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DEFENSE BUDGET

Analysis of Operation and Maintenance Accounts for 1985-2001



**National Security and
International Affairs Division**

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February 28, 1997

The Honorable Pete V. Domenici
Chairman, Committee on the Budget
United States Senate

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

The Honorable Herbert H. Bateman
Chairman, Subcommittee on Military Readiness
Committee on National Security
House of Representatives

The Department of Defense's (DOD) budget request for fiscal year 1997 includes almost \$89.2 billion for operation and maintenance (O&M) accounts. This represents about 37 percent of DOD's fiscal year 1997 budget request. DOD estimates that in fiscal year 2001, O&M will represent about 36 percent of its total budget. Because O&M funds represent the largest share of DOD's budget, we (1) determined how annual funding relates to military and civilian personnel levels through fiscal year 2001, (2) identified overall trends from fiscal years 1985 to 2001, and (3) identified key drivers (areas in which most money has been budgeted) through fiscal year 2001.

This report highlights significant information upon which Congress can focus its future budget deliberations. Throughout the report, we present some questions raised by reported O&M trends. In addition, we explain the reasons for major changes in funding due to migrations of funds between O&M programs and activities. However, we did not inquire into the reasons for changes in trends and funding differences among the services after taking the migrations into account. We anticipate that our future work will address some of the reasons for changes concerning specific programs. Finally, we did not attempt to determine an appropriate level of O&M funding.

This review was performed under our basic legislative responsibilities. However, because of your expressed interest and oversight responsibilities in the O&M accounts, we are addressing the report to you.

Background

O&M is large, diverse, and widespread. Since 1987, the O&M accounts have been the largest appropriation group in DOD's budget and are expected to remain the largest through fiscal year 2001. O&M is one of six appropriation groups for DOD.¹ When compared with the federal budget, DOD's fiscal year 1997 O&M budget request represents approximately 18 percent of total federal discretionary spending and is larger than most federal agencies' fiscal year 1997 budget requests.²

O&M funds support portions of DOD's readiness and quality-of-life priorities. This appropriation funds a diverse range of programs and activities that include salaries and benefits for most civilian DOD employees; depot maintenance activities; fuel purchases; flying hours; environmental restoration; base operations; consumable supplies; and health care for active duty service personnel, dependents of active duty personnel, and retirees and their dependents. Moreover, each service and DOD agency spends O&M funds.

Under DOD's measurement of infrastructure, O&M funds approximately half of DOD's infrastructure costs that can be clearly identified in DOD's Future Years Defense Program (FYDP).³ Because DOD wants to decrease infrastructure costs to help pay for modern weapon systems, it must look at this appropriation group for some of the intended savings. Infrastructure comprises activities that provide support services to mission programs and primarily operate from fixed locations.

O&M funding is affected by civilian and military personnel levels. DOD's fiscal year 1997 budget includes funds for about 800,000 civilians and 1.5 million active duty and full-time National Guard and Reserve military personnel. Civilian personnel levels have a direct effect because the

¹The other appropriations are Military Personnel; Procurement; Research, Development, Test, and Evaluation; Military Construction; and Family Housing.

²The Budget Enforcement Act, as amended, categorizes all federal spending as either discretionary or direct. "Discretionary" programs are funded through annual appropriation acts. Examples of discretionary spending programs are national defense, education, law enforcement, and space exploration. "Direct" spending is often referred to as mandatory spending because it flows automatically from authorizing legislation and is not controlled through appropriations. Examples of direct spending programs are food stamps, medicare, and federal pensions.

³In *Defense Infrastructure: Budget Estimates for 1996-2001 Offer Little Savings for Modernization* (GAO/NSIAD-96-131, Apr. 4, 1996), we reported that 90 percent of planned direct infrastructure costs are funded out of three appropriations: O&M (about 50 percent); Military Personnel (about 30 percent); and Research, Development, Test, and Evaluation (about 10 percent).

majority of civilian salaries and benefits are funded by O&M.⁴ Although O&M does not fund military pay and allowances, the appropriation group supports many readiness activities and quality-of-life programs that are affected by the number of military personnel.

We examined trends in annual O&M funds and personnel levels and identified the activities funded by O&M appropriations using DOD's FYDP. The FYDP is an authoritative record of current and projected force structure, costs, and personnel levels that have been approved by the Secretary of Defense. The FYDP displays resources and personnel levels by programs and activities known as program elements. There are about 3,800 program elements in the FYDPs between fiscal years 1985 and 2001. We analyzed FYDP data from several different perspectives: aggregate O&M, federal budget account structure, DOD organization, DOD's Infrastructure Category and Defense Mission Category (DMC) analytical frameworks,⁵ and DOD's major defense program structure. Each perspective produces a different, but equally valid, overview.

Results in Brief

Total DOD O&M funds, in constant fiscal year 1997 dollars,⁶ are projected to decline at a slower rate than either civilian or military personnel levels between fiscal years 1985 and 2001. However, beginning in fiscal year 2000, projections show that O&M funds begin to rise at the same time civilian personnel decline and military personnel remain relatively stable. Because a significant portion of O&M funds pay for civilian salaries and benefits, FYDP projections must show an increase in other O&M-funded programs. Increases for these programs will more than offset the decline in O&M-funded civilian salaries.

O&M resources are significantly concentrated when grouped by the federal budget account structure, DOD major defense program, or defense mission category. Since 1993, approximately 85 percent of the funds are concentrated in five budget accounts—Navy, Army, Air Force, Defense-wide, and Defense Health Program. Another data view shows that three major defense programs receive the majority of annual O&M

⁴Approximately 85 percent of DOD civilian payroll costs are paid from O&M appropriations. The remainder is funded in the Research, Development, Test, and Evaluation; Military Construction; and Family Housing appropriation accounts.

⁵The DMC structure divides DOD programs into three basic categories: major force missions, Defense-wide missions, and Defense-wide support missions. Within each basic category, missions are then divided into five additional levels. The third level of detail, the most common, is used in our analysis. Appendix II describes the DMC structure in greater detail.

⁶Throughout this report, funding levels are presented in constant fiscal year 1997 dollars.

funds—general purpose forces; central supply and maintenance; and training, medical, and other general purpose activities. Between fiscal years 1993 and 2001 about 50 percent of annual O&M funds are found in five of DOD's mission categories. The five categories are land forces, medical, naval forces, tactical air forces, and other logistics support. In total, there are about 30 mission categories during the fiscal year 1993-2001 period.

From an organizational perspective, the military services' portion of total annual O&M funds declines.⁷ Beginning in fiscal year 1998, the Army is projected to receive a smaller proportion of annual O&M funds than either of the other two services or the combined DOD agencies. Even though the Army will receive the smallest portion of annual O&M funds, this service will have the second largest active military force and the largest civilian workforce.⁸ The Navy/Marine Corps' share of annual O&M funds declined by almost 10 percent prior to fiscal year 1996. In contrast, the Air Force's proportion of annual O&M funds changes the least of the three services, while Air Force military and civilian personnel levels fall significantly over the fiscal year 1985-2001 period. Only the combined DOD agencies' share of annual O&M funds increases between fiscal years 1985 and 2001 because of the health program funding consolidation into a Defense-wide account.

Regardless of how the O&M budget is analyzed, medical is the only area where consistent growth occurred. O&M funds for medical activities increase by 72.8 percent from fiscal years 1985 to 2001. The majority of these costs are for the health care needs of DOD's 8.3 million eligible beneficiaries.

During fiscal years 1985 through 2001, O&M infrastructure funds that can be clearly identified in the FYDP decline by 22.6 percent and thus mirror total O&M trends. Despite decreases, O&M continues to fund about half of DOD's clearly identifiable infrastructure costs. Thus, if DOD is to identify significant savings from infrastructure to fund modernization, it must look to the O&M appropriations.

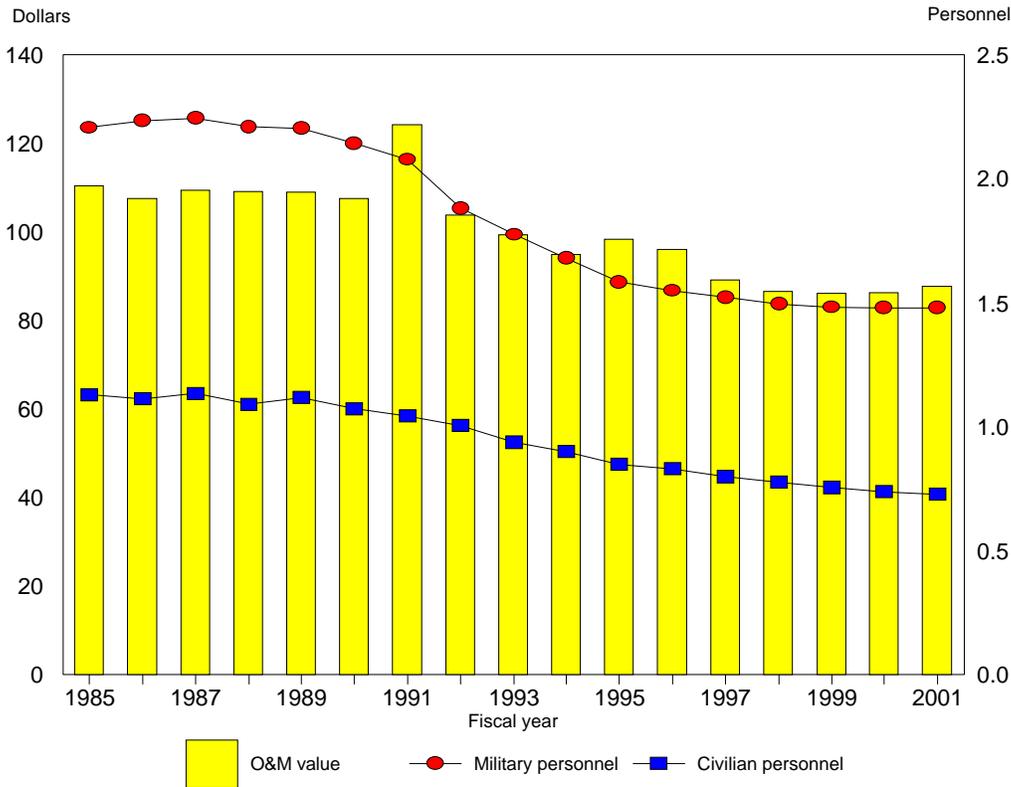
⁷Navy and Marine Corps resources are combined in our organizational analysis.

⁸The combined Navy/Marine Corps has the largest active military force and the second largest civilian workforce. The Air Force has the smallest active military force and smallest civilian workforce. (See table 2.)

O&M Has Declined More Slowly Than Personnel Levels

Total O&M funding for DOD is projected to decline at a slower rate than either civilian or military personnel levels between fiscal years 1985 and 2001.⁹ Figure 1 shows that, between fiscal years 1985 and 2001, annual O&M funds are projected to decrease by over 20 percent (from \$110.4 billion to \$87.8 billion), and both civilian and military personnel levels are also projected to decline, but at different rates.

Figure 1: Annual DOD O&M Appropriations and Personnel Levels for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Note: Military personnel include active military and full-time Guard and Reserve personnel. The surge in fiscal year 1991 funding was due to an infusion of O&M money for the Army for the Persian Gulf War.

Source: Our analysis of DOD FYDP data.

⁹Personnel levels are as of the end of a fiscal year, or endstrength. Military personnel levels in this report, unless noted otherwise, include active military and full-time Guard and Reserve personnel.

Between fiscal years 1985 and 1996, the level of annual O&M funding declined by 13 percent, from \$110.4 billion to \$96.0 billion. However, this decline is projected to end during the 1997 FYDP period (fiscal years 1997-2001), and annual O&M funds are projected to increase slightly in fiscal years 2000 and 2001. Civilian personnel levels have fallen steadily since fiscal year 1989 and are projected to continue to decline through fiscal year 2001. This is important because, according to DOD, over 40 percent of annual O&M appropriations fund civilian salaries and benefits. O&M is projected to increase at the same time that the number of civilians is projected to decline. This indicates that other O&M-funded programs are projected to increase to a greater extent than O&M-funded civilian salaries are projected to decrease.

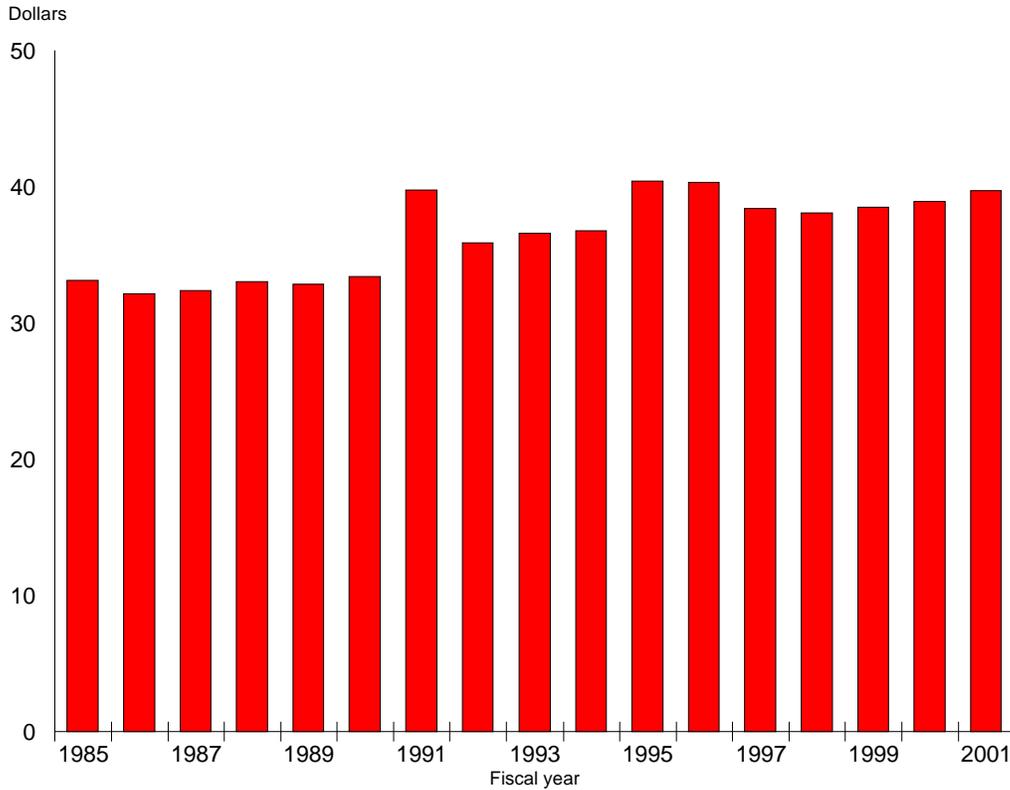
The number of civilian personnel in DOD has fallen by about 27 percent between fiscal years 1985 and 1996, from 1.1 million persons to 830,000. By fiscal year 2001, DOD plans to have 729,000 civilians employed, an additional 12-percent decline.

Although military personnel levels are projected to fall over the 17-year period covered by this report, most of the decline occurred prior to fiscal year 1996. Military personnel levels fell by over 30 percent between the peak of 2.2 million persons in fiscal year 1987 to 1.5 million in fiscal year 1996. After fiscal year 1996, military personnel levels are expected to decline by only 4 percent. Although military personnel salaries are not paid by O&M funds, O&M funds a variety of activities and programs that support military personnel and most readiness-related resources.

Because personnel levels decline at a faster rate than annual O&M funding levels, annual O&M funds when allocated per person (military and civilian) are projected to increase by about 20 percent over the fiscal year 1985-2001 period, as shown in figure 2.¹⁰

¹⁰Per person values, unless noted otherwise, are per a combination of active military, full-time Guard and Reserve personnel, and DOD civilians.

Figure 2: Per Person Annual O&M Funding for Fiscal Years 1985-2001 (Constant 1997 dollars in thousands)



Source: Our analysis of DOD FYDP data.

O&M funding per person increased from \$33,100 to \$40,400 between fiscal years 1985 and 1996, a 21.9-percent increase. Although O&M funding per person is projected to decline in fiscal years 1997 and 1998, it is expected to increase by 4.2 percent after fiscal year 1998 to \$39,700 per person in fiscal year 2001.

A small portion of the increase in O&M funding per person may be a result of DOD's transferring functions previously performed in house to outside providers. Our analysis of DOD's budget documents shows that the purchase of goods and services through contracts or from other federal

agencies uses over half of DOD's annual O&M funds. The amount of contracting paid by O&M funds is projected to increase slightly between fiscal years 1988 and 1997.

The following are some questions raised by the trend information presented in this section:

Why are O&M funds not projected to decline during the period covered by the 1997 FYDP when civilian personnel levels decrease and military personnel levels stabilize?

How will outsourcing impact O&M costs in the out-years, that is, after fiscal year 1997?

O&M Funding Is Concentrated When Viewed by the Federal Budget Account Structure

O&M budget accounts are organized in two ways, by service and program. The 11 service-oriented accounts include funding for multiple programs and activities for specific-service, Defense-wide, and the services' National Guard and Reserve programs.¹¹ The number of service budget accounts remained stable at 11 from fiscal years 1985 to 2001. In contrast, the number of program accounts grew from 4 in fiscal years 1985 to 1989 and peaked at 11 in fiscal years 1993, 1994, and 1997.¹² Projections show that between fiscal years 1998 and 2001, DOD will have 10 program accounts. Congress created the largest program account, the Defense Health Program, in fiscal year 1993. DOD moved all defense health care resources from the service and Defense-wide accounts to this account. As a share of total annual O&M funds, the Defense Health Program budget account is projected to grow from 10.6 percent in fiscal year 1993 to 11.8 percent in fiscal year 2001.

Most program accounts were created to increase visibility for certain efforts or respond to unique needs. For example, the Former Soviet Union Threat Reduction budget account was created in fiscal year 1994 to help several newly independent states destroy weapons of mass destruction;

¹¹The 11 service accounts are: Navy, Air Force, Army, Defense-wide, Air National Guard, Army National Guard, Marine Corps, Air Force Reserve, Army Reserve, Navy Reserve, and Marine Corps Reserve.

¹²In fiscal year 1985, the four program accounts were Claims-Defense, Court of Military Appeals-Defense, National Board for Promotion Rifle Practice, and Defense Environmental Restoration Fund. In fiscal year 1997, the 11 program accounts are Defense Health Program; Drug Interdiction and Counter-Drug Activities; Former Soviet Union Threat Reduction; Office of the Inspector General; Overseas Humanitarian, Disaster, and Civic Aid; Payment to Kaho'olawe Island Fund; Court of Military Appeals-Defense; and separate Environmental Restoration accounts for Defense, Navy, Army and Air Force.

store and transport the weapons to be destroyed; and reduce the risk of proliferation. Funds for this account peaked at \$439 million in fiscal year 1995 and are projected to decline to \$395 million in fiscal year 2001. The program accounts without the Defense Health Program represent a small share of O&M funds, from less than one-tenth of a percent in fiscal year 1989 to a peak of almost 3 percent in fiscal year 1999.

The O&M budget accounts vary in size. From fiscal years 1985 to 1992, approximately 90 percent of O&M funds are concentrated in four budget accounts: Navy, Army, Air Force, and Defense-wide. This concentration (approximately 85 percent) continues through fiscal year 2001 with the addition of one account—Defense Health Program. Table 1 shows the concentration of resources by budget account for fiscal year 1996.

Table 1: Summary of O&M Budget Accounts for Fiscal Year 1996

Constant 1997 dollars in thousands

Budget account title	Fiscal year 1996 total obligational authority	Cumulative percentage of total
O&M, Navy	\$21,893,235	22.8
O&M, Army	19,819,719	43.5
O&M, Air Force	19,225,690	63.5
O&M, Defense-wide	10,416,978	74.4
Defense Health Program	10,378,416	85.2
Other budget accounts	14,221,691	100.0
Total	\$95,955,729	

Note: Other budget accounts are seven service accounts (Air National Guard, Army National Guard, Marine Corps, Air Force Reserve, Army Reserve, Navy Reserve, and Marine Corps Reserve) and eight program accounts (Defense Environmental Restoration, Drug Interdiction and Counter-Drug Activities; Former Soviet Union Threat Reduction; Office of the Inspector General; Payment to Kaho'olawe Island Fund; Overseas Humanitarian, Disaster, and Civic Aid; Summer Olympics; and Court of Military Appeals-Defense).

Source: Our analysis of DOD FYDP data.

DOD has considerable discretion in budgeting for and carrying out O&M activities. Unlike the military personnel appropriation accounts, which are primarily composed of entitlements,¹³ most O&M spending is not set by law. However, the O&M program accounts receive an annual appropriation separately. As a practical matter, this means that funding levels for these specific programs are set by law. For example, in fiscal year 1996,

¹³See Defense Budget: Trends in Active Military Personnel Compensation Accounts for 1990-97 (GAO/NSIAD-96-183, July 9, 1996).

Congress appropriated \$50 million for the program account, Overseas Humanitarian, Disaster, and Civic Aid.

The fact that DOD has discretion over most O&M funds does not mean that O&M funds are available without any controls. O&M funds can only be obligated for authorized programs and purposes and are available for one fiscal year unless a longer period of availability is specified. Further, in annual authorization and appropriation acts, Congress can impose direction to carry out particular activities or programs and can limit or prohibit spending for other activities. Finally, although reprogramming of funds within an appropriation is permitted, DOD has committed itself to seek congressional approval before reprogramming \$10 million or more in an O&M account.

The following is a question raised by the trend information presented in this section:

Should other budget accounts be created to increase visibility for O&M-funded programs?

Major Shifts in Funds Occur Among the Services and Combined DOD Agencies

Prior to fiscal year 1992, the three services received about 90 percent of O&M funds, and DOD agencies received approximately 10 percent.¹⁴ During this period, the Navy/Marine Corps' share of O&M funds declined the most, by almost 6 percent, while the Air Force's annual share decreased by less than 2 percent. The significant decrease in the Navy/Marine Corps' portion of annual O&M funds occurred even though the Navy/Marine Corps' civilian personnel levels declined by 5 percent less than the Air Force and the Navy/Marine Corp's military personnel levels grew slightly over this period.¹⁵ Only the Army experienced an increase in its share of annual O&M funds. Between fiscal years 1985 and 1990, the Army's portion of funding increased by 4 percent, while Army military personnel levels fell by almost 3 percent and Army civilian personnel levels fell by about 9 percent. The Army received an additional increase of 5 percent in its share of annual O&M funds between fiscal years 1990 and 1991, but this surge in fiscal year 1991 funding was due to an infusion of O&M money for the Army for the Persian Gulf War.

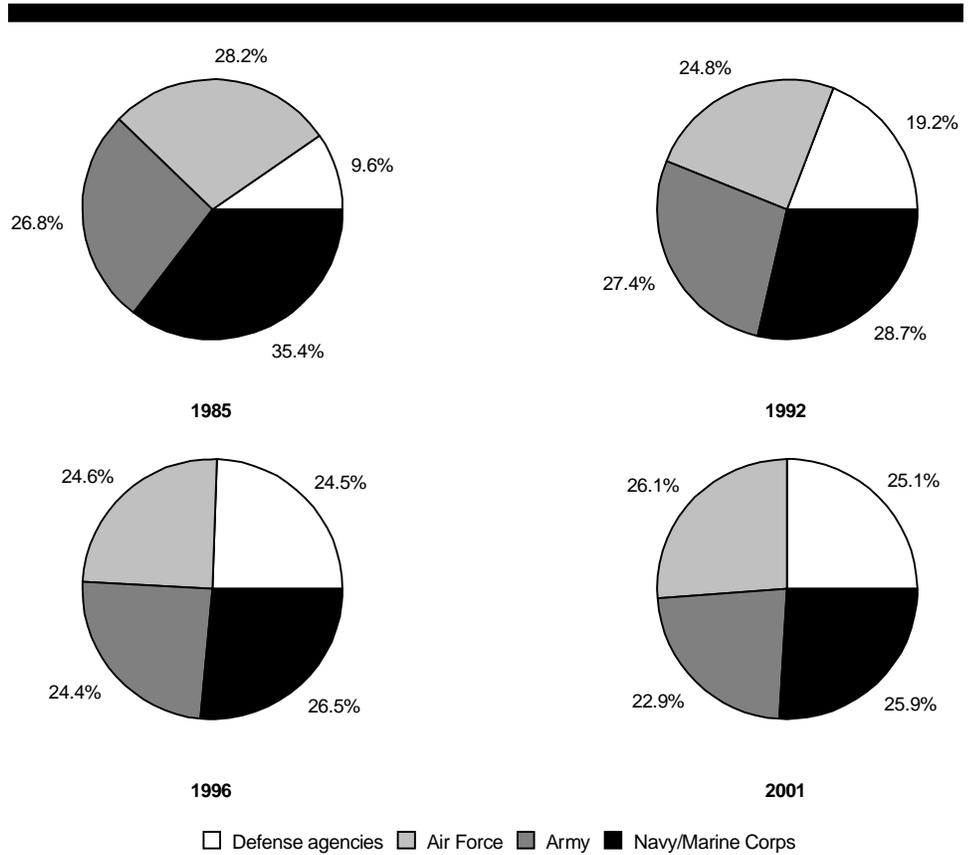
¹⁴Annual O&M funds for the three services include the funding for their respective Guard and Reserve units.

¹⁵In this section, service military personnel levels do not include service personnel assigned to DOD agencies.

After fiscal year 1991, DOD centralized funding for health programs into a Defense-wide O&M appropriation by shifting the funds for the program from the services' O&M appropriations. This change caused a significant increase in the total annual O&M funds provided to the combined DOD agencies. In fiscal year 1992, Defense-wide O&M was almost 20 percent of total DOD O&M funding. In fiscal year 1996, O&M funding became almost equally proportional among the three services and the combined DOD agencies. Defense-wide appropriations remain at about one-quarter of total annual O&M appropriations through fiscal year 2001.

Although the proportion of O&M funds received by each of the three services declined after fiscal year 1991, the Army's share declined the most. Beginning in fiscal year 1998, the Army will annually receive the smallest portion of O&M funds. By fiscal year 2001, the Army is expected to receive less than 23 percent of total annual O&M funds, while the Navy/Marine Corps and the Air Force will each get approximately 26 percent of total O&M funds. Figure 3 shows the changes in O&M funding distribution in fiscal years 1985, 1992, 1996, and 2001.

Figure 3: Percentage of DOD's Annual O&M Funding Allocated by Operating Organization in Fiscal Years 1985, 1992, 1996, and 2001



Note: Annual percentages may not add to 100 due to rounding.

Source: Our analysis of DOD FYDP data.

The Navy/Marine Corps' annual portion of O&M funds continued to decline after fiscal year 1991 and by fiscal year 1996 fell to 26.5 percent, almost 10 percent lower than the portion of funding in fiscal year 1985. The level of Navy/Marine Corps military personnel fell almost 10 percent less than the other two services, while Navy/Marine Corps civilian personnel levels fell by almost 30 percent, similar to the Army. After fiscal year 1996, the portion of O&M funding provided to the Navy/Marine Corps is projected to remain between 25.9 and 26.5 percent, while military personnel levels fall by 5 percent and civilian personnel levels decrease by 15 percent.

The Air Force's proportion of annual O&M funds changed the least of the three services. Although the Air Force's share of O&M funds fell by about 2 percent between fiscal years 1991 and 1992, the Air Force's annual portion of O&M funds are planned to remain between 24.6 and 27.6 percent for the fiscal year 1993 through 2001 period. During this period, both Air Force civilian and military personnel levels are projected to decline by 19 and 17 percent, respectively.

Of the three services, the Air Force has the highest O&M cost per military and civilian person. As shown in table 2, even though the Air Force had fewer active military, full-time Guard, Reserve, and civilian personnel than either the Army or the Navy/Marine Corps, the Air Force's O&M cost per person in fiscal year 1996 was more than \$46,000 per person compared with about \$31,000 per person for the Navy/Marine Corps and the Army. The Army had approximately 152,000 more military and about 76,000 more civilians than the Air Force but received \$100 million less in O&M funds in fiscal year 1996.

Table 2: O&M Funding and Personnel Levels in Fiscal Year 1996 by Service

Service	Fiscal year 1996 O&M funding^a	Active military^b and full-time Guard and Reserve personnel	Civilians	O&M funding per person^c
Air Force	\$23.6	324,904	183,357	\$46.5
Army	23.5	477,403	259,462	31.8
Navy/Marine Corps	\$25.4	576,495	239,961	\$31.1

^aIn billions of fiscal year 1997 dollars.

^bActive military does not include personnel assigned to DOD agencies.

^cIn thousands of fiscal year 1997 dollars.

Source: Our analysis of DOD FYDP data.

The following are some questions raised by the trend information presented in this section:

What factors contribute to the major shifts in funds among the services and combined DOD agencies (even after taking into account the DOD health care funding migrations)? Specifically,

- **Why is the Army's share of annual O&M funds declining?**
- **What causes the Air Force to have the highest per person O&M costs among the three services?**

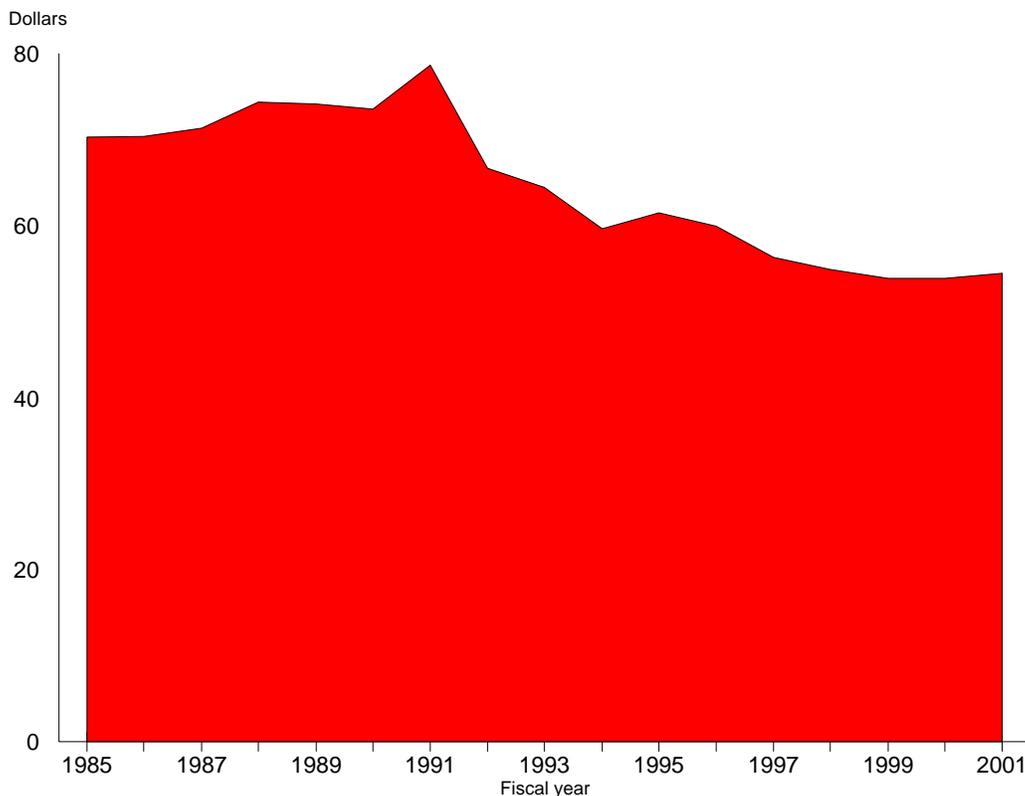
O&M Funding of Direct Infrastructure Is Projected to Decline Slightly

Using the FYDP, DOD has identified program elements that fund infrastructure activities. DOD refers to these program elements as "direct infrastructure." O&M funds about 50 percent of direct infrastructure during the fiscal year 1985-2001 period. DOD assigned each infrastructure program element to one of the following eight categories on the basis of the program's activities: acquisition infrastructure; installation support; central command, control, and communications; force management; central logistics; central medical; central personnel; and central training. These categories are described in appendix I.

There are parts of infrastructure that DOD cannot identify using the FYDP. According to DOD officials, this is about 20 to 25 percent of DOD's total infrastructure funding and mostly represents logistics purchases that cannot be identified specifically. Funding for logistics purchases would likely come from O&M appropriations. Therefore, the proportion of total DOD infrastructure funded by O&M is clearly greater than 50 percent.

During fiscal years 1985 through 2001, direct infrastructure O&M funds decline by 22.6 percent, similar to total O&M trends. As shown in figure 4, O&M funding of direct infrastructure programs decreases after fiscal year 1991.

Figure 4: Direct Infrastructure Funded by O&M Appropriations for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Source: Our analysis of DOD FYDP data.

This decline was primarily in the central logistics infrastructure category when the Defense Business Operations Fund was created.¹⁶ Moreover, the central logistics category received 35 percent less O&M funds in fiscal year 1992 than in fiscal year 1991, in part, due to the conclusion of the Persian

¹⁶The Defense Business Operations Fund is a revolving fund. Activities financed by the Fund provide goods and services such as depot maintenance, spare parts, and supplies in exchange for reimbursement of total costs incurred in delivering the goods or services. When the Defense Business Operations Fund revolving fund was created, functions like depot maintenance and supply management were no longer directly funded. Each of the Fund's customers (that is, the services and some defense agencies) now pay the Fund the cost of providing the goods and services to them. While the funding has been consistently provided in O&M appropriations, the funding for these activities has migrated to the customers of the Fund goods and services. The Defense Business Operations Fund has been replaced by four service-specific revolving funds.

Gulf War. Despite these reductions, this category accounted for about 27 percent of the total value of direct infrastructure in fiscal year 1992.

When O&M funding for the central logistics infrastructure category is excluded, as shown in figure 5, O&M funding of direct infrastructure actually increased between fiscal years 1985 and 1996.

Figure 5: Direct Infrastructure—Excluding Central Logistics—Funded by O&M Appropriations for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Source: Our analysis of DOD FYDP data.

Large increases occurred in four infrastructure categories: central medical; central command, control, and communications; central personnel; and acquisition infrastructure. The increase in central medical O&M funding had the largest impact because in fiscal year 1985 central medical accounted for 15 percent of total direct infrastructure (without central logistics) and, by fiscal year 1996, central medical's portion had grown to over 20 percent.

DOD projects a slight decrease, about 3 percent, in O&M-funded direct infrastructure (with and without central logistics) between fiscal years 1997 and 2001. Most of this decline is projected to occur in the installation support, force management, acquisition infrastructure, and central personnel infrastructure categories.

The following are some questions raised by the trend information presented in this section:

What causes the projected out-year increases in O&M-funded direct infrastructure (fiscal years 2000 and 2001)?

Where will DOD get savings in infrastructure to pay for modernization?

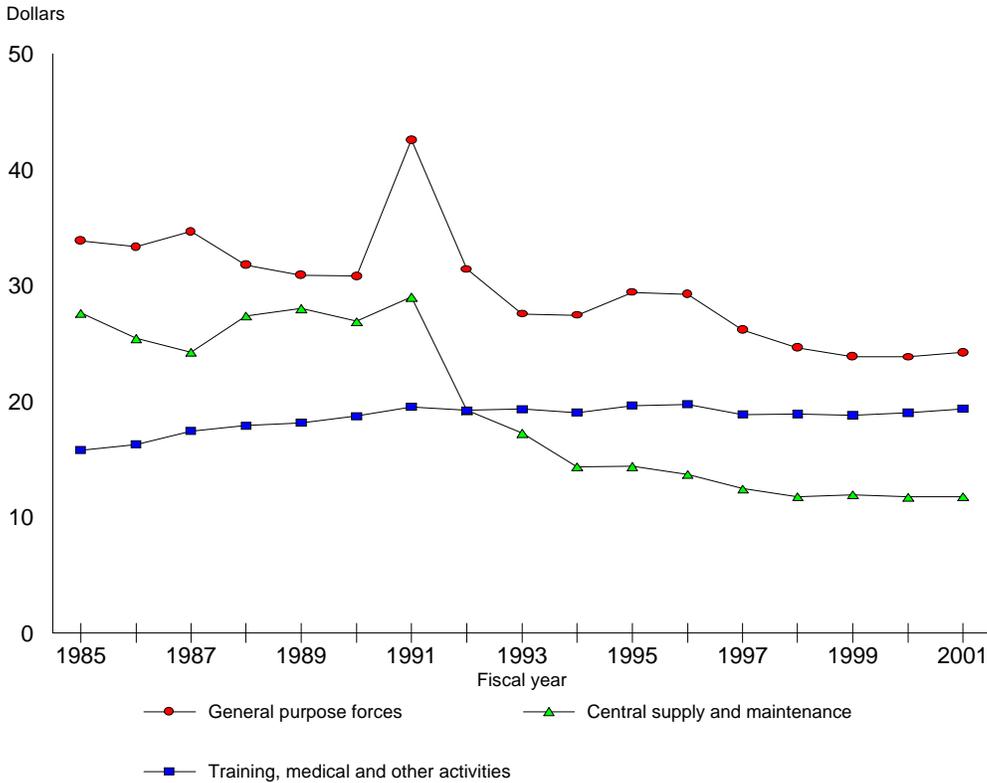
How will DOD's modernization plans affect future O&M levels?

O&M Funds Are Concentrated in Three Major Defense Programs, and Only One of Those—Training, Medical, and Other General Purpose Activities—Increased

Another way to analyze the changes and components of O&M funding is to aggregate FYDP data by DOD's major defense programs. For its own force programming and budgeting purposes, DOD organizes the defense budget into program elements that consist of collections of weapons, manpower, and support equipment. Program elements are grouped into 11 major defense programs. Each major defense program reflects a force mission or support mission of DOD and contains the resources needed to achieve an objective or plan.

Three major defense programs—general purpose forces; central supply and maintenance; and training, medical, and other general purpose activities—receive the majority of annual O&M funding. In fiscal year 1996, these three programs were allocated 65 percent of DOD's O&M funds. Figure 6 shows that of the three programs, only the training, medical, and other general purpose activities program's annual funding has continued to increase over the fiscal year 1985-2001 period.

Figure 6: Annual DOD Operation and Maintenance Appropriations for Three Major Defense Programs in Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Source: Our analysis of DOD FYDP data.

The training, medical, and other general purpose activities program’s annual share of O&M appropriations increased by almost \$4 billion between fiscal years 1985 and 1996 to about \$19 billion. DOD plans to maintain this level of O&M funding for this program through fiscal year 2001. O&M funding per person for training, medical, and other general purpose activities has almost doubled over the fiscal year 1985-2001 period;¹⁷ most of this growth occurred prior to fiscal year 1996.

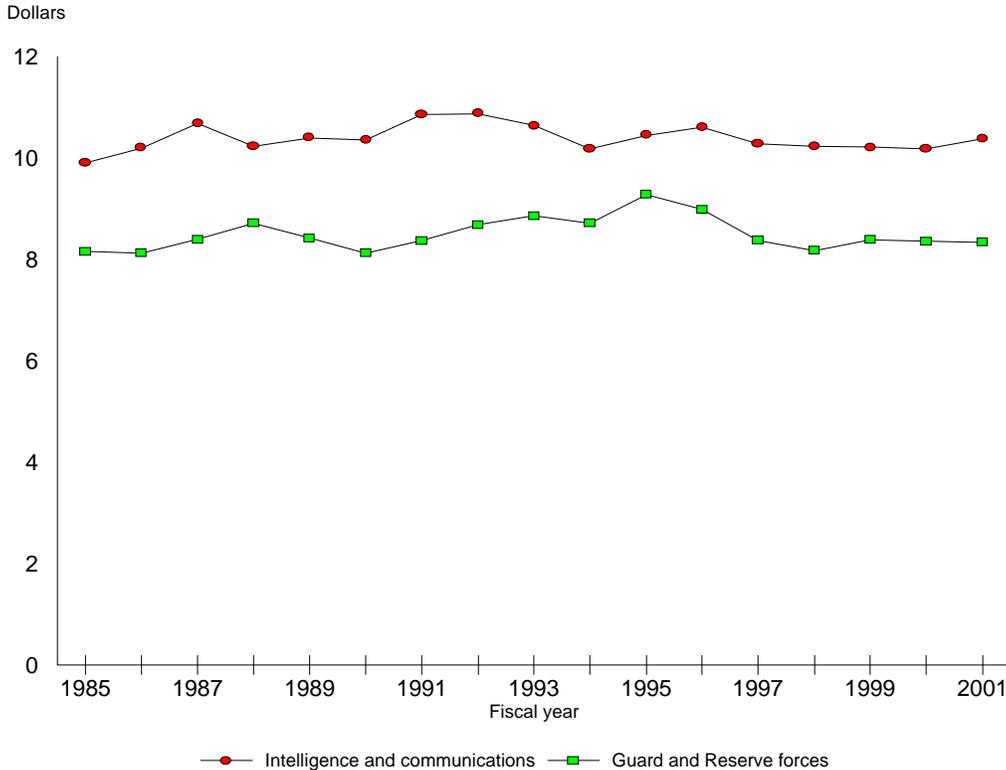
¹⁷Funding per person is per all military (active and full-time Guard and Reserve) and all DOD civilians.

O&M funding for the general purpose forces program is projected to fall by 28 percent between fiscal years 1985 and 2001. This corresponds to the decline in DOD's overall force level. The O&M funding per person assigned to this program is expected to generally remain between \$25,000 and \$30,000 per person over the entire fiscal year 1985 to 2001 period.

Central supply and maintenance O&M funding declined significantly (by 34 percent) between fiscal years 1991 and 1992 when the Defense Business Operations Fund was created. Many of this program's supply, maintenance, and service activities were no longer directly funded, and the funds to pay for the goods and services provided by the program's activities were allocated to the customers (e.g., strategic and general purpose forces programs) of these services. The decline in program funding continued through fiscal year 1997, albeit at a slower rate, and is projected to remain fairly stable at about \$12 billion annually until fiscal year 2001.

Of the remaining eight major defense programs, the next two largest—(1) command, control, communications, intelligence, and space and (2) Guard and Reserve forces—are projected to receive approximately \$10 billion and \$8 billion, respectively, in annual O&M funds over the fiscal year 1985-2001 period. (See fig. 7.)

Figure 7: Annual DOD O&M Appropriations for Command, Control, Communications, Intelligence, and Space and for Guard and Reserve Forces for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Source: Our analysis of DOD FYDP data.

Even with the downsizing of the force, the annual level of O&M funding for both of these programs has remained fairly constant over the entire 17-year period covered by this report. For the Guard and Reserve program, full-time personnel levels increased by almost 11,000 people over the fiscal year 1985-1996 period, yet part-time Guard and Reserve personnel levels declined by over 170,000 persons over the same period. Both full-time and part-time personnel numbers are projected to decline through 2001. Even though the command, control, communications, intelligence, and space program's annual O&M funding level has not changed significantly throughout the fiscal year 1985-2001 period, its level of annual O&M funding per person associated with this program has increased by 30 percent over

these 17 years. Most of this increase in O&M funding per person occurred prior to fiscal year 1995.

The following are some questions raised by the trend information presented in this section:

What factors cause the training, medical, and other general purpose activities program funding to increase steadily while military and civilian personnel levels decrease?

Why is central supply and maintenance O&M funding not declining in the out-years (after fiscal year 1997) if DOD is improving the efficiency of these activities by using privatization and outsourcing?

Why has the command, control, communications, intelligence, and space program's O&M funding not declined over time as DOD has downsized?

Why has the Guard and Reserve forces program's O&M funding not declined as the overall force level has declined?

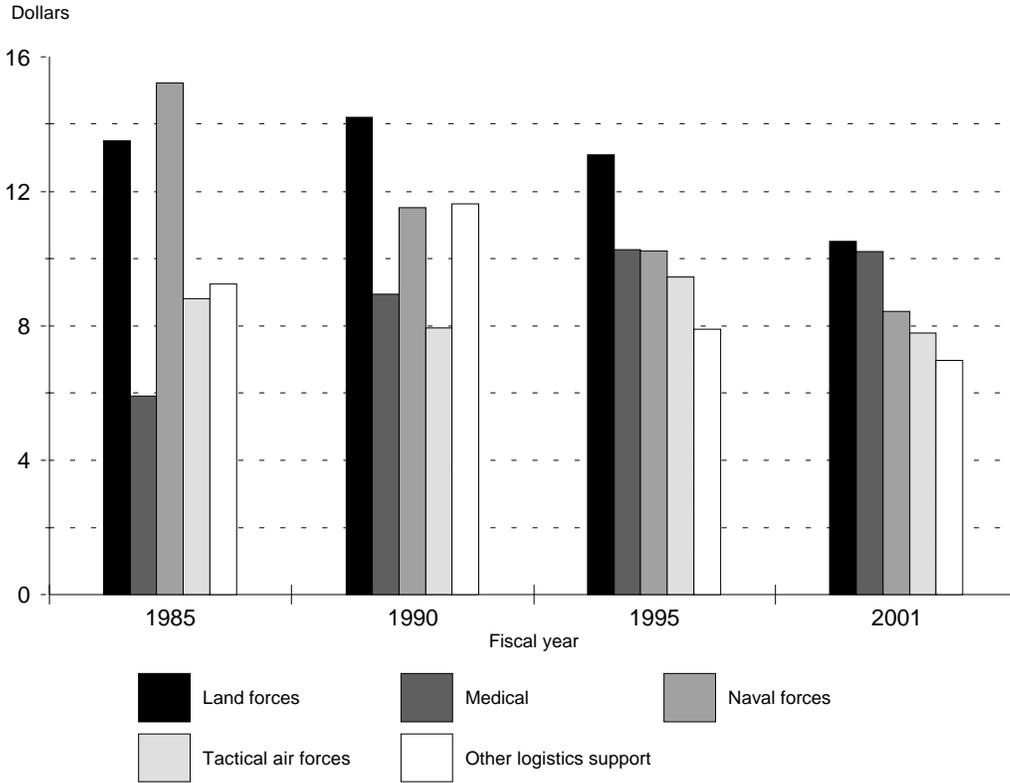
Why did the level of full-time Guard and Reserve personnel increase when part-time personnel declined by 170,000 prior to fiscal year 1996?

O&M Funds Are Concentrated From a Defense Mission Category Perspective

Partitioning total O&M funds using DOD's DMC analytical framework shows that funding is concentrated among a few categories. From fiscal years 1985 to 2001, five mission categories received and are projected to receive about 50 percent of O&M funding. Between fiscal years 1993 and 2001, the five largest categories are land forces, medical, naval forces, tactical air forces, and other logistics support. In total, there are about 30 mission categories during the fiscal year 1993-2001 period. Figure 8 compares funding for different fiscal years for these five defense mission categories.¹⁸

¹⁸Definitions for the five categories are included in appendix II.

Figure 8: Comparison of Annual O&M Funding for Fiscal Year 1996 Five Highest Dollar Defense Mission Categories (Constant 1997 dollars in billions)



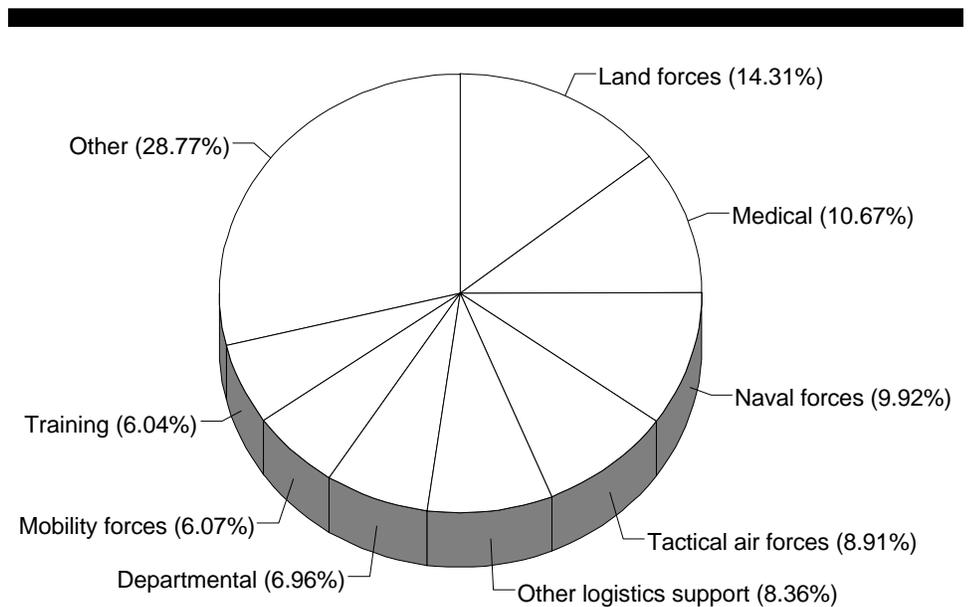
Source: Our analysis of DOD FYDP data.

Among the five largest categories in fiscal year 1996, medical is the only category that experiences real growth—from \$5.9 billion in fiscal year 1985 to \$10.2 billion in fiscal year 2001, a 72.8-percent increase. Most of the growth in medical occurs prior to fiscal year 1997, and the majority of these costs are for health care needs. In contrast, the naval forces category experiences the largest decline in real terms—from \$15.2 billion in fiscal year 1985 to \$8.4 billion in 2001, a 44.6-percent decrease.

Figure 9 shows the distribution of fiscal year 1996 O&M funding by defense mission category. Eight categories make up 71 percent of O&M funding

(\$68.4 billion), and each category is greater than \$5.1 billion. Remaining resources, \$27.6 billion or 28.8 percent, reside in 22 categories and funding ranges from slightly more than \$5 billion (intelligence) to \$4.7 million (federal agency support). FYDP projections show that resources remain concentrated in the same eight categories for fiscal years 1997 through 2001.

Figure 9: Percentage of Fiscal Year 1996 O&M Funding Allocated by Defense Mission Category



Note: Other defense mission categories are intelligence; strategic offense; maintenance operations; supply operations; other personnel support; communications; personnel acquisition; special operations forces; geophysical sciences; strategic defense; counterdrug support; space launch support; information management; international support; strategic command, control and communications; general purpose support; security and investigative functions; command and control; nuclear weapons support; individuals; undistributed adjustments; and federal agency support. Total shares exceed 100 percent due to rounding.

Source: Our analysis of DOD FYDP data.

Our analysis of the eight categories with the highest dollar values in fiscal year 1996 shows that from fiscal years 1985 to 2001, three categories (medical, mobility forces, and departmental) are projected to grow and five categories (naval forces, other logistics support, training, land forces, and tactical air forces) are projected to decline. However, as shown in table 3, these overall trends are not consistent over the 17-year period.

Table 3: Summary of Changes in O&M Funds for Eight Highest Dollar Defense Mission Categories in Fiscal Year 1996

Constant 1997 dollars in billions; change in percentages

Defense mission category	Fiscal year 1996 funding	Fiscal years 1985-96 change	Fiscal years 1996-2001 change	Fiscal years 1985-2001 change
Land forces	\$13.73	1.63	-23.48	-22.24
Medical	10.24	73.21	-0.25	72.77
Naval forces	9.52	-37.48	-11.34	-44.57
Tactical air forces	8.55	-2.76	-9.11	-11.62
Other logistics support	8.02	-13.10	-13.21	-24.58
Departmental	6.68	13.17	-5.24	7.24
Mobility forces	5.82	54.55	-5.85	45.51
Training	5.79	-21.35	-2.84	-23.58

Source: Our analysis of DOD FYDP data.

For example, the medical category increased by 73.2 percent between fiscal years 1985 and 1996 but is projected to decline between fiscal years 1996 and 2001. In the land forces category, there is a slight increase between fiscal years 1985 and 1996 but a substantial decrease projected for the fiscal year 1996-2001 period. Although projections show that all categories will decrease in real terms from fiscal years 1996 to 2001, medical's projected decrease is insignificant. Appendix II provides a detailed analysis of trends and per person costs for the fiscal year 1996 eight highest dollar categories: land forces, medical, naval forces, tactical air forces, other logistics support, departmental, mobility forces, and training.

A similar concentration emerges when distributing annual O&M funds by DMCS for the 11 service budget accounts throughout the 17-year period. For example, in fiscal year 1996, over 55 percent of each account's O&M funds are concentrated in three defense mission categories. The three largest dollar categories differ for each service budget account. For example, in fiscal year 1996 Defense-wide's three largest categories were intelligence, departmental, and other personnel support and received about 61 percent of total funding. In contrast, the Army's three largest dollar categories were land forces, training, and other logistics support and received about 70 percent of total funding. Table 4 shows the distribution of fiscal year 1996 O&M funds by DMCS for the O&M, Navy budget account. O&M, Navy has and is projected to have the largest share of annual O&M funds

compared with the other budget accounts—except in fiscal year 1991. O&M, Army was the largest budget account in fiscal year 1991.

Table 4: Total Fiscal Year 1996 O&M, Navy Budget Account Funds by Defense Mission Category

Constant 1997 dollars in thousands

Defense mission category	Total obligational authority	Cumulative percentage of total funding
Naval forces	\$8,950,562	40.88
Other logistics support	2,366,699	51.69
Maintenance operations	1,619,407	59.09
Tactical air forces	1,447,081	65.70
Training	1,311,518	71.69
Strategic offense	1,297,196	77.62
Departmental	1,054,886	82.43
Other categories	3,845,887	100.00
Total obligational authority	\$21,893,235	

Note: Fourteen categories make up the other categories: supply operations; mobility forces; intelligence; land forces; communications; other personnel support; personnel acquisition; geophysical sciences; security and investigative functions; strategic command, control, and communications; international support; strategic defense; individuals; command and control.

Source: Our analysis of DOD FYDP data.

The following are some questions raised by the trend information presented in this section:

What factors contribute to the significant decline in the naval forces category between fiscal years 1985 and 2001?

What factors are projected to contribute to the substantial decline in the land forces category during the fiscal year 1996-2001 period?

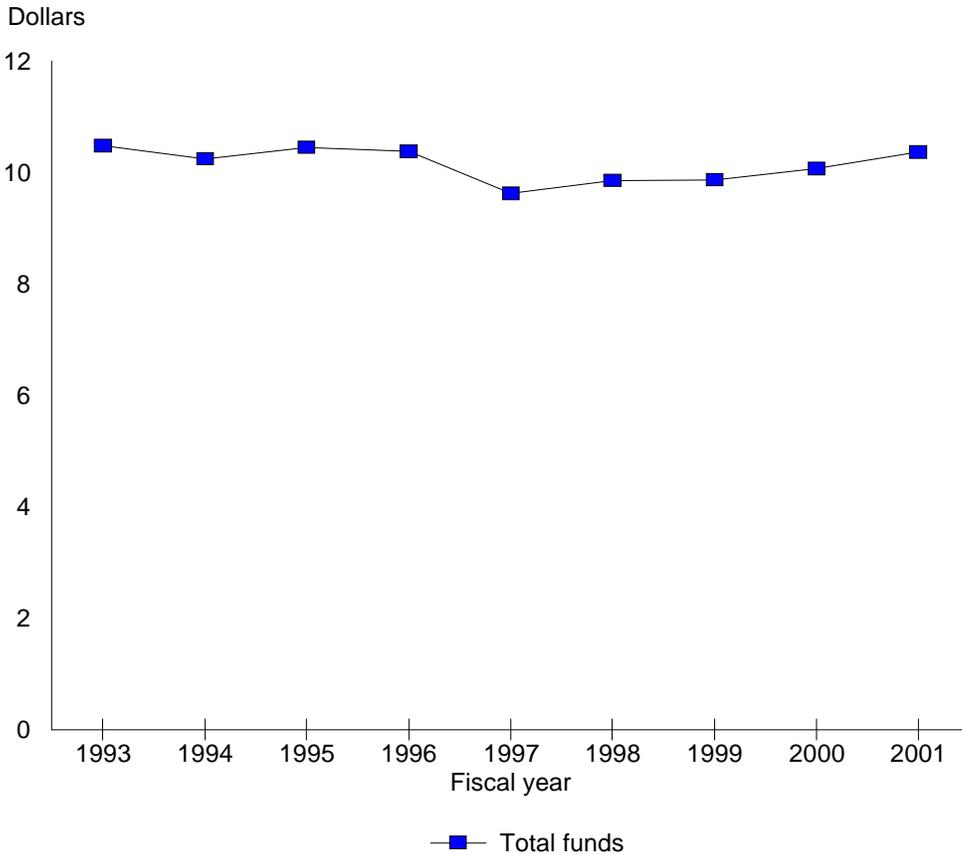
What factors contribute to the projected real decline during the fiscal year 1996-2001 period for medical, departmental, and mobility forces? (In contrast, these categories experienced substantial real growth during the fiscal year 1985-96 period.)

Can analyzing trends in concentrated O&M areas help DOD in future budget plans?

Selected Activities and Programs Show Varying Trends

We analyzed trends of three O&M programs—the Defense Health Program (O&M budget account), environmental spending, and base operating support—because of congressional interest and relevance in DOD’s effort to reduce infrastructure costs. DOD’s health care system is considered a critical quality-of-life issue. The Defense Health Program budget account emerged in the fiscal year 1993 President’s Budget to centralize O&M health care resources. Prior to fiscal year 1993, the resources were located in the service and DOD-wide budget accounts. This budget account differs from the DMC medical in that the account does not include resources for medical contingency hospitals and medical readiness units. For fiscal year 1997, DOD estimates that 8.3 million beneficiaries are eligible to use the Defense Health Program. Figure 10 shows that trend data for this budget account remains relatively stable, a 1.1-percent real decline during fiscal years 1993 through 2001. However, in the fiscal year 1997 FYDP, DOD projected a 7.2-percent real decline between fiscal years 1996 and 1997. Discussions with a DOD official indicated that fiscal year 1997 health care funds were reduced by the Office of Secretary of Defense during preparation of the fiscal year 1997 President’s Budget submission.

Figure 10: Defense Health Program Funding for Fiscal Years 1993 through 2001 (Constant 1997 dollars in billions)



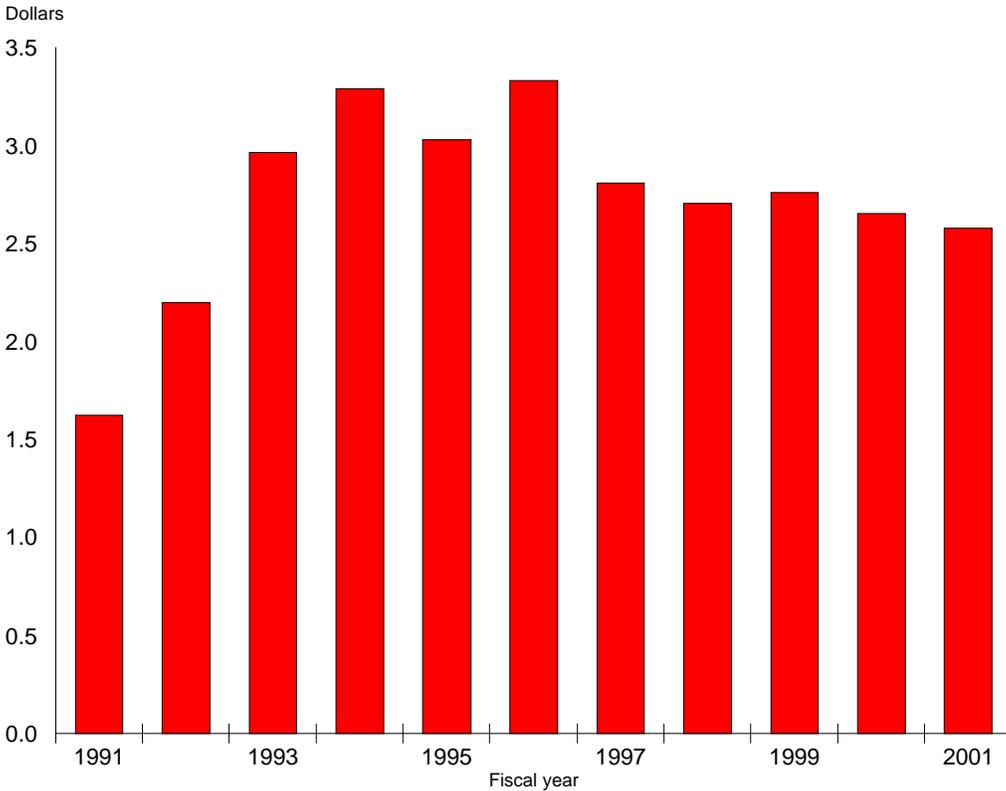
Source: Our analysis of DOD FYDP data.

The DOD’s environment-related programs that we analyzed are the Defense Environmental Restoration Program, environmental compliance, environmental conservation, and pollution prevention programs.¹⁹ Annual O&M funding for these environment-related programs more than doubled

¹⁹The Defense Environmental Restoration Program funds the investigation and cleanup of hazardous substances and waste, demolition and removal of unsafe buildings, and research of technology that could reduce hazardous wastes in the future. Environmental compliance funds DOD actions to sustain compliance with federal, state, and local environmental laws. Environmental conservation funds activities that protect or rehabilitate natural and cultural resources in DOD lands and waters. Pollution prevention is any action that will reduce or eliminate future pollutants of the environment from DOD operations.

between fiscal years 1991 and 1996, as shown in figure 11.²⁰ Over 90 percent of the funds for these environment-related programs in fiscal year 1996 was for the Defense Environmental Restoration Program and environmental compliance. By fiscal year 2001, the level of O&M funding for DOD's environment-related programs is projected to decline by 23 percent from its fiscal year 1996 peak of \$3.3 billion. Most of this decline is due to a planned 25-percent decrease in Defense Environmental Restoration Program O&M funds and a projected 18-percent decrease in funding for environmental compliance programs.

Figure 11: Annual DOD O&M Funding for Environment-Related Programs for Fiscal Years 1991-2001 (Constant 1997 dollars in billions)



Note: Environment-related programs are the Defense Environmental Restoration Program, environmental compliance, environmental conservation, and pollution prevention.

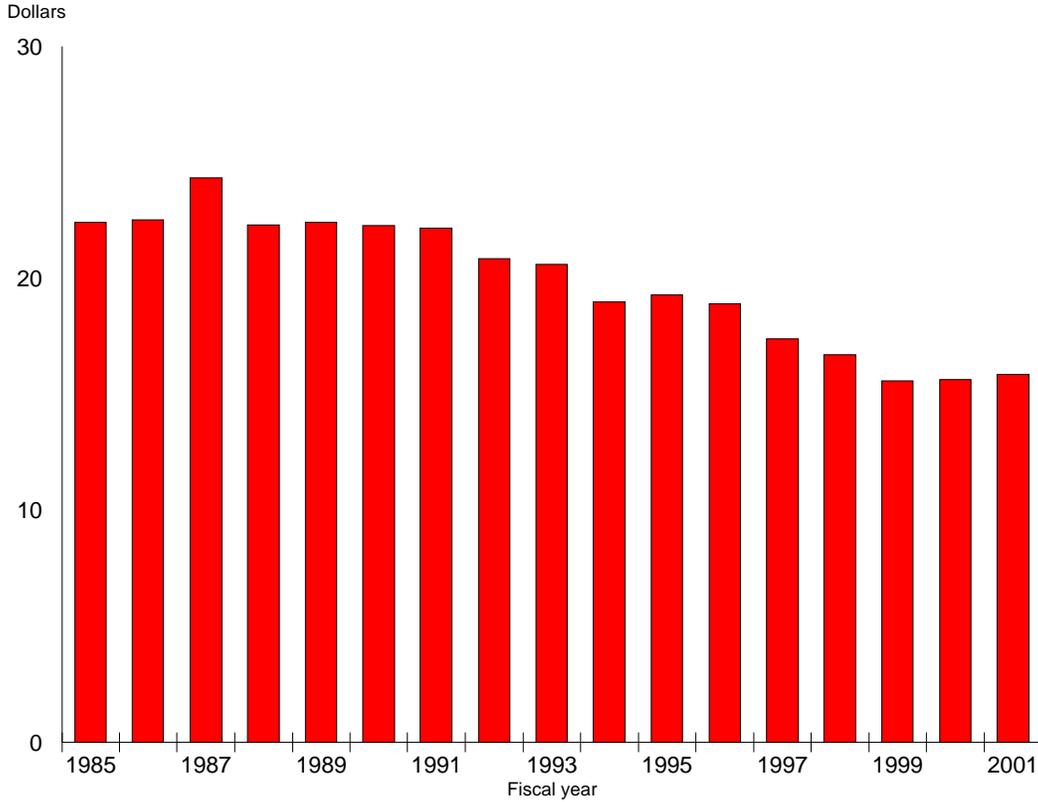
Source: Our analysis of DOD FYDP data.

²⁰Fiscal year 1991 was the first year funding was clearly identified for environmental compliance. Specific program elements for pollution prevention and environmental conservation appeared in fiscal years 1993 and 1994, respectively.

Base operations and maintenance activities are required to sustain mission capability, quality-of-life, and workforce productivity.²¹ Funding for these programs is found throughout DOD, in both force and support missions, and was analyzed at the FYDP program element level for this report. Figure 12 shows that overall annual funding for base operations and maintenance activities has declined since fiscal year 1985.

²¹These activities are base operations (including family and child support programs), base communications, and real property maintenance (maintenance and repair, minor construction, real property services, non-Defense Environmental Restoration Program environmental activities, and installation engineering).

Figure 12: Annual DOD O&M Funding for Base Operations and Maintenance Activities for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



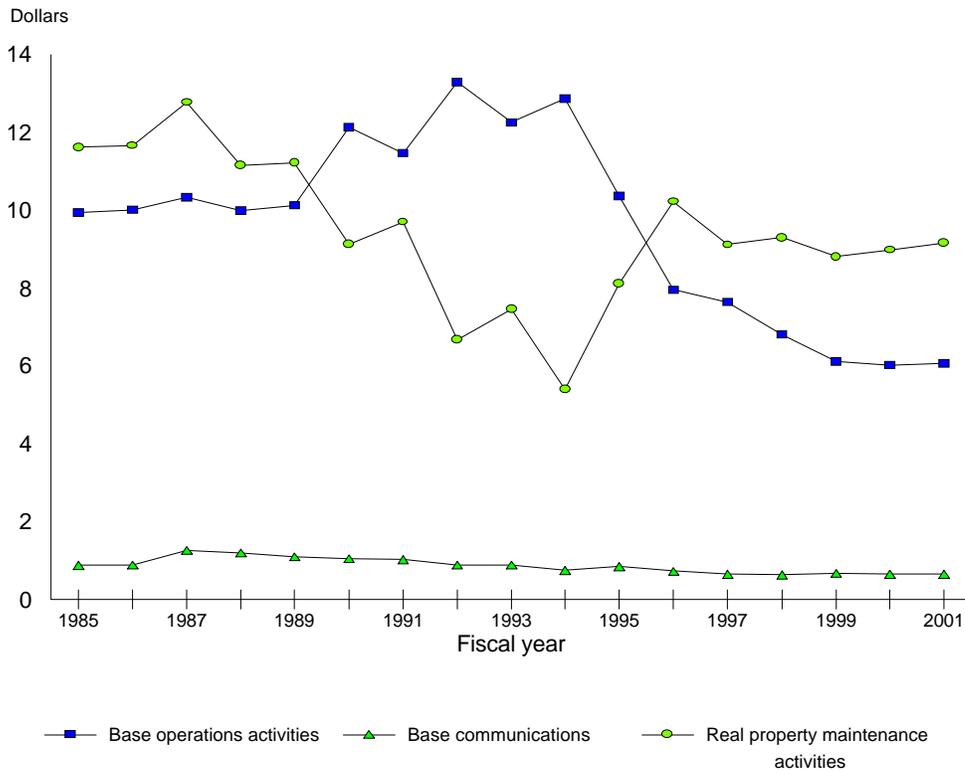
Note: Includes base operations, child and family centers, base communications, and real property maintenance and support.

Source: Our analysis of DOD FYDP data.

The level of O&M funds these programs received decreased by 16 percent between fiscal years 1985 and 1996 and is projected to decline by an additional 18 percent by 1999. Most of the falloff in earlier years is due to a decrease in O&M funding for real property maintenance and support activities, while after fiscal year 1994 the level of O&M funds provided annually to base operations activities decreases, as shown in figure 13. In fiscal years 2000 and 2001, base operations and maintenance activities are projected to receive a slight increase (2 percent) in annual O&M funds as a

result of an increase in funding of real property maintenance and support activities.

Figure 13: Annual DOD O&M Funding for Selected Base Operations and Maintenance Activities for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Note: Base operations activities include child and family centers.

Source: Our analysis of DOD FYDP data.

The following are some questions raised by the trend information presented in this section:

Why is funding for environmental-related programs expected to decline between fiscal years 1996 and 1997? What factors cause environmental projections to be considerably lower than prior-year spending (since fiscal year 1993)?

What factors cause O&M base operating support projections to increase after fiscal year 1999?

What impact has the Base Realignment and Closure decisions had on base operations and maintenance costs?

Why are annual base operations O&M funding levels cyclical?

Why are real property maintenance funding levels not expected to decline in the fiscal year 1997-2001 period?

Agency Comments

In oral comments, DOD agreed with the report and offered points of clarification. Specifically, DOD said that O&M funding per person is an inappropriate measure to assess future O&M requirements. In our report, we analyzed O&M trends in a number of different ways, including annual O&M on a per person basis. We believe each measure of O&M funding produces a different, but equally insightful and appropriate, overview. Furthermore, we did not attempt to determine an appropriate level of O&M funding.

DOD noted that answering the questions following each section requires an understanding of the significant accounting changes that have occurred since fiscal year 1981. DOD recommended that future O&M analysis use normalized FYDP data. (Normalized FYDP data account for the movement of funds whether inside the O&M accounts or to and from other appropriation accounts.) We attempted to obtain the department's normalized database but at the time of our review it was unavailable. Moreover, we recognize that there are significant accounting changes that impacted DOD's O&M accounts. We discuss some of the changes in our report and structured our analysis to minimize their impact.

Scope and Methodology

To identify trends in annual O&M appropriations and personnel levels and to determine the programs and activities funded by O&M, we analyzed data

contained in DOD's FYDP. The FYDP is the most comprehensive and continuous source of current and historical defense resource data. We used funding and personnel data from the historical FYDP update (June 1995) for fiscal years 1985-1993, the fiscal year 1996 FYDP for fiscal year 1994 data, and the fiscal year 1997 FYDP for fiscal years 1995-2001. Historical FYDP data reflects actual (1) total obligational authority for programs and (2) personnel levels. We adjusted the nominal dollars to constant fiscal year 1997 dollars using 1997 DOD inflation indices for O&M costs. Since DOD had not yet released its revised FYDP database that adjusts FYDP data for known accounting and program changes since fiscal year 1975, while we were conducting our work, we were unable to normalize the data for these changes. We do note in the report where these changes have impacted the trends.

We analyzed the FYDP data by DOD's major defense programs, federal budget account structure, and operating organization. To aid in the identification and classification of the components that affect annual O&M funding levels, we also evaluated the FYDP data using two analytical tools developed by DOD—the DMC and the Infrastructure Categories. The DMC structure is used to analyze FYDP data in terms of a mission-oriented view of DOD resources rather than a service-specific program view, and the infrastructure categories structure aids in the analysis of the resources required to support the combat forces. We did not verify DOD's allocation of program elements in its DMC and Infrastructure Category analytical tools.

In addition, we interviewed officials in the following DOD offices: Office of the DOD Comptroller, Office of the Under Secretary of Defense (Personnel and Readiness), Office of the Under Secretary of Defense (Acquisition and Technology), Office of Program Analysis and Evaluation, and the Office of Reserve Affairs. We also met with officials from the Institute for Defense Analyses. We reviewed our prior reports, pertinent reports by the Congressional Budget Office, Congressional Research Service, DOD, the Institute for Defense Analyses, and others.

Our work was conducted from June 1996 to January 1997 in accordance with generally accepted government auditing standards.

We are providing copies of this report to appropriate congressional House and Senate committees; the Secretaries of Defense, the Air Force, the

Army, and the Navy; and the Director, Office of Management and Budget. We will also provide copies to other interested parties upon request.

If you have any questions concerning this report, please call me on (202) 512-3504. Major contributors to this report were Robert Pelletier, Edna Thea Falk, and Deborah Colantonio.

A handwritten signature in black ink that reads "Richard Davis". The signature is written in a cursive style with a large, prominent "R" and "D".

Richard Davis
Director, National Security
Analysis

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Abbreviations

DMC	Defense Mission Category
DOD	Department of Defense
FYDP	Future Years Defense Program
O&M	Operation and Maintenance

Categories of Defense Infrastructure

Installation support consists of activities that furnish funding, equipment, and personnel to provide facilities from which defense forces operate. Activities include construction planning and design, real property maintenance, base operating support, real estate management for active and reserve bases, family and bachelor housing, supply operations, base closure activities, and environmental programs.

Acquisition infrastructure consists of all program elements that support program management, program offices, and production support, including acquisition headquarters, science and technology, and test and evaluation resources. This category includes earlier levels of research and development, including basic research, exploratory development, and advanced development.

Central logistics consists of programs that provide support to centrally managed logistics organizations, including the management of material, operation of supply systems, maintenance activities, material transportation, base operations and support, communications, and minor construction. This category also includes program elements that provide resources for commissaries and military exchange operations.

Central training consists of program elements that provide resources for virtually all non-unit training, including training for new personnel, aviation and flight training, military academies, officer training corps, other college commissioning programs, and officer and enlisted training schools.

Central medical consists of programs that furnish funding, equipment, and personnel that provide medical care to active military personnel, dependents, and retirees. Activities provide for all patient care, except for that provided by medical units that are part of direct support units. Activities include medical training, management of the medical system, and support of medical installations.

Central personnel consists of all programs that provide for the recruiting of new personnel and the management and support of dependent schools, community, youth, and family centers, and child development activities. Other programs supporting personnel include permanent change-of-station costs, personnel in transit, civilian disability compensation, veterans education assistance, and other miscellaneous personnel support activities.

Command, control, and communications consists of programs that manage all aspects of the command, control, and communications infrastructure for DOD facilities; information support services; mapping and charting products; and security support. This category includes program elements that provide nontactical telephone services, the General Defense Intelligence Program and cryptological activities, the Global Positioning System, and support of air traffic control facilities.

Force management consists of all programs that provide funding, equipment, and personnel for the management and operation of all the major military command headquarters activities. Force management also includes program elements that provide resources for Defense-wide departmental headquarters, management of international programs, support to other defense organizations and federal government agencies, security investigative services, public affairs activities, and criminal and judicial activities.

Analysis of Eight Defense Mission Categories

This appendix describes operation and maintenance (O&M) funding and military and civilian personnel trends in detail for eight defense mission categories (DMC) for fiscal years 1985 through 2001. In fiscal year 1996, the eight categories were the highest dollar missions and represented 71 percent of O&M funds.

With assistance from the Institute for Defense Analyses, Department of Defense (DOD) developed the DMC structure to display (by mission) funds, personnel, and forces programmed in the Future Years Defense Program (FYDP). The DMC framework is multitiered with each tier progressively more detailed. For example, the first tier divides DOD programs into three basic categories: major force missions, Defense-wide missions, and Defense-wide support. These three programs are subdivided into five additional levels of detail. One of these levels is the training category. Table II.1 illustrates an example of the DMC structure for training.

Table II.1: DMC Structure for Training

Defense mission category code	Defense mission category title
3	Defense-wide support missions
32	Personnel support
322	Training
3221	Military personnel training
32210	Military personnel training
32210A	Military personnel training, active

Source: DOD.

Our analysis of the eight categories aggregates O&M funds and personnel data at various levels of detail to provide comprehensive and useful information.

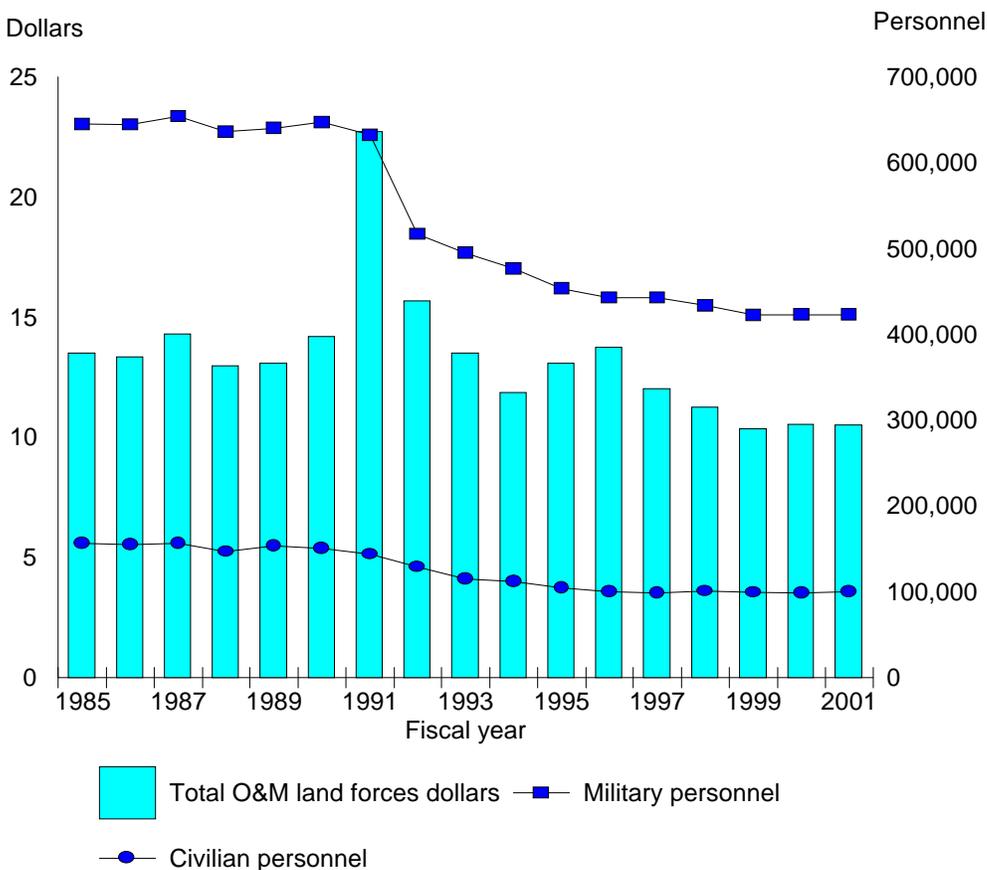
Land Forces

For the land forces category, O&M funds consist of Army and Marine Corps division increments, non-divisional combat units, tactical support units, base operations and management headquarters, and operational support; Army systems support; and Army special mission forces. Total land forces O&M funds decrease more slowly than military and civilian personnel assigned to this category between fiscal years 1985 and 2001 as shown in figure II.1. O&M funds decrease by 22.2 percent, with most of the decline projected to occur between fiscal years 1996 and 2001. In contrast, between fiscal years 1985 and 2001 military and civilian personnel levels decline by 34.4 and 36.5 percent, respectively. Between fiscal years 1996

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and 2001 military personnel decrease by an additional 4.6 percent, while civilians decrease by less than 1 percent. Annual per person costs increase from \$16,865 in fiscal year 1985 to \$20,114 in fiscal year 2001, a 19.3-percent increase.

Figure II.1: Annual Land Forces O&M Funds and Personnel Levels for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Note: Personnel levels are active military, full-time Guard and Reserve, and civilians assigned to the land forces category. Civilian personnel levels reflect those paid with O&M funds.

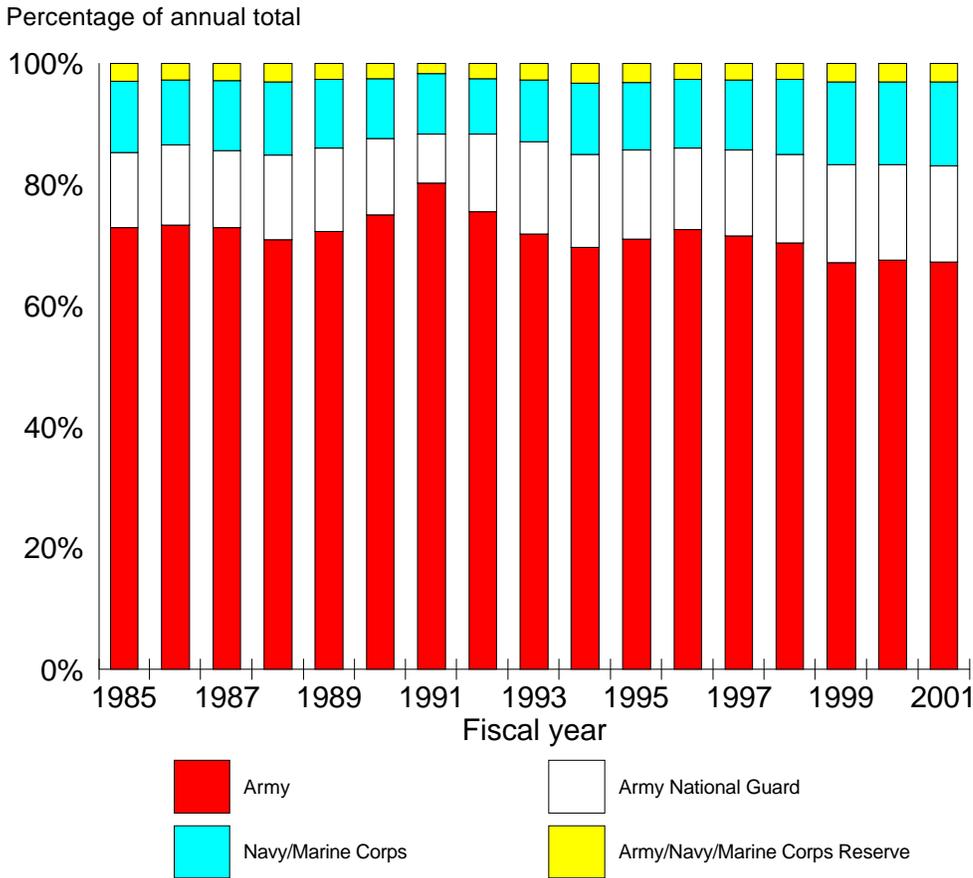
Source: Our analysis of DOD FYDP data.

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As expected, the Army has the largest share of total annual O&M funds for land forces. From fiscal years 1985 to 2001, the Army has and is projected to have about 67 to 80 percent of total annual O&M funds.

Figure II.2 shows annual land forces O&M funds by federal budget account for fiscal years 1985 through 2001. Infusion of O&M funds for the Persian Gulf War contributed to the Army's higher share of O&M land forces funds in fiscal year 1991.

Figure II.2: Percentage of Annual Land Forces O&M Funds Allocated by Federal Budget Account for Fiscal Years 1985-2001



Source: Our analysis of DOD FYDP data.

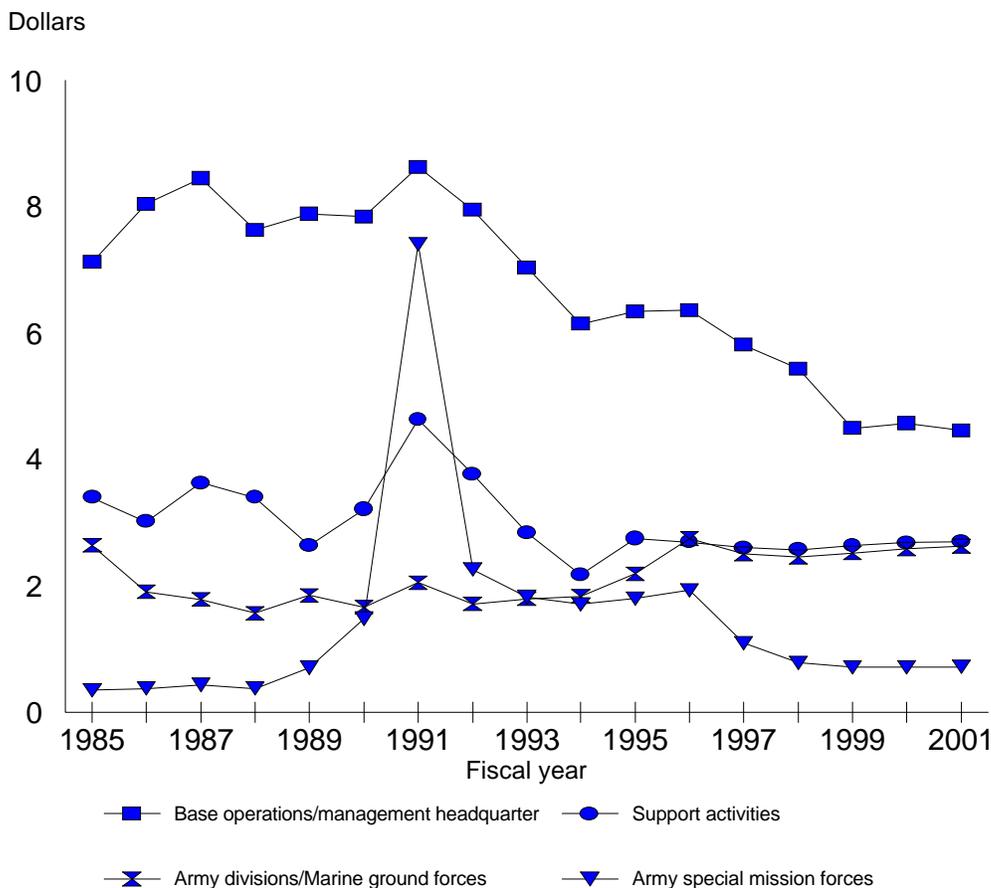
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When funds are grouped by missions within land forces, base operations and management headquarters is the largest category from fiscal years 1985 to 2001. This category supports real property maintenance, base communications, and base operations and management headquarters at fixed Army and Marine Corps installations. When compared with the other three land forces mission categories,¹ as shown in figure II.3, the base operations and management headquarters category experiences the largest decline, a 37.4-percent decrease from fiscal years 1985 to 2001. Most of the decline takes place after fiscal year 1991.

¹The three other land forces categories are Army increments and Marine ground forces, Army special mission forces, and support activities. Army increments and Marine ground forces consist of Army divisions and the non-divisional combat increment and units and Marine divisions and the non-divisional combat increment. Support activities consist of Army and Marine tactical support increments and operational support and Army systems support.

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Figure II.3: Annual Land Forces O&M Funds by Mission for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Source: Our analysis of DOD FYDP data.

Medical

The medical category provides funds for care for active duty personnel, retired military personnel, and dependents. The fiscal year 1997 President's Budget estimates that 8.3 million beneficiaries are eligible to use the health care program in fiscal year 1997. Unlike the Defense Health Program budget account, the medical category includes funds for programs related to medical contingency hospitals and medical readiness. Another difference is that the medical category does not include funds for

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health personnel training;² however, the Defense Health Program budget account has funds for education and training programs.

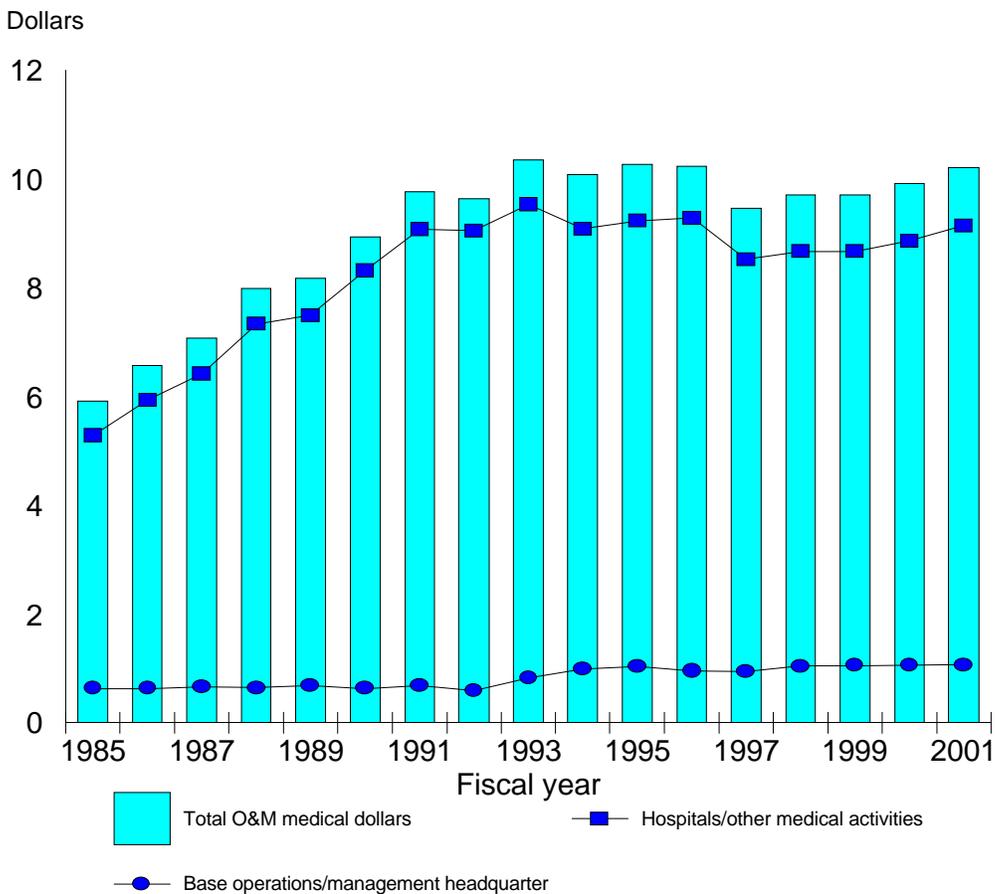
Total medical O&M funds are projected to increase from \$5.9 billion to \$10.2 billion or by 72.8 percent between fiscal years 1985 and 2001. Although projections show that the fiscal year 1997-99 funding will be slightly lower than in fiscal year 1996, medical O&M funds will begin to rise starting in fiscal year 2000. Moreover, the fiscal year 2001 FYDP projection almost matches the fiscal year 1996 level.

When funds are grouped by missions within the medical category, hospitals and other medical activities is the largest category between fiscal years 1985 through 2001. Trends for the hospital and other medical activities category mirror those of total medical O&M funds. O&M funds for the base operations and management headquarters category also grow between fiscal years 1985 and 2001, a 69.8-percent increase. Unlike the hospital category, which declines slightly between fiscal years 1996 and 2001, O&M funds for base operations and management headquarters increase by 12.1 percent during this period. Figure II.4 compares the trends in funding for hospitals and other medical activities, base operations and management headquarters, and overall medical category.

²Funds for the Uniformed Services University of the Health Sciences are part of the medical category.

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Figure II.4: Annual Medical O&M Funds for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)

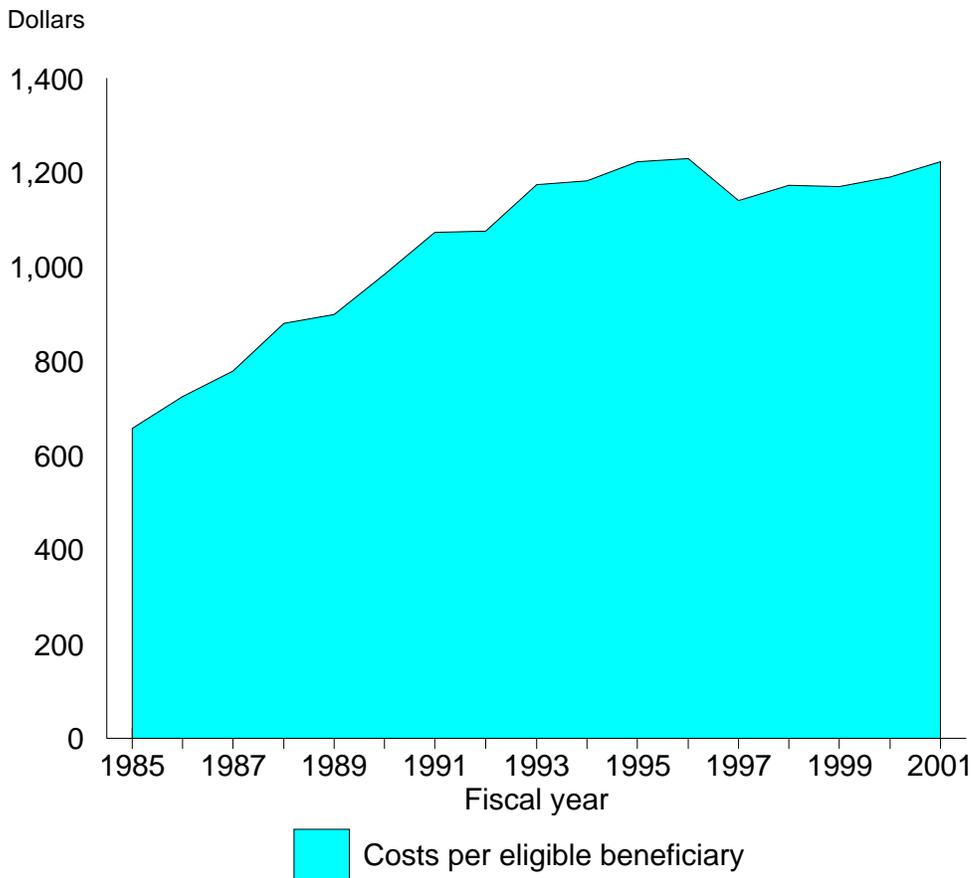


Source: Our analysis of DOD FYDP data.

Figure II.5 shows that medical costs per eligible beneficiary will increase by 86 percent between fiscal years 1985 and 2001. Further, the fiscal year 2001 projected cost per eligible beneficiary of \$1,223 nearly matches the fiscal year 1996 level of \$1,229.

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Figure II.5: Annual Medical O&M Costs Per Eligible Beneficiary for Fiscal Years 1985-2001 (Constant 1997 dollars)



Note: Per eligible beneficiary costs were calculated using the Office of Secretary of Defense (Health Affairs) beneficiary data from the fiscal year 1997 President's Budget for fiscal years 1989-2001. Beneficiary information for fiscal years 1985-1988 is based on Office of Secretary of Defense (Health Affairs) estimates.

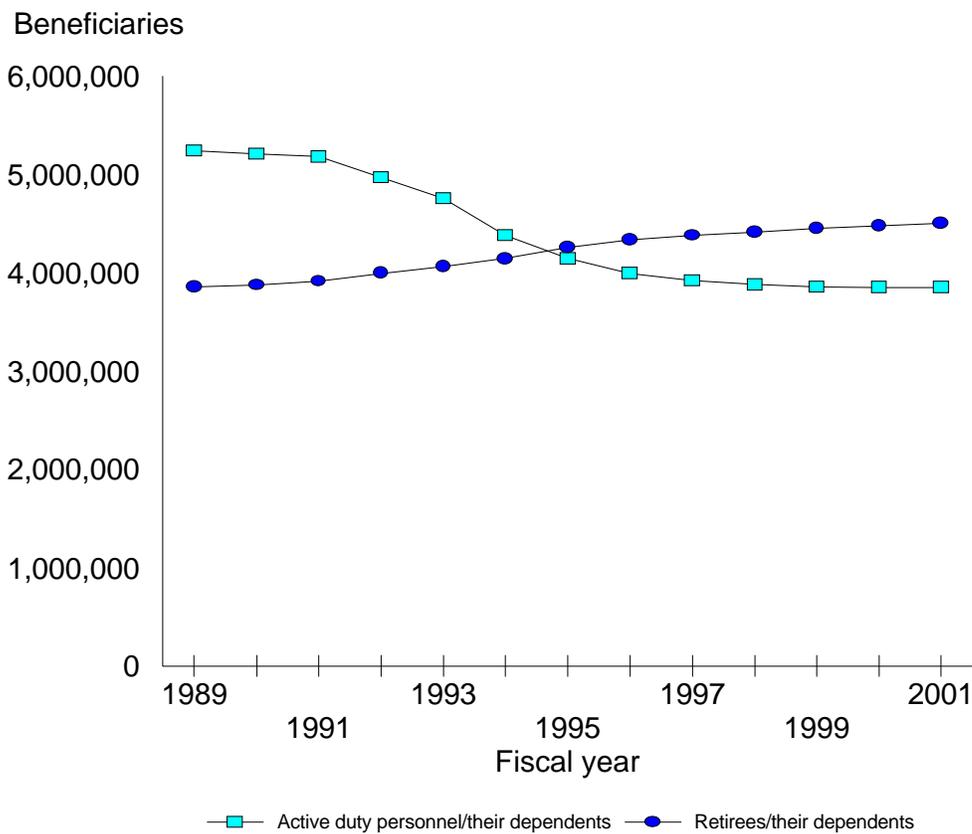
Source: Our analysis of DOD FYDP data.

Although the total number of eligible beneficiaries is projected to decline between fiscal years 1989 and 2001, starting in fiscal year 1995, the total number of retirees and their dependents exceed the total number of active duty military personnel and their dependents (see fig. II.6). Between fiscal

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years 1989 and 2001, retirees and their dependents increase by 16.7 percent, whereas active duty military personnel and their dependents decrease by 26.5 percent.

Figure II.6: Defense Health Program Beneficiaries for Fiscal Years 1989-2001



Note: Beneficiary information is based on Office of Secretary of Defense (Health Affairs) data from the fiscal year 1997 President's Budget.

Source: Our analysis of DOD FYDP data.

Naval Forces

The naval forces defense mission category consists of mission forces (submarines, surface combat ships, amphibious forces, service forces, mine warfare forces, maritime patrol, undersea surveillance forces, and

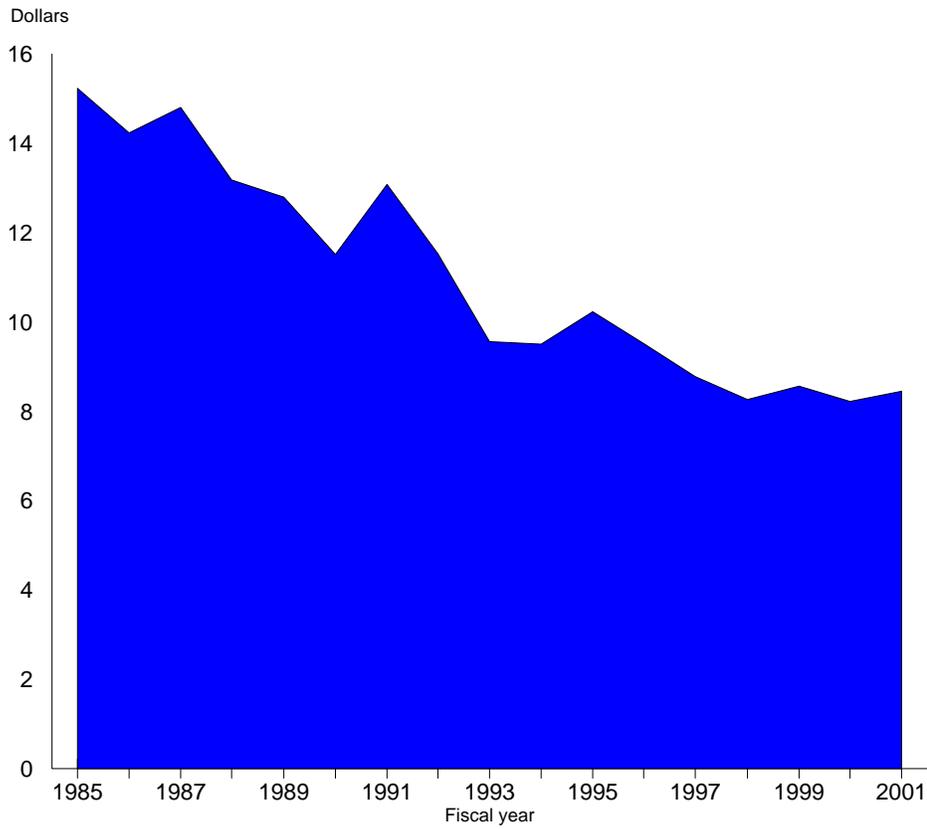
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sea based anti-submarine warfare air forces); fleet support (combat and logistics support, ordnance disposal forces, tactical communications, shore intermediate maintenance, and aircraft support squadrons); other operational support (command activities; sea control operational headquarters; and intelligence, communications, command, and control activities); and base operations and management headquarters.

Annual O&M funding levels for naval forces is projected to decline by 45 percent between fiscal years 1985 and 2001, as shown in figure II.7. This decline was primarily caused by a 48-percent reduction in O&M funds for mission activities. Although mission activities funds have decreased, figure II.8 shows that mission activities still receive about 60 percent of O&M funding.

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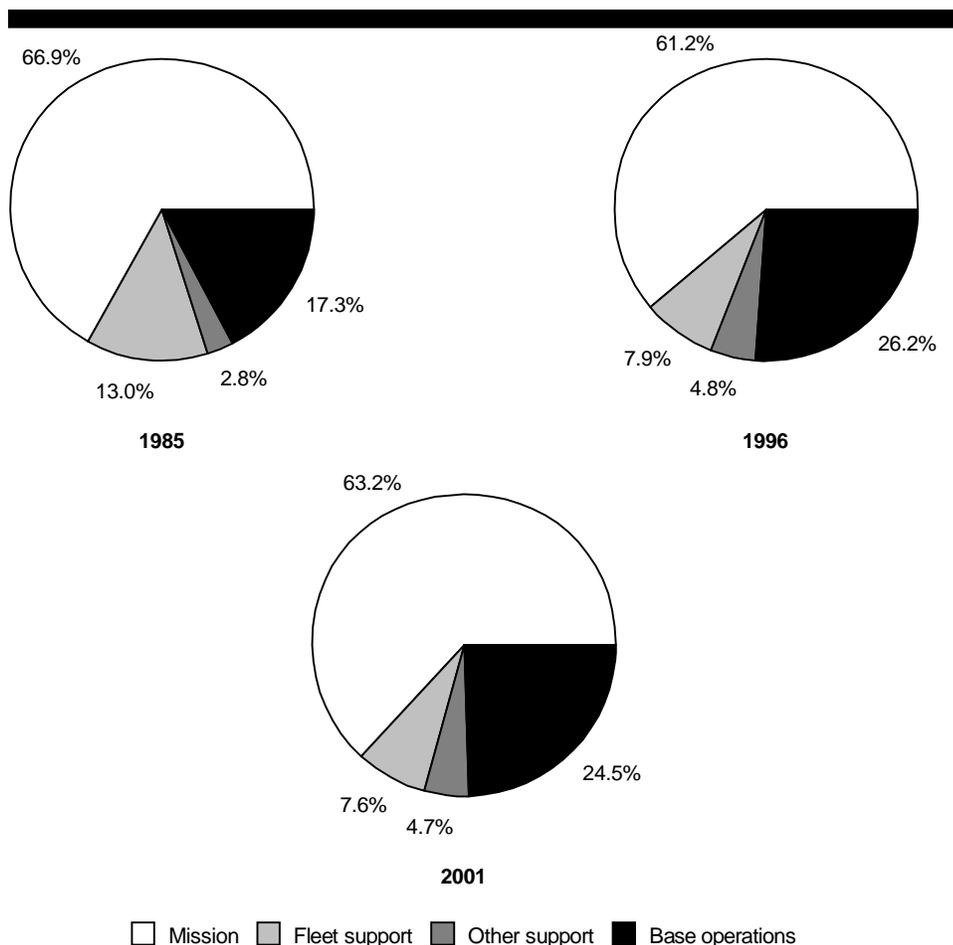
Figure II.7: Annual O&M Funding for Naval Forces for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Source: Our analysis of DOD FYDP data.

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Figure II.8: Percentage of DOD's Annual O&M Funding Allocated by Naval Forces Activities for Selected Fiscal Years



Note: Annual percentages may not add to 100 due to rounding.

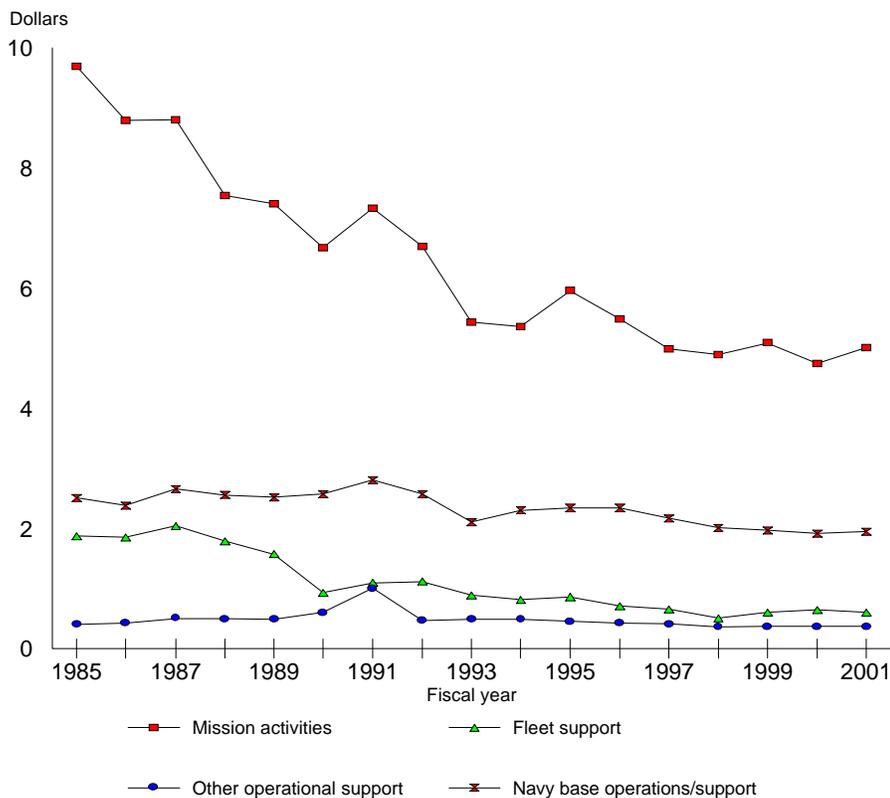
Source: Our analysis of DOD FYDP data.

Almost all of the O&M funding for this category is for the active forces and, within active naval forces, the majority of O&M funding is for mission force activities. As shown in figure II.9, most of the decrease between fiscal years 1985 and 1996 in active naval forces O&M funds was for mission

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activities, although the fleet support programs' O&M funding levels have declined as well over the same period.

Figure II.9: Annual O&M Funding for Active Naval Forces Allocated by Activity for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



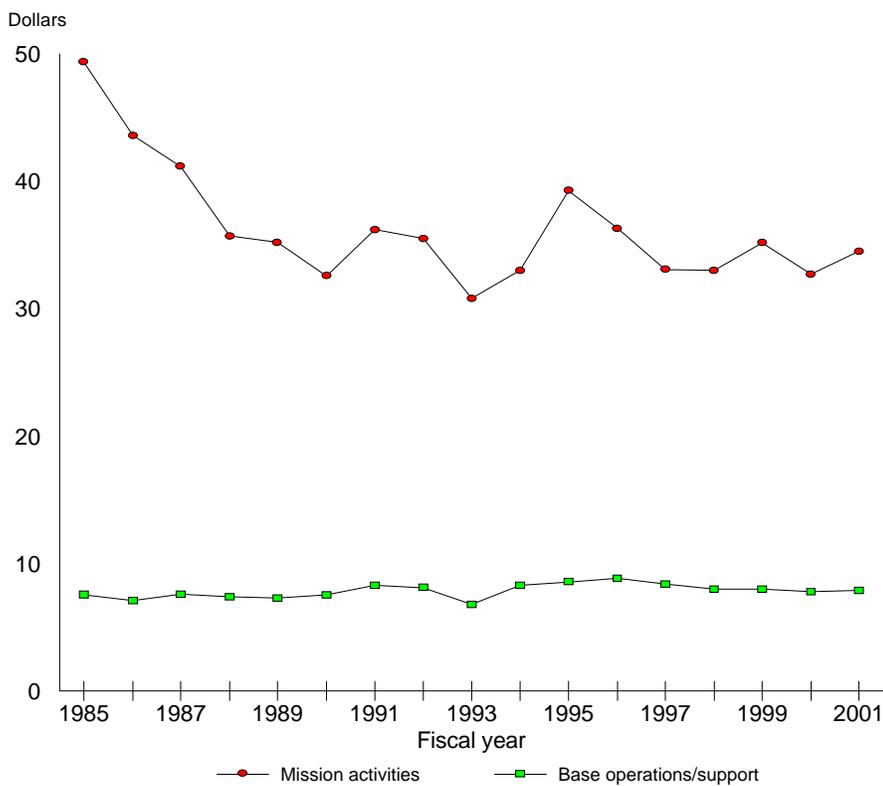
Source: Our analysis of DOD FYDP data.

The level of O&M funding per person associated with active naval force mission activities has decreased from its 1985 value, as shown in figure II.10, but most of this decline occurred by fiscal year 1990. Between fiscal years 1996 and 2001, the O&M funds per person is expected to decline by only 5 percent. The level of O&M funding per person for base operations

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activities (the second largest activity within the naval forces mission) remains relatively stable throughout the fiscal year 1985-2001 period.

Figure II.10: Per Person Annual O&M Funding for Selected Active Naval Force Activities for Fiscal Years 1985-2001 (Constant 1997 dollars in thousands)



Note: Per person costs for mission programs are for all personnel (active military, civilians, full-time reserve) associated with the active force mission activity DMCs. Per person costs for base operations is for all personnel (active military, civilians, full-time reserve) associated with all active naval force activities.

Source: Our analysis of DOD FYDP data.

Tactical Air Forces

O&M funds for the tactical air forces category consists of air-to-air combat squadrons; air-to-ground combat squadrons; defense suppression forces; tactical reconnaissance squadrons; tactical command, control, and

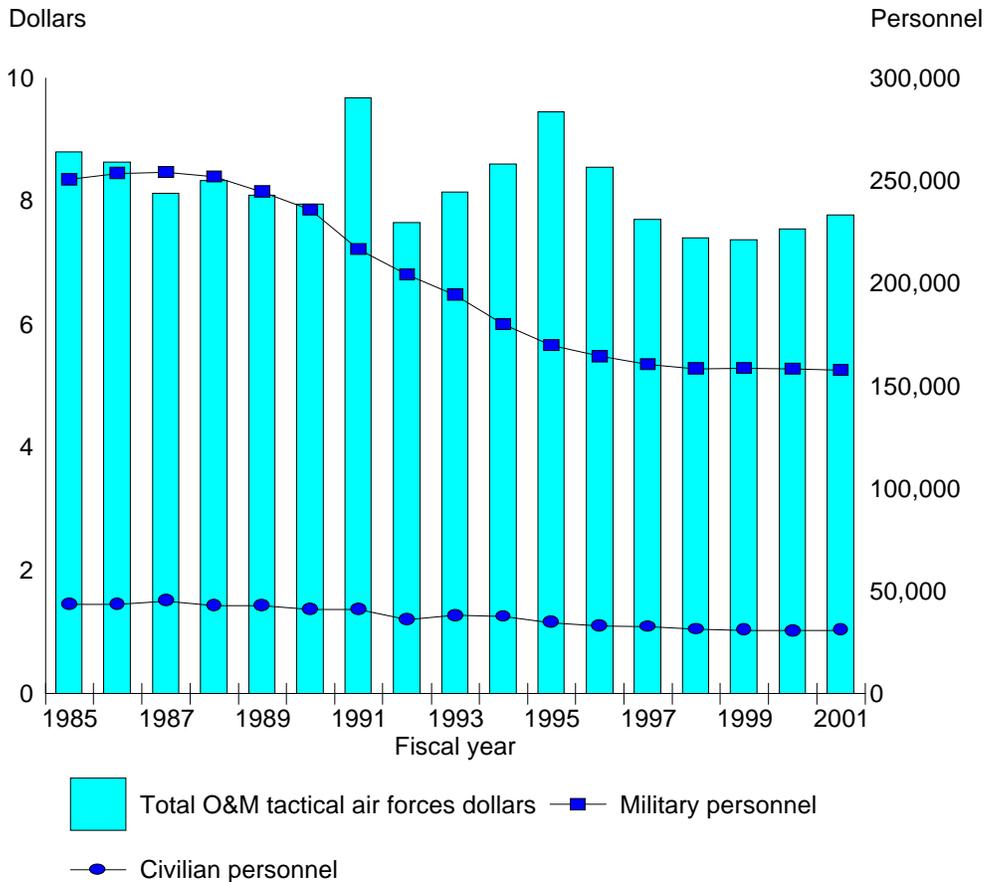
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communications; tanker/cargo squadrons; other tactical air warfare forces; non-strategic nuclear tactical forces; operations support; and base operations and management headquarters support activities.

Like aggregate O&M trends, total tactical air forces O&M funds decrease at a slower rate than military and civilian personnel assigned to this category between fiscal years 1985 and 2001. (See fig. II.11.) During the fiscal year 1985-2001 period, O&M funds decrease by 11.6 percent, with most of the decline projected to occur between fiscal years 1996 and 2001. In contrast, most of the decline in both military and civilian personnel levels occurs between fiscal years 1985 and 1996, a respective 34.4-percent and 24.6-percent decrease. Further, projections show that the fiscal year 2001 level of \$7.8 billion slightly exceeds the fiscal year 1997 level. Annual per person costs increase from \$29,911 in fiscal year 1985 to \$41,211 in fiscal year 2001, a 37.8-percent increase.

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Figure II.11: Annual Tactical Air Forces O&M Funds and Personnel Levels for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Note: Personnel levels are active military, full-time Guard and Reserve, and civilians assigned to the tactical air forces category. Civilian levels reflect those paid with O&M funds.

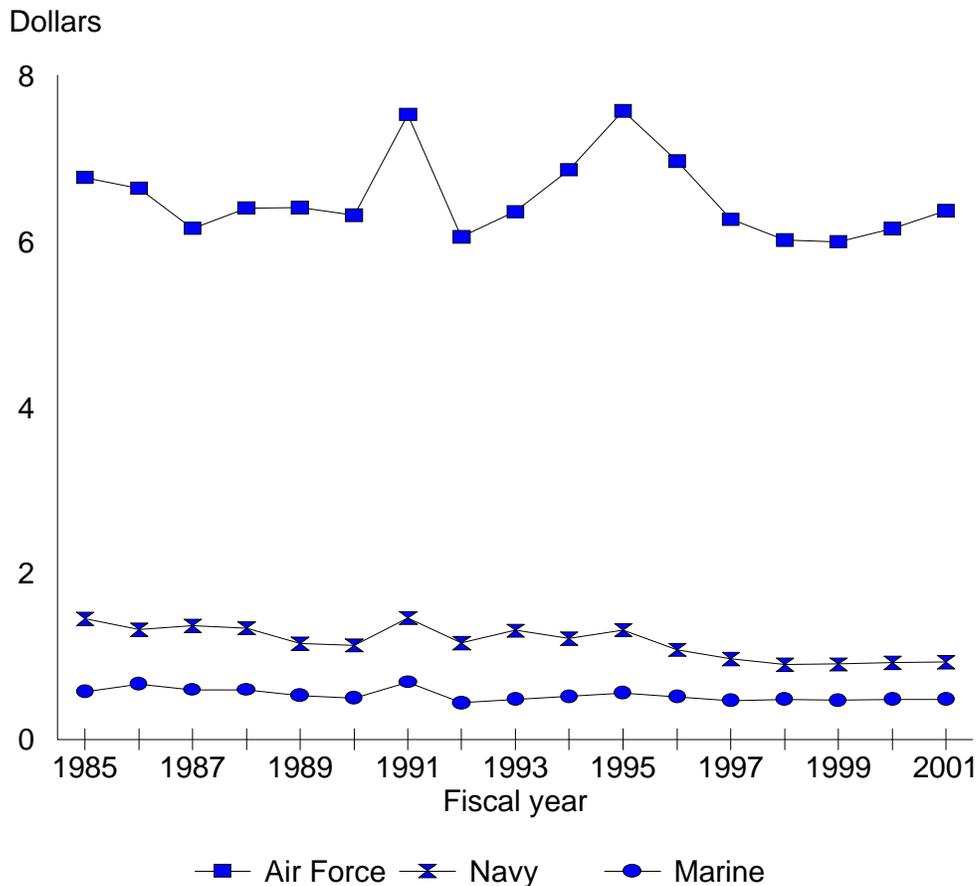
Source: Our analysis of DOD FYDP data.

When funds are grouped by service missions within the tactical air forces category, as shown in figure II.12, from fiscal years 1985 to 2001, the Air Force is the largest category and experiences the smallest percentage change in funding, a 5.9-percent decrease, when compared with the Navy

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and Marine Corps categories.³ The Navy tactical air forces category experiences the largest decline, a 35.9-percent decrease between fiscal years 1985 and 2001. Most of the decline occurs between fiscal years 1985 and 1996.

Figure II.12: Annual Tactical Air Forces O&M Funds by Service Missions for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Source: Our analysis of DOD FYDP data.

³The service missions include funds for their respective Guard and Reserve components.

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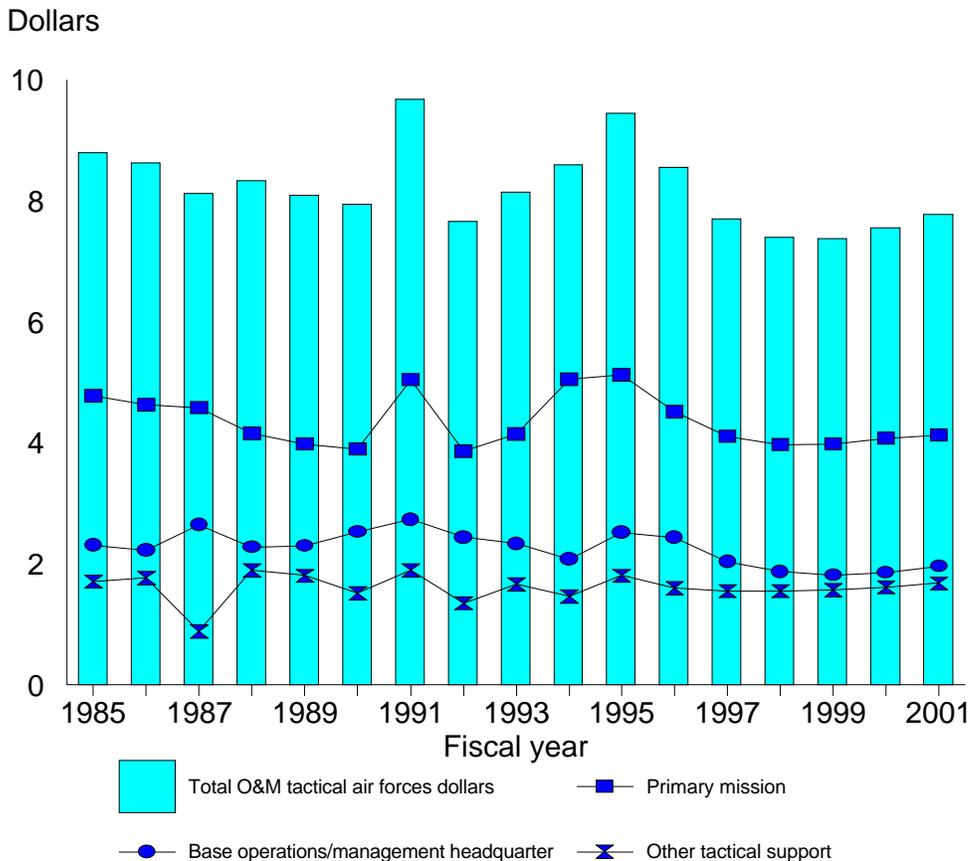
In the tactical air forces mission category, when funds are grouped by primary mission, other tactical support, and base operations and management headquarters, funds for each category decline between fiscal years 1985 and 2001. (See fig. II.13.) However, these overall trends are not consistent over the 17-year period. Between fiscal years 1985 and 1996, base operations and management headquarters is the only mission activity that grows, a 5.5-percent increase.⁴ However, projections show that the base operations and management headquarters category will experience a 19.4-percent decrease in funds between fiscal years 1996 and 2001. For the other tactical support category,⁵ funds decrease by 6.7 percent between fiscal years 1985 and 1996; however, this decrease is nearly canceled by the projected growth between fiscal years 1996 and 2001, a 5.3-percent increase. Funding levels for primary missions decrease in both periods⁶ by 5.3 percent between fiscal years 1985 and 1996 and by 8.7 percent between fiscal years 1996 and 2001.

⁴Base operations and management headquarters fund real property maintenance, base communications, base operations and management headquarters at installations with a primary mission of supporting tactical air forces and management headquarters at major commands worldwide.

⁵Examples of other tactical support mission activities are airwing staff flying, readiness (training) squadrons, and aviation support.

⁶Examples of primary mission activities are air-to-air combat, air-to-ground combat, and defense suppression (tactical electronic warfare).

Figure II.13: Annual Tactical Air Forces O&M Funds by Mission Activities for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Source: Our analysis of DOD FYDP data.

Other Logistics Support

The other logistics support mission includes the following activities: logistics base operations and management headquarters, and miscellaneous logistics support activities such as industrial preparedness, second destination transportation, administrative support, printing plants and laundries, and information automation.

Annual O&M funding for other logistics support mission activities fell to \$5.3 billion in fiscal year 1996 from its peak of \$8.7 billion in fiscal

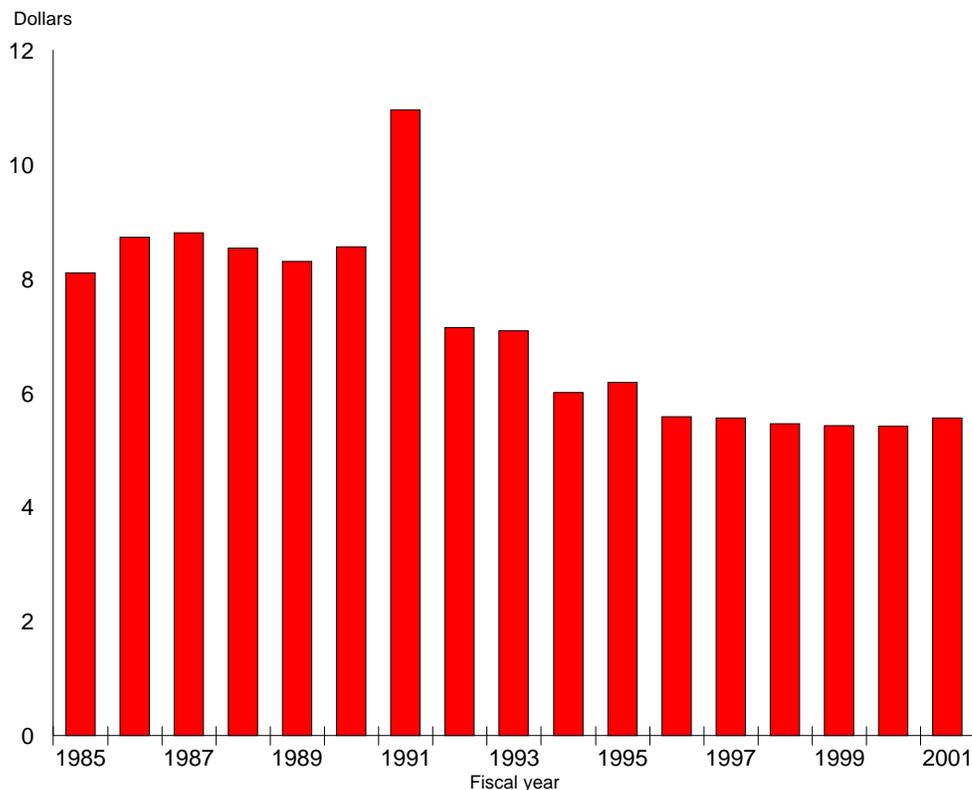
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year 1987, as shown in figure II.14. (The surge in fiscal year 1991 O&M funding for this mission was an anomaly caused by a \$2.3 billion infusion of funds for Army and Air Force second destination transportation programs most probably for Persian Gulf War efforts.⁷ The following year, fiscal year 1992, O&M funding for these programs decreased by more than \$2.7 billion and is projected to continue to decline at a slow steady rate through fiscal year 2000.) The other decreases are due to consistent annual declines in O&M funding of logistics base operations and headquarters activities. The declines in base operations had a significant impact on other logistics support O&M funding because base operations activities account for about 35 percent of total annual other logistics support funds. Overall, other logistics support O&M funds fell by 34 percent between fiscal years 1985 and 1996 but are expected to remain relatively stable through fiscal year 2001.

⁷Second destination transportation programs include costs for commercial land, sea, or air transportation, including contract service, movements by through bills of lading and the rental and lease of transportation equipment and service not available on a tariff basis from common carriers, and funds for reimbursement of continental U.S. port terminals.

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Figure II.14: Annual O&M Funding for Selected Other Logistics Support Activities for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



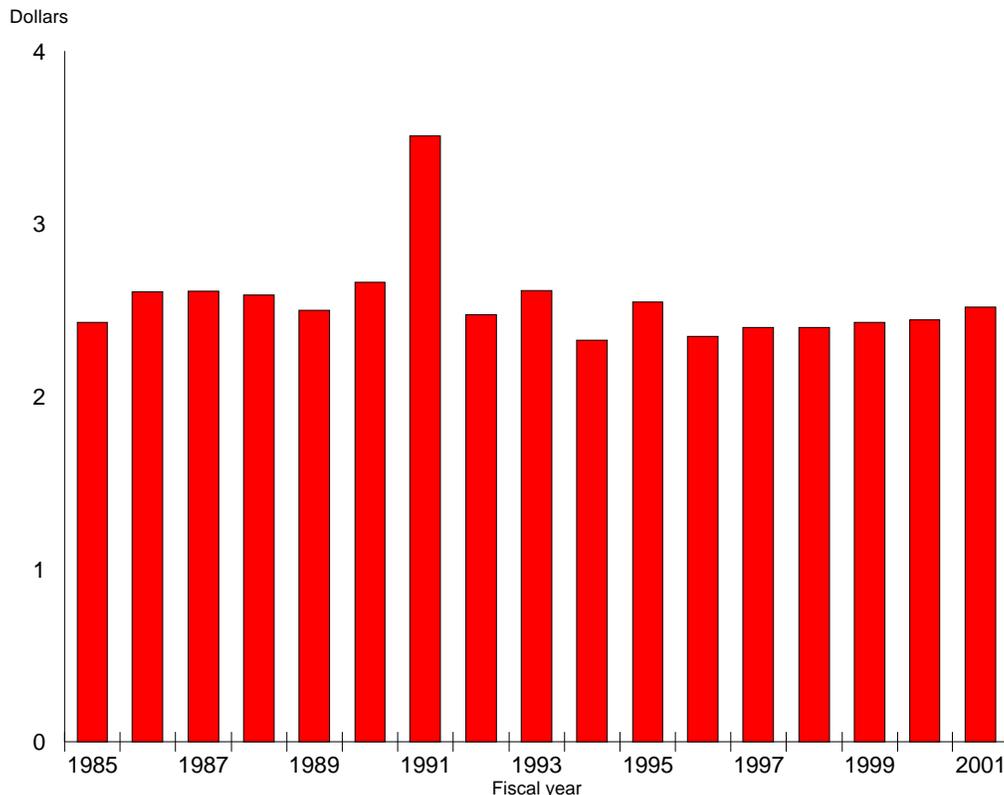
Note: Our analysis excludes funding of Defense Environmental Restoration Program; logistics support to research and development, procurement, and military construction; Defense Logistics Agency; and stock fund revenue offsets.

Source: Our analysis of DOD FYDP data.

By fiscal year 2001, O&M funding per person for other logistics support activities is expected to be at about the same level as it was in fiscal year 1985, as shown in figure II.15. If the surge in fiscal year 1991 funding is ignored, O&M funding per person is planned to remain between \$2,330 and \$2,660 per person for the entire fiscal year 1985-2001 period.

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Figure II.15: Per Person Annual Operation and Maintenance Funding for Selected Other Logistics Support Activities (Constant 1997 dollars in thousands)



Note: Per person costs are per all active military, full-time Guard and Reserve, and DOD civilians. Our analysis of the other logistics support mission excludes funding of Defense Environmental Restoration Program; logistics support to research and development, procurement, and military construction; Defense Logistics Agency; and stock fund revenue offsets.

Source: Our analysis of DOD FYDP data.

Departmental

The departmental mission includes a wide range of department-wide service support activities such as the Army's Adjutant General, publications centers, and postal service agency; the Navy's accounting and finance center and its petroleum reserve; and the Air Force's audit agency, Intelligence Service, and its finance and accounting center. The mission also includes department-wide activities such as public affairs, personnel administration, service support to the Office of the Secretary of Defense

and other defense agencies, Washington Headquarters Services, and the Office of Economic Adjustment.⁸

O&M funding levels for the departmental mission have grown since fiscal year 1985. Between fiscal years 1985 and 1996, O&M funding for departmental activities grew by 16 percent, and most of this growth occurred after fiscal year 1991. Much of the growth between fiscal years 1991 and 1996 was due to significant fluctuations in funding for programs assigned to this mission. For example, Washington Headquarters Services' annual O&M funding level grew almost threefold between fiscal years 1994 and 1995 from \$169 million to \$498 million, remained at this high level in fiscal year 1996, but is projected to decline to \$185 million in fiscal year 1997, where its annual funding level is expected to remain through fiscal year 2001.⁹ Other programs in the departmental mission only have had O&M funding in selected years, such as the Defense-wide administrative maintenance and repair program. O&M funding for this program appears only in fiscal years 1992 and 1993 for \$563 million and \$1.9 billion, respectively.

O&M funding for the departmental mission decreases by 5 percent between fiscal years 1996 and 2001. This slight decline in the mission's funding levels reflects the relative stability in annual O&M funding levels for most of the large programs contained in this mission, such as service-wide support (not otherwise accounted for),¹⁰ Office of the Secretary of Defense management headquarters, and Defense Contract Audit Agency activities. Figure II.16 shows the trend in O&M funding for departmental mission activities during the fiscal year 1985-2001 period.

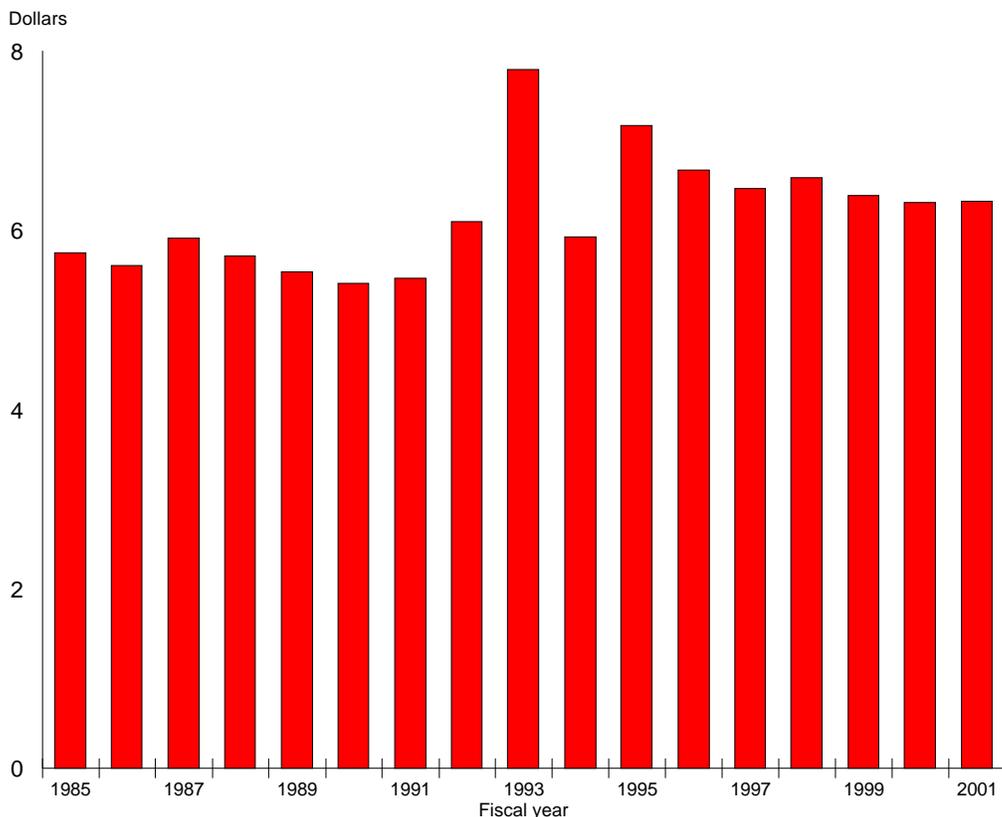
⁸The program elements for Foreign Currency Fluctuations, although categorized by DOD as a part of this mission, were excluded from this analysis. These are resources for a transfer fund account that was established to maintain the budgeted level of operations and thereby eliminate substantial gains and losses caused by fluctuations in foreign currency exchange rates that vary substantially from those used in preparing budget submissions. The O&M values contained in these program elements vary significantly from year to year. These changes are not a result of a variation in the level of resources that support a departmental activity and therefore were excluded from the analysis.

⁹The Washington Headquarters Services program includes funding for the equipment, facilities and other associated costs for the functions, which provide administrative and operating support to the Office of the Secretary of Defense and other DOD activities.

¹⁰This program is a compilation of numerous miscellaneous support programs such as the Army's Legal Services Agency, Naval History Center, and the Air Force Safety Agency.

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Figure II.16: Annual O&M Funding for Departmental Mission Activities for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Note: Does not include funds for foreign currency fluctuation program elements.

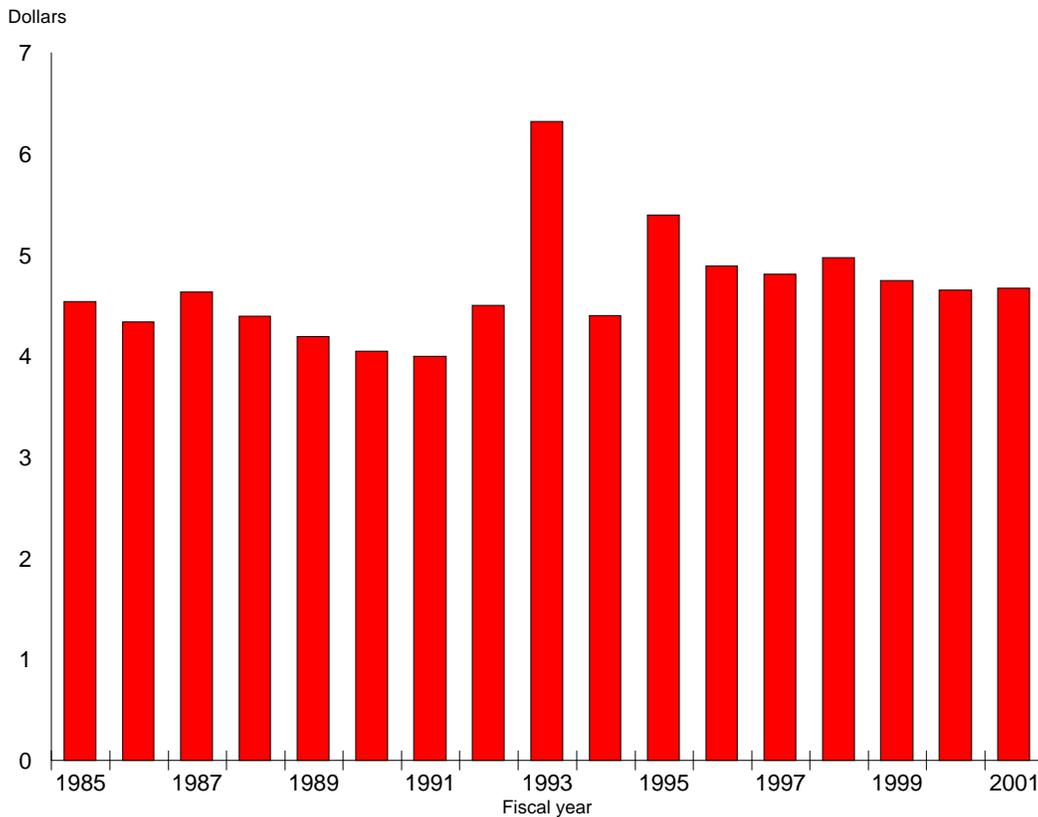
Source: Our analysis of DOD FYDP data.

Seventy-five percent of O&M funds for the departmental mission support the active military, and the remaining 25 percent of O&M funds for this mission are for departmental activities that support the National Guard and Reserve. Figure II.17 shows that O&M funding for departmental activities that support the active military generally remained between \$4.0 billion and \$4.5 billion prior to fiscal year 1993 and are projected to remain between \$4.5 billion and \$5.0 billion for the fiscal year 1996-2001

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period. Since the programs that caused the fluctuations in the overall departmental mission's O&M funding levels between fiscal years 1991 and 1996, such as the Washington Headquarters Service, support the active military, these same programs caused the fluctuations shown in figure II.17. O&M funding for departmental missions that support the active military are projected to decline between fiscal years 1996 and 2001 by about 4 percent, only slightly less than the 5-percent decline in the overall departmental mission's O&M funding level during the same period.

Figure II.17: Annual O&M Funding for Departmental Mission Activities That Support the Active Military for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Note: Does not include funds for foreign currency fluctuation program elements.

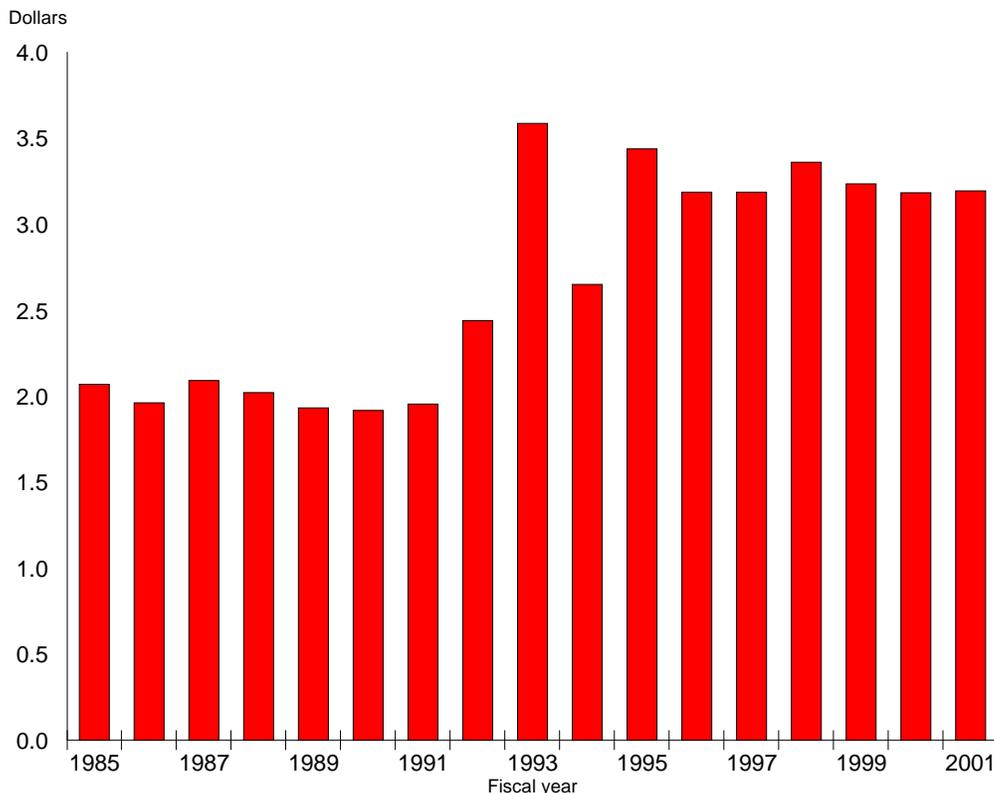
Source: Our analysis of DOD FYDP data.

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O&M funding per person for departmental missions that support the active military has grown by over 50 percent between fiscal years 1985 and 1996 as shown in figure II.18.¹¹ As the amount of O&M funds provided to the large departmental programs grew between fiscal years 1991 and 1996, the number of active military personnel fell and the civilians associated with the departmental activities that support the active military declined. After fiscal year 1996, the level of O&M funds allocated to each person for this mission is projected to remain virtually unchanged through fiscal year 2001.

¹¹Per person values are per all active military and the full-time Guard and Reserve and DOD civilian personnel associated with active military departmental mission programs.

Figure II.18: Per Person Annual O&M Funding for Departmental Mission Activities That Support the Active Military (Constant 1997 dollars in thousands)



Note: Per person values are per all active military and the full-time Guard and Reserve and DOD civilian personnel associated with active military departmental mission programs.

Source: Our analysis of DOD FYDP data.

Mobility Forces

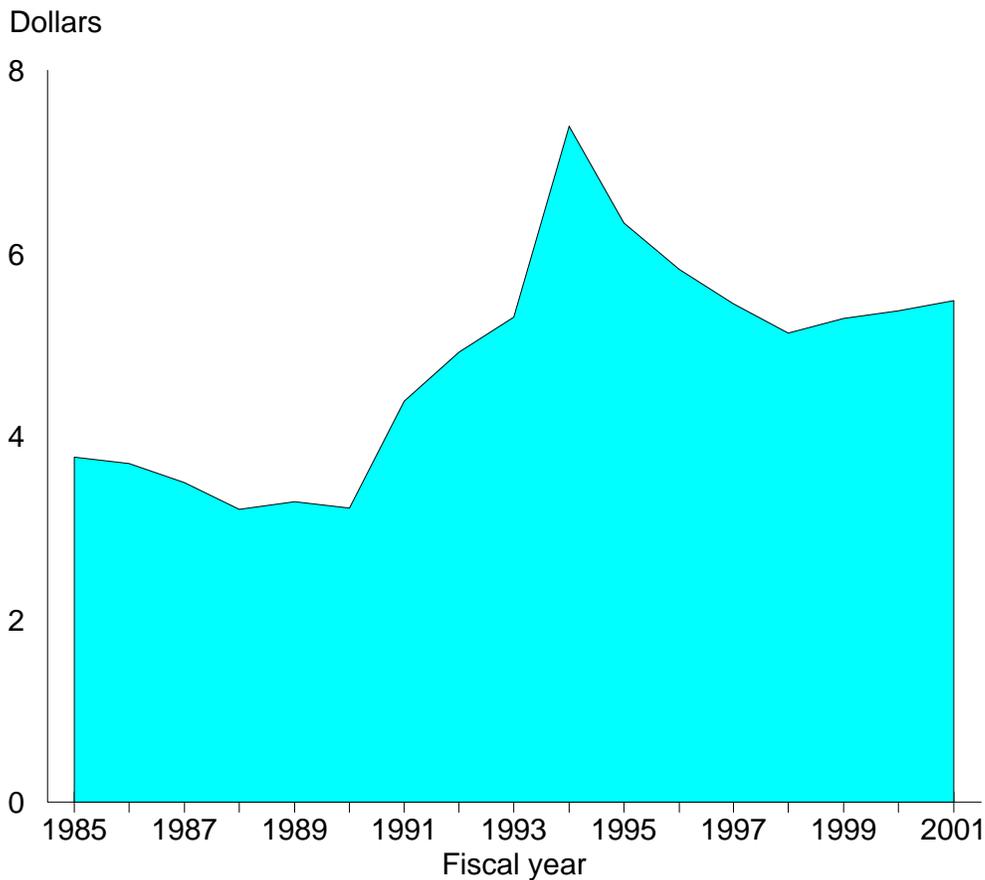
O&M funds for the mobility forces category consist of programs and activities for multimode and intermodal lift forces,¹² airlift forces, sealift forces, and land mobility forces. As shown in figure II.19, between fiscal years 1985 and 2001, total O&M funds for the mobility forces category increase from almost \$3.8 billion to \$5.5 billion, or by 45.5 percent. Most of the increase occurs between fiscal years 1985 and 1996, a 54.6-percent increase. Among the eight categories in our analysis, this category has the

¹²During the fiscal year 1985-2001 period, multi- and intermodal lift forces have O&M funds only in fiscal year 1986.

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second largest percentage change in funding during the fiscal year 1985-2001 period.

Figure II.19: Annual Mobility Forces O&M Funds for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



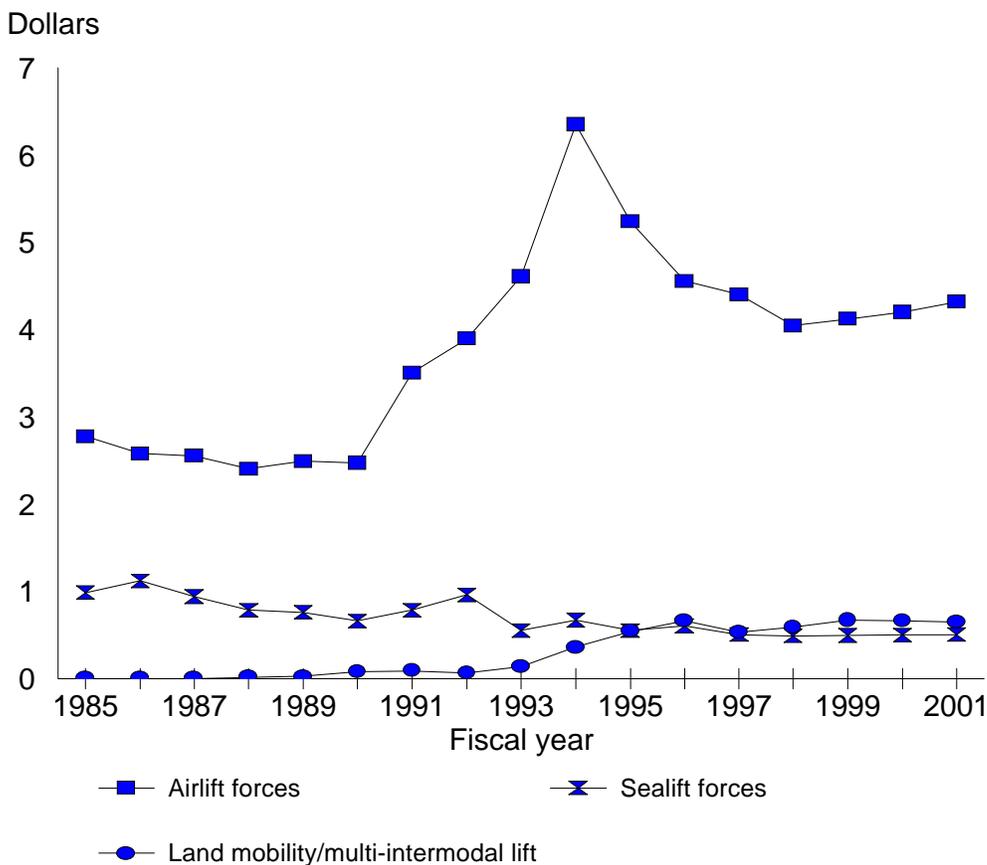
Source: Our analysis of DOD FYDP data.

When funds are grouped by missions within mobility forces, between fiscal years 1985 and 2001, airlift forces is the largest category funded by direct O&M appropriations. (See fig. II.20.) The surge in fiscal year 1994 O&M funds was for airlift base operations. Throughout the 17-year period, land

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mobility forces O&M funds increase from \$871 thousand in fiscal year 1985 to almost \$653 million in fiscal year 2001 and have the largest percentage change in funding when compared with sealift and airlift forces.

Figure II.20: Annual Mobility Forces O&M Funds by Mission for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



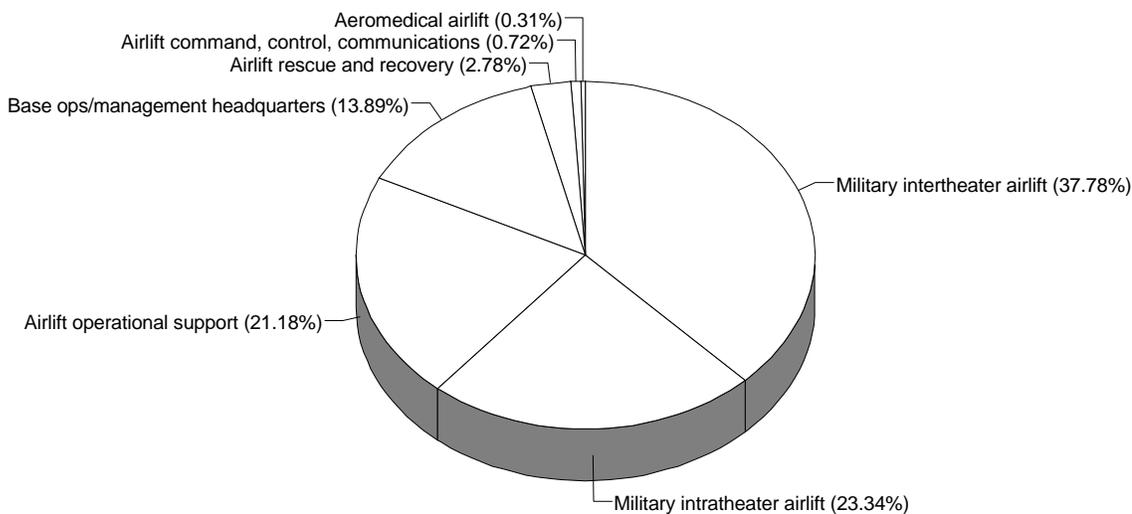
Source: Our analysis of DOD FYDP data.

When funds are grouped by missions within airlift forces, during the fiscal year 1985-2001 period, military intertheater airlift has the largest percentage change in funding (225.6 percent) when compared with other

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airlift forces missions. Moreover, starting in fiscal year 1996, military intertheater airlift is projected to have the largest share of annual airlift forces O&M funds. Military intertheater airlift is comprised of active, National Guard, and Reserve airlift squadrons and support activities. Figure II.21 shows the distribution of total fiscal year 1996 O&M funds by mission within airlift forces. Projections show that, for the fiscal year 1997-2001 period, each airlift forces category share of annual O&M funding closely mirror the fiscal year 1996 share.

Figure II.21: Percentage of Fiscal Year 1996 Airlift Forces O&M Funds Allocated by Mission



Source: Our analysis of DOD FYDP data.

Training

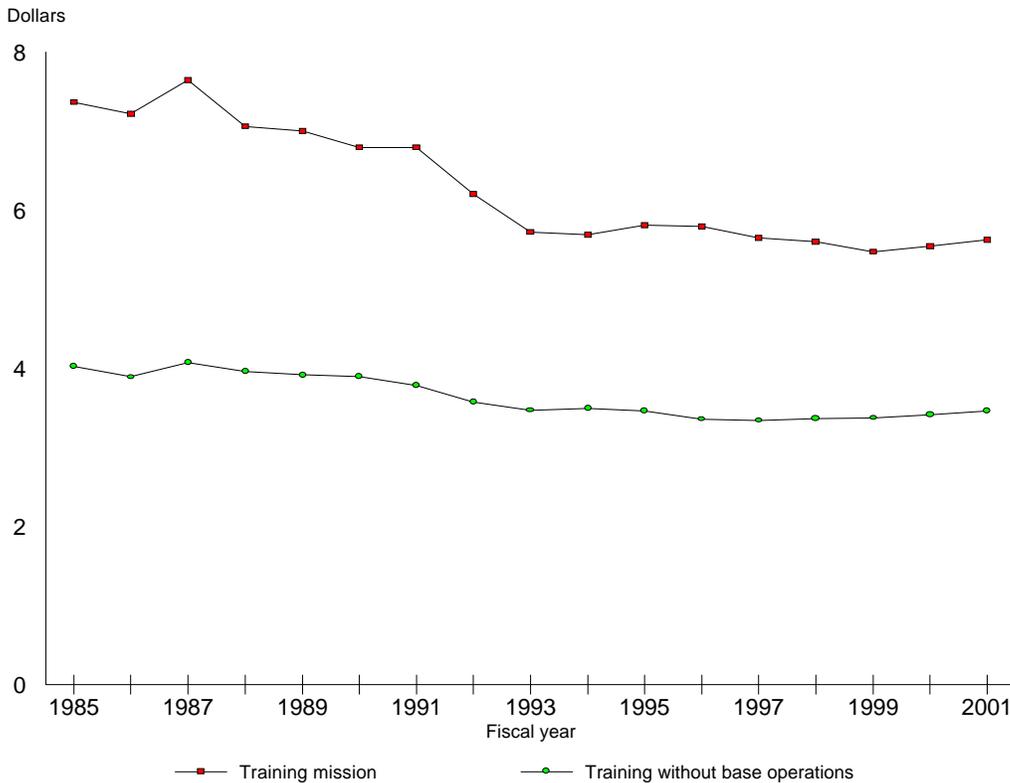
The training defense mission category consists of all military personnel training, civilian personnel training, flight training, intelligence skill training, health personnel training, and training base operations and management headquarters.

Figure II.22 shows that the O&M funding level for the training mission decreased by 22 percent between fiscal years 1985 and 1993 and is projected to remain fairly level through fiscal year 2001. If O&M funding for training base operations and management headquarters is removed from the overall O&M funding level of the training mission as shown in

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figure II.22, the amount of O&M funds provided to this mission is projected to decrease by only 14 percent between fiscal years 1985 and 2001. Military personnel training and flight training activities receive over 85 percent of the remaining annual O&M funds for this mission.

Figure II.22: Annual O&M Funding for Training for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Source: Our analysis of DOD FYDP data.

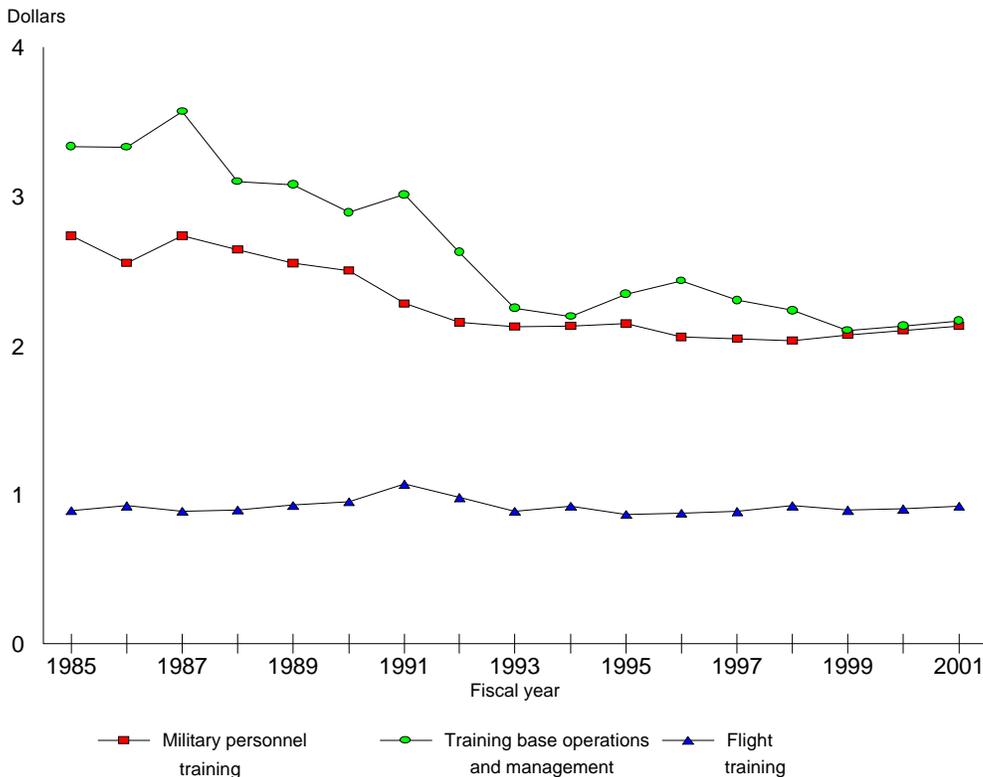
Much of the decline through fiscal year 1993 was for training base operations and management headquarters activities. Base operations and management headquarters activities have received and are planned to continue to receive the largest portion of annual O&M funds for this mission

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category, although its portion of the training mission's O&M funds has declined.

Figure II.23 shows that military personnel training (mostly general skills training and support of the training establishment) has declined as the active force declined, and funding for this activity is planned to remain fairly constant from fiscal year 1996 to 2001 when military personnel levels are projected to stabilize. O&M funding for flight training activities (mostly undergraduate pilot training), though, has not changed much over the 17 years covered by this report.

Figure II.23: Annual O&M Funding for Selected Training Mission Activities for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



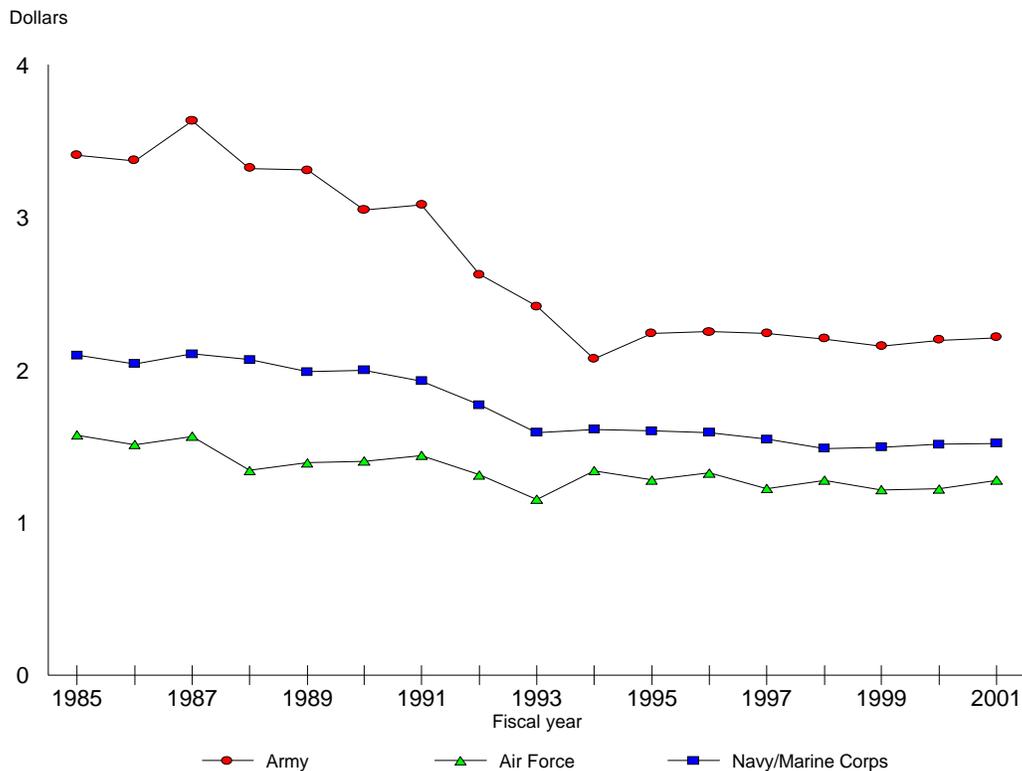
Source: Our analysis of DOD FYDP data.

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Since civilian and Guard and Reserve personnel training accounts for a very small portion of the total training mission, we focused our analysis of O&M funding for the mission by service on active military personnel training only. As displayed in figure II.24, the Army has received and plans to continue to receive more annual training mission O&M funds than either the Air Force or the Navy/Marine Corps, although the Army's share of annual O&M funds for this mission has decreased along with its force structure. The Army is projected to receive 35 percent fewer annual training O&M funds in fiscal year 2001 than it received in fiscal year 1985. This decline is due mostly to planned declines in military personnel training (general skills training) and training base operations and management headquarters. The only Army training area that received an infusion of O&M funds in the fiscal year 1985 to 1996 period was flight training, but after fiscal year 1996, funds for this training are projected to decline by almost 7 percent. For the projected period through fiscal year 2001, only the military personnel training area is expected to receive an increase in O&M funds.

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Figure II.24: Annual O&M Funding by Service for Active Military Training Mission Activities for Fiscal Years 1985-2001 (Constant 1997 dollars in billions)



Source: Our analysis of DOD FYDP data.

Figure II.24 also shows that O&M training funds for the Navy/Marine Corps and the Air Force have declined between fiscal years 1985 and 1996 in concert with declines in their force structure, but similar to the Army, funding levels are expected to remain fairly stable in the out-years. Between fiscal years 1985 and 1996, the Navy/Marine Corps O&M training mission funds decreased by 24 percent and the Air Force's funding level decreased by 16 percent. After fiscal year 1996, O&M funding for the Navy/Marine Corps training base operations is projected to continue to decrease. However, O&M funding for Navy/Marine Corps military

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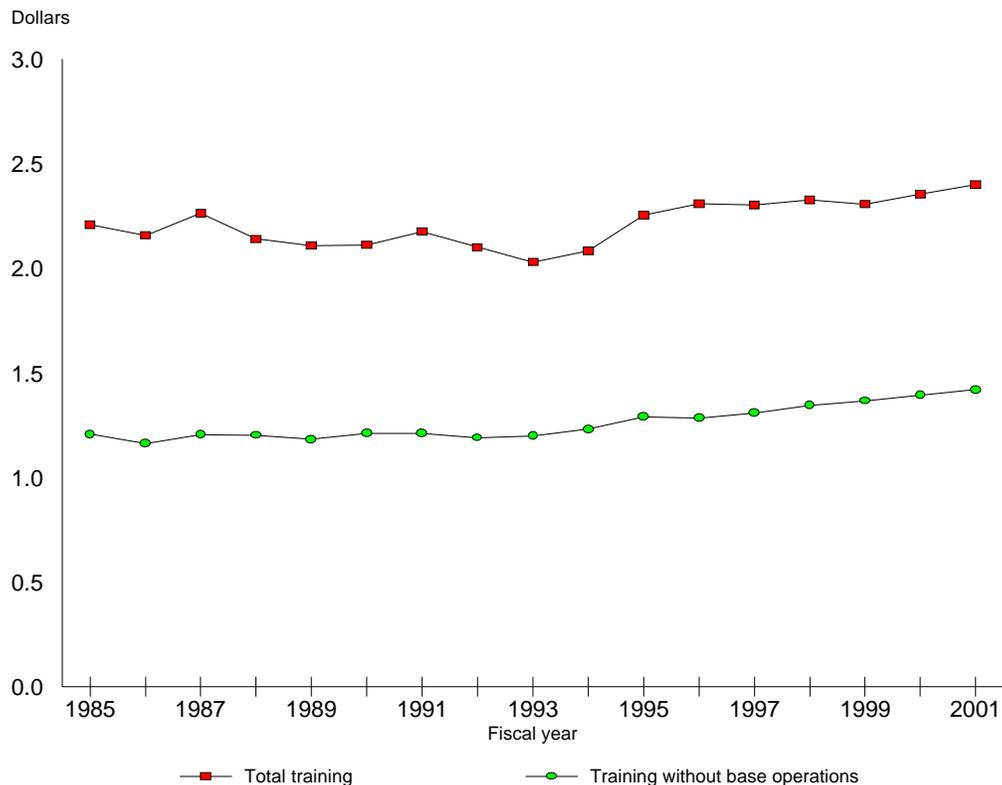
personnel, flight, and intelligence skill training is expected to grow. Flight training is the only area that is planned to receive an increase (12 percent) in O&M funds for the Air Force during the fiscal year 1996 through 2001 period.

O&M funding for the training mission per full-time military and DOD civilians declined by 8 percent between fiscal years 1985 and 1993, but after fiscal year 1993 grew annually through fiscal year 1996, as presented in figure II.25. It is projected to remain stable after fiscal year 1996 until fiscal years 2000 and 2001 when funding per person will increase by approximately 2 percent per year.

If base operations and management headquarters is removed from overall O&M funding of the training mission, the O&M funding per full-time military and DOD civilians remained fairly stable at about \$1,200 per year through fiscal year 1993, when it began to increase annually. The level of O&M funding per person is projected to increase to over \$1,400 by fiscal year 2001.

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Figure II.25: Per Person Annual O&M Funding for Training Activities for Fiscal Years 1985-2001 (Constant 1997 dollars in thousands)



Note: Per person funding levels are per all active military, full-time Guard and Reserve, and DOD civilians.

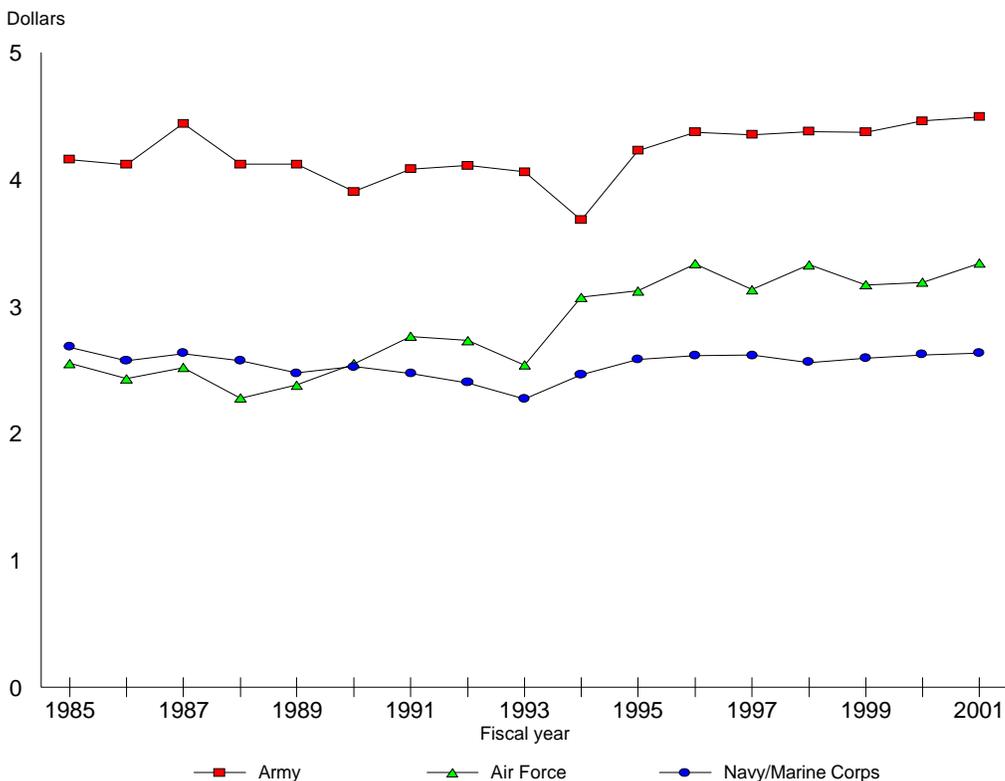
Source: Our analysis of DOD FYDP data.

Figure II.26 shows that the pattern of O&M funding per person for the training mission for each service's active military differs. The O&M funding level per person for active Air Force training grew the most (over 30 percent) between fiscal years 1985 and 1996 and peaked at \$3,300 per person by fiscal year 1996. Our analysis of FYDP data shows that this level of funding per person is projected to be reached again in fiscal years 1998 and 2001. Although the O&M funding for training per active Army military

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person fell to its lowest level in fiscal year 1994, it increased annually during fiscal years 1995 and 1996, and will increase annually again in fiscal years 2000 and 2001, when it will peak at \$4,500 per person. The Navy/Marine Corps o&m funding per person for active military training fell by 15 percent between fiscal years 1985 and 1993 but is projected to increase annually through fiscal year 1997, and fall slightly in fiscal year 1998, when it will increase about 1 percent per year again until it reaches \$2,600 per year in fiscal year 2000.

Figure II.26: Per Person Annual O&M Funding by Service for Active Military Training Activities for Fiscal Years 1985-2001 (Constant 1997 dollars in thousands)



Note: Per person funding levels are per all active military in the specified service and the civilians and full-time Guard and Reserve personnel associated with the active military training DMCs.

Source: Our analysis of DOD FYDP data.

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Penalty for Private Use \$300**

Address Correction Requested

