The President’s Proposal:

- Wages war on terrorism—terrorism both at home and abroad;
- Transforms American armed forces for the future as part of a comprehensive long-term effort to adapt the U.S. military to new security challenges;
- Assures military readiness by keeping our “first to fight” forces trained and equipped to adapt to emerging threats;
- Enhances the quality of life of military personnel and their families by improving pay, living and working conditions, and health care; and
- Commits to streamlining the Department, supporting war fighting, modernizing the Department’s approach to business and financial information, and applying private sector standards to infrastructure.

Department of Defense

Donald H. Rumsfeld, Secretary

www.defenselink.mil 703–697–5737

Number of Employees: 2.3 million Military (Active, Reserve, and Guard) and 667,750 Civilian

2002 Spending: $330.6 billion

Organization: Four Armed Services (Army, Navy, Marine Corps, and Air Force); 15 Defense Agencies; nine Unified Combatant Commands; and over 30 million acres of bases/facilities worldwide.

The primary mission of the Department of Defense (DoD) is to defend the United States of America and advance its interests around the globe. In peacetime, DoD trains and equips military forces needed to deter aggression while protecting U.S. interests and promoting U.S. security objectives. Now that we are at war, DoD’s goal is to defeat the terrorists and their supporters who threaten our freedom. DoD is the largest federal agency and the largest corporate entity of its type in the world.
Overview

New Challenges in the National Security Environment

Shortly after his inauguration, President Bush called for a review of all U.S. military capabilities setting the goal of how best to achieve the necessary transformation to meet the new challenges of the 21st Century. Over the past year, the Secretary of Defense has led efforts to transform the way U.S. military forces defend the country while also addressing long-standing management problems at DoD. The terrorist attacks on the United States on September 11, 2001, underscored the urgency of Secretary Rumsfeld’s effort. The new security environment requires a military force that is balanced to counter both conventional and unconventional threats and is armed with strong intelligence gathering and analysis capabilities. Even so, intelligence gaps will persist, so innovation must be factored into our defense planning and response.

The need for military transformation was clear before the conflict in Afghanistan and before September 11th. What’s different today is our sense of urgency—the need to build this future force while fighting a present war. It’s like overhauling an engine while you’re going at 80 miles an hour. Yet, we have no other choice.

President George W. Bush
December 11, 2001

The future, both near- and long-term, presents numerous challenges and great opportunity. When President Bush took office, he inherited a defense program that needed to be strengthened. As a percentage of the nation’s gross domestic product, defense expenditures had shrunk to 2.8 percent. Inadequate funding strained both equipment and people. Recognizing these deficiencies, President Bush provided significant increased resources for defense in 2002. Much remains to be done. In a post-Cold War world, where freedom and democracy remain imperiled, this budget lays the groundwork for a sustained, long-term investment in the nation’s security. The United States must strengthen its defense posture to protect the nation’s interests and to assure its lead role in global affairs. A war on terrorism has begun, and while there has been success in achieving specific military objectives, the shape and dimension of the subsequent phases of the campaign will remain a work in progress for some time to come.
The President’s 2003 Budget for DoD and the intelligence community reflects the Administration’s strong commitment to winning the war on terrorism, sustaining current military readiness, transforming the way the nation defends itself, and enhancing American intelligence capabilities. To address these needs the President’s Budget proposes $369 billion in 2003 for DoD and an additional $10 billion, if needed, to fight the war on terrorism.

Defense Against Ballistic Missiles

Successful flight tests over the past year represent a step forward on the road to deploying effective defenses to protect the American people, its friends, allies, and troops abroad. DoD plans to pursue more aggressive exploration and realistic testing of key technologies to counter ballistic missiles in all phases of their flight. The missile defense program is designed so that needed capabilities can be deployed as technologies are proven ready.

Waging the War at Home—Homeland Security. The growing importance of homeland security raises a host of challenges in the post-September 11th environment. These issues include policy and resource allocation decisions to improve homeland security. More than ever, coordination among defense and non-defense agencies will be critical to success. DoD plays an important role in homeland security, providing assistance to law enforcement at the state and federal level when authorized by law, enhancing airport and border security, sharing intelligence information, and marshaling resources to respond to new attacks. Hand-in-glove with the domestic war on terrorism, Air National Guard, Air Force Reserve, and active Air Force aircraft serving in Operation Noble Eagle began providing combat air patrols over major U.S. cities starting on September 11th. Shortly thereafter, the National Guard helped provide security at the nation’s airports. Similarly, Navy Reserve and Coast Guard units are helping to protect our waterways and harbors, and Army National Guard troops will provide assistance to Customs Service and Immigration and Naturalization Service personnel on our northern border.

Waging the War on Terrorism—Winning the War Abroad. The U.S. military responded rapidly to the terrorist attacks, initiating major combat operations 7,000 miles from the United States in less than one month. By November 2001, the Air Force and Navy had flown 40,000 hours in support of Operation Enduring Freedom. The Navy has had as many as four aircraft carrier battle groups in the region supporting flight operations and special operations forces. Almost 400 fighter, tanker, and airlift aircraft and more than 50,000 troops have recently been engaged in this mission.

Status Report on Select Programs

The Administration is reviewing programs throughout the federal government to identify strong and weak performers. The accompanying table shows some selected DoD programs and their effectiveness.
<table>
<thead>
<tr>
<th>Program</th>
<th>Assessment</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military Readiness</td>
<td>Effective</td>
<td>The speed of American deployment in the war on terrorism has demonstrated improved readiness. The budget sustains this gain and builds on it by funding improvements in training facilities.</td>
</tr>
<tr>
<td>Military Compensation</td>
<td>Effective</td>
<td>Recent increases in pay have helped improve the recruitment and retention of top-caliber men and women for our military.</td>
</tr>
<tr>
<td>Family Housing</td>
<td>Army/Navy:</td>
<td>DoD has started to rely on private sector expertise to improve the quality of housing for military families – a Presidential initiative. Also, Air Force:</td>
</tr>
<tr>
<td></td>
<td>Effective</td>
<td>the Secretary of Defense has established a goal to eliminate DoD’s inventory of 159,000 inadequate housing units for military families by 2007. The Army and Navy plan to achieve the 2007 goal; the Air Force will not achieve the goal until 2010.</td>
</tr>
<tr>
<td>Cooperative Threat Reduction</td>
<td>Moderately</td>
<td>Since it began in 1993, the Cooperative Threat Reduction program has funded the deactivation of 5,336 nuclear warheads, the destruction of 422 intercontinental ballistic missiles in the former Soviet Union, and helped secure vast quantities of material that could be used in a weapon of mass destruction. Taking such steps dramatically reduces the likelihood of terrorists obtaining the means to do harm to the United States and its allies. However, the program has been slow to spend funds provided in prior years.</td>
</tr>
<tr>
<td>Science and Technology (S&amp;T)</td>
<td>Moderately</td>
<td>DoD is working aggressively to develop more effective technologies. Projects mostly performed by the private sector or academia are generally handled well. However, each military service and defense agency generally determines its own S&amp;T plan with little Department-wide coordination. To reduce potential duplication of efforts, the Under Secretary for Acquisition Technology and Logistics should develop a better integrated and coordinated funding plan for these efforts.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Ineffective</td>
<td>The Department maintains a large inventory of old buildings that need to be replaced. Right now, DoD is on a path to replace old buildings approximately once every 120 years. DoD had planned to accelerate the pace at which it replaced facilities, but allocated funds to other, more pressing needs. Another round of base realignment and closure, approved by Congress for 2005, is essential to achieving faster replacement and improvement of unsatisfactory DoD facilities.</td>
</tr>
<tr>
<td>Program</td>
<td>Assessment</td>
<td>Explanation</td>
</tr>
<tr>
<td>-------------------------</td>
<td>------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Weapons Systems</td>
<td>Ineffective</td>
<td>While DoD develops and builds the most capable weapons systems in the world, these programs continue to exceed cost and schedule targets. Between 2000 and 2003, cost growth for major weapons rose by an estimated 15 percent on average. Part of that increase is due to more realistic cost estimating. DoD has begun to establish initiatives to enhance its ability to monitor and to control cost growth and schedule delays.</td>
</tr>
<tr>
<td>Cost Control</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemical Demilitarization</td>
<td>Ineffective</td>
<td>The Army’s program to destroy the U.S. stockpile of chemical weapons is behind schedule. Costs have increased over 60 percent, from $15 billion to $24 billion. These delays are the result of various difficulties, including unrealistic schedules, site safety and environmental concerns, and poor planning.</td>
</tr>
<tr>
<td>DoD-VA Coordination</td>
<td>Ineffective</td>
<td>The Departments have historically lacked genuine commitment to coordinate systems. Many areas for integration exist. For example, VA and DoD could better serve mutual constituents by developing an integrated enrollment system. There has, however, been progress in some areas. VA and DoD have begun discussions on how to better coordinate and share patient medical information. For significant and rapid progress to be made in this area, both VA and DoD must focus their efforts on developing common business processes that are supported by fully integrated information technology standards and architecture.</td>
</tr>
</tbody>
</table>

**Congressional Earmarks**

Congressional earmarks add funding for programs that are not requested by the Defense Department, diverting funds from higher priority and more effective programs. The 2002 Defense and Military Construction Appropriations Acts earmarked funds for 963 DoD projects totaling $5.4 billion. The DoD budget process thoroughly reviews all programs to determine the optimal cost-effective mix of programs for national defense. Earmarking disrupts this balance of programs and crowds out other important projects.

For example, the Congress has added funds for aircraft the Air Force does not require and thereby limits resources for war fighting needs. In addition, funding has been directed for military construction projects that the services do not want to build. Some earmarks have little relationship to an agency’s mission. For example, the 2002 Defense Appropriations Act included over $600 million for a variety of unrequested medical research projects. These projects include research on breast cancer, ovarian cancer, prostate cancer, diabetes, and osteoporosis. While research on these diseases is very important, it is neither the mission nor the core competency of the U.S. military. Rather, these functions can be carried out and coordinated more effectively by other medical research agencies, such as the National Institutes of Health.
Intelligence

The intelligence community is adapting to the changed environment of the 21st Century. Advances in encryption, denial and deception techniques, and information technology create enormous challenges for intelligence gathering and analysis. Policymakers need timely, accurate and insightful information on the capabilities and intentions of foreign powers. The armed forces also need real-time battlefield data furnished with a significant level of detail. The intelligence community meets the full range of U.S. intelligence needs from the national level to the tactical level.

The 2003 Budget strongly supports these efforts and makes a substantially increased investment in our intelligence capabilities. This budget also makes major investments to transform the intelligence community to meet the challenges of the 21st Century.

Transforming Our Armed Forces

This revolution in our military is only beginning, and it promises to change the face of battle. Afghanistan has been a proving ground for this new approach. These past two months have shown that an innovative doctrine and high-tech weaponry can shape and then dominate an unconventional conflict. The brave men and women of our military are rewriting the rules of war with new technologies and old values like courage and honor... This combination—real-time intelligence, local allied forces, special forces, and precision air power—has really never been used before. The conflict in Afghanistan has taught us more about the future of our military than a decade of blue ribbon panels and think-tank symposiums.

President George W. Bush
December 11, 2001

One of the President’s key defense priorities is to transform America’s armed forces to perform their missions more effectively and to meet emerging security challenges. The Defense Department began the process of transformation with its 2001 Quadrennial Defense Review. The review shifted to a “capabilities-based” defense strategy that focuses on capabilities of potential adversaries and the tools that America’s armed forces will need to deter and defeat adversaries employing those capabilities. Both the terrorist attacks of September 11, 2001, and the subsequent conduct of Operation Enduring Freedom in Afghanistan underscore the urgency of military transformation. They illustrate the need for America’s military to prepare for different types of conflict and execute missions with new tactics and new technologies. The growing use of unmanned aerial vehicles, the effective utilization of real-time intelligence, and the coordination among special operations and allied forces all demonstrate the cutting edge of what military transformation can achieve and offer a glimpse of a future transformed joint force. To shape this effort, DoD has recently established an Office of Force Transformation to coordinate all of the military service transformation efforts and advise the Secretary of Defense.
In 2003, the Department will invest over $9 billion in science and technology. New efforts include: easy-to-wear chemical/biological protection masks, chemical, biological, and nuclear weapons detectors, bunker and cave-defeating weapons, intelligence systems to detect assembly of weapons of mass destruction, and unmanned air, land, and sea surveillance and combat vehicles. In addition, DoD will invest $7.8 billion in ballistic missile defense with the objective of developing the capability to defend the forces and territories of the United States, its allies, and friends against ballistic missile threats.

Besides continuing the development of highly capable fighter aircraft such as the Joint Strike Fighter and new ships, the Defense Department's 2003 budget invests in technologies that will transform the military and fundamentally change the American way of warfare. These systems include:

- four Trident ballistic missile submarines converted to submarines equipped with long-range cruise missiles which will dramatically increase the range and precision of strikes and our capability to insert Special Forces;
- unmanned aerial vehicles such as those used in the war against terrorism, which provide greater, longer-endurance intelligence and combat capabilities directly to the war-fighter at far less cost and risk to military personnel than manned aircraft;
- unmanned underwater vehicles that can greatly extend the range and capabilities of submarines and surface ships at less cost and without risk to sailors;
- the Army's Land Warrior technology, which digitizes the communications and intelligence capabilities of the individual infantry soldier to enhance situational awareness and combat capability;
- small precision bombs, which increase the quantity of targets that each individual aircraft can strike;
- bunker-defeating munitions to target the growing threats of deeply hidden weapons of mass destruction; and
- space-based radar and space control systems, which enhance our surveillance capabilities and our capabilities to collect and utilize information from space.

Other emerging areas of defense investment focus on America's ability to conduct information and space operations.
Eliminating Poor Performers: Navy Area Theater Ballistic Missile Defense

Delays in the development schedule and large projected cost increases caused DoD to cancel a multi-billion dollar Navy missile defense program. The program, known as Navy Area Theater Ballistic Missile Defense, was designed to give Navy cruisers and destroyers the ability to shoot down short- and medium-range ballistic missiles. DoD previously thought that the Navy’s system would cost about $6.2 billion to develop and deploy. However, in December 2001, DoD announced that “unit costs” would grow by more than 50 percent. The Administration still plans to pursue sea-based terminal missile defenses, but this Navy program was too costly to continue.

Assuring the Readiness of Our Armed Forces

The cuts to procurement spending and investment in the immediate years following the end of the Cold War, combined with an increase in overseas contingency operations, put a strain on both equipment and people. Frequent deployments meant strains on military readiness because of missed training and strains on families because of more frequent separations from loved ones. The President has pledged to solve this problem.

Despite these strains, the U.S. armed forces remain the most capable in the world and have demonstrated their readiness with their rapid response to the events of last September. Soldiers, sailors, air force crews, and marines have routed enemy forces in Afghanistan, while also keeping the peace in the Balkans, patrolling the no-fly zones of Iraq and maintaining a strong forward presence around the globe.

Readiness relies upon three main factors. First, we must recruit and retain personnel with key skills and talents. Second, we must provide high quality training to give troops the expertise and skill to fight and win our nation’s wars. Third, we must maintain equipment and facilities that our forces use to accomplish their missions.

These three factors are a high priority in this budget.

- First, a 4.1 percent across-the-board pay increase supports the Services’ recruiting and retention goals.
- Second, the adage “you fight the way you train” remains true. This budget robustly funds the Services’ training goals, as measured in aircraft flying hours, ship steaming days, and ground vehicle miles. Without these crucial training and operating activities, the safety and well being of our troops and their ability to accomplish their missions successfully will be at risk.
Third, this budget adds significant resources for maintaining military equipment and the facilities where our troops work and train. DoD cannot afford any further growth in maintenance backlogs. With scarce resources, the Department has been forced to delay needed maintenance. If equipment and real property maintenance needs are not met, training opportunities and readiness erode, and costs rise.

As the attacks have demonstrated, U.S. military facilities are terrorist targets. The budget will enhance force protection for our armed forces and the facilities where they work and live. It also ensures that transportation, communications, and information systems are strong enough to cope with terrorist attacks when they occur. Just as important, these activities protect and support our troops’ families.

Enhancing the Quality of Life of Military Personnel and Their Families

Military quality of life is crucial to retaining service members and their families. The military services have long recognized that while they recruit the service member, they must retain the family. No matter how advanced the technology or what strategy is developed, having imaginative, highly skilled, and motivated military and civilian personnel is essential for America to address the challenges of the future. To recruit and retain these people, the Department has increased funding and will work to enhance a number of quality-of-life efforts, including compensation, housing, and health care, among other community and family work-life support programs.
Military Compensation

In 2002, the President proposed and Congress authorized the largest military pay raise in two decades. That raise included both an across-the-board 4.6 percent increase in basic pay and the President’s $1 billion initiative which proposed targeted raises based on rank and length of service to help retain skilled, experienced personnel. Other benefits have recently been offered to our troops and their families. The President signed an executive order authorizing hazardous duty pay and tax exemptions for troops conducting operations in the Afghanistan theater. The President proposed, and Congress authorized, significant increases in reimbursement for permanent change-of-station costs, again putting more money into the pockets of service members. Pay and benefit levels have never been higher, with average enlisted compensation nearing $36,500 per year. Army captains with 10 years of experience will see their basic pay increase almost $3,000 a year to $50,788, and their overall compensation reach the mid-$70,000 range.

Building on this record, the 2003 Budget contains another pay boost of 4.1 percent with the option of selected targeting of larger raises to mid-grade non-commissioned officers and officers. This continues the President’s commitment to take care of our men and women in uniform and their families and ensures that pay continues to be competitive. This commitment is working: DoD is meeting its goals for recruiting talented young people and retaining experienced, highly-trained military personnel.

Housing

About 20 percent of all service members have inadequate housing on military bases. The definition of inadequate housing is unique to each Service. While some houses are old and in need of improvement, other houses are simply inadequate to meet the needs of today’s military family, which has changed since on-base housing was first constructed decades ago. The Administration is committed to eliminating 159,000 inadequate housing units (out of a total of 275,000) by 2007.

DoD is tackling the problem of inadequate housing by demolishing dilapidated units, renovating existing houses, and building new homes. Increasingly, DoD relies on the private sector, which has expertise to manage real property and can increase the quality of DoD-owned housing at less cost and faster than the government. In 1996, the Congress gave DoD authority to privatize DoD-owned housing. Since 1996, DoD has privatized 16,817 units, or about six percent of the current inventory. While privatization began slowly, DoD is accelerating its efforts. Two public-private partnership launched in 2001:

- The Army, in partnership with private developers, initiated a $260 million family housing privatization project at Fort Hood in Killeen, Texas, the largest Army base in the country.
This project will construct 973 new housing units and renovate 4,939 housing units. Over 4,000 units eventually will be replaced.

- The Navy, in partnership with the private real estate companies and developers, initiated a $262 million family housing privatization project at the Naval Complex San Diego, California. This partnership will construct 519 units and operate a total of 3,248 housing units.

By the end of 2002, DoD plans to privatize an additional 12,970 units. In 2003, DoD plans to privatize 35,600 more housing units to eliminate inadequate housing by 2007. Currently, the Navy and the Army are on track to eliminate inadequate housing by 2007. The Air Force does not plan to eliminate its inventory of inadequate housing until 2010.

The Administration plans to reduce the average out-of-pocket expense of military families living in private housing in local communities to zero by 2005. In 2003, out-of-pocket expenses will drop to 7.5 percent from 15.0 percent in 2001. This will enable more military families to afford quality private-sector housing located in the local communities around DoD's installations. This initiative improves the quality of life for our military families, and makes a contribution to the local economies and real estate markets.

**Strengthening Management**

The President and Secretary of Defense have made management improvement at DoD a key goal. DoD will transform its business processes and infrastructure to enhance capabilities and creativity of its employees and free up resources to support war fighting and transformation of military capabilities.

**Controlling Costs of Constructing Navy Ships**

The costs associated with constructing new Navy ships have increased dramatically over the past few years. More funding will be required to complete construction of several types of ships. One ship in particular, the LPD–17 amphibious ship has experienced excessive cost increases. In 2001, DoD estimated that to build 12 ships it would need a total of $10.6 billion. Now DoD believes it will require $15.1 billion to build these same 12 ships, a 42 percent increase. DoD has begun a number of initiatives to enhance its ability to monitor and take action on cost growth and schedule delays in the ship construction program.

To support 2.3 million men and women in uniform effectively, the Department's efficiency must improve. DoD's business practices and financial infrastructure must be overhauled; they are outdated and have not kept pace with today's business environment. The Department is working to streamline its organization and infrastructure, adopting new business models to react to rapid changes in technology, and implementing financial management strategies to repair the outmoded and poorly connected accounting and auditing processes. DoD has over 600 different management systems that provide financial information, few of which are truly compatible.

One significant management challenge is the Defense Health Program (DHP). DoD supports an internal health care network, as well as private contractors who provide health care. The core mission of DHP is to provide health support for the full range of military deployments and to sustain the health of military personnel, retirees, and their families. DoD is effective at maintaining a health care system supportive of...
day-to-day operations, stays ready to perform its wartime mission, and provides its beneficiaries with the highest quality health care available.

The cost of DoD health care contracts, however, has increased over the past three years to its current level of almost 50 percent of the health budget. Despite various risk-sharing provisions in the current versions of the contracts, there is still a need for greater incentives in the internal system and the private contracts to control escalating costs. High contract costs are caused by a combination of factors including the national health care market, enhancements to the benefit package offered to beneficiaries, effects of downsizing and closures of military health care facilities, the Department’s inability to manage where patients are treated, and ineffective cost incentives. Additionally, DoD has historically underestimated the funding needs of its own medical care system, which has forced beneficiaries into the private sector at a higher cost to the Department. All of these factors resulted in the government paying an additional $655 million in cost overruns to DoD health care contractors in 2001, and DoD receiving over $1.3 billion in emergency supplemental appropriations in both 2000 and 2001.

DoD has made progress in better projecting its funding needs for health care contracts and military pharmaceuticals. More work, however, is necessary to strengthen its projections for health care growth in the future. The Department is committed to redesigning health care contracts and administrative policies to create incentives that preserve the ability of DoD to meet its mission and control costs effectively.

The table that follows illustrates how the entire Department fares on the President’s Management Agenda.

<table>
<thead>
<tr>
<th>Initiative</th>
<th>2001 Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Human Capital</strong></td>
<td></td>
</tr>
<tr>
<td>DoD has completed its civilian personnel workforce analysis that identifies:</td>
<td></td>
</tr>
<tr>
<td>• current skill imbalances; and</td>
<td></td>
</tr>
<tr>
<td>• potential personnel shortfalls due to the large increase in retirement-eligible employees starting in 2003.</td>
<td></td>
</tr>
<tr>
<td>DoD identified difficulties with staffing critical technical personnel such as scientists, engineers, acquisition specialists, and medical personnel—occupations that are critical now and in the future. These difficulties are expected to worsen because of the spike in the retirement-eligible population. DoD wants its future workforce to have better problem-solving skills and have more advanced technical knowledge and skills. DoD needs to develop a workforce-restructuring plan that fully addresses these challenges.</td>
<td></td>
</tr>
</tbody>
</table>
### Competitive Sourcing

DoD’s inventory of commercial activities represents more than half of the government-wide potential. DoD’s competitive-sourcing program has been historically active compared to other federal agencies, but has declined in recent years. Since the President’s Management Agenda ultimately calls for competing 50 percent of the inventory, DoD’s role in this initiative is important to its overall success. DoD could compete such commercial services as laundry, food, grounds-keeping, transportation, and libraries. Dedicating soldiers to these activities detracts from DoD’s war fighting competency.

At this time, the Services and Defense Agencies are projecting actual competitions below levels projected for 2001. DoD needs to compete 15 percent of its commercial inventory in 2003, as required by the President’s Management Agenda. DoD should work to improve the current rate of competitions to meet the President’s goal.

### Financial Management

With over 600 systems providing financial data, DoD has several serious failings in financial management:

- it is not substantially compliant with federal financial management standards;
- it cannot provide a clean assurance statement about its internal controls; and
- it has consistently received a disclaimer by its auditors on its financial statements.

The DoD Inspector General and the GAO have issued a series of reports critical of DoD’s financial management. For example, a recent GAO report criticized DoD’s excessive use of funds in “canceled accounts” to pay contractor bills.

Until adequate progress is made at DoD, the financial statements of the entire government will not receive an opinion from GAO.

DoD has launched a major initiative to improve business and financial processes and systems. The Department is working closely with OMB to develop an enterprise architecture and systems that will support efficient operations, and provide accurate, timely, and useful financial information. This will take a number of years, but the Department has documented a clear commitment to improvement and is moving forward.
For its information technology programs, DoD fails to comply fully with the Clinger-Cohen Act, the key statute that establishes standards for federal information systems.

- **Clinger-Cohen Act—Enterprise Architecture**: DoD must strengthen its capital planning and investment control processes and integrate it with the Program Planning and Budget System (PPBS). The current DoD Enterprise Architecture (EA), the Global Information Grid (GIG), is an important first step to building a comprehensive EA and data layers. There is no clear link between information technology (IT) and performance of core mission.

- **Clinger-Cohen Act—Reporting Requirements**: Clinger-Cohen and DoD regulations require DoD to justify major IT investments. DoD has begun to implement this requirement and complete the necessary analysis. However, DoD has failed to submit business cases for a number of its major IT investments. In addition, many of the cases that were submitted require improvement to meet Clinger-Cohen standards.

**Budget/Performance Integration**—DoD has two major systems for budget and performance that will provide Spring 2002 reports:

- Program, Planning and Budget System (PPBS)
- Government Performance Results Act (GPRA).

However, these systems are not linked in any meaningful way. DoD does not completely factor in performance information when making budget decisions and is unable to correlate its budget request with GPRA goals and performance plans.

DoD has taken some initial steps toward integration. The 2003 Budget includes additional performance information linked to budgetary resources. DoD is also implementing the Administration’s plan to accrue the cost of health benefits for retirees and dependents over 65. Finally, DoD is working on a plan to implement the Administration’s proposed budget integration legislation.
### Department of Defense

Spanning: (In millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>2001 Actual</th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
<td>2003</td>
</tr>
<tr>
<td><strong>Spending:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Discretionary budget authority:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Military Personnel</td>
<td>76,889</td>
<td>81,970</td>
</tr>
<tr>
<td>Operation and Maintenance</td>
<td>113,886</td>
<td>126,145</td>
</tr>
<tr>
<td>Procurement</td>
<td>61,672</td>
<td>61,117</td>
</tr>
<tr>
<td>Research, Development, Test, and Evaluation</td>
<td>41,735</td>
<td>48,554</td>
</tr>
<tr>
<td>Military Construction</td>
<td>5,457</td>
<td>6,484</td>
</tr>
<tr>
<td>Family Housing</td>
<td>3,685</td>
<td>4,053</td>
</tr>
<tr>
<td>Revolving Funds/Other</td>
<td>2,234</td>
<td>2,515</td>
</tr>
<tr>
<td><strong>Subtotal, Discretionary budget authority adjusted</strong></td>
<td>305,558</td>
<td>330,838</td>
</tr>
<tr>
<td>Remove contingent adjustments</td>
<td>-2,979</td>
<td>-3,150</td>
</tr>
<tr>
<td><strong>Total, Discretionary budget authority</strong></td>
<td>302,579</td>
<td>327,688</td>
</tr>
<tr>
<td><strong>Emergency Response Fund, Budgetary resources</strong></td>
<td>4,284</td>
<td>13,168</td>
</tr>
<tr>
<td><strong>Mandatory Outlays:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Military Personnel</td>
<td>—</td>
<td>26</td>
</tr>
<tr>
<td>Operation and Maintenance/Health</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Revolving, Trust and Other DoD Mandatory</td>
<td>581</td>
<td>328</td>
</tr>
<tr>
<td><strong>Offsetting Receipts</strong></td>
<td>-1,369</td>
<td>-1,572</td>
</tr>
<tr>
<td><strong>Total, Mandatory outlays</strong></td>
<td>-788</td>
<td>-1,218</td>
</tr>
</tbody>
</table>

1 Adjusted to include the full share of accruing employee pensions and annuitants health benefits. For more information, see Chapter 14, “Preview Report,” in Analytical Perspectives.
DEPARTMENT OF DEFENSE

The President’s Proposal:

- Continues to wage an aggressive and global war on terrorism while supporting transformation of our nation’s military capabilities;
- Provides unparalleled training and equipment for the troops;
- Funds the intelligence programs necessary to protect the country and support military needs;
- Enhances the quality of life for military personnel and their families;
- Incorporates innovative management practices that increase efficiencies; and
- Advances transformation for a more agile military force.

The Department’s Major Challenges:

- Responding to the war on terrorism’s demands, carrying on daily training operations in the United States and around the globe, and transforming to meet the needs of the 21st Century.

The Department of Defense (DoD) is responsible for defending the United States of America while helping to promote American interests globally. The President has made a clear commitment to continue to provide this nation with the best trained, the best equipped, and the most effective military force in the world. However, it takes more than increased funding to accomplish this goal. It takes a dedicated and professional workforce. Three million people work for DoD, both in and out of uniform, in all 50 states, the territories, and Washington D.C., as well as on every continent. Not unlike a large corporation, the Department has management, investment, and operational challenges, and not unlike a large corporation, change comes slowly. Change is taking place now. DoD is instituting management reforms, reevaluating older “legacy” programs, implementing transformation, and achieving savings. It is no longer possible to tread upon yesterday’s path in preparation for tomorrow’s battles.
New Enemies—New Threats

Defending our nation against its enemies is the first and fundamental commitment of the federal government. Today, that task has changed dramatically. Enemies in the past needed great armies and great industrial capabilities to endanger America. Now, shadowy networks of individuals can bring great chaos and suffering to our shores for less than it costs to purchase a single tank.

The National Security Strategy of the United States of America
September 2002

New Challenges in the National Security Environment

Responding to the New Threat

Since the end of the Cold War, the world has dramatically changed. The threats our military is asked to confront are vastly different from the past. DoD and the intelligence community must not only prepare for the perils of today, but also develop capabilities that will ensure a robust capacity to deter and defeat future threats. Indeed, the dangers that confront us today were, in many cases, secondary yesterday, such as:

- global terrorism and rogue nations that harbor and support terrorists;
- proliferation of weapons of mass destruction, and the risk that they will wind up in the hands of terrorists; and
- instability in regions where states have failed their citizens, creating conditions that terrorists and other criminal elements exploit.

To address these threats, a priority of this Administration is to transform America’s armed forces leading to dramatic changes in the way we fight.

Transforming Our Armed Forces

DoD seeks to transform the armed forces, taking advantage of new technologies and operational concepts to strengthen America’s military capabilities. The deployment of robotic, unmanned combat air vehicles (UCAVs) could, one day, replace certain strike aircraft and provide a means to easily overwhelm less sophisticated, opposing air forces. Similarly, the employment of advanced laser communications satellites, coupled with new information warfare techniques, could render most existing command and control systems obsolete and vulnerable. Transforming DoD should produce new forces capable of projecting power rapidly, precisely, and on a global basis. These forces will be well-tailored to meet the needs of the 21st Century security environment.

The 2004 Budget provides substantial funding increases over previous years to support transformation and to ensure that the U.S. military maintains its technological superiority and flexibility to meet the challenges of an uncertain world. The budget includes a number of initiatives that are designed to adapt U.S. forces to a shifting and difficult international security environment.
The Secretary of Defense’s six transformational goals are to:

- protect the U.S. homeland and critical bases of operations;
- project and sustain power in distant theaters;
- deny our enemies sanctuary;
- leverage information technology;
- improve and protect information operations; and
- enhance space operations.

Part of the challenge in transforming the military is making difficult tradeoffs between programs. Most new programs are costly and will be available to military forces, in some instances, decades in the future. Before DoD decides to buy a new system, it must ensure that the system both has a mission linked to the overall national security strategy and is affordable. The 2004 Budget reflects many areas where the Administration reduced or modified programs because prior plans were not consistent with the new strategy, or because growing costs became untenable. For example,

- The Department cut planned purchases of Comanche helicopters in half, from approximately 1,200 to 650, and refocused the Comanche’s mission to reconnaissance/light attack for front line units only, an area where the Army faces significant deficiencies in the future. Curtailing the number of Comanches saves $1.2 billion over the next six years and $17.1 billion compared to the Army’s original plan. The Department will continue to review and assess the progress, performance, and need for this program.

- The Air Force continues to procure F-22 fighter/attack aircraft but, rather than buying a specific number of aircraft regardless of cost, it will only acquire as many aircraft as a fixed budget permits consistent with operational needs. In this way, the Air Force will obtain the superior capabilities of the F-22, but within affordable budget levels.

- The Army had planned to field six Stryker brigades, mobile units which can be used in conflict situations such as Kosovo and Afghanistan. Instead, the Army will build four Stryker brigades and will reassess its plan to field the final two units as it prepares future budgets. A future decision to field the last two brigades will depend upon the development of a plan that assures the Stryker demonstrates stronger combat capability across a broader spectrum of operations and can be deployed independent of higher level command formations and support.

Many capabilities funded in the 2004 Budget reflect “real-world experience” from the war in Afghanistan to worldwide counter-terrorism operations. Although advanced weapons systems are an element of transformation, new operational concepts and over-arching command, control, communications, and computers together with better intelligence can also leverage dramatic improvements in combat power, even with existing equipment fielded by today’s forces. The linkage of Hellfire missiles with Air Force Predator unmanned aerial vehicles and an advanced, remote targeting network is just one example. Another example: for the first time in a war, U.S. forces will...
have the ability to move battlefield information to the warfighter rapidly by connecting information from reconnaissance aircraft, jamming aircraft, satellites, and Predators. Finally, as recently as December 1, 2002, U.S. Special Forces in Afghanistan’s Herat province were using advanced target designators and communication links to call in B-52 aircraft for precision bomb strikes against hostile forces.

In addition to obtaining highly capable aircraft, ships, and land forces, this budget continues or expands investment in the following programs:

- Unmanned aerial vehicles that will provide longer endurance and continuous surveillance (Global Hawk) and new armed strike capabilities (Predator Bs). The Department also is investing in UCAVs, with early prototypes already flying and advanced demonstrations planned by late 2005.

- A new generation of ships, including a more capable aircraft carrier (CVN-21) and destroyer (DD-X). Both programs will couple significant reductions in the number of sailors required to operate the vessels with new combat capability. In addition, progress continues in modifying four Trident class ballistic missile submarines to carry cruise missiles and Special Forces teams.

- Development of the Army’s Future Combat System—a series of vehicles and weapons that will combine agile ground forces, airmobile assets, intelligence/surveillance, and digital battlefield communications to transform land combat operations.

- An expansion of the U.S. Special Operations Command’s (SOCOM) capabilities to enhance its role as a national asset in the war on terror. Building on its prominent role in Afghanistan, the budget recommends a 20-percent increase in funding for SOCOM to improve its ability to contribute to the war on terrorism, while continuing to respond effectively to other world crises. The President’s 2004 Budget is an essential first step in building a more robust SOCOM capable of responding effectively to the evolving threats associated with terrorism.

- Space-based radar and other advanced space surveillance and reconnaissance capabilities that will begin furnishing global, continuous coverage of high-priority targets and regions.

**Deploying Missile Defenses**

On December 13, 2002 the President directed the deployment of defenses against long-range ballistic missile threats. To achieve this goal, the 2004 Budget provides more than $9 billion. To support these initial deployments, the Administration reorganized the Missile Defense Agency to improve program management and system engineering. Under the new organization, missile defenses will be developed in modest steps, with firm cost and technical controls, in contrast to the previous program approach that had a significant risk of failure. These management changes were scored favorably by the Program Assessment Rating Tool (PART) review described later in this chapter.
The missile defense effort includes a large-scale research and development program, the creation of an expanded Pacific missile defense test range, and development of a series of incremental “blocks” of new capabilities. The Block 04 Program consists of both ground and sea-based systems, leading to a limited, contingency defense against intercontinental ballistic missiles in late 2004 with improved operational defenses in 2005 and beyond. In addition, Block 04 will include improved defenses against shorter-range theater missiles. Subsequent blocks will add improved capabilities and build our confidence in protecting both the United States and our deployed forces. Over time, new technologies, such as boost-phase interceptors and the Airborne Laser, will be added to provide more timely and effective missile defenses.

Protecting the Homeland

The impact from the September 11, 2001 attacks in New York, Virginia, and Pennsylvania will not be forgotten. Many new steps have been taken since that day to protect Americans from terrorist attacks at home. DoD has created a new combatant command (NORTHCOM) whose is to defend the American homeland. When ordered by the President or Secretary of Defense, NORTHCOM is prepared to support civil authorities in the event of a domestic terrorist attack that overwhelms nearby resources. NORTHCOM will team up with interagency groups on the federal, state, and local level. NORTHCOM also will work to prevent terrorist attacks with programs such as protective Combat Air Patrols and early warning air defenses.

Besides NORTHCOM, there are numerous other Department efforts that support the United States’ homeland security efforts. For instance, DoD has a large number of research and development programs which build defenses against biological, chemical, and other weapons of mass destruction.

The National Guard also undertakes extensive homeland security activities and has emergency response teams to support civil authorities. These teams supply trained and ready personnel to support state and local authorities in times of need.

Investing Wisely in Energy Conservation

DoD’s Energy Conservation Investment Program (ECIP) provides investment resources to the Military Services and Defense Agencies which yield an average of four dollars in energy savings for every program dollar. The Navy has an ECIP project in San Diego, California for various facility energy improvements including the replacement of electric and steam systems with heat pumps. Estimated energy savings for this project are $6.7 million on a $1.1 million ECIP investment, or a savings to investment ratio of 6.1. The Air Force is using wind generators to save on fuel on Ascension Island in the Atlantic Ocean between Africa and South America. More than 1.4 million gallons of fuel were saved through 2001. Savings are projected to be more than $11 million on a $4.5 million investment, or a savings to investment ratio of 2.5 and a payback period of seven years.
Performance Evaluation of Select Programs

DoD is focusing on improving its management, consistent with Administration efforts to increase the efficiency and accountability of government programs. The two key initiatives are an evaluation of select programs using the government-wide PART and the implementation of the President’s Management Agenda.

Using the PART, 12 DoD programs that receive just over 20 percent of DoD’s resources were reviewed. Highlighted in the accompanying table are six programs and their ratings. A full list of the programs assessed and their ratings is available in the Performance and Management Assessments volume.

<table>
<thead>
<tr>
<th>Program</th>
<th>Rating</th>
<th>Explanation</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Conservation Improvement Program</td>
<td>Effective</td>
<td>DoD represents three-fourths of federal energy use. ECIP projects improve energy and water efficiency in existing facilities and produce average savings of about four dollars for every dollar invested. The ECIP purpose is clear with realistic, attainable goals. It is a well-managed program.</td>
<td>The Administration proposes doubling funding for this program from $35 million enacted in 2003 to $70 million in 2004. Up to $420 million in savings could accrue to DoD from the additional energy projects. The Administration will ensure that the program produces high returns on this investment and develops new performance metrics.</td>
</tr>
<tr>
<td>Recruiting</td>
<td>Moderately Effective</td>
<td>DoD’s recruiting program has been successful, especially over the last few years, at accessing the number and quality of recruits needed. It also has a significant number of flexible tools available to adapt to differing circumstances. It does not have a management information system to allow for more efficient utilization of resources.</td>
<td>DoD should create a management information infrastructure to provide DoD with better information about the effectiveness of different program parts.</td>
</tr>
<tr>
<td>Airlift Program</td>
<td>Moderately Effective</td>
<td>The analysis showed that the program purpose and goals were clear. However, DoD should aggressively examine possible trade-offs within the program that could lower the cost of meeting the airlift requirement without sacrificing military readiness or combat capabilities.</td>
<td>DoD should develop methods of assessing the capabilities of the airlift program as a whole, rather than continue traditional assessments of individual acquisition programs. As a first step, DoD should develop annual performance goals and measures for the overall airlift program to reflect the needs of the 2001 defense strategy and the global war on terrorism.</td>
</tr>
<tr>
<td>Program</td>
<td>Rating</td>
<td>Explanation</td>
<td>Recommendation</td>
</tr>
<tr>
<td>----------------------------</td>
<td>-------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Missile Defense</td>
<td>Moderately Effective</td>
<td>The Missile Defense Agency (MDA) made significant strides in strategic planning and improved management. However, it has defined cost, schedule, and performance goals only for its near-term 2004 program. Longer-term goals are still in development. Technical progress, test accomplishments, and overall program results for 2002 were much improved, with four out of five successful intercept tests for the ground and sea-based missile defense systems. However, these technical successes could not be fully assessed against the new program goals which were finalized in December 2002.</td>
<td>The MDA should complete development of long-term goals. In addition, MDA, the Joint Staff, and military services should develop military operational goals for each block of missile defense capabilities. These goals should be linked to the existing MDA research and development goals.</td>
</tr>
<tr>
<td>Facilities Sustainment, Restoration, Modernization</td>
<td>Adequate</td>
<td>DoD has made significant progress in developing plans and goals for the improvement of existing facilities. It has been less effective in ensuring that funds intended for maintenance, repair, and improvement of facilities are not moved to pay for other programs. Over time this movement of funds has led to sub-standard buildings.</td>
<td>DoD’s current measure of the quality of its facilities suffers from subjective assessments of quality. It should pursue a readiness reporting system that yields more consistent, objective information. This will support better decisions on where money should be spent to provide quality facilities.</td>
</tr>
<tr>
<td>Chemical Demilitarization</td>
<td>Ineffective</td>
<td>The purpose of the program is very clear, owing to the unique treaty requirement to dispose of chemical weapons. The program has faced a number of challenges including schedule delays and cost overruns at several sites thus challenging the U.S.‘s ability to meet treaty deadlines. The program has begun destruction activities at only two of nine sites.</td>
<td>While DoD developed specific milestones for each site, its management should focus on maintaining the schedule and efficiency goals. DoD should approve a destruction process and proceed with planning efforts for the Blue Grass, KY site and work with the community at all sites to ensure that safety concerns are met.</td>
</tr>
</tbody>
</table>
Assuring the Readiness of the Armed Forces

Recruitment

For the second year in a row, all of the services made their recruitment goals, both in the number and quality of recruits. Overall, the services required 210,000 young Americans to enlist to meet their recruiting goals; they achieved the recruitment of 212,000. In fact, the Army reached its 2002 goal in mid-August, with more than a month to spare. This allowed the Army, and the other services, which had similar successes, to improve their position for future recruiting. The 2004 program continues robust funding for recruiters, recruiter support, and promotional activities to ensure continued success in this vital function.

Findings from the PART, however, reveal that DoD does not have a useable overall information architecture in place to help managers implement the program effectively. The cost per recruit continues to rise; it is expected to cost the Department more than $14,000 per recruit during 2004. Thus, the budget recommends identifying performance goals to enhance not only the effectiveness of the program, but also its efficiency.

Training

The increasingly dynamic global security environment indicates that tomorrow’s operational environment will require more cooperation among the armed services, be linked by technology, and often be multinational. The transformation effort will produce an interoperable force that is more agile in addressing future threats in such environments. Training must incorporate the full range of new technologies to ensure our armed forces are agile and ready.

To achieve this goal, the budget supports certain critical training programs. The 2004 Budget strongly supports the services’ individual training programs to ensure unit cohesion and readiness. In addition, the services are implementing a new training initiative known as transformational training. This training brings together units from the Army, Navy, Air Force, and Marine Corps to train as one unit, and it is intended to address lessons learned in recent conflicts, to “train as we fight,” and to ensure the services can operate closely in combat situations.

Equally important though, DoD is increasingly building on the service specific capabilities by integrating missions and developing training to prepare for joint operations. The recently reconfigured Joint Forces Command, in Norfolk, Virginia, is coming into its own with a Joint Warfighting Center, specifically tasked with helping the services practice joint engagements demonstrated so effectively in Afghanistan.

Also under the aegis of Joint Forces Command, DoD is creating a new Joint Training program and the Joint National Training Center, which includes live-fire ranges and specific exercise areas for inter-service operations. The Center will blend live and simulator training with advanced command and control technologies to enable much closer communication and coordination across services. Increased use of this approach will strengthen our ability to train members of the armed forces under the same conditions in which they will fight. The President’s 2004 Budget helps expand the scope of joint training with an investment of $162 million.
In Afghanistan, Army, Navy and Air Force Special Forces personnel on the ground provided precise and timely targeting information to Air Force, Navy, and Marine Corps planes overhead. This substantially improved the pilots’ accuracy and ability to identify and hit mobile targets before those targets could move out of range. This cooperation translated into more effective missions, particularly in helping friendly Afghan forces pin down and destroy Taliban forces, while providing better protection to U.S. and foreign forces as well as civilians.

The war on terrorism is also being waged with our guard and reserve units. These service members provide critical skills and are being extensively used to provide protection to our bases and infrastructure, both at home and overseas. All of the services, recognizing that the reserve components can be called upon for only a limited time, have begun to transform their active-duty forces so that they have more of the high-demand units on full time duty. For example, the Air Force plans to increase the number of active duty people assigned to the specialties which are currently understaffed by reducing people in areas that are comparatively overstaffed. This will allow the guard and reserve members to return to the civilian world as soon as possible. This will also reduce the cost of deployments, as more personnel would already be trained to deploy more quickly as needs arose.

**Focusing on the Military Mission**

The Department continues to pursue ways to return military members to the war-fighting ranks by increasing the “tooth-to-tail” ratio through conversion of support staff to combat troops. As part of the President’s Management Agenda’s competitive sourcing initiative, the Department is committed to competing one-half, or 226,000, of the positions in DoD’s Federal Activities Inventory of 452,000 civilian positions in such commercially available activities as manufacturing eyeglasses for U.S. troops. The Department is attempting to open up for competition many of the commercial services it now performs itself, such as health care activities to free up thousands of military positions for war-fighting.

DoD continues to identify core and non-core functions to realign the civilian and military workforce to accomplish the Department’s missions. These efforts eliminate inefficiencies and optimize the use of our well-trained armed forces to fight and win the nation’s wars.

One way of achieving this goal is to transfer some non-core functions to agencies better equipped to perform them. DoD will propose legislation this year to transfer the function of personnel background investigations of its employees to the Office of Personnel Management (OPM). This proposal would transfer 1,855 DoD civil servants currently employed by DoD to OPM. Another proposed transfer would move the National Security Education program to the Department of Education. This program provides grants to graduate and undergraduate students in certain language and area studies programs. In return for the scholarships, recipients agree to serve for a few years in a national security field in either government or academia. This program is better suited for administration by the Department of Education, which has similar programs.

**Maintenance**

Spare parts and repair of equipment in depots are critical to helping keep U.S. forces capable and ready to accomplish their missions. Since 1998, the Air Force has spent about $16 billion on spare parts and maintenance. This sustained investment has increased the Air Force’s mission-capable rate (the percentage of aircraft ready to meet mission goals) from about 76 percent in 1998 to about 78 percent in 2002. This has resulted in 60 more aircraft being available to perform their mission. The 2004 President’s Budget will help the Air Force continue to build on gains already made.

Similarly, the 2004 Budget supports the recent gains made in maintaining the readiness of Navy ships. Along with robust funding levels, the Administration is committed to fixing problems as they arise. Over the last few years, the Navy adopted a continuous maintenance philosophy for its surface
ships. This approach involves more frequent, but less extensive, repairs preventing added overall downtime due to major repairs, and yielding surface ships which are better maintained and ready to perform their missions.

**Intelligence and Space**

Without accurate and timely intelligence, even the most capable fighting force in the world is severely impaired. Over the last two years, the Administration has invested in technology, personnel and programs to give our military and national security officials the “eyes and ears” to make sound defense decisions. The 2004 Budget for intelligence and space programs will:

- Sustains operations against terrorism around the world;
- Improve collection, processing, analysis, and dissemination capabilities to meet increased demands;
- Sustain the DoD/intelligence community space organizational structure instituted in 2002. Under this new structure, the range and capability of space assets will increase to support intelligence, imaging, mapping, reconnaissance, and communications objectives by:
  - continuing to upgrade almost all of the nation’s national security satellites; and
  - continuing to develop advanced space programs such as high-data rate laser satellite communications; next-generation of missile warning and weather satellites; jam-resistant satellite and receiver equipment; space control efforts to protect U.S. space assets; and new programs, such as space-based radar, that provide persistent coverage of regions of interest;
- Modernize the military services’ intelligence, surveillance, reconnaissance, and electronic warfare systems. Many of these systems will have new, expanded and/or enhanced technical capabilities, and will interface with networked information systems to improve decision-making and help provide our armed forces “information superiority”; and
- Expand the National Imagery and Mapping Agency’s use of commercial space-based imagery. This effort will improve geospatial readiness and responsiveness, and contribute to improved military planning, damage assessment, public diplomacy and humanitarian assistance. It will also help meet the demand for unclassified imagery that can be easily shared with multiple organizations or coalition partners. For example, in October 2002 the United States used commercially obtained satellite photos to demonstrate Iraq’s continued efforts to hide evidence of its weapons of mass destruction. By using commercial imagery, DoD could disseminate this evidence widely without security concerns.

**Enhancing the Quality of Life of Military Personnel and Their Families**

**Military Compensation**

The President has sustained large increases in military pay, and ensured that military compensation remains competitive. In 2002, President Bush proposed, and the Congress approved, the largest military pay raise in 20 years. This raise included an across-the-board increase of 4.6 percent, plus additional targeted raises for certain experienced personnel. Total pay raises averaged 6.9 percent. For 2003, the President proposed and the Congress approved a military pay raise of 4.7 percent—including an across-the-board pay raise of 4.1 percent and further targeted raises averaging 0.6 percent. The President’s 2003 Budget also proposed, and the Congress approved, up to $1,500 monthly, on top of base salary, to personnel accepting certain hard-to-fill assignments.
For 2004, the budget proposes a range of pay increases from 2.0 to 6.3 percent, targeted by rank and years of service. These differential pay increases enhance the Department’s ability to retain its most experienced soldiers, sailors, airmen, and marines. With the increase, base military salaries will average more than $37,000 for enlisted personnel and more than $75,000 for officers, exceeding the average salaries of their civilian counterparts with similar education levels.

The President’s Budget also contains funding for a full range of quality of life programs. The budget funds free health care for military members, retirees, and dependents, as discussed later in this chapter. Members also receive retirement benefits, can contribute to the Federal Thrift Savings Plan, and can participate in a full range of morale, welfare, and recreational activities.

In addition to their base salary, benefits include:

- monthly special or incentive pays ranging from a few hundred to a few thousand dollars;
- enlistment and reenlistment bonuses that are often in the tens of thousands of dollars;
- generous retirement benefits paid for by the government;
- commissaries and exchanges which provide below-market cost groceries and other products;
- free utilities in base housing;
- subsidized child care in accredited centers; and
- access to fitness facilities.

**Housing**

The Administration is committed to improving the quality of housing for military families. DoD seeks to eliminate 163,000 inadequate housing units (out of a total of 273,000) by 2007. About two-thirds of military families live in private sector housing in the community with the rest residing in government housing.

The most effective way to eliminate inadequate housing, and to quickly improve the quality of housing over the long-term is to privatize government-owned family housing. Allowing the private sector do what the government has done inefficiently will improve military housing over the long term. One aspect of the President’s housing initiative permits DoD to enter into business agreements which use private sector expertise and leverage government resources. This approach is improving the quality of family housing faster than the
traditional approach of constructing government-owned houses. The privatization program has quadrupled the rate of modernization over the last two years.

### President’s Management Agenda—Program Initiative

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Status</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Privatization of Military Housing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

DoD plans to achieve its goal of eliminating its inventory of inadequate houses by 2007. DoD has already upgraded 10 percent of its housing inventory and plans to modernize 76,000 houses over 2003 and 2004 through partnerships with the private sector.

To date, DoD has privatized 26,166 family houses at 17 installations across the United States—about 10 percent of its current inventory. Just in the past year, DoD entered into public-private partnerships to refurbish over 10,000 more houses. In 2003 and 2004, DoD plans to further accelerate public-private ventures by privatizing approximately 76,000 units.

A second key part of the President’s housing initiative is to reduce out-of-pocket expenses of military families living in off-base housing. Service members who live off-base receive a Basic Allowance for Housing to cover most of the average housing costs. The proportion of housing costs that members absorb is 7.5 percent in 2003, and this is scheduled to decrease to 3.5 percent in 2004 and zero in 2005.

### Defense Health

DoD provides health care to just under nine million military active duty members, retirees, and their families through military hospitals and private sector health contracts. The Defense Health program trains military medical personnel to support our troops in times of war and operates military hospitals so that medical personnel can obtain valuable experience.

The program has achieved impressive results over the past year. DoD, for example, improved the design of its private sector health insurance contracts. Past contracts encouraged the use of the private sector even when federal hospitals were underutilized, thereby duplicating many costs such as nursing and physician staffing. New contracts will continue to provide top-notch care to patients, but will search for intelligent ways to control costs such as increased use of federal hospitals before...
sending patients to private sector hospitals. The Department is also working closely to share and coordinate health care services with the Department of Veterans Affairs (VA). More information on these endeavors can be found in the VA chapter.

The budget includes a proposal to allow Defense health to continue to use “non-availability statements” which require certain patients to use military hospitals if space is available before seeing private sector providers. This process allows military medical personnel to receive the valuable experience and training needed to support our troops in times of war.

The federal government has developed a set of common measures for five functions in different departments. These common measures allow comparisons on the effectiveness and efficiency of similar programs. The 2004 Budget takes the first step toward comparing the performance of federal health care systems by displaying newly developed access, quality, and efficiency common measures for VA, DoD’s health systems, the Department of Health and Human Services’ Community Health Centers, and the Indian Health Service. When looking at common measures, it is important to understand key differences in programs. The adjoining overview defines the size of the program and what portion of care is provided at military health hospitals (in-house) versus private sector hospital contracts. The cost and efficiency measures below have not been adjusted for differences between DoD and other agencies—including risk/health status, socioeconomic status, age, gender, and benefit package differences. For example, DoD’s benefits package includes comprehensive health care which is not always comparable to other programs. In addition, the cost of ensuring that military medical personnel are ready and trained for combat is not included in the other federal programs.

### Overview of the Defense Health Care System

<table>
<thead>
<tr>
<th></th>
<th>2004 estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of individual patients</td>
<td>6,980,000</td>
</tr>
<tr>
<td>Annual appropriations request</td>
<td></td>
</tr>
<tr>
<td>(in millions of dollars)</td>
<td>$26,700</td>
</tr>
<tr>
<td>Number of Medical workers</td>
<td>13,537</td>
</tr>
<tr>
<td>Average age of individual patients</td>
<td>39.0</td>
</tr>
<tr>
<td>Male and female individual patients (percent)</td>
<td>53% (Male) 47% (Female)</td>
</tr>
<tr>
<td>Cost directed to in-house services, excluding contract services (percent)</td>
<td>58%</td>
</tr>
</tbody>
</table>
Health Care Common Measures

<table>
<thead>
<tr>
<th>Measure/Description</th>
<th>Goal</th>
<th>2001 Actual</th>
<th>2002 Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong>—Average cost per unique patient (total federal and other obligations)</td>
<td>Under Development</td>
<td>$3,324</td>
<td>$3,607</td>
</tr>
<tr>
<td><strong>Efficiency</strong>—Annual number of outpatient visits per medical worker</td>
<td>Under Development</td>
<td>4,533</td>
<td>4,500</td>
</tr>
<tr>
<td><strong>Quality</strong>—The percentage of diabetic patients taking the HbA1c blood test in the past year</td>
<td>Under Development</td>
<td>72%</td>
<td>72%</td>
</tr>
</tbody>
</table>

Note: Research funding is excluded. Medical workers include the equivalent number of full time physicians, dentists, nurse practitioner, physician assistant, and nurse mid-wife providers, but exclude appointments by off-site contractors, medical residents/interns, and trainees. However, patient visit numbers include visits to medical residents, contracted employees, and trainees. Cost information includes all direct costs of military health care in the DoD budget and in the trust funds.

Update on the President’s Management Agenda

<table>
<thead>
<tr>
<th>Human Capital</th>
<th>Competitive Sourcing</th>
<th>Financial Performance</th>
<th>E-Government</th>
<th>Budget and Performance Integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status</td>
<td>![Yellow Up]</td>
<td>![Red]</td>
<td>![Red]</td>
<td>![Yellow Up]</td>
</tr>
<tr>
<td>Progress</td>
<td>![Green]</td>
<td>![Yellow]</td>
<td>![Green]</td>
<td>![Green]</td>
</tr>
</tbody>
</table>

Arrows indicate change in status since baseline evaluation on September 30, 2001.

While prosecuting the war on terrorism has been DoD’s principal task since September 2001, the Department has made major efforts to address the President’s Management Agenda. In Human Capital, DoD made significant accomplishments in headquarters reductions (11 percent), planned reorganizations, reductions in supervisors and managers, and outsourcing efforts. In competitive sourcing, DoD continues to compete commercial functions it now performs with the private sector. The financial management architecture contract award allows for the completion of the DoD Enterprise Architecture plan by Spring 2003. DoD made progress implementing information technology (IT) security measures and made business cases justifying 180 IT projects. DoD’s Budget and Performance Integration progress moved to green as it has developed performance metrics for use in the 2004 Budget.

Department of Defense
(In millions of dollars)

<table>
<thead>
<tr>
<th>Spending</th>
<th>2002 Actual</th>
<th>Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discretionary Budget Authority:</td>
<td></td>
<td>2003 2004</td>
</tr>
<tr>
<td>Military Personnel</td>
<td>86,929</td>
<td>93,436</td>
</tr>
<tr>
<td>Operations and Maintenance</td>
<td>132,702</td>
<td>129,373</td>
</tr>
<tr>
<td>Procurement</td>
<td>62,739</td>
<td>71,403</td>
</tr>
<tr>
<td>Research, Development, Test, and Evaluation</td>
<td>48,713</td>
<td>56,798</td>
</tr>
<tr>
<td>Military Construction</td>
<td>6,631</td>
<td>6,288</td>
</tr>
<tr>
<td>Family Housing</td>
<td>4,048</td>
<td>4,204</td>
</tr>
<tr>
<td>Revolving and Management Funds and Other</td>
<td>2,645</td>
<td>3,132</td>
</tr>
<tr>
<td>Total, Discretionary budget authority</td>
<td>344,407</td>
<td>364,634</td>
</tr>
</tbody>
</table>

1 Includes $16.6 billion in 2002 supplemental funding.