

SUMMARY OF THE DOD FISCAL YEAR 2014 BUDGET PROPOSAL

PRINCIPAL OBJECTIVES

The Fiscal Year 2014 budget submission builds on decisions made in recent budget cycles. It continues to pursue goals that are of enduring significance to the Department of Defense, the men and women of the armed services, and the nation's taxpayers. Specifically, with the FY2014 budget the department seeks to:

1. Act as good stewards of the public funds.
2. Implement and deepen program alignment to the new defense strategy.
3. Create a force that is ready across a spectrum of missions.
4. Keep people central to our plans.

Good Stewards of Public Funds

The FY 2014 budget builds on the Department of Defense's reform agenda that began several years ago. That agenda generated \$150 billion in efficiencies in the five-year plan submitted with the FY 2012 budget and another \$60 billion in efficiencies in the five-year plan submitted with the FY 2013 budget.

For 2014, savings of approximately \$34 billion have been identified to make better use of resources across the five years of this Future Years Defense Plan. To permit infrastructure consolidation, the budget requests a round of Base Realignment and Closure (BRAC) in 2015. BRAC is the only effective means of achieving infrastructure consolidation. This BRAC round adds \$2.4 billion to costs in the next five years but would eventually save substantial sums. The actual closing of any bases would involve a multiyear process that would not start until 2016, after the economy is projected to have more fully recovered.

In order to maintain balance and readiness, the budget also includes savings associated with additional weapons program terminations and restructuring (\$9.9 billion), continuing efforts to capture more favorable medical cost growth recently experienced in both the Military Health System and national medical cost trends (\$8.9 billion), and restructuring of military construction plans (\$4.14 billion). By September, a study of Military Treatment Facilities should have identified options that will eventually lead to further reductions in healthcare costs.

The department is also working to slow the growth in military compensation while continuing to support the All-Volunteer Force. The increase in military basic pay will be set at 1.0 percent in FY 2014, slightly lower than the 1.8 percent increase in the Employment Cost Index; the budget also provides service members with increases in their housing and subsistence allowances of 4.2 and 3.4 percent respectively. The department is also resubmitting some changes in military health care enrollment fees and pharmacy copays that were denied last year by the Congress, but after making modifications designed to accommodate concerns. Together

these initiatives reduce costs by \$1.4 billion in FY 2014 and a total of \$12.8 billion in FY 2014-2018.

To make better use of America's defense dollars, the department continues to pursue its commitment to effective financial management controls. The overall objective is unchanged – to provide decision makers with accurate, reliable, and relevant financial information and to ensure that all DoD financial statements are audit-ready by the end of FY 2017, with budget statements audit-ready by the end of FY 2014.

The department continues to pursue its Better Buying Power (BBP) initiative. BBP 2.0 will further the department's commitment to continuous process improvement in acquisitions.

Implementing and Deepening Program Alignment to the New Defense Strategy

The FY 2014 budget will further implement the department's new strategic guidance, "Sustaining U.S. Global Leadership: Priorities for 21st Century Defense," which was published in January 2012.

FY 2014 spending will continue the transition to a smaller, leaner force – one of the key goals of the new strategy. By the end of FY 2014, the department will have completed almost two-thirds of the planned reductions in end strength for ground forces. The department will also pursue retirements of ships and aircraft, including resubmitting some proposals that were denied last year by Congress.

The proposed budget provides funds to support key aspects of the initiative to rebalance posture and presence to emphasize the Asia/Pacific region and the Middle East. In the Asia-Pacific, funds are included for hardening of airfields, protection of critical strike capabilities such as bombers and F-22 squadrons, and developing Guam as a strategic hub. Funding is also requested to support strengthening and deepening partnerships in the Asia-Pacific.

The FY 2014 request supports investments in technology needed to meet future threats and to maintain a competitive edge. Funding will support continued development of three variants of the F-35 (\$8.4 billion), new ship construction (\$10.9 billion), missile defenses (\$9.2 billion), and continued development of a new penetrating bomber (\$379 million). Other critical investments include cyberspace operations (\$4.7 billion), space capabilities (\$10.1 billion), and new technology in intelligence, surveillance, and reconnaissance assets (\$2.5 billion). In response to threats from North Korea and Iran, the department is enhancing defense of the homeland against ballistic missiles by taking steps to increase the number of Ground Based Interceptors and upgrade the missile field at Fort Greely, Alaska.

Seek a Ready Force

The FY 2014 budget request supports efforts to establish a new readiness posture for the post-Afghanistan period. More specifically:

- The Army seeks regionally aligned forces, trained for decisive action
- The Marine Corps seeks crisis response, full spectrum training, and reconstituting in stride
- The Navy seeks full spectrum training while maintaining ongoing presence operations
- The Air Force sets a course to restore full spectrum readiness
- The Special Operations Command strives for full spectrum, global capabilities and regional expertise

Despite the critical importance of this goal, sequestration cuts in FY 2013 – combined with issues related to funding of wartime operations – place it in jeopardy. The large shortfalls in FY 2013 operating funds will force the Military services to shut down training for some units, which will seriously harm readiness. Unless sequestration is replaced soon, the degraded readiness in FY 2013 may leave the military unable to meet its readiness goals for FY 2014.

People Are Central

Because the All-Volunteer Force is central to a strong U.S. military, the FY 2014 budget continues to provide for the care of service members and their families.

The FY 2014 proposed budget includes a 4.2 percent average rate increase in Basic Allowance for Housing (BAH) to \$21 billion and a 3.4 percent increase in Basic Allowance for Subsistence (BAS) to \$5 billion. The FY 2014 budget also contains \$49.4 billion to fully fund the Military Health System and to continue providing high-quality care to military personnel on active duty, their dependents, and retirees.

DoD's budget request also seeks \$8.5 billion in family support – for DoD schools, commissaries, counseling, child care, and other programs. In addition, the department will continue to invest in critical programs such as assistance to help veterans transition to civilian life, wounded warrior care, suicide prevention, and sexual assault prevention and response.

Attached Summary Chart:

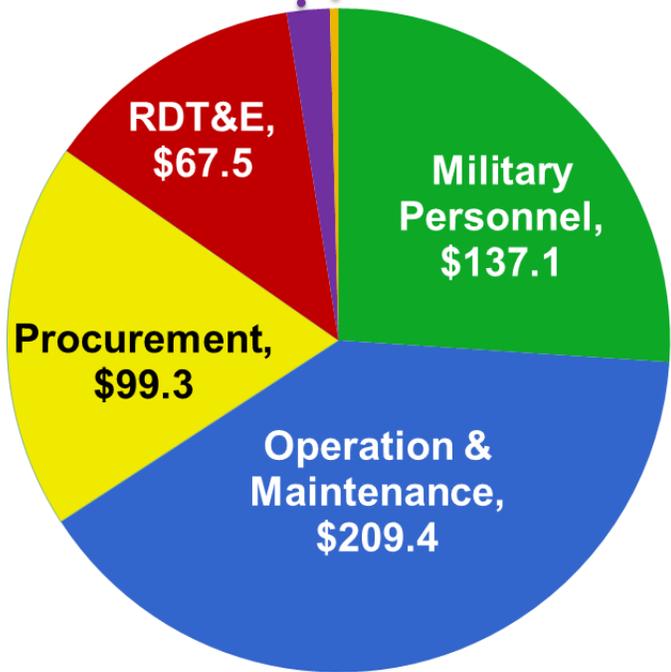
- FY 2014 President's Base Budget by Accounts and Military Departments

FY 2014 President's Budget

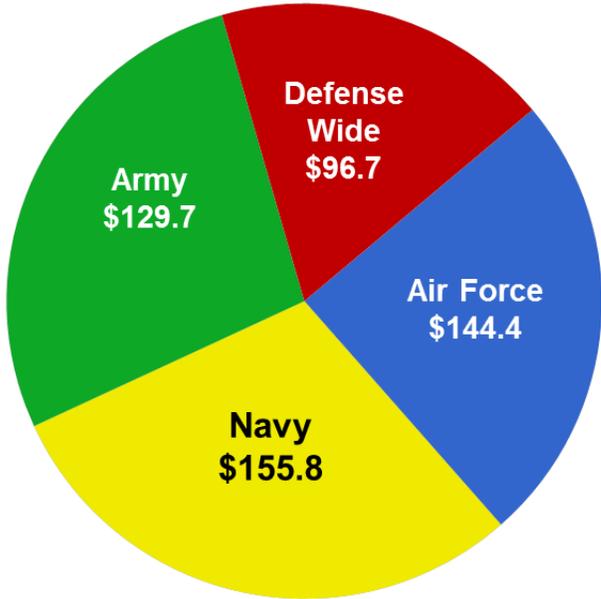
(Dollars in Billions)

Base Budget

Military Construction, Family Housing \$11.0
Others, \$2.3



Budget By Military Department



Budget Request: \$526.6 Billion