011, as amended. That act and its amendments specify the total funding available for national security activities; the Administration and eventually the Congress then allocate funding to the Army. Under the Act and its amendments, Army budget authority has fallen during each of the past five years from \$140 billion in fiscal year 2010 to \$121 billion in fiscal year 2015. Under last year's budget agreement, the Army will receive roughly \$127 billion in fiscal year 2016 (including some OCO funding) and may decline below that level in fiscal year 2017. This funding profile will likely leave the Army budget for fiscal year 2017 about 10 percent below its fiscal year 2010 level. In the years beyond fiscal year 2017 DoD and the Army will be constrained by the BCA, a profile that is often called “sequester-level” funding. The 2014 DoD report, *Estimated Impacts of Sequestration-Level Funding*, suggests that funding growth in the years immediately beyond fiscal year 2017 would likely be insufficient to keep pace with anticipated inflation. There may be some offsetting increases in the OCO portion of the defense budget, but those increases are uncertain.

If it is faced with a continuation of sequester-level funding and limited OCO funding, the Army has stated that it would need to reduce its total force to 920,000 soldiers: 420,000 in the Regular Army with the remainder in the Army National Guard and Army Reserve. This compares to a total size of 980,000 soldiers in the President's Budget for fiscal year 2016 (PB16).

During testimony before the U.S. Senate Armed Services Committee in March 2015, the Army Secretary and Chief of Staff stated that sequester-level budgets had already had a detrimental impact on Army readiness and modernization. They concluded that continuation of sequester-level funding creates significant risk to the Army's ability to fulfill its

Figure 8
BUDGET UNCERTAINTY OVER TIME
 DOD BASE BUDGET IN THEN-YEAR DOLLARS IN BILLIONS



Source: Joint Chiefs of Staff

national security requirements as specified in the current Defense Strategic Guidance and the Quadrennial Defense Review (QDR). Based on its own experiences and discussions with leaders and troops, the Commission concurs with these concerns: the size of the force would not meet national security requirements, readiness would suffer, and funding for modernization, already low, would reach levels that would leave the nation too exposed to risk.

Funding Planned in Fiscal Year 2016 Request

Rather than sequester-level funding, the Army might receive the dollars proposed in the PB16, which would have provided \$127 billion to the Army in fiscal year 2016, rising to \$129 billion in fiscal year 2017. Growth in the years beyond fiscal year 2017 would amount to a few percent a year, probably only enough to offset the effects of inflation. Last year's budget agreement chipped away at the President's plan for Army funding in



Photo by Sgt. Christopher McCullough

Soldiers from 3rd Stryker Brigade Combat Team, 2nd Infantry Division fly on a U.S. Air Force C-17 on their deployment to Afghanistan.

fiscal years 2016 and 2017, though a portion of these funding reductions would be offset by greater reliance on OCO funding.

Under the PB16, the Army would be able to remain at a total size of 980,000 soldiers. During Congressional testimony in early 2015, former senior Army leaders stated that, with this funding, the Army could pursue initiatives aimed at achieving a reasonable balance of readiness and modernization, and the Service would meet the primary missions of the Defense Strategic Guidance, though its ability to do so would become tenuous. Army Chief of Staff General Mark Milley concurred with this assessment in his confirmation hearing before the Senate Armed Services Committee in July 2015.

Higher Funding Levels

Historically, Army and overall defense funding have been cyclical. Funding has tended to rise as threats to national

security increase, followed by decline as threats ease. The Commission has concluded that threats to national security are currently increasing due to escalating threats from ISIL, Russia, and ongoing threats from North Korea and Iran, among others. Despite today's limits on funding, these increasing threats make plausible the possibility that Army and overall defense funding may increase in the longer term.

In the aftermath of the September 11, 2001, terrorist attacks, the Army base budget increased by almost \$70 billion from fiscal year 2000 to fiscal year 2010. Absent some future catastrophic events, an increase of this magnitude seems unlikely. Nevertheless, the Commission believes that, as it assesses the long-term future of the Army, it should take into account the possibility of funding increases above the levels in the fiscal year 2016 budget plan. As subsequent chapters will explain, added funding would almost certainly be required

if the Army is to meet capability shortfalls identified by the Commission.

RESOURCE CONCLUSIONS

After assessing future resource levels and their effects, the Commission finds that sequester-level funding will not provide the Army with adequate finances to meet national security requirements at acceptable levels of risk. An Army that declines to 920,000 soldiers and faces limits on funding for readiness and modernization is not enough to do the job. Therefore, for purposes of assessing the long-term future of the Army, the Commission rejects the use of sequester-level funding as a guide to anticipated future resources, understanding that providing the Army with funding in excess of sequester levels will require Congress to change current law.

Instead, the Commission concludes that the funding in PB16 provides the Army with the minimum resources necessary to meet requirements at acceptable levels of risk to the nation. The Commission therefore uses PB16 as a rough benchmark for anticipated future resources necessary to meet requirements. The Commission notes, however, that the PB16 plan does not take into account recent changes in the strategic environment. The QDR, released March 4, 2014, describes the strategic environment informing the resourcing decisions in the PB16. It assumed the drawdown of combat forces in Afghanistan would continue; that drawdown has been slowed. The QDR referred to the influence of al-Qaeda “to recruit or inspire Westerners to carry out attacks against our homeland with little or no warning”; it did not take into account the ISIL, Boko Haram, or some other ongoing terrorist threats. The QDR discussed “the instability in the Balkans and on the European periphery [that] will continue to pose a security challenge”; it did not forecast the extent of the Russian involvement in Ukraine. Because PB16 does not address the escalation of threats to global stability and national security, it is, at best, on the low end of needed resources.

Moreover, because last year’s BBA15 budget agreement provided funding for fiscal years 2016 and 2017 at levels below the PB16 plan, the Commission does not view that agreement as an adequate solution for national security. The Commission urges the Administration and Congress to restore fiscal year 2017 funding to the PB16 levels. The Congress should then return to PB16 levels of funding or higher in later years.

Consistent with its charter, the Commission focused on Army funding and programs. However, the Army can only function effectively if the other military services and DoD as a

“The abrupt, deep cuts resulting from the Budget Control Act forced our military to make topline-driven decisions, such that we now have a strategy with little to no margin for surprise. Therefore, we are operating at higher levels of risk to our defense strategy. To limit adverse consequences, we need the certainty of a more predictable funding stream, time to balance force structure, modernization, compensation, and readiness, and the flexibility to make trade-offs.”

General Joseph F. Dunford Jr., USMC, in testimony before the Senate Armed Services Committee considering his nomination for Chairman of the Joint Chiefs of Staff.

whole have adequate funding and capacity. The Army depends on the Navy and Air Force for strategic lift, close-air support, specialized training, and much more. A strong Marine Corps complements the Army’s ground capability. The Commission finds that sequester-level funding would not provide adequate resources for DoD to fulfill its missions at acceptable risk.

Recommendation 4: Congress should maintain future Army budgets at funding levels at least equal to those in the fiscal year 2016 President’s budget plan due to significant and emerging threats to national security. Budgets for DoD as a whole should also meet or exceed the 2016 level so that the Department can accomplish its mission with acceptable risk.

STRETCHING ARMY RESOURCES

Even with funding at PB16 levels, the Commission agrees with senior Army leaders who stated that the Service’s ability to meet national security needs at reasonable levels of risk is tenuous. The Commission has identified a number of initiatives that could reduce this risk and urges the Administration and Congress to consider these initiatives, even if funding remains at the PB16 level. However, these initiatives will become financially more feasible if additional funds become available.

Additional funds may be made available to meet Army warfighting needs if DoD can implement efficiency initiatives and eliminate redundancy in its operations. Various entities have proposed initiatives to free up funding for warfighting needs. Following are some examples:

- The Administration's proposal to slow growth in the cost of military compensation, as long as recruiting and retention needs are met;
- Proposals by DoD and by the Commission on Military Compensation and Retirement Modernization to reform the military health care system;
- DoD's proposal to streamline military medical treatment facilities;
- DoD's proposed legislation that would permit the department to close unneeded facilities (DoD is currently updating its capacity analysis to determine the level of facilities, including Army facilities, that are unneeded);
- Army proposals to pursue energy consumption efficiency initiatives;
- This Commission's proposal for a pilot program to test the feasibility of integrating recruiting across the Regular Army, Army National Guard, and Army Reserve (see page 71). While designed primarily to better integrate the Total Force, integrated recruiting might free up resources.

The Commission has not undertaken a detailed review of these and other efficiency proposals. However, it urges the Administration and the Congress to carefully review these initiatives and enact or permit them wherever they make sense. In some cases, the proposed efficiencies are already included in the PB16 and so would not free up additional resources to meet direct warfighting needs. In other cases, such efficiencies could help finance some of the high-priority initiatives identified in this report.

It is important to note that, by themselves, these actions would not free up enough funds to pay for the many capability gaps identified in subsequent chapters of this report. If most or all of these gaps are to be closed, then funding above the levels in PB16 will be needed. Efficiencies and related actions can, however, hold down the need for added funds and should therefore be pursued aggressively.

Recommendation 5: The Congress and the Administration should look for cost-saving opportunities in areas such as the military health system, energy savings, and a reduced inventory of military facilities.

“Given the harm all this politically driven madness inflicts on the U.S. military, the rhetoric coming from Members of Congress about looking out for our men and women in uniform rings very hollow to me.”

Robert Gates, former Secretary of Defense, in testimony before the Senate Armed Services Committee, Oct. 21, 2015.

BUDGETARY TURMOIL

The Army, and DoD as a whole, could also make better use of available resources if the Congress and the Administration act to reduce budgetary turmoil. In recent years, the Army and DoD have furloughed civilian employees twice. They have planned for government shutdowns more than half a dozen times and, regrettably, were required to execute one of those plans, resulting in many Army and government operations closing for sixteen days in 2013. The Army and DoD have operated under continuing resolutions in every year of the current Administration, including two resolutions that extended for about six months. During the short duration of this Commission, two separate government shutdowns came within days of execution. This budgetary turmoil results in inefficiencies, including higher contracting costs, and consumes time of senior leaders that would be better spent managing the Army and the Department.

A Brookings report, *Budgetary Turmoil at the Department of Defense from 2010 to 2014*, written by Robert F. Hale (a member of this Commission) and published in August 2015, highlighted the effects of this turmoil, especially the adverse effects on the morale of Army and DoD civilian employees. Congressional testimony by Army senior leaders in March 2015 emphasized the effects of the lack of predictable funding, focusing especially on continuing resolutions. That testimony concluded that the lack of predictable funding “wreaks havoc with Army readiness, modernization, and end strength.”

The Commission agrees that budgetary turmoil is having serious adverse effects on the Army. The Commission concludes that to have an effective Army, Congress and the Administration must find ways to provide the Army and all of DoD with adequate levels of funding under a process that is more predictable, thereby avoiding the budgetary turmoil that has plagued the federal government in recent years.

Recommendation 6: The Congress and the Administration should return to predictable and responsible budgeting processes that meet minimum funding requirements.

MEASURING COSTS AND BENEFITS

“The Commission shall give particular consideration to ... an evaluation and identification of a structure for the Army that ... achieves cost-efficiency...and considers fully burdened lifecycle costs.”

2015 NDAA, Section 1703 (2)(A)(ii)

The 2015 National Defense Authorization Act directed the Commission to consider “fully burdened lifecycle costs” in evaluating cost efficiency among the Regular Army, Army National Guard, and Army Reserve. A report by the Reserve Forces Policy Board (RFPB) introduced the term (see *Eliminating Major Gaps in DoD data on the Fully-Burdened and Life-Cycle Cost of Military Personnel: Cost Elements Should be Mandated by Policy*). The Commission examined fully burdened lifecycle costs and found that, in principle, such a costing model could be useful in comparing personnel costs. However, the term does not appear in the Government Accountability Office publication of standard terms, definitions, and classifications for government fiscal, budget, and program information. Additionally, the Financial Management Regulation, the Federal Acquisition Regulation, and DoDI 7041.04, “Estimating and Comparing the Full Costs of Civilian and Active Duty Military Manpower and Contract Support” do not mention fully burdened lifecycle costs. Commission research into industry and academia also did not yield a methodology for fully burdened lifecycle costs.

Commission research indicates that equipment and unit structure, not the soldier’s reserve or active status, has the greatest impact on the per capita cost of a soldier. Additionally, the costs for numerous major functions, such as recruiting, marketing, equipment procurement, training, installations, and research and development, cannot be readily segregated by component or individual soldier. Therefore, the Commission determined that the DoD’s Activity Based Costing methodology would be more appropriate for comparing per capita costs.

In evaluating the costs related to unit structure, Activity Based Costing is more reliable for estimating costs by determining a current per capita cost (such as per person or per mile) and applying that cost to a future population or level of activity. In planning, programming, and budget execution, the Army does use a “burdened labor rate” as part of analyzing alternative courses of action during budget formulation. While the Army routinely uses burdened labor rates in order to facilitate workforce mix decisions, cost-benefit analyses, and course-of-action analysis, the Army and all other Department of Defense elements do not calculate a “fully burdened” cost factor applied by component for the duration of a service member’s military obligation.