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# War Funding and the Budget Control Act: In Brief

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## Summary

In the FY2016 debate on the level of defense spending, Congress is considering how to stay within the spending limits, or caps, set by the Budget Control Act (BCA). Under the BCA, all defense spending for the defense base budget—excluding amounts designated for “Overseas Contingency Operations” (OCO) or emergencies—is subject to annual BCA caps.

For funds to be counted as OCO funding that is essentially exempt from BCA caps, Congress must first designate funds in law on an account-by-account basis, and the President must subsequently do the same. The OCO designation therefore requires a consensus between the legislative and executive branches on the designation and is independent of any particular criteria about the types of expenses that would be covered.

The President, some Members of Congress, and military leaders have voiced concerns that the FY2016-FY2021 BCA defense spending caps—set at \$2 billion above FY2015 spending caps in FY2016 and increasing by \$11 billion annually after that—are insufficient to meet defense needs. Others have suggested that Department of Defense (DOD) planning has largely accommodated BCA caps. The President’s budget request plan exceeds BCA caps by \$182 billion, or 5%, for FY2016-FY2021 rather than the trillion dollars in savings originally needed. BCA caps are slated to rise from \$523 billion in FY2016 to \$590 billion in FY2021, setting defense spending at a real freeze (i.e., the same level adjusted for inflation) in later years.

The President’s national defense request of \$561 billion for the base budget, including \$534 billion for the DOD, exceeds the FY2016 BCA cap by \$38 billion. To meet the cap, Congress would need to cut DOD’s base budget request for defense spending by 6.8% in FY2016.

The FY2016 annual budget resolution (S.Con.Res. 11), the National Defense Authorization Act (NDAA) as passed by the House (H.R. 1735) and by the Senate, and the appropriations bills funding DOD (H.R. 2685 as reported by the House and H.R. 2029 as passed by the House) all propose to transfer about \$38.5 billion from the defense base budget to OCO-designated funding. If the President also designates these as OCO, they would not breach BCA caps and would not require offsets as in previous BCA amendments. If signed by the President, these bills would increase defense spending but stay within BCA caps. This would bring OCO-designated spending to \$89 billion, 75% above the request at a time U.S. troops deployed to Iraq and Afghanistan are projected to fall from 15,700 in FY2015 to below 10,000 in FY2016 and to 1,000 in FY2017.

In response to congressional action, the Administration has threatened a veto, characterizing the transfer as “budget gimmickry,” and calling instead for raising BCA caps for both defense and non-defense spending, with alternate savings from raising revenues and reducing mandatory spending. DOD officials have also opposed the transfer, arguing that it would complicate defense budgeting by setting up a one-year spike in funding that might not necessarily be sustained.

If the President does not designate the transfers as OCO, they would revert to base-budget status, BCA caps would be breached, and OMB would implement a sequester to ensure that BCA spending limits are met. This would entail largely across-the-board cuts in total defense resources. Some policymakers have called for increasing BCA caps, as was done by the Ryan-Murray compromise in the Bipartisan Budget Act of 2013 (P.L. 113-67). If no agreement is reached, a continuing resolution (CR) and government shutdown could be possible.

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## Designating War Funding to Meet Spending Caps

In the current debate on the level of FY2016 defense spending, Congress is considering how to stay within the spending limits, or caps, set by the Budget Control Act (BCA) as amended (P.L. 112-75, P.L. 112-240, P.L. 113-67). Under the BCA, all defense spending for the defense base budget—excluding amounts designated for “Overseas Contingency Operations” (OCO) or emergencies—is subject to annual BCA caps for FY2012-FY2021. If enacted appropriations exceed these limits, the President is required to levy a sequester or across-the-board spending reductions to achieve the savings and meet the limits. If appropriations meet the caps, a sequester is not necessary; for this reason, some refer to BCA caps as “sequester” caps.

For funds to be considered OCO funding and essentially exempt from BCA caps, Congress must first designate funds on an account-by-account basis in an appropriations bill and the President must subsequently do the same, typically in a letter to Congress after enactment.<sup>1</sup> The OCO designation therefore requires a consensus between the legislative and executive branches on the status of the funds. Although the Office of Management and Budget (OMB) and the Department of Defense (DOD) have issued selection criteria and budget guidance about the types of expenses that would be considered appropriate war expenses, the dual designation of funds as OCO by Congress and the President determines whether such funds are exempt from budget caps, not the nature of the expenses (see below).

The President, some Members of Congress, and military leaders have voiced concerns that the FY2016 BCA defense spending caps—set at \$2 billion above FY2015 spending caps in FY2016 and increasing by about \$11 billion annually through FY2021—are insufficient to meet defense needs. Others argue that complying with current BCA caps is achievable by relying on a variety of savings.<sup>2</sup>

As of the FY2016 budget, defense spending plans have largely adjusted to the amended BCA limits for FY2012-FY2021—meeting over three-quarters of the reductions originally required. With 4 of the 10 years of the BCA decade completed, defense spending in the current plan now needs to achieve an additional 5%, or \$182 billion, in savings for the FY2016-FY2021 period compared to the projected 16%, or \$1.0 trillion, gap at the time the BCA was enacted (**Table 1**).<sup>3</sup>

### Congressional Action

The President’s FY2016 national defense request of \$561 billion for the base budget exceeds the BCA cap by \$38 billion, providing defense with a 6.8% annual increase. The FY2016 request of

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<sup>1</sup> Since 2001, DOD war funds have been designated as either “emergency” or “Overseas Contingency Operations.” Budgetary law provides that BCA caps are to be raised to accommodate funding designated as either for emergencies or for overseas contingency operations, effectively exempting that funding from caps; see language in Box B in CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco.

<sup>2</sup> See “Different Types of Savings” in CRS Report R44039, *Defense Spending and the Budget Control Act Limits*, by Amy Belasco.

<sup>3</sup> *Ibid.*, p. 7. All references to BCA caps refer to current limits set in P.L. 113-67, the Bipartisan Budget Act by the Ryan-Murray compromise.

\$534 billion for DOD (which constitutes 95% of national defense) is also higher than its cap of \$499 billion by about \$36 billion, and the same percentage. To meet the BCA cap, Congress would need to cut the base budget defense request by 6.8% in FY2016. If BCA caps are retained, defense spending would essentially be frozen at the FY2013 level (without inflation adjustments) for the four years from FY2013 through FY2016, and frozen in real terms (with inflation adjustments) for the next five years from FY2017-FY2021 (Table 1).

**Table 1. FY2016 President’s Budget (PB) Plan and BCA Caps for National Defense**

In billions of dollars of Budget Authority and %

Actuals					Budget Plan							
National Defense (050)												
Alternate Paths/FY	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total: 12-21	Total: 16-21
<b>FY2016PB and BCA Caps in Nominal Dollars</b>												
FY2016PB	555	518	521	522	561	573	584	592	598	610	5,634	3,518
BBA Limits	555	518	520	521	523	536	549	562	576	590	5,451	3,336
<b>FY2016PB Less BCA Caps in Nominal Dollars</b>												
In \$	0	0	0	0	38	37	35	30	22	20	183	182
In %	0.0%	0.0%	0.2%	0.1%	6.8%	6.4%	6.0%	5.1%	3.7%	3.3%	3.3%	5.4%
<b>FY2016PB and BCA Caps in FY2016 Dollars</b>												
FY2016PB	590	542	537	530	561	563	563	559	554	554	5,552	3,354
BBA Limits	590	542	536	530	523	527	529	531	534	536	5,376	3,179
<b>FY2016PB Less BCA Caps in FY2016 Dollars</b>												
In \$	0	0	0	0	38	36	34	28	20	18	176	175
In %	0.0%	0.0%	0.0%	0.0%	6.8%	6.4%	6.0%	5.1%	3.7%	3.3%	3.2%	5.2%

**Sources:** OMB, “Policy Budget Authority and Outlays by Function, Category, and Program” Table in FY2013-FY2016 Analytical Perspectives volumes of the budget, OMB, Table 10.1 in FY2016 Historical Tables for GDP price index; <https://www.whitehouse.gov/omb/budget/Historicals>. See Department of Defense, Table 2-1 in FY2016 National Defense Budget Estimates for adjustments to exclude war spending; Department of Defense, Office of the Under Secretary of Defense (Comptroller), National Defense Budget Estimates for FY 2016, March 2015; [http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2016/FY16\\_Green\\_Book.pdf](http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2016/FY16_Green_Book.pdf).

**Notes:** CRS calculations on OMB and DOD documents. Reflects budget authority. CRS used the chained GDP price index to convert nominal dollars into FY2016 dollars. BCA caps refers to spending limits in the Bipartisan Budget Act (P.L. 113-67), which amended the American Taxpayer Relief Act (P.L. 112-240), which amended the original Budget Control Act of 2011 (P.L. 112-75).

As part of this year’s debate about defense spending, the FY2016 annual budget resolution (S.Con.Res. 11) and the National Defense Authorization Act as passed by the House and Senate propose to transfer and designate funds totaling \$38 billion from the defense base budget spending to Title IX where OCO funding is specified.<sup>4</sup> Similarly, the FY2016 House-passed Defense Appropriations bill (H.R. 2685, H.Rept. 114-139), passed on June 11, 2015, and the

<sup>4</sup> See Title XV in the NDAA and Title IX in the Defense Appropriations bills, which list the changes as “transfers.”

Senate-reported bill (S. 1558, S.Rept. 114-63) both move \$37.5 billion from the base request to OCO-designated accounts in Title IX. Since funds designated as OCO do not count against BCA caps, some refer to this transfer as a “budget gimmick” that would allow base budget spending to be increased but still stay within the caps. Others counter that the funds transferred were in categories where there were also OCO-designated funds.

In Statements of Administration Policy on both H.R. 2685 and S. 1558, OMB Director Shaun Donovan states the President’s senior advisors would recommend a veto of these bills because of the OCO redesignation as well as for other reasons, as well as recommending a veto of “any other legislation that implements the current Republican budget framework, which blocks the investments needed for our economy to compete in the future.”

This raised the possibility that all appropriations bills could face a veto prospect. The Senate was unable to bring up its DOD appropriations bill earlier in July, and discussion is ongoing about the need for a budget deal that would raise BCA caps with offsetting reductions elsewhere. If a deal is not reached, the prospect arises of a continuing resolution and possible government shutdown in October when the fiscal year begins.

## **Administration Position**

In letters to Congress, OMB Director Shaun Donovan has signaled that the President is likely to veto the NDAA or the DOD appropriations bills if these provisions are included in the conference version.<sup>5</sup> The President believes that both defense and non-defense caps should be raised, and objects to the transfer, which he characterizes as a “budget gimmick,” which would raise defense spending but not non-defense spending above the BCA caps.<sup>6</sup>

## **Potential Implications**

If the President does not designate the transferred funds as OCO, those funds would count as part of the base budget, which would breach BCA spending levels and trigger a sequester. A defense sequester would entail largely across-the-board cuts to total defense resources, which include base budget, OCO-designated funds, and unobligated balances from previous years, and typically exclude military personnel accounts.<sup>7</sup> Cuts could be about 6%, depending on the total amount of defense resources available.<sup>8</sup>

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<sup>5</sup> OMB, Director Shaun Donovan, Letter to Chair, House Appropriations Committee, Hal Rogers, “Subcommittee on Defense Markup of FY2016 Defense Appropriations bill,” June 1, 2015; OMB, Statement of Administration Policy, “S. 1376 – National Defense Authorization Act for FY 2016, June 2, 2015; [https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saps1376s\\_20150602.pdf](https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saps1376s_20150602.pdf); OMB, Statement of Administration Policy, “H.R. 1735 – National Defense Authorization Act for FY 2016;” “[https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saphr1735r\\_20150512.pdf](https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saphr1735r_20150512.pdf).”

<sup>6</sup> OMB, Statement of Administration Policy, “S. 1376 – National Defense Authorization Act for FY 2016, June 2, 2015;” [https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saps1376s\\_20150602.pdf](https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saps1376s_20150602.pdf); OMB, Statement of Administration Policy, “H.R. 1735 – National Defense Authorization Act for FY 2016;” “[https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saphr1735r\\_20150512.pdf](https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saphr1735r_20150512.pdf).” OMB, Director Shaun Donovan, Letter to Chair, House Appropriations Committee, Hal Rogers, “Subcommittee on Defense Markup of FY2016 Defense Appropriations bill,” June 1, 2015

<sup>7</sup> The President excluded military personnel accounts in the FY2013 sequester; OMB, “Letter to President of the Senate, Biden exempting military personnel from sequestration,” July 31, 2012; <http://www.whitehouse.gov/sites/> (continued...)

If a defense appropriations bill is not enacted before the beginning of the new fiscal year on October 1, 2015, defense spending could be wrapped into a consolidated or a CR appropriations act.<sup>9</sup> If that act sets defense spending at last year's level of \$520 billion for national defense and \$495 billion for DOD for the full fiscal year, funding would be \$1 billion and \$2 billion, respectively, below BCA caps eliminating the need for sequestration.

On the other hand, if a CR included defense spending levels that exceeded BCA caps and non-defense funding levels were set at BCA caps level—positions opposed by the Administration—then the President might not sign the CR. Speaker of the House John Boehner and Minority Leader Harry Reid have suggested that a government shutdown could occur because of a failure to agree on either defense and non-defense spending levels or raising BCA caps.<sup>10</sup>

As an alternative, Congress could adopt a hybrid approach in which defense spending bills included some, but not all, of the savings necessary to comply with BCA caps and accepted a 1% to 2% sequester to achieve the last increment of savings. It is not unusual for Congress to include a general provision that levies such across-the-board cuts to reach budget limits.<sup>11</sup> Congress has also cut DOD requests by 3% to 5% of the request roughly 40% of the time in the past 63 years between FY1950 and FY2012.<sup>12</sup>

## Designating Base Budget Funds as OCO

DOD and other Administration officials have argued that designating base budget funds as OCO and transferring them to the OCO title could complicate defense budgeting by setting up a one-year spike in funding that might not be “sustainable” (i.e., not followed by higher levels in later years). Without predictable funding levels in the next several years, DOD claims it would face considerable uncertainty about how to structure its programs and activities to meet its long-term modernization and readiness goals. Secretary of Defense Ashton Carter testified that it

doesn't provide a stable, multiyear budget horizon, this one-year approach is managerially unsound and also unfairly dispiriting to our force. Our military personnel and their families deserve to know their future, more than just one year at a time. And not just them, our defense industry partners, too, needs stability and longer-term plans, not end-of-year crises or short-term fixes, if they're to be efficient and cutting edge as we need them to be. Last and fundamentally, as a nation, we need to base our defense budgeting on our long-term military strategy and that's not a one-year project.<sup>13</sup>

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(...continued)

default/files/omb/legislative/letters/military-personnel-letter-biden.pdf. The President also announced in sequester reports to Congress in FY2014 and FY2015 that if a sequester were necessary, military personnel accounts would be exempted.

<sup>8</sup> This very rough estimate reflects FY2013 defense experience where unobligated balances largely offset the exclusion of military personnel from the defense resources total.

<sup>9</sup> Congressional Quarterly, “FY2016 Budget Tracker,” May 8, 2015.

<sup>10</sup> *Politico*, Harry Reid warns: “‘We're headed for another shutdown’ Both parties are beginning to warn of another budget crisis in September,” by Burgess Everett, June 10, 2015, <http://www.politico.com/story/2015/06/harry-reid-heading-for-government-shutdown-118819.html>.

<sup>11</sup> CRS Report R44039, *Defense Spending and the Budget Control Act Limits*, by Amy Belasco, pp. 2-3.

<sup>12</sup> Calculation based on CRS analysis of congressional action on DOD appropriations bills.

<sup>13</sup> Senate Appropriations Subcommittee on Defense, transcript, “Hearing on President Obama's Fiscal 2016 Budget (continued...)”

Secretary Carter continued that the Joint Chiefs agreed and that adding funds for defense but not non-defense

reflects a narrow way of looking at our national security ... [that] ignores vital contributions made by State Department, Justice Department, Treasury Department, Homeland Security Department and disregards the enduring long-term connection between our nation's security and many other factors ... like scientific R&D to keep our technological edge, education of a future all-volunteer military force and the general economic strength of our country.<sup>14</sup>

Senator John S. McCain, Chair of the Senate Armed Services Committee, stated that his desire to provide more funds for defense was more important than the transfer of base budget funds to OCO, which he originally opposed.

So faced with the choice between OCO money and no money, I choose OCO, and multiple senior military leaders testified before the Armed Services Committee this year that they would make the same choice for one simple reason: This is \$38 billion of real money that our military desperately needs, and without which our top military leaders have said they cannot succeed.<sup>15</sup>

The President, some policymakers, and Members of Congress have called for raising BCA caps for both defense and non-defense, as was done in the Ryan-Murray compromise in the Bipartisan Budget Act of 2013 (P.L. 113-67). That act raised BCA defense caps by \$22 billion in FY2014 and \$9 billion in FY2015, replacing the previous \$20 billion decrease between the FY2013 level (post-sequester) and FY2014. While fiscal hawks have opposed raising the caps in order to preserve the discretionary budget savings enacted the Budget Control Act, defense hawks and others call for raising the caps to provide more defense spending in a “complex and dangerous world.”<sup>16</sup>

As part of the ongoing debate on S. 1376, the FY2016 National Defense Authorization Act, the Senate recently voted on an amendment offered by Senator Jack Reed (S.Amdt. 1521) that would fence off or delay spending the \$38 billion of base budget funds transferred to OCO until BCA caps were raised for both defense and non-defense. On June 9, 2015, the amendment failed by a vote of 46 to 51.<sup>17</sup> Senator Bernie Sanders has proposed an amendment entitled “Paying for War,” which would require that all funds designated as OCO be offset with new revenue. Unlike other U.S. wars, the cost of the Afghanistan and Iraq wars has not been offset by higher revenues or spending reductions.<sup>18</sup>

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(...continued)

Request for Defense,” May 6, 2015.

<sup>14</sup> Ibid.

<sup>15</sup> Senate Armed Services Committee Chair Response to Statement of Administration Policy regarding S. 1376, the National Defense Authorization Act for Fiscal Year 2016 (released June 2, 2015), June 5, 2015; <http://www.mccain.senate.gov/public/index.cfm/2015/6/sasc-chairman-john-mccain-responds-to-white-house-veto-threat-of-national-defense-authorization-act-for-fiscal-year-2015>.

<sup>16</sup> See for example, Senate Armed Services Committee, Statement by General Raymond T. Odierno, Chief of Staff, U.S. Army, “The Impacts of Sequestration on National Defense,” January 28, 2015.

<sup>17</sup> *Congressional Record*, Daily Digest, Senate, June 9, 2015, and pp. S3907-S3910.

<sup>18</sup> See Center for Strategic and Budgetary Assessments, Steve Kosiak, *Cost of Wars in Iraq and Afghanistan and Other Military Operations*, December 15, 2008;

[http://www.csbaonline.org/4Publications/PubLibrary/R.20081215.Cost\\_of\\_the\\_Wars\\_i/](http://www.csbaonline.org/4Publications/PubLibrary/R.20081215.Cost_of_the_Wars_i/)  
(continued...)



Fiscal hawks and other policymakers are concerned that using the OCO designation to increase defense spending would undermine the BCA caps. When Congress raised BCA caps in the past, increases were offset by reductions elsewhere over the 10-year period of the caps. Transferring funds to OCO has not been seen as requiring any offsetting cuts.

Reaching agreement on raising both defense and non-defense caps could be difficult because some Members support the limits on non-defense but not defense. Others take the opposite view. Finding offsets, either in mandatory programs or by raising taxes to offset increases above BCA caps, could be problematic.<sup>19</sup> If there is an impasse over funding levels, Congress may turn to a CR or consolidated appropriations act, which, if vetoed, could create the prospect of a government shutdown.

## **The Impact of Maintaining BCA Defense Caps**

Underlying the debate about the transfer of defense base budget funds to OCO-designated accounts is the issue of whether current defense BCA caps reflect an acceptable level of defense spending. While some policymakers and observers argue that maintaining current BCA caps would be inadequate in light of ongoing conflicts and threats, others contend that defense spending levels would remain at historically high levels in real terms and that defense planning has largely accommodated BCA caps.<sup>20</sup>

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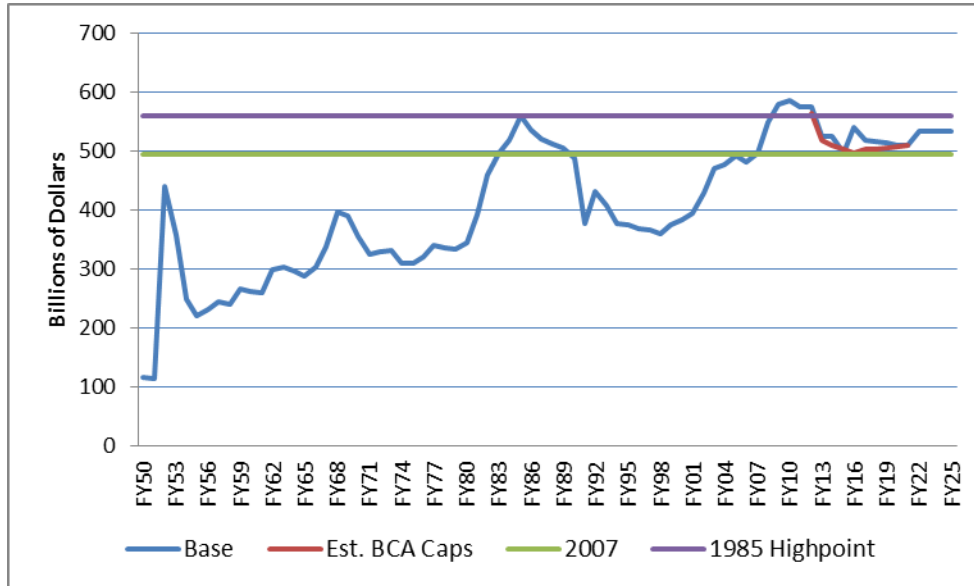
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<sup>19</sup> *CQ Roll Call*, "Obama's Call for Boost to Pentagon Spending Could Split GOP," by Megan Scully and Tamar Hallerman, February 3, 2015; <http://www.cq.com/doc/news-4615871?2>.

<sup>20</sup> For more detail, see CRS Report R44039, *Defense Spending and the Budget Control Act Limits*, by Amy Belasco.

**Figure I. BCA Spending Caps for DOD: FY1950-FY2025**  
 In Billions of FY2016 Dollars



**Sources:** Historical data from Table 5.1, and 10.1 in OMB, FY2016 Historical Tables; supplemental and emergency funding for wars from DOD, Financial Summary Tables, Table 2-1 in DOD’s FY2016 National Defense Budget Estimates, and other sources.

**Notes:** Converted to FY2016 dollars using OMB’s chained GDP price index.

In response to a question from Senate Armed Services Committee Chair John McCain, the Joint Chiefs of Staff testified that maintaining the current BCA defense caps would jeopardize the ability of DOD to carry out the national military strategy.<sup>21</sup> In a 2014 report to Congress, DOD outlined how it would meet “sequester” caps for the FY2015-FY2019 period. DOD’s proposal concentrated cuts on weapon system modernization, primarily by delaying or stretching out procurement plans; shielding early-stage Research, Development, and Testing and Evaluation; and generally cutting service readiness programs more heavily than other non-readiness related Operation and Maintenance activities.<sup>22</sup>

A variety of other approaches have been proposed for meeting BCA limits, ranging from reducing force structure (the size of military forces) to trimming military compensation to achieving “efficiencies” in back-office administrative activities. The Administration is concerned that Congress has been unwilling to adopt some of its proposals for lower pay levels and changes in military health care benefits, a new round of base closures, and retiring some military systems, such as A-10 ground attack aircraft.

<sup>21</sup> For a full discussion of DOD concerns about BCA caps and meeting the national military strategy, see DOD, *2014 Quadrennial Defense Review*, March 4, 2014; [http://www.defense.gov/pubs/2014\\_Quadrennial\\_Defense\\_Review.pdf](http://www.defense.gov/pubs/2014_Quadrennial_Defense_Review.pdf); see also statements by the Service Chiefs of Staff, Senate Armed Services Committee, Hearing, “Impact of the Budget Control Act of 2011 and Sequestration on National Security;” <http://www.armed-services.senate.gov/hearings/15-01-28-impact-of-the-budget-control-act-of-2011-and-sequestration-on-national-security>.

<sup>22</sup> See “DOD’s Plan for Complying with BCA Limits” in CRS Report R44039, *Defense Spending and the Budget Control Act Limits*, by Amy Belasco.

Such debate about the appropriate level of defense spending, and how a particular level can be reached, is not unusual. While the proposed transfer of base funds to OCO could avoid that decision, temporarily, some observers would argue that consensus on levels over the next several years of the BCA decade would help DOD make balanced decisions about matching resources with the pace of achieving modernization, readiness, and compensation goals, as well as re-evaluating the goals themselves.

## Distinguishing War Funding and “Enduring Presence” Needs

Over the past 14 years of war, decisions about what to consider war funding as opposed to normal day-to-day expenses have shifted. Both Congress and the Administration have adopted different definitions at different points in time. DOD broadened its definitions in 2006, which were then constrained by OMB in 2009.<sup>23</sup>

As part of its tracking of war obligations, DOD excludes funds that have a tangential, if any, relationship to war expenses, including fuel price increases, higher basic housing allowance expenses, army reorganization, congressional increases for childcare centers, barracks improvements, medical programs, C-17 transport aircraft, and additional equipment for national guard and reserve forces. In recent years, Congress has also transferred funds from Operation and Maintenance activities in the base budget to OCO-designated accounts, while the Administration has characterized as OCO its new initiatives in the European Reassurance Initiative and the Counterterrorism Partnership Fund.<sup>24</sup>

This year’s proposed action would increase DOD’s war request of \$50.1 billion to \$88.9 billion, a 75% increase. At the same time, U.S. deployed troop levels in Iraq and Afghanistan, the main factor in setting OCO funding levels, are slated to fall 15,700 in FY2015 to 10,000 in FY2016, and to an “embassy presence” of about 1,000 by January 1, 2017.<sup>25</sup> The House-passed version of the FY2016 NDAA also includes language specifically exempting base budget funds transferred to OCO titles from criteria for war funding set by OMB and DOD regulations.<sup>26</sup>

Both OMB criteria and DOD regulations require that OCO or war-related expenses reflect the incremental costs of conducting a war. For example, normal military pay costs are funded in DOD’s base budget, but imminent danger pay provided to servicemembers deployed to war zones is funded in military personnel funds designated as OCO.

Conducting operations and setting up and maintaining bases for deployed forces are clearly war expenses. Paying for depot maintenance for equipment damaged in war operations would be

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<sup>23</sup> See CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco.

<sup>24</sup> Ibid.

<sup>25</sup> See Figure 6-2 in DOD, “Overview: Fiscal Year 2016 Budget Request,” February 2015.

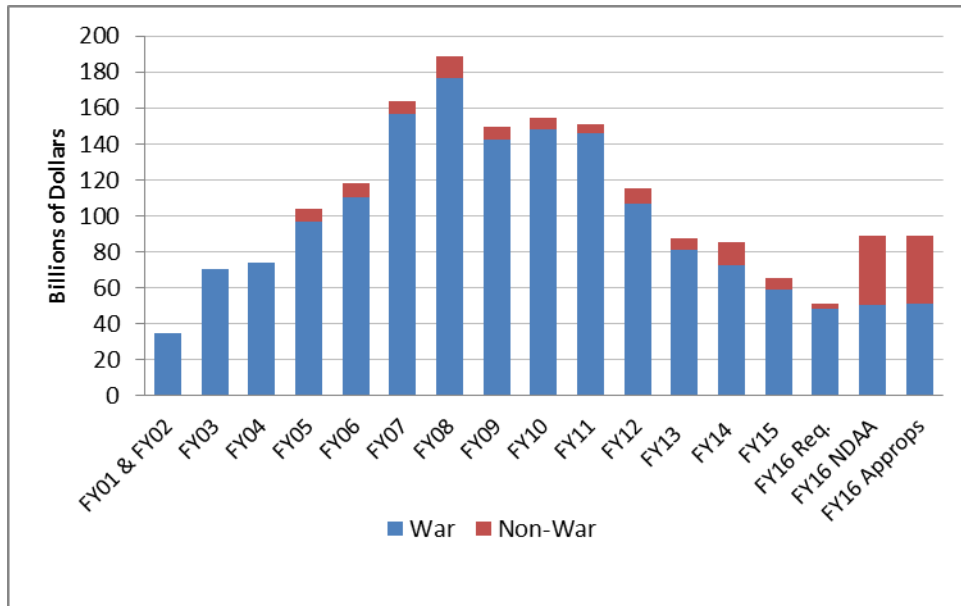
<http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2016/>

FY2016\_Budget\_Request\_Overview\_Book.pdf. The President’s recent decision to decrease U.S. troop levels more gradually does not change this general plan.

<sup>26</sup> See Title XV, §1501(b), H.R. 1735 as passed by the House.

considered a war expense, while periodic, scheduled maintenance would not. In times of war, however, routine maintenance may be required sooner because of higher wear and tear as a result of higher operating tempo and may be funded with OCO funds, thus relieving pressure on DOD’s base budget.<sup>27</sup>

**Figure 2. Emergency or OCO-Designated Funding: War and Non-War**  
In Billions of Dollars



**Sources:** DOD data provided to CRS, including monthly Cost of War execution reports.

**Notes:** Reflects DOD tables identifying funding not tracked as part of monthly Cost of War reporting; Enacted through FY2015. FY2016 request includes \$.3 billion for the Counterterrorism Partnership Fund (CTPF) and the European Reassurance Initiative, not classified as war by DOD. House-passed version of the National Defense Authorization Act (H.R. 1736) includes \$89.2 billion designated as OCO, \$39.0 billion above the request. Senate-reported version includes \$38.8 billion. Reflects H.R. 2685 as reported with an additional \$37.521 in base funds moved to OCO and H.R. 2029, Military Construction and VA, as passed by the House, which includes \$.532 billion transferred from base to OCO.

Over the past 14 years of war, the definition of war and non-war expenses has expanded and contracted depending on policy guidance. In 2006, DOD broadened its definition of incremental war expenses to include modernization and upgrades to equipment, including some already planned as part of its peacetime budget. In recent years, the Obama Administration narrowed war-related criteria to require that war procurement include only replacement of war losses, rather than upgrades, as well as calling for stricter criteria for other expenses.<sup>28</sup>

The purpose of distinguishing war and non-war expenses is to identify those expenses that are related to conducting and supporting military operations as opposed to long-term, “enduring” requirements that would persist after U.S. troops are withdrawn. Congress has also provided

<sup>27</sup> See discussion in CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco.

<sup>28</sup> See “Changes of DOD Definitions of War Funding” in CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco.

DOD with some flexibility for war-related programs where requirements are uncertain, though some would argue costs could be better predicted after 14 years of war.<sup>29</sup>

In recent years, DOD has suggested that it will grapple with the problem of which expenses initiated during wartime—such as the 60,000 military personnel now deployed in bases in Central Command outside of Iraq and Afghanistan—would fall and which expenses would persist even after war operations cease. Continued transfers of base budget activities to OCO-designated titles could reduce the likelihood of a review of this type by relieving the pressure to stay within BCA limits.

DOD has also conducted reviews of programs and activities in order to comply with the BCA defense caps set in the law. In testimony before the Senate Appropriations Committee in February 2015, Secretary of Defense Carter testified that DOD has achieved three-quarters of a trillion dollars in savings since its FY2012 plan, which predates the BCA. Similar efforts to meet the remaining BCA caps could be less likely if Congress continues to rely on transfers of base budget funds to OCO to stay within BCA caps.

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<sup>29</sup> See “Flexible Funding and the New Counterterrorism Partnership Fund (CTPF)” in CRS Report RL33110, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, by Amy Belasco.