

A Step Backward, or More to Go?

FY15 Overseas Contingency Operations Request

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The FY15 Overseas Contingency Operations (OCO) request—the war funding request—helps illustrate how much further the defense budget needs to go to adjust to statutory spending caps. We have previously noted how realistic the base FY15 defense budget request was, given the statutory limits of the Budget Control Act, and explained how much the base [request favored funds](#) that support readiness—the ability of the force to respond today. The OCO request, however, either diminishes some of that focus on readiness, or else suggests there is still more funding that needs to transition from OCO to base budget for military readiness to be fully funded.

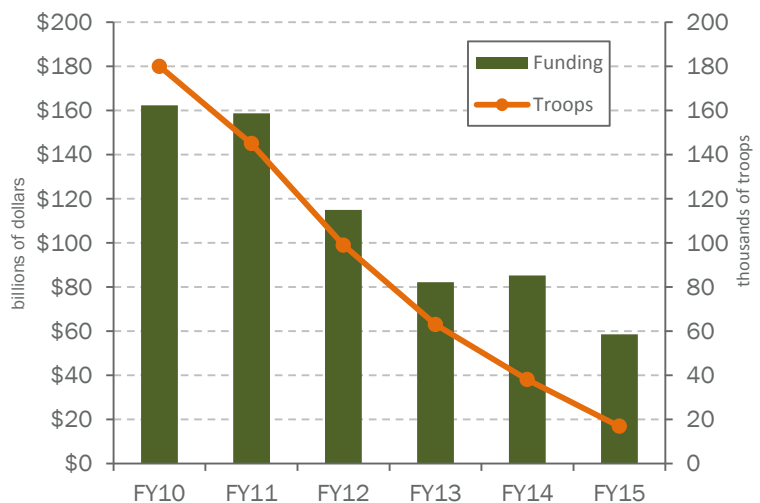
Context

The FY15 [OCO request](#) for DoD is \$58.6 billion, 31% less than the FY14 enacted amount. As part of two newly requested funds for [counterterrorism](#) and [reassuring European](#) allies given the Ukraine crisis, the request also includes an additional \$1.4 billion in OCO funding for State, which adds to State's [previously submitted \\$5.9 billion](#) OCO request for a total of \$7.3 billion in FY15.

The 31% drop puts the decline in OCO funding back on the pace of the FY13 and FY12 OCO budgets, which dropped by 29% and 28% from the prior year, respectively, after only a 2% drop from FY13 to FY14.

Although OCO funding is dropping significantly again, it is still not declining as quickly as troop levels in Afghanistan are being reduced.¹ In FY15, troop strength in Afghanistan will drop by 56% from this year's levels, or a rate almost twice the drop in OCO funding. As a result, troop strength will be less than a tenth of what it was six years ago, but OCO funding will still be more than a third of what it was. The request also reiterates the White House's promise, [first made in 2012](#), to cap total government-wide OCO funding over the FY13-FY21 period at \$450 billion. At this point, the promise looks easy to keep. The FY15 request would bring total OCO funding since FY13 to roughly \$250 billion,

DoD OCO Funding and Troops Deployed to Iraq and Afghanistan



leaving \$200 billion under the cap for the six years of FY16 to FY21. This sum translates into about \$33 billion annually or three more years of OCO funding at the FY15 level.

Although the overall OCO request fell by 31%, the procurement title fell by only 1%, essentially holding steady at the FY14 level of roughly \$6 billion. A substantial portion of the procurement request goes towards replacing funding that was cut in the base budget. Of the 113 procurement line items in this year's OCO request, 48 did not receive any OCO funding last year, and almost half (22) of these newly OCO-funded programs had their base budgets cut. 19 of the 113 line items would receive enough funding to restore more than 70% of what they lost in the base budget, including notable equipment like MQ-9 Reaper and MQ-8 Fire Scout drones, C-130s (including the J model cargo planes), EP-3 electronic warfare planes, and classified programs. Almost all of these programs do not feature strongly in the services' vision of the future but are important for the war in Afghanistan. In other words, programs worth funding only if they do not squeeze out other priorities.

The State of Readiness

At a more detailed level of analysis, the OCO request suggests two possibilities: either (1) O&M funding in the OCO request is cut so deeply as to erode the readiness gains made in the FY15 base request, or (2) significant O&M funding that supports enduring needs still needs to be moved from the OCO budget to the base budget, even while the base budget remains capped.

We have previously noted how O&M spending was significantly increased in the base budget request. That same funding, however, is slighted in the OCO request. This outcome should not be too surprising, as the services, especially the Army and Air Force, emphasized that some of their base funding increases were the result of shifting money from OCO to the base budget, rather than an effort to increase total O&M funding levels.

Since the scope of operations in Afghanistan in FY15 will be smaller than it is this year, we would expect to see a substantial decrease in O&M funding in the OCO request. The request, however, cuts O&M accounts more sharply than the OCO budget as a whole, meaning that O&M accounts for a smaller share of the OCO request in FY15 than it did in FY14. In fact, while the overall OCO request is 31% smaller than the FY14 OCO budget, more than 100 sub-activity lines in the O&M title were cut by more than that amount.

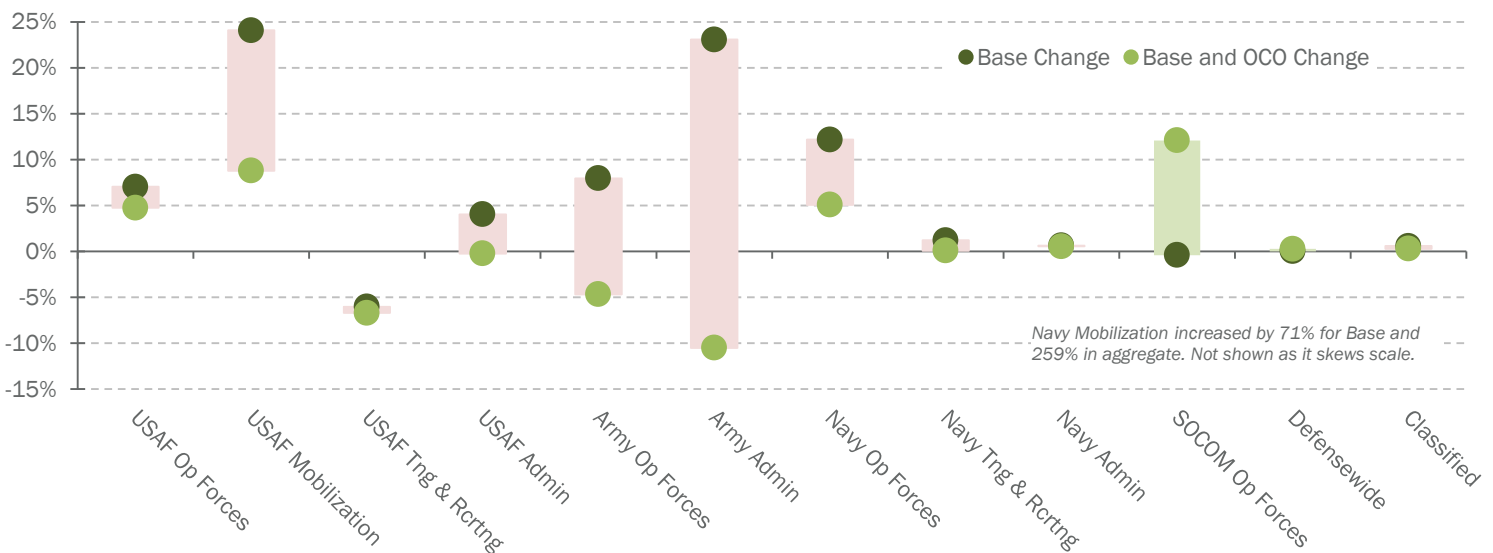
These cuts in the OCO request could mean an erosion of the military’s overall readiness. If we assume the 31% decline accurately captures the reduced demand in theater, then cuts greater than that amount may offset the increases included in the base budget.

In some—but not all—cases, the increases in base O&M funds are large enough to absorb the disproportionate (greater than 31%) cuts in the OCO budget, thereby protecting or even improving overall funding in that particular area of the budget. 60 line items, however, were cut so deeply in the OCO request that the accounts are worse off in aggregate. That is, the amount of money cut in the OCO request beyond a 31% cut is greater than the amount of money added in the base budget, meaning the account lost money overall from FY14 to FY15.

This possible readiness erosion is more apparent at the slightly broader budget activity level. In the chart below, the dark green dots indicate the funding change in the base budget between FY2014 and the FY2015 request, while the light green dots indicate the effective change in total funding (base and OCO), adjusted for the assumption that a 31% cut accurately indicates reduced operational needs. Whenever the light green dot is below the dark green dot, the OCO request is eroding the readiness gains made in the base budget; moreover, when the light green dot is below zero, the account is smaller overall compared to the amount it got in FY14, even after adjusting for the reduced demand in theater.

Almost every light green dot is below the dark green dot, indicating an erosion of readiness gains made in the base budget. (We have colored the difference red for those where its aggregate value is less than the base alone, and we have colored it green where the aggregate value is more than the base alone). The notable exception is SOCOM’s operating forces, which saw no gain in its base budget but received a 12% increase when adjusted OCO costs are included.

Relative Change in O&M from FY14 to FY15, with and without OCO



Of course, the 31% cut used as a baseline here is only an assumption, and it may not accurately reflect the reduced operational demand. Certainly, operational demand would likely not fall evenly across all accounts. Some accounts, like communications funding, may be less tied to the number of troops in country, whereas others might be very closely aligned with troop levels. Assuming 31% decline captures the remaining theater need is just an assumption.

An alternative assumption might instead track troop levels, which will drop by 56% from FY14 to FY15, as an indicator of operational demand. If so, many of the accounts in the OCO request may actually be receiving funding beyond what is strictly necessary for Afghanistan and related operations. If so, then overall readiness is not being eroded. But if significant O&M spending in the OCO budget is supporting enduring readiness needs, then there will be more budgetary pain in later years as those costs migrate back into the base budget.

There is ultimately a very small sweet spot where the OCO request would neither be eroding base budget readiness gains nor padding base budget funds. It is hard not to conclude either that many of the gains in readiness we touted in the base budget were significantly eroded by cuts to OCO or that OCO has long been propping up readiness funding, even for non-deployed forces. If this latter case is true, keeping the forces ready will mean saving more elsewhere in the budget in the coming years.

The base defense budget request took significant steps to building a healthy military given the statutory caps in place. The OCO request, however, points out either the gains were not as great as initially thought, or there is still more work to be done to ensure continued military readiness.

¹ Todd Harrison has [most notably correlated](#) spending and troops, including how much funding seems to have become separated from operations. [As he noted](#), the administration's early and unofficial estimate of \$20 billion for FY15 would have been much closer to the historical correlation.