

# CRS Report for Congress

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## **Appropriations and Authorization for FY2002: Defense**

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Appropriations are one part of a complex federal budget process that includes budget resolutions, appropriations (regular, supplemental, and continuing) bills, rescissions, and budget reconciliation bills. The process begins with the President's budget request and is bound by the rules of the House and Senate, the Congressional Budget and Impoundment Control Act of 1974 (as amended), the Budget Enforcement Act of 1990, and current program authorizations.

This report is a guide to one of the 13 regular appropriations bills that Congress considers each year. It is designed to supplement the information provided by the House and Senate Defense Appropriations Subcommittees. It summarizes the current legislative status of the bill, its scope, major issues, funding levels, and related legislative activity. The report lists the key CRS staff relevant to the issues covered and related CRS products.

This report is updated as soon as possible after major legislative developments, especially following legislative action in the committees and on the floor of the House and Senate.

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# Appropriations and Authorization for FY2002: Defense

## Summary

On June 27, the Administration submitted an amended fiscal year 2002 defense budget request to Congress. The request totaled \$343.5 billion in funding for the national defense budget function, \$32.9 billion above the amount originally enacted for FY2001, an 11% increase. The total included funding for the Department of Defense and for defense-related activities of the Department of Energy and other agencies. Both House and Senate versions of the DOD appropriations bill provided the total for national defense that the Administration requested. To accommodate that level, Congress adjusted limitations in the 1997 Balanced Budget Act and set aside provisions in this year's concurrent budget resolution that were designed to protect the social security surplus.

With the onset of a recession last spring, along with higher defense spending and additional federal spending in response to the terrorist attacks, and lower revenues due to the tax cut, the government is expected to run a deficit as well as use all of the surplus generated by social security revenues. With the destruction of the World Trade Center and the extensive damage to the Pentagon by terrorists on September 11th, congressional concerns shifted from whether the overall federal budget could accommodate higher defense expenditures without spending the budget surplus to adding funding for defense programs that combat terrorism.

Funding to aid the victims and provide for recovery from the attacks, for the ongoing conflict in Afghanistan, and for other programs to combat terrorism, was approved in the \$40 billion Emergency Terrorism Response supplemental appropriations act (P.L. 107-38) that passed Congress September 14, 2001. Of that total, DOD receives \$17.5 billion of the total funding in the Emergency Terrorism Response supplemental, about 44% of the total (see P.L. 107-117 and H. Report. 107-350) with about 56% going to other agencies. Allocation of half of the \$40 billion was included in P.L. 107-117/H.R. 3338, the FY2002 DOD appropriations act, which was signed by the President on January 10, 2002.

Although there had been broad bipartisan support for adding funds for recovery and response to the September 11 terrorism attacks, sharp differences emerged about whether the total amount was sufficient and whether the allocations matched the most critical priorities, particularly for New York and other homeland security needs. The President, however, threatened to veto any spending measure this year that went beyond the \$40 billion. Faced with this threat, both the House and the Senate rejected proposals to add more emergency funding to H.R. 3338 when they passed the bill. Instead, within the \$20 billion total that was acceptable to the President, the conference bill shifts \$3.4 billion of the \$7.3 billion funds allocated to Defense by the Administration to homeland security and recovery of New York.

The conference version of the National Defense Authorization Act for FY2002 was passed by the House and the Senate on December 13, 2001, and signed by the President on December 28, 2001 (P.L. 107-107/S. 1438, H.Rept. 107-333). The Act provides \$343.3 billion as requested by the Administration and authorizes another round of base closures but delays the date to 2005, settling the chief issue in contention.

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**Abbreviations:**

FDT = Foreign Affairs, Defense, and Trade Division

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# Appropriations and Authorization for FY2002: Defense

## Most Recent Developments

*On January 10, 2002, the President signed P.L. 107-117, the FY2002 DOD Appropriations Act (H.R. 3338). On December 20, 2001, the House and the Senate passed H.R. 3338 by 408 to 6 and 94 to 2, respectively. In addition to providing the funding requested by the Administration for DOD, the act allocates \$20 billion in Emergency Terrorism Response supplemental (P.L. 107-38) funding among all federal agencies to combat terrorism and provide aid and recovery to the victims of the attacks.*

*The debate on the FY2002 DOD appropriations act centered on the allocation of the \$20 billion in funding to combat terrorism. The conferees resolved the significant differences between the House and Senate versions by shifting \$4.3 billion in funding requested by the Administration for DOD to non-defense agencies to combat terrorism and provide aid to New York city. Efforts in both houses to increase funding for antiterrorism beyond the \$20 billion already enacted in the emergency supplemental failed after President Bush threatened to veto any bill that exceeded that amount. The final version of the bill provides \$317.2 billion to the Department of Defense in regular appropriations.*

*The DOD Authorization Act (S. 1438) was passed on December 13 and also provided the amount requested by the Administration. The authorizers resolved the chief item of contention - base closures - by delaying the date to 2005.*

*There was little controversy about the total amount of regular appropriations for DOD. Along with funds for military construction and other defense-related programs, the \$317.2 billion for DOD in the final version of H.R. 3338 provides \$343.3 billion, about the same amount in total as requested by the Administration. Because of the recession that began last spring, along with accommodating the full defense request, emergency spending to combat terrorism, and lower tax revenues because of the tax act, funding government expenditures in FY2002 will require not only using all of the social security surplus but also returning to deficit spending.*



## Background

Congress provides funding for national defense programs in several annual appropriations measures, the largest of which is the defense appropriations bill. Congress also acts every year on a national defense authorization bill, which authorizes programs funded in all of the regular appropriations measures. The authorization bill addresses defense programs in almost precisely the same level of detail as the defense-related appropriations, and congressional debate about major defense policy and funding issues usually occurs mainly in action on the authorization. **Because the defense authorization and appropriations bills are so closely related, this report tracks congressional action on both measures.**

The annual defense appropriations bill provides funds for military activities of the Department of Defense (DOD), including pay and benefits of military personnel, operation and maintenance of weapons and facilities, weapons procurement, and research and development, as well as for other purposes.

Most of the funding in the bill is for programs administered by the Department of Defense, though the bill also provides (1) relatively small, unclassified amounts for the Central Intelligence Agency retirement fund and intelligence community management, (2) classified amounts for national foreign intelligence activities administered by the CIA and by other agencies as well as by DOD, and (3) very small amounts for some other agencies. Five other appropriations bills also provide funds for national defense activities of DOD and other agencies including:

- the **military construction appropriations** bill, which finances construction of military facilities and construction and operation of military family housing, all administered by DOD; and
- the **energy and water development appropriations** bill, which funds atomic energy defense activities administered by the Department of Energy.
- the **VA-HUD-independent agencies** appropriations bill, which finances civil defense activities administered by the Federal Emergency Management Agency, activities of the Selective Service System, and DOD support for National Science Foundation Antarctic research;
- the **Commerce-Justice-State appropriations** bill, which funds national security-related activities of the FBI, the Department of Justice, and some other agencies; and
- the **transportation appropriations** bill, which funds some defense-related activities of the Coast Guard.

## Status<sup>1</sup>

On January 10, 2002, the President signed P.L. 107-117 (H.R. 3338), the FY2002 DOD Appropriations Act, including both the regular funding for defense and the allocation of \$20 billion among all government agencies that was provided in the Emergency Terrorism Response supplemental to combat terrorism (see H.Rept. 107-350 and **Table 1a**). On December 20, 2001, the House and the Senate passed H.R. 3338/P.L. 107-117, the conference version of the FY2002 Department of Defense (DOD) appropriations bill. Although Congress provided \$343.3 billion for National Defense, close to the total requested by the Administration, Congress re-allocated the funding – providing \$1.7 billion less than requested for the Department of Defense, and \$500 million more for military construction, and \$750 million more for the Department of Energy’s defense programs.<sup>2</sup> Of the \$20 billion in emergency supplemental funding that was allocated in H.R. 3338, DOD received \$3.5 billion.

Although P.L. 107-117 (H.R. 3338) makes various changes to the Administration’s FY2002 request for regular DOD appropriations, the Administration’s basic priorities are preserved, including a substantial increase in overall resources for defense, a large increase in military pay and full funding of defense health benefits, and a major jump in spending for missile defense. Congress does, however, reduce spending on operations and maintenance on the basis of various pricing adjustments and efficiency measures in order to accommodate increases to the procurement and RDT&E accounts (see below for a fuller discussion).

A week earlier, on December 13, 2001, both houses passed S. 1438, the conference version of the FY2002 DOD authorization bill (see S.Rept. 107-333 and **Table 1b**). The conferees resolved the chief issue in contention - authorizing another round of base closures as requested by the Administration - by delaying the date to 2005. In addition, the authorizers set upward limits on the amounts that could be provided in the emergency supplemental to combat terrorism.

**Table 1a. Status of FY2002 Defense Appropriations**

Subcommittee Markup		House Report	House Passage	Senate Report	Senate Passage	Conf. Report	Conference Report Approval		Public Law
House	Senate						House	Senate	
10/24/01 and 11/14/01	11/4/01	11/19/01 H.Rept. 107-298	11/28/01 (406-20)	12/5/01 S.Rept. 107-109	12/7/01 (voice vote)	12/19/01 H.Rept. 107-350	12/20/01 (408-6)	12/20/01 (94-2)	1/10/02 P.L. 107- 117

<sup>1</sup> For an overview of the defense budget process in Congress, see CRS Report RL30002, *A Defense Budget Primer*, by Mary Tyszkiewicz and Stephen Daggett.

<sup>2</sup> The total amount provided for the national defense function by Congress was \$343.3 billion compared to the Administration’s request of \$343.5 billion, but the \$220 million difference reflected different estimates of spending in mandatory programs.

**Table 1b. Status of FY2002 Defense Authorization**

Full Committee Markup		House Report	House Passage	Senate Report	Senate Passage	Conf. Report	Conference Report Approval		Public Law
House	Senate						House	Senate	
8/1/01	9/4/01	9/4/01 H.Rept. 107-194	9/25/01 (398-17)	9/12/01 S.Rept. 107-62	10/2/01 (99-0)	12/12/01 H.Rept. 107-333	12/13/01 (382-40)	12/13/01 (96-2)	12/28/01 P.L. 107-107

## Debate on Funding to Combat Terrorism

During floor consideration of the bill in both houses, the debate centered on the adequacy and allocation of the \$20 billion in emergency supplemental funding to combat terrorism. In response to concerns raised by members that more funding was needed for the recovery of New York and homeland defense, the conferees shifted \$4.3 billion from funding requested by the Administration for DOD to those purposes. Several members suggested that the Administration could request additional funding for defense in a FY2002 supplemental. Earlier attempts to provide funding above the \$20 billion already appropriated were stymied by the threat of a presidential veto.

Of the total \$40 billion provided by the emergency supplemental, DOD received \$17.5 billion, including \$14 billion that was allocated at the discretion of the President and \$3.5 billion that was allocated in the FY2002 DOD appropriations act (see below).<sup>3</sup> Non-defense agencies received a total of \$22.5 billion, including \$16.5 billion that was allocated in the FY2002 DOD bill. Within that \$16.5 billion for non-defense agencies, the major programmatic emphasis is for:

- recovery for New York and other affected areas (\$5.0 billion);
- bioterrorism (\$2.8 billion); and
- investigatory activities (\$2.3 billion).

(See discussion below and CRS Report RL31187, *Terrorism Funding: Congressional Debate on Emergency Supplemental Allocations*, by Amy Belasco and Larry Nowels).

## Total Funding for National Defense in FY2002

Total funding appropriated for the national defense function in FY2002, including the \$3.5 billion of funding from the Emergency Terrorism Response supplemental that was allocated in the DOD bill, is \$346.8 billion (see **Table 2**). DOD also received \$14.0 billion in funding from the Emergency Terrorism Response

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<sup>3</sup> Of the \$40 billion appropriated in P.L. 107-38, the terrorism supplemental, the President could allocate \$20 billion at his discretion, and \$20 billion became available only when included in a subsequent appropriation bill.

supplemental that was distributed by the President (see below).<sup>4</sup> Those funds are included in DOD's FY2001 appropriations. Including those funds along with \$5.8 billion provided last summer in a non-emergency supplemental, funding for national defense in FY2001 totaled \$330.5 billion, or \$16.3 billion below the total for FY2002.

Since the advent of the new Administration, resources available to DOD have increased by a total of \$56 billion, including:

- \$5.8 billion appropriated in the non-emergency supplemental in late June 2001;
- \$32.6 billion increase for FY2002 provided by Congress in the regular defense appropriations as requested by the Administration; and
- \$17.5 billion in emergency supplemental funding to combat terrorism.

President Bush's increase in resources for defense of \$56 billion or 18% in real growth for defense within a year is comparable to the \$61.6 billion, or 19% real growth in defense resources, added by President Reagan between 1981 and 1982 in his first year in office (all figures in FY2002 dollars).<sup>5</sup> In comparison to growth in defense spending between 1965 and 1966, the beginning of the buildup for the Vietnam war, the additions by President Bush are somewhat larger - \$56 billion compared to \$53.5 billion (in 2002 \$) for Vietnam.<sup>6</sup>

Combined with the emergency funding allocated to non-defense agencies and the impact of the recession that began in the spring of 2001, this additional funding for Defense required that Congress set aside earlier budgetary guidelines designed to protect the surplus generated by the Social Security and Medicare trust funds and return to deficit spending (see below).

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<sup>4</sup> P.L. 107-38 permitted the President to allocate \$20 billion of the \$40 billion in emergency supplemental funding at his discretion whereas the second \$20 billion would not become available until the allocation was included in a subsequent appropriation act. Because no additional legislative action was necessary for agencies to receive allotments from the first \$20 billion, CBO counts (or 'scores') allocations of the first \$20 billion as FY2001 appropriations. Since allocations of the second \$20 billion required additional legislation that occurred in FY2002, those funds are counted (or 'scored') as FY2002 funds.

<sup>5</sup> The comparison is between the total for national defense originally enacted for FY1981 - \$323.2 billion in FY2002 dollars - and the final level in FY1982 of \$384.8 billion. When the late-President Reagan came to office, he proposed supplemental appropriations for FY1981 and an amended FY1982 budget.

<sup>6</sup> Between 1980 and 1982, funding for national defense grew from \$310.3 billion to \$384.8 billion (all in 2002 dollars), including supplemental funding provided by Congress in response to President Reagan's request in 1981 and the enacted version of Reagan's amended FY1982 budget. See Table 10 in CRS Report RL30976, *Defense Budget for FY2002: Data Summary, Final Version*, by Mary T. Tyszkiewicz.

**Table 2. National Defense Function by Appropriations Bill,  
FY2001 to FY2002 Enacted**  
(in millions of dollars <sup>a</sup>)

Appropriations Bill and Budget Function	FY2001 enacted	FY2002 Amended Request	FY2002 Enacted	FY2002 Approps vs. Request	FY2002 Enacted vs. FY2001
<b>Regular Appropriations</b>					
Defense appropriations	287,373	318,945	317,195	-1,750	29,822
Military Construction & Family Housing	8,959	9,971	10,487	516	1,528
Offsetting Receipts and other mandatory	-1,272	-1,134	-1,107	27	165
<b>Total, Department of Defense (051)</b>	<b>295,060</b>	<b>327,782</b>	<b>326,575</b>	<b>-1,207</b>	<b>31,515</b>
Atomic Energy (053)	14,065	14,252	15,002	750	937
Other appropriations (054)	1,518	1,470	1,703	233	185
<b>Total, National Defense (050)</b>	<b>310,643</b>	<b>343,504</b>	<b>343,280</b>	<b>-224</b>	<b>32,637</b>
<b>Supplemental Appropriations</b>					
FY2001 Non-emergency supp <sup>b</sup>	5,820	NA	NA	NA	NA
<b>Total, National Defense (050) with Non-Emergency Supp</b>	<b>316,463</b>	<b>343,504</b>	<b>343,280</b>	<b>-224</b>	<b>26,817</b>
Emergency Terrorism Response supp <sup>c</sup>	14,041	7,349	3,500	-3,849	-10,541
<b>National Defense function with Non-Emergency and Emergency Supp</b>	<b>330,504</b>	<b>350,853</b>	<b>346,780</b>	<b>-4,073</b>	<b>16,276</b>

**Notes:**

- Includes discretionary and mandatory funding.
- P.L. 107-20, Supplemental appropriations for FY2001.
- P.L. 107-38, the Emergency Terrorism Response supplemental, appropriated \$40 billion in emergency supplemental funding to respond to the terrorist attacks of September 11, 2001. Of that total, \$20 billion was available to be distributed by the President without further congressional action; for that reason, the Congressional Budget Office scored or considered those funds as FY2001 appropriations. Because the second \$20 billion became available only when included in a later appropriation act, those funds are FY2002 appropriations.

**Sources:**

House Appropriations Committee, appropriations tables for FY2002, Conference report on H.R. 338, FY2002 DOD Appropriations, H.Rept. 107-350, Conference report on S. 1438, FY2002 DOD Authorization, CBO cost estimates for S. 1438, Pay-as-you-Go, DOD (Comptroller), National Defense estimates for FY2002, OMB, Budget of the United States (April 2001), and Mid-Session Update, August 2001, and CRS calculations.

## Enacted Version of FY2002 DOD Appropriations Bill

In the enacted version of H.R. 3338, P.L. 107-117, the FY2002 DOD appropriations bill, Congress endorses most of the Administration request. Despite some concerns raised by members, Congress funds most of the substantial increase in funding requested for the Ballistic Missile Defense program. P.L. 107-117 also provides the full increases in pay and benefits requested by the Administration, and in all but a couple of cases, the funding requested for major weapons systems (e.g. JSF, F-22 Captor, Comanche, Crusader, DDG-51 cruiser). Those major programs in which Congress reduces funding – the V-22 tilt rotor aircraft and the Navy’s new surface combatant – are troubled programs that the Department of Defense is in the process of designing (for more detailed discussion, see below). The overall RDT&E funding level is higher than requested (see **Table 3** and **Summary Tables A2 and A3**).

The greatest divergence in funding priorities is for Operation and Maintenance, (O&M) where Congress reduces the Administration’s request for O&M at funding by \$3.1 billion in FY2002 to reflect anticipated savings from a variety of management reforms, as well as cuts in administrative areas (like headquarters) and various pricing adjustments (e.g. fuel and foreign currency). O&M funds not only training that ensures readiness but also support of the military infrastructure (see below).

Congress also all but eliminates the Overseas Contingency Operations Transfer Fund, a revolving and management account that funds ongoing contingency operations (like Bosnia), as well as unanticipated operations. Congress transfers the funds designated for Bosnia to the services and cuts \$650 million from the request, suggesting that the accounting of funds needed to be improved.<sup>7</sup> This issue is likely to resurface in the FY2003 budget request. For additional information on congressional changes, see individual sections on “Major Issues” and “Other Important Issues” below.

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<sup>7</sup> See H.Rept. 107-350, p. 209. This fund was not used for operations in Afghanistan because of the passage of the Emergency Terrorism Response supplemental on September 14, 2001.

**Table 3. Department of Defense Appropriations Bill by Title,  
FY2002 to FY2002 Enacted**  
(in millions of dollars)

Title	FY2001 without supps <sup>a</sup>	FY2002 Amended Request	FY2002 Enacted <sup>b</sup>	FY2002 Enacted vs. FY2001	FY2002 Enacted vs. Request
Military personnel	75,435	82,284	82,141	6,706	-143
Operation and Maintenance	107,954	125,730	122,541	14,587	-3,189
Procurement	62,111	61,595	61,333	-778	-262
Research, Development, Test & Evaluation	40,829	47,429	48,704	7,875	1,275
Revolving & Management Funds	1,044	2,237	1,595	551	-642
Counter-terrorism & Defense agst. Weapons of Mass Destruction	0	0	881	881	881
Legislative proposals for savings	0	-330	0	0	330
<b>Total DOD appropriations</b>	<b>287,373</b>	<b>318,945</b>	<b>317,195</b>	<b>29,822</b>	<b>-1,750</b>

**Notes:**

<sup>a</sup>Reflects FY2001 enacted level prior to non-emergency and emergency supplementals, P.L. 107-20 and P. L. 107-38.

<sup>b</sup> Reflects effect of rescissions include in the FY2002 DOD appropriations bill.

**Sources:**

OMB, CBO, House Appropriations Committee, and conference reports on H.R. 3338 (H.Rept. 107-350), and CRS calculations.

## Prior Congressional Action on FY2002 Appropriations and Authorization Bills

Action on the defense appropriations bill was delayed by the debate about the amount and the distribution of the emergency supplemental funds. On December 7, 2001, the Senate passed by voice vote H.R. 3338, the FY2002 DOD appropriations bill after making major changes to the bill as reported by Committee (S.Rept. 107-109). Both the Senate and House bills appropriated \$317.6 billion for the Department of Defense and allocated \$20 billion in emergency supplemental funding to combat terrorism that was previously appropriated on September 14 in response to the terrorist attacks of September 11 (P.L. 107-28), but there were significant differences between the bills.

As in the House, debate on the defense appropriations bill in the Senate focused on the adequacy and allocation of the emergency funding (see below).<sup>8</sup> During Senate

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<sup>8</sup> National Journal's Congress Daily, "Appropriations: White House Urges Hard Line on Defense," December 5 2001, and National Journal's Congress Daily, "Appropriations: Senate Approps Panel Turns to Final FY02 Spending Bill," December 5, 2001, and BNA, Daily (continued...)

floor debate, the additional \$15 billion in funding for homeland security that was included by the Appropriations Committee was stripped from the bill through a series of procedural motions.<sup>9</sup> The President threatened to veto any funding beyond that already appropriated in the emergency supplemental. Once the additional funding was deleted, the allocation of the \$20 billion was adjusted in response to the policy priorities of Senator Byrd and other members pressing for additional funding. The Senate bill as passed shifted \$5.3 billion in funds requested for Department of Defense to homeland security and aid to New York, a compromise that laid the groundwork for the final version of the bill.

On November 28, 2001, the House passed the FY2002 DOD appropriations bill, H.R. 3338, by 406 to 20 after turning aside attempts by Representatives Obey, Walsh, Lowey, and Murtha to add funds for homeland security for both defense and non-defense needs. In a compromise agreement worked out with the Administration several days earlier, an additional \$1.5 billion out of the \$20 billion was allocated to New York in the House version of H.R. 3338.

Action on the major defense funding bills was delayed by a series of events in addition to the dispute between the Administration and congressional leaders about funding to combat terrorism. Before that, the week-long evacuation of some congressional offices for anthrax testing, a dispute between the Administration and Congress about the total amount for discretionary spending, and congressional passage of the \$40 billion emergency supplemental for FY2001 in response to the terrorist attacks on the World Trade Center and the Pentagon all moved consideration of the Defense bill to late in the congressional session.

## **Funding to Combat Terrorism: Congressional Action**

The President had requested that DOD receive a total of \$21.1 billion in emergency supplemental funds, including \$14 billion that was distributed by the President, and \$7.3 billion, which would become available if included in an appropriations act (see above).<sup>10</sup> With enactment of the FY2002 DOD appropriations bill, the total amount that DOD receives from the emergency supplemental is \$17.5

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<sup>8</sup> (...continued)

Report For Executives, "Senate panel Backs Homeland Funds, as GOP Readies to Defeat Defense Bill," December 5, 2001.

<sup>9</sup> The emergency designation of the funds was successfully challenged in a point of order. Once the emergency designation was removed, a point of order was raised that the total funding in the bill exceeded the funding allowed in the 302 (a) allocation for defense.

<sup>10</sup> Of the emergency funding, \$8.2 billion became available 15 days after the allocations were sent to Congress; the latest allocation, on November 9 became available November 25.



billion, or \$3.8 billion less than requested by the Administration (see **Table 2**). All but \$57 million of the \$40 billion in emergency funds has now been allocated.<sup>11</sup>

Passed on September 14, 2001, P.L. 107-38/H.R. 2888, the FY2001 Emergency Appropriations Act for Recovery from and Response to Terrorist Attack on the United States provided \$40 billion in emergency spending to be allocated by the Administration in consultation with Congress. The funds are to be spent for the following purposes:

- federal, state, and local preparedness for relief from and for responding to the attack;
- support to counter, investigate and prosecute domestic and international terrorism;
- increased security for transportation;
- repairing damage to public facilities and transportation systems; and
- supporting national security.

Funds designated as emergency spending are not subject to the limitations set in concurrent budget resolutions.

The President was required to consult with the chairmen and ranking minority members of the appropriations committees prior to the transfer of the funds to individual agencies. After consultation with the appropriations committees about the allocation of the funds, the initial \$10 billion becomes available immediately. (DOD refers to these funds as ‘cash’.) The second \$10 billion became available 15 days after the Office of Management and Budget submitted a proposed allocation and plan for use of the funds to the appropriations committees. (DOD refers to these funds as ‘15 day notification’ funds). An additional \$20 billion became available if included in a later appropriation bill. These funds are included in P.L. 107-117, the enacted version of H.R. 3338 (see above).

According to the Emergency Terrorism Response supplemental, P.L. 107-38, not less than \$20 billion of the \$40 billion “shall be allocated for disaster recovery activities and assistance related to the terrorist acts in New York, Pennsylvania, and Virginia on September 11, 2001.”<sup>12</sup> The law also provides that the President may submit detailed requests to Congress if further funding is required. Although the emergency supplemental required that the Director of OMB was to provide quarterly reports to the appropriations committees on the use of funds, beginning on January 2, 2002, that reporting requirement was superceded by the one included in the DOD appropriations act, calling for quarterly reports 30 days after enactment (by February 9, 2002).

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<sup>11</sup> The total of \$17.5 billion includes \$300 million that Congress of unobligated funds that Congress allocated in the FY2002 DOD bill (see Section 305 of H.R. 3338); with that transfer, all but \$57 million of the total \$40 billion in the emergency supplemental has been distributed.

<sup>12</sup> P.L. 107-38, “Making emergency supplemental appropriations for fiscal year 2001 for additional disaster assistance, for anti-terrorism initiatives, and for assistance in the recovery from the tragedy that occurred on September 11, 2001, and for other purposes.”

On September 14, Congress also passed S.J.Res. 23 authorizing the President to use military force against those responsible for the terrorist attack. Three weeks later, on October 7, the U.S. initiated the bombing of Afghanistan to destroy the terrorist training camps of Osama bin Laden and dislodge the Taliban government. Funding for the war is included in the emergency supplemental (see section on defense spending below).

Since September 21, OMB has sent Congress eight notifications of intended and requested allocations of the \$40 billion emergency supplemental, including a notice on October 16 that contained details of the \$20 billion proposal that needed to be approved by Congress in an FY2002 appropriation bill.<sup>13</sup> Both the House and Senate Appropriations Committee included their allocations of the Administration's request for that \$20 billion in a separate section of the FY2002 DOD Appropriations bill (H.R. 3338, H.Rept. 107-298, S.Rept. 107-109). As costs of recovery and response efforts have risen, however, policy differences emerged over the amount, timing, and priorities of the supplemental spending.

The White House, concerned over potential rising budget deficits for FY2002, argued that the \$40 billion emergency total was sufficient for the moment, but that the President would entertain more spending next year if needs exist. Many lawmakers, including senior Appropriations Committee members, however, called for the infusion of immediate resources well above the \$40 billion figure, with an emphasis on funds for New York City in order to meet the \$20 billion allocation directive in P.L. 107-38. President Bush said that he would veto legislation that would spend more than the \$40 billion already enacted. These issues were considered during floor debate on the DOD appropriations bill in both the House and the Senate floor debate.<sup>14</sup>

## Composition of Anti-Terrorism Supplemental

Of the total \$40 billion supplemental, the White House had proposed that the majority of funds be allocated to the Defense Department, with a lesser share for non-defense agencies, specifically:

- \$21.1 billion for DOD (53%);
- \$18.6 billion for non-defense agencies (47%); and
- \$.3 billion (less than 1%) not yet allocated (see **Figure 1** below).<sup>15</sup>

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<sup>13</sup> See Letters from President George Bush to Speaker of the House, J. Dennis Hastert, authorizing transfers from the Emergency Response Fund under provisions of P.L. 107-38, with attachment from the Office of Management and Budget, dated Sept. 21, 28, Oct. 5, 16, 22, and Nov. 5, 9, and 30, 2001; [<http://w3.access.gpo.gov/usbudget/FY2002/amndsup.html>].

<sup>14</sup> See CRS Report RL31187, *Terrorism Funding: Congressional Debate on Emergency Supplemental Allocations*, by Amy Belasco and Larry Nowels for further discussion of these issues and more detailed information on the allocation of non-defense funds. See also, CRS Report RL31173, *Terrorism Funding: Emergency Supplemental Appropriations - Distribution of Funds to Departments and Agencies*, October 25, 2001, and CRS Report RL31168, *Terrorism Funding: FY2002 Appropriation Bills*, and individual CRS appropriation reports on [<http://www.crs.gov/products/appropriations/apppage.shtml>].

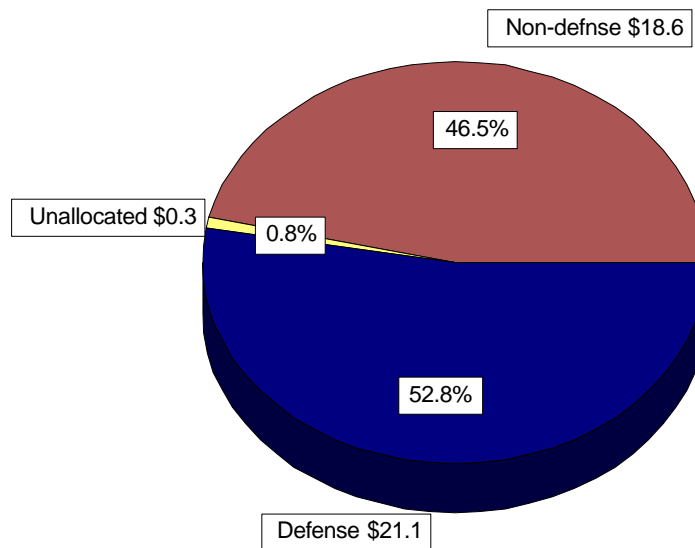
<sup>15</sup> For the Administration's allocations of the emergency supplemental, see (continued...)

As illustrated in **Figures 1 and 2**, Congress, through enactment of H.R. 3338, altered the President's plan by providing that \$22.5 billion or 56% of the total is provided to non-defense activities, and \$17.5 billion, or 44%, supports defense programs. A small amount remains unallocated.

**Allocation by Federal Agency.** Other than the Department of Defense, the other major recipients of funds based on notified and proposed allocations thus far are the Federal Emergency Management Agency (\$6.6 billion), which provides disaster assistance relief, Health and Human Services (\$2.9 billion), Housing and Urban Affairs (\$2.7 billion), Justice, (\$2.2 billion), and Transportation (\$2 billion) (see **Table 4**).

**Figure 1. Composition of \$40 billion Supplemental Request**

(\$s - billions & % of total)



**Policy Priorities of Emergency Supplemental Allocations.** There has been broad bipartisan support for the enactment of significant additional resources for recovery and response to the September 11 terrorism attacks. Nevertheless, sharp differences emerged as to whether the original \$40 billion package is sufficient, whether the allocations matched the most critical priorities, especially regarding homeland security needs, and whether New York and other jurisdictions directly affected by the attacks are received adequate funds. Many assumed that New York would receive about half, or \$20 billion of the total emergency supplemental. (For additional information about current and proposed spending for non-defense agencies, see Appendix A1, and CRS Report RL31187, *Terrorism Funding: Congressional*

<sup>15</sup> (...continued)

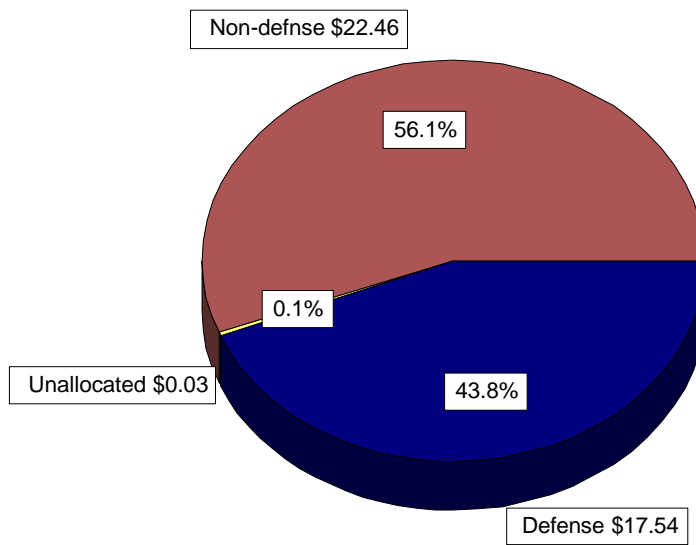
[<http://w3.access.gpo.gov/usbudget/FY2002/amndsup.html>].

*Debate on Emergency Supplemental Allocations* by Amy Belasco and Larry Nowels, CRS Report RL31168, *Terrorism Funding: FY2002 Appropriation Bills*, by Larry Nowels, CRS Report RL31173, *Terrorism Funding: Emergency Supplemental Appropriations - Distribution of Funds to Departments and Agencies*, by James R. Riel, and individual CRS appropriations reports available at [<http://www.crs.gov/products/appropriations/apppage.shtml>].

**Table 4** and **Figures 3 and 4** provide estimates of how Congress changed the Administration's planned and proposed allocations of the \$40 billion by ten major policy priorities.<sup>16</sup> The two chief areas reduced by Congress are defense activities - decreased to \$17.5 billion or 44% of the total - and recovery resources, which were cut slightly. The areas receiving more emphasis are bioterrorism, aviation and infrastructure protection, and investigation and law enforcement activities.

**Figure 2. Composition of \$40 Billion Supplemental Enacted**

(\$s - billions & % of total)




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<sup>16</sup> These figures are based on CRS analysis and should be regarded as illustrative rather than a precise calculation of allocations.

**Table 4. Allocations of Anti-Terrorism Supplemental by Agency**  
(in billions of dollars and percentage of total)

Department/ Agency Totals	Executed Transfers	Fifteen-day Wait	Admin. Request	Enacted	Total Supplement	As % of \$40 Bil.
<b>Total Supplemental</b>	<b>\$10.0</b>	<b>\$10.0</b>	<b>\$20.0</b>	<b>\$20.0</b>	<b>\$40.0</b>	<b>100.0%</b>
Not yet allocated	0.03	0.0	0.0	0.0	0.03	0.1%
Total allocated	9.97	10.0	20.0	20.0	39.97	99.9%
<b>Defense subtotal</b>	<b>5.9</b>	<b>8.1</b>	<b>7.3</b>	<b>3.5</b>	<b>17.5</b>	<b>43.8%</b>
<b>Non-defense subtotal</b>	<b>4.1</b>	<b>1.9</b>	<b>12.7</b>	<b>16.5</b>	<b>22.5</b>	<b>56.3%</b>
FEMA	2.0	0.0	5.5	4.6	6.6	16.5%
HHS	0.1	0.0	1.6	2.8	2.9	7.3%
HUD	0.0	0.7	0.0	2.0	2.7	6.8%
Justice	0.0	0.0	1.1	2.1	2.1	5.3%
Transportation	0.2	0.5	0.7	1.3	2.0	5.0%
USAID	0.6	0.1	0.0	0.1	0.8	2.0%
Treasury	0.1	0.0	0.3	0.6	0.7	1.8%
U.S. Postal Service	0.0	0.2	0.0	0.5	0.7	1.8%
State	0.3	0.3	0.0	0.0	0.6	1.5%
Labor	0.0	0.0	2.0	0.2	0.2	0.5%
Other non-defense	0.8	0.1	1.5	2.3	3.2	8.0%

**Note:** Totals may not add due to rounding.

**Sources:** OMB, House and Senate Appropriations Committees, CRS calculations.

**Changes to Defense Request.** Despite Congress' cut of \$3.5 billion in the \$7.3 billion DOD request for the emergency supplemental, the President's general priorities for defense spending to combat terrorism remained largely intact. In both the President's request and in the enacted bill, about 30% of the \$17.5 billion allocated for Defense in the Emergency Terrorism Response supplemental is for funding of the Afghan war and related operations, and another 30% is for intelligence and surveillance activities. The remaining funds are distributed among self-defense weapons for ships and upgraded security at bases (8.6%), improved command and control (8%), precision-guided munitions (10%), repair and upgrade of the Pentagon, and initial crisis response (8% and 4% respectively). For more detail, see Table A1 in the Appendix.

Congress was able to accommodate the \$3.5 billion cut to defense by providing funding within the regular defense bill, by deferring less urgent requests, and by inserting a provision that permits DOD to transfer up to \$1.65 billion, or 1.5% of the FY2002 appropriations, for RDT&E and procurement to fund the Afghan war or

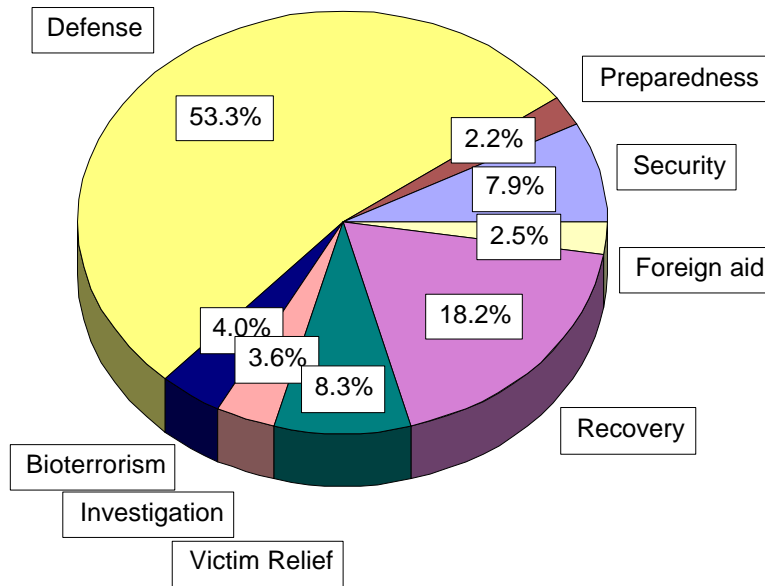
DOD's homeland defense activities, should that prove necessary.<sup>17</sup> Congress also restored the funding requested to repair and upgrade the Pentagon by transferring \$300 million of the funds remaining in the emergency supplemental that were to be distributed by the President.<sup>18</sup> Finally, in floor debate, several members of Congress noted that the President was expected to submit another supplemental with additional funding for defense when Congress reconvenes in January 2002.

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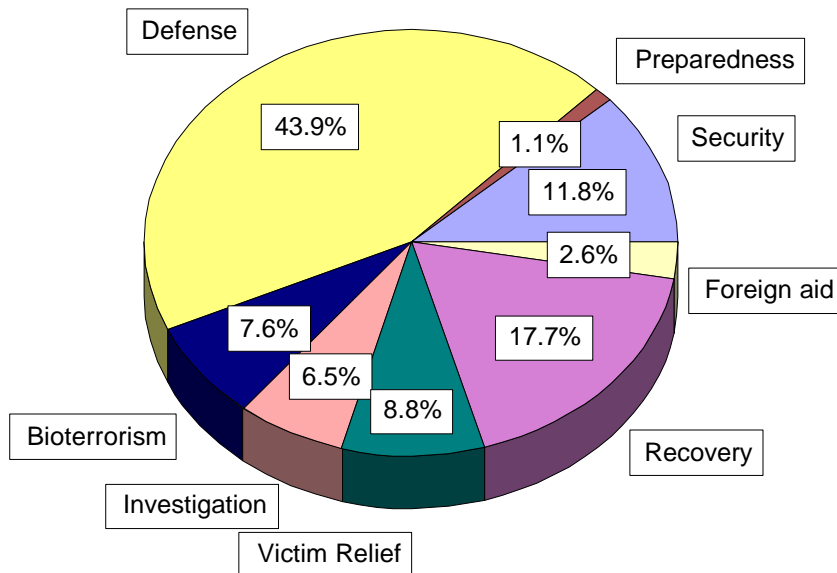
<sup>17</sup> In the regular DOD appropriations bill, Congress provided \$478 million to improve protection of DOD's weapons and facilities, thus restoring roughly half of the President's request (see Title IX of H.R. 3338). In the allocation of the emergency supplemental in H.R. 3338, Congress inserted a provision that permits DOD to transfer up to 1.5% of RDT&E and procurement funds to Operation Enduring Freedom (Afghan war), and Operation Noble Anvil (combat air patrol activities on both coasts for homeland defense), thus providing another mechanism to ensure that adequate funding would be available.

<sup>18</sup> Congress transferred \$300 million of the funds that were to be allocated by the president from the first \$20 billion to upgrade the Pentagon, thus matching the total requested by DOD (see H.Rept. 107-350, p. 424, and Section 305(b) of H.R. 3338).

**Figure 3. Allocation of \$40 Billion by Major Purposes:  
Administration Plan**



**Figure 4. Allocation of \$40 Billion by Major Purposes:  
Actual**



## The President's \$20 Billion Allocation Request

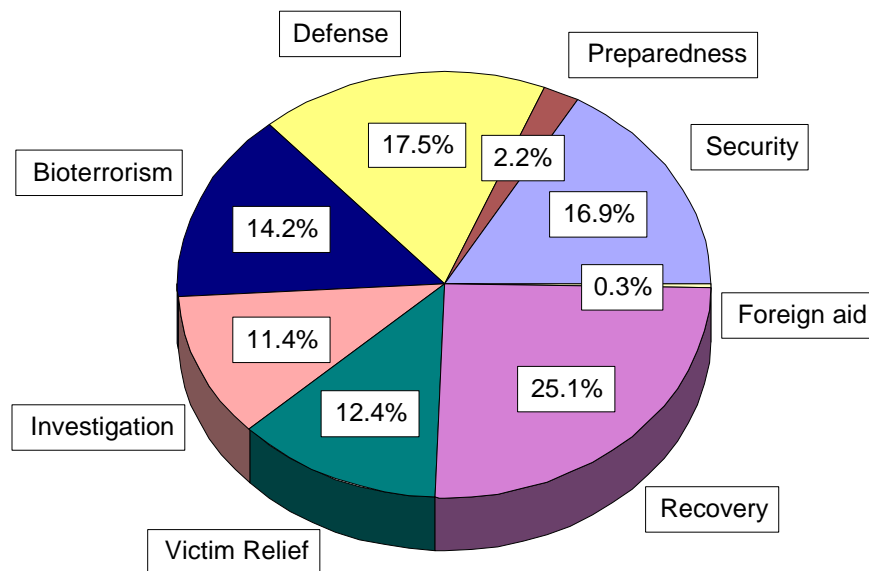
The allocation process established in P.L. 107-38 for the Emergency Supplemental spending measure guaranteed Congress a central role in deciding how half of \$40 billion anti-terrorism money would be spent. On October 16, OMB submitted its plan for the second \$20 billion portion of the supplemental that must be subsequently approved by Congress.

Under the President's plan for use of that \$20 billion (see **Figure 5** below), the two largest shares of the supplemental request were to go to DOD (over one-third) and to recovery activities (over one-quarter), for a total of \$12.5 billion. Assistance to victims of the terrorist attacks represented about 11%, or \$2.3 billion. Infrastructure and aviation security would have received 9%, or about \$1.8 billion, while funding to combat bioterrorism and investigative activities represented slightly smaller shares of 7% or \$1.4 billion, and 6% or \$1.2 billion, respectively. There was no humanitarian and other foreign assistance proposed in the second \$20 billion request.

## Congressional Priorities in Funding to Combat Terrorism

On December 20, 2001, Congress cleared for the White House H.R. 3338, including \$20 billion in emergency supplemental spending for homeland security, increased defense needs, and other efforts to combat terrorism. The package sent to the President, however, differs significantly from what had been proposed in mid-October for allocating the second \$20 billion. The legislation roughly doubles the request for bioterrorism, law enforcement, and infrastructure security activities, while reducing by more than half the \$7.3 billion proposed for defense. The final

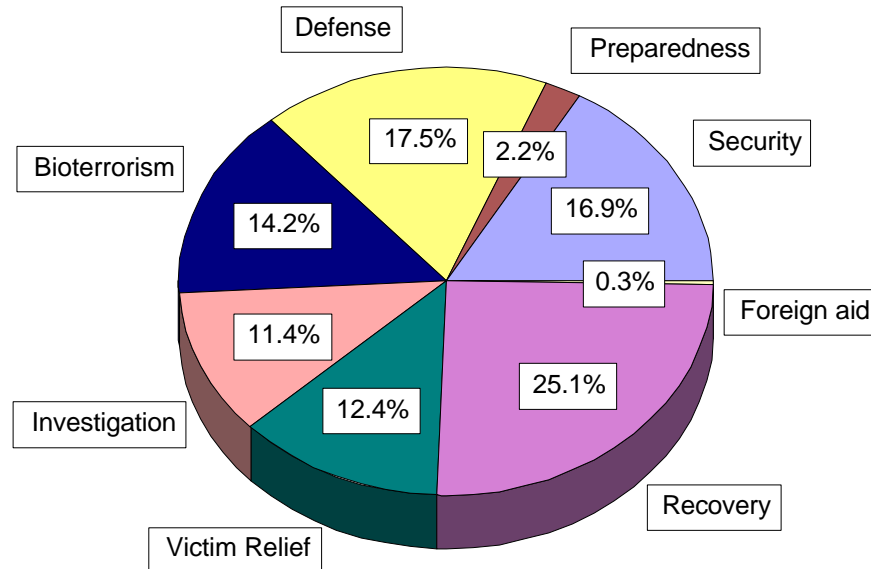
**Figure 5. Enacted Allocation of Second \$20 Billion**





compromise – to increase homeland security and New York aid and decrease defense resources – partially accommodates the position of those who sought more spending for domestic programs, but without exceeding \$20 billion. (See **Figure 6.**)

**Figure 6. Enacted Allocation of Second \$20 Billion**



**Conference Agreement for Defense Funds.** To accommodate higher funding for non-defense needs, H.R. 3338, as enacted, cuts the amount requested by the President for Defense from \$7.3 billion to \$3.5 billion. Although particular categories of defense spending to combat terrorism are reduced, the Administration’s overall programmatic priorities for DOD remain intact. Congress was also able to provide funding from other sources to offset the cuts (see discussion above and **Table 5**). The Administration has also signaled that it plans to request additional emergency funding for Defense later this winter.<sup>19</sup> The major changes to the request are:

- halving the funding for “increased situational awareness” (intelligence and surveillance activities) from \$1.74 billion to \$850 million;
- eliminating \$881 million in funding for “enhanced force protection” (self-protection systems for weapons and protection to DOD facilities), offset in part by an increase of \$478 million provided in the regular FY2002 DOD appropriations for similar activities;

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<sup>19</sup> James Dao, “Pentagon Seeking a large increase in its next budget,” *New York Times*, January 7, 2002.

- eliminating \$219 million in funding for improved command and control;
- halving the funding for “increased worldwide posture” (funding for the Afghan war and DOD’s homeland defense activities) from \$2.9 billion to \$1.45 billion, although up to \$1.64 billion can be transferred to those activities from regular FY2002 appropriations for RDT&E and procurement should it prove necessary (see Section 306 of P.L. 107-117).
- decreasing funding for “offensive counter-terrorism” (munitions) from \$545 million to \$372 million;
- decreasing funding for “initial crisis response” from \$106 million to \$39 million;
- reducing funding for repair and upgrade of the Pentagon from \$925 million to \$640 million, offset by a transfer of \$300 million remaining in the emergency supplemental but not yet allocated by the President; and
- an increase of \$104 million for military construction projects.

To track the expenditure of these funds, Congress requires DOD to provide quarterly reports to the defense committees showing the appropriation accounts where funds have been transferred, obligations of those funds, and a forecast of expenditures. Because DOD’s funding is being provided in these unique and fairly general categories, the reports are to be more detailed, showing spending by project, and by categories for military personnel and operation and maintenance spending that have been used to report previous contingency operations. The reports are also to identify offsetting savings due to cancellation of peacetime training or other activities. The first report is due 45 days after enactment (February 26, 2002), and quarterly thereafter.<sup>20</sup>

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<sup>20</sup> See H.Rept. 107-350, p. 425; the conference report references the House bill for reporting requirements, see H.Rept. 107-298, p. 295, and Section 3012 of the House version of H.R. 3338.

**Table 5. Congressional Action on DOD's Share of \$20 Billion Supplemental**  
(As of December 20, 2001)

Category	In millions of dollars				As percent of total	
	Admin. Request <sup>a</sup>	House action <sup>a</sup>	Senate action <sup>a</sup>	H.R. 3338 as enacted	Admin. Request	H.R. 3338 as enacted
Increased Situational Awareness	1,735	1,735	NS <sup>c</sup>	850	23.6%	24.3%
Enhanced Force Protection	881	743	NS <sup>c</sup>	0	12.0%	0.0%
Improved Command and Control	219	162	NS <sup>c</sup>	0	3.0%	0.0%
Increased Worldwide Posture	2,938	2,801	NS <sup>c</sup>	1,495	40.0%	42.7%
Offensive Counter-terrorism	545	769	NS <sup>c</sup>	372	7.4%	10.6%
Initial Crisis Response	106	108	NS <sup>c</sup>	39	1.4%	1.1%
Pentagon Repair and Upgrade <sup>b</sup>	925	925	475	640	12.6%	18.3%
Airport Security	0	0	NS <sup>c</sup>	0	0.0%	0.0%
Other <sup>d</sup>	0	0	NS <sup>c</sup>	0	0.0%	0.0%
Other military construction <sup>e</sup>	0	105	0	104	0.0%	3.0%
Transfers <sup>f</sup>	0	[30]	0	[130]	NA	NA
Potential transfers <sup>g</sup>	0	0	0	[1,648]	NA	NA
<b>DOD Total</b>	<b>7,349</b>	<b>7,348</b>	<b>2,000</b>	<b>3,500</b>	<b>100.0%</b>	<b>100.0%</b>

NS = Not specified.

**Notes:**

- P.L. 107-38, the FY2001 Emergency Terrorism Response supplemental provides that a total of \$10 billion is available immediately ('cash'), another \$10 billion is available 15 days after the request is submitted to Congress, and \$20 billion is available to agencies after being enacted in a subsequent appropriations act.
- H.R. 3338 transfers \$300 million in 'cash' resources remaining in the emergency supplemental (P.L. 107-38) for reconstruction, and hardening of command centers in the Pentagon; these funds were to be distributed by the President.
- Except for the Pentagon, the Senate-passed version of H.R. 3338 does not specify how individual categories would be affected.
- The category 'other' includes potential increases in fuel costs.
- Funding added by Congress for military construction.
- The House and conference version of H.R. 3338 transfers \$30 million of DOD funds to the Former Soviet Union Threat Reduction appropriation in the Department of State, and the conference version also provides up to \$100 million for military and logistical support to Pakistan and Jordan for their support in the Afghan war.
- Section 306 of the conference version provides that up to 1.5% of the total in FY2002 funding for RDT&E and procurement can be transferred to support the Afghan war (Operation Enduring Freedom) or DOD's homeland defense activities (Operation Noble Anvil).

**Sources:**

P.L. 107-38, 2001 Emergency Response Terrorism supplemental; OMB submissions on allocations for supplemental, dated September 21, 28, October 5, 16, 22, November 5, 9, 30, see [<http://w3.access.gpo.gov/usbudget/FY2002/amndsup.html>]; see also materials provided to Appropriations committees; House of Representatives, H.Rept. 107-299, Report of Committee on Appropriations to accompany H.R. 3338, DOD Appropriations Bill, 2001, and supplemental appropriations; U.S. Senate, S.Rept. 107-109, Report of Committee on Appropriations to accompany H.R. 3338, and Department of Defense Appropriation Bill, 2002, and supplemental appropriations, and H.Rept. 107-350, Conference report to accompany H.R. 3338, Department of Defense Appropriations Bill, and supplemental appropriations.

**Conference Agreement for Non-Defense Funds.** H.R. 3338, as enacted, follows much of the framework proposed by the Senate: transfer of defense resources to fund homeland security and recovery needs. Major non-defense elements of the conference agreement include:

- **Bioterrorism** – \$2.84 billion, nearly double the Administration’s \$1.59 billion request.
- **Recovery for New York and other affected areas** – \$8.2 billion, slightly higher than the amount proposed by the President, but programmed in a way that more directly targets New York. The House Appropriations Committee estimates that amounts provided in H.R. 3338 for recovery efforts in New York and other jurisdictions, when combined with previously allocated funds, will bring the total to \$11.2 billion out of the entire \$40 billion supplemental.
- **Border security** – \$759 million, mostly for the Coast Guard and the Immigration and Naturalization Service to upgrade border and port security, compared to \$600 million requested by the President.
- **Aviation security** – \$540 million, one-third higher than the \$405 million requested.
- **Counterterrorism aid** – \$2.1 billion, 75% more than the \$1.2 billion request. The agreement includes \$745 million for the FBI, more than requested and passed by either the House or Senate, and \$400 million for counterterrorism aid to state and local governments, as proposed in both bills but not in the request.
- **Postal Service assistance** – \$500 million to repair Postal Service facilities destroyed in the attacks, protect workers handling the mail, and establish a system to sanitize and screen the mail, an addition to the \$175 million allocated from the first \$20 billion portion of the supplemental.
- **Securing nuclear materials** – \$226 million, including \$135 million to secure nuclear materials at sites in Russia and other former Soviet states, and for nonproliferation programs aimed at retaining Russian nuclear scientists.

**Senate Passage of Funding to Combat Terrorism.** During Senate debate of H.R. 3338 on December 6 and 7, 2001, a number of Senators objected to the extra \$15 billion funding for homeland security and New York added to the bill by the Senate Appropriations Committee. In a procedural motion, the Senate voted to remove the emergency designation for those funds. By doing so, the homeland security and New York funds were added to the other non-emergency funding in the bill, which pushed the total amount appropriated over the allowable allocation under Section 302 (a) of the concurrent budget resolution. That made the entire bill subject to a point of order.

On December 7, the Senate adopted a compromise amendment offered by Senators Byrd, Stevens, and Inouye that reduced the emergency anti-terrorism spending to \$20 billion but retained many of the program spending priorities adopted by the Committee, although at lower levels. Relative to the House bill and the Administration request, the Senate version of the bill reduced the amount for the Department of Defense (see below), and added funds for bioterrorism, New York recovery, and security of infrastructure, nuclear facilities airports, and borders (For additional information, see CRS Report RL31187, *Terrorism Funding: Congressional Debate on Emergency Supplemental Allocations* by Amy Belasco and Larry Nowels). With some adjustments in specific funding levels, this formula of reducing funding for defense in order to add monies to non-defense needs proved to be the basic compromise that was reached in the conference version.

**Senate Consideration of Defense Request.** Under the Byrd, Stevens, Inouye amendment that was adopted on the Senate floor, the Department of Defense would have received \$2.0 billion of the \$20 billion included in the Senate bill, a reduction of \$5.3 billion from the funding included in the House bill and from the Administration's request. Of that \$2 billion, \$475 million was designated as military construction funding to be used for reconstruction and renovation of the Pentagon. The bill did not specify where the remaining \$1.53 billion would be spent among the categories developed by the Administration to describe DOD spending; those categories range from funding for the Afghan conflict to increased funding of intelligence and surveillance activities (see **Figure 6** and **Table 5**).

Under the President's proposed allocations, the Defense Department would have received a total of \$21.1 billion, the largest share of both the total funding available under the supplemental (53%) and of the \$20 billion supplemental request currently under consideration in Congress (37%). Under the Senate bill, however, DOD's share of the \$40 billion would have totaled \$15.7 billion or 39% of total supplemental funding, smaller than proposed by the House or the Administration. Of that \$15.7 billion, \$13.7 billion was already available to Defense from the first \$20 billion allocated by the President; the remaining \$2 billion was in the Senate bill.<sup>21</sup>

Secretary of Defense Rumsfeld called on Congress to give DOD the entire \$7.3 billion requested by the President in order to "maintain the president's priorities for fighting this war [in Afghanistan]," and to ensure that DOD would not need to curtail training and operations.<sup>22</sup> In floor debate, Senator Stevens suggested that the Department of Defense had already received a large increase of over \$42 billion compared to the previous year, and under the emergency supplemental, the President could submit requests for additional supplementals for any further requirements to combat terrorism. Senator Stevens also mentioned that the Department of Defense has authority under the Food and Forage Act (Section 3732 or Title 41 U.S.C. Section 11) to obligate monies in advance of appropriations for emergency

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<sup>21</sup> Of that \$13.7 billion, \$5.6 billion was available immediately and \$8.1 billion became available on November 25, 2001 at the latest, 15 days after the President submitted the proposed allocation to Congress.

<sup>22</sup> National Journal's Congress Daily, "House Democrats Demand More Funding for Homeland," December 11, 2001.

expenses.<sup>23</sup> DOD also had already been allotted \$3.6 billion for expenses associated with the conflict in Afghanistan from the first \$20 billion distributed by the President

**Table 6** describes the purposes for the Administration's defense requests, ranging from support for the conflict in Afghanistan to repair and renovation of the Pentagon, and compares the amounts provided by the House and Senate with the Administration's request. Unlike submissions by other agencies and normal budget proposals, the funding for DOD is appropriated to a central fund, the Defense Emergency Response Fund, rather than to individual appropriation accounts in order to give DOD additional flexibility and to ensure separate tracking of these emergency funds.<sup>24</sup> If necessary, DOD could, for example, transfer additional funds from one category to "Worldwide Military Posture," the category that provides monies for the conflict in Afghanistan or for additional training (see **Table 6**).<sup>25</sup>

**Senate Markup of DOD Appropriations Bill.** H.R. 3338, as reported by the Senate Appropriations Committee on December 4, 2001, not only allocated the \$20 billion in funding provided by P.L. 107-38 in the amounts that were requested by the President but also included an additional \$15 billion in funding as proposed by Senator Byrd. The additional \$15 billion was to be split evenly between homeland security and recovery activities and aid to New York, Virginia, and Pennsylvania. (See section on action on FY2002 DOD Appropriations bill for change to regular DOD appropriations.)

For aid to New York, the Senate bill provided an additional \$7.5 billion to FEMA for recovery activities. For other non-defense homeland security, the Senate bill emphasized the following areas:

- bioterrorism prevention and response and food safety;
- federal anti-terrorism law enforcement;
- security for borders; and
- security for nuclear power plants and federal facilities.

For more details about increases provided for non-defense activities, see CRS Report RL31187, *Terrorism Funding: Congressional Debate on Emergency Supplemental Allocations*, by Amy Belasco and Larry Nowels.

**House Passage of Funding to Combat Terrorism.** Attempts to add funding for homeland security in both defense and non-defense programs were rejected during floor debate on the House side. After negotiations between

<sup>23</sup> For Senator Steven's statement, see *Congressional Record*, December 6, 2001, p. S12515. The Department of Defense invoked its authority to use the Food and Forage Act on September 16, 2001 but no obligations have been incurred by the services. DOD can also transfer funds using reprogramming authority.

<sup>24</sup> Under the Senate bill, the Defense Emergency Response Fund can reimburse the services for expenses incurred by other appropriations between September 11, 2001 and December 31, 2001.

<sup>25</sup> DOD would need to get approval from OMB for such transfers.

Committee leaders and the White House, Representative Walsh reached an agreement with the Administration to provide an additional \$2.1 billion for New York that would be drawn from other programs to provide a total of \$11.5 billion.

The House endorsed many of the funding priorities recommended by the President, including the amounts proposed for defense and those for investigation and law enforcement programs in the Department of Justice (see discussion below). The House bill, however, also made various changes to the allocations in both defense and non-defense programs (see CRS Report RL31187, *Terrorism Funding: Congressional Debate on Emergency Supplemental Allocations*, by Amy Belasco and Larry Nowels).

During House consideration, several amendments that would have added funding to the Administration's request were rejected by the Rules Committee or on the floor:

- Representative Obey's amendment to add \$6.5 billion in funding primarily for non-defense agencies (rejected 31 to 34 and ruled out of order on the floor);
- Representative Walsh's amendment to add \$9.7 billion to meet the needs of those people most directly affected by the attacks in New York, Pennsylvania, and Virginia (rejected 31 to 33);
- Representative Lowey's amendment to add \$10.4 billion in additional aid for New York, Virginia, and Pennsylvania by setting up a contingent emergency fund (ruled out of order); and
- Representative Murtha's amendment to add \$6.5 billion to the Department of Defense primarily for intelligence and precision-guided munitions and other equipment (rejected by voice vote).

Prior to markup, some Members questioned whether \$20 billion was sufficient to meet all of the pressing needs related to the terrorist attacks. Some argued that the President's proposal lacked enough funding for such things as law enforcement, bioterrorism preparedness, border protection, and other homeland security priorities. Others, especially Members from New York, contended that the President's plan fell far short of the \$20 billion that they anticipated would be allocated out of the \$40 billion total to meet the specific needs of New York City, Virginia, and rural Pennsylvania where the attacks had the most direct impact. They estimated that only about \$9.7 billion was slated for New York. Still others believed that additional defense resources were required beyond the \$7.3 billion recommended by the Administration in the \$20 billion plan. This issue became more controversial when President Bush, on November 6, said he would veto the appropriation measure if it exceeded the \$20 billion he had proposed.

***House Consideration of the Defense Request.*** Although the House provided the same amount as requested by the Administration for the Department of Defense – \$7.3 billion – H.R. 3338 shifted more than \$600 million in funding from the allocation proposed by the Administration to reflect House priorities. Indicating its policy priorities, the House Appropriations Committee added funds in for precision guided munitions (\$79 million), for equipment for special operations forces (\$145 million), for chemical-biological protection projects (\$105 million) and other areas.

**House Consideration of the Non-Defense Request.** The most significant change during floor debate was the reallocation of an additional \$1.5 billion to New York in the Rules Committee amendment that reflected an agreement reached between Representative Walsh and the White House.<sup>26</sup> With this change, some estimated that the total for New York out of the entire \$40 billion supplemental would have been about \$11.5 billion. The Committee also recommended significant increases bioterrorism (\$600 million) and included funds for counterterrorism aid to state and local governments that was not requested (\$400 million), and passenger and baggage screening activities (\$1.25 billion) that was to be offset by fees collected from passengers and airlines. The House also proposed reductions to the President's non-defense request, including transferring funds for dislocated workers assistance (\$2 billion) and FEMA grants (\$500 million) to New York.

**Similarities in House and Administration's Priorities for Non-Defense Programs.** H.R. 3338 as passed by the House supports many of the funding priorities recommended by the President including \$4.9 billion for FEMA to remove debris in New York City (\$2.15 billion), reconstruct buildings (\$1 billion), and repair highways and subways in New York (\$1.75 billion). Other major policy priorities endorsed by the both the committee and the President include:

- Dislocated worker grants to States – \$2 billion
- Medicines and other supplies for the National Pharmaceutical Stockpile and smallpox vaccines – \$1.15 billion
- Operation expenses of the FBI, INS, and U.S. Marshals – \$1.05 billion.

See CRS Report RL31187, *Terrorism Funding: Congressional Debate on Emergency Supplemental Allocations* for more details on the actions taken by Congress in H.R. 3338 to change non-defense funding.

## **Administration's Defense Funding Request to Combat Terrorism**

Under the President's proposed allocations of the Emergency Terrorism Response supplemental, the Defense Department was to receive a total of \$20.7 billion constituting both the largest share of total funding available under the supplemental (52%) and the largest portion of the \$20 billion supplemental request currently under consideration in Congress (37%). DOD received a total of \$17.5 billion in funding under the Emergency Terrorism Response supplemental, including \$14.0 billion in funding that was immediately available or subject to the 15-day wait

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<sup>26</sup> Although the total amount of funds shifted was \$2.1 billion, the net increase was \$1.5 billion because some of the funds had already been slated for New York. The major change was to add \$1.825 billion to HUD Community Development Block Grants to aid New York businesses to recover from the terrorist attacks by shifting funds from DOL programs designed to extend unemployment benefits and health insurance to displaced workers; those funds would have been widely distributed across the country. See CRS Report RL31187, *Terrorism Funding: Congressional Debate on Emergency Supplemental Allocations* by Amy Velasco and Larry Nowels for additional detail on non-defense programs.



period, and \$3.5 billion that was provided in DOD's FY2002 appropriations act.<sup>27</sup> (See discussion above for congressional action on the Administration's request.)

**Table 6** shows the Administration's request and congressional action on DOD's share of the \$40 billion, using the categories developed by the Administration specifically for the emergency supplemental.<sup>28</sup> Those purposes range from support for the conflict in Afghanistan to repair and renovation of the Pentagon. Unlike submissions by the domestic agencies and normal budget proposals, the funding for DOD is being appropriated to a central fund, the Defense Emergency Response Fund, rather than being appropriated to specific accounts. (Funds will be transferred from the central fund to particular accounts in the services.) This approach was adopted to give DOD additional flexibility and to ensure separate tracking of these emergency funds. The discussion below describes the rationale for the Administration's allocation of funds; for congressional action on those allocations, see discussion above.

***Estimating the Cost of the Afghan Conflict.*** The largest single category in the Administration's request was \$6.5 billion to support the higher operating tempo associated with ongoing operations in Afghanistan or elsewhere - categorized by DOD as "Increased worldwide posture." (Since the funding is not specifically tagged for Afghanistan but rather for higher operating costs, the Administration can use the funding for operations elsewhere.) That funding covers the cost of higher operating tempo for forces that are deployed, the cost of airlifting supplies and setting up operations, and additional pay for activating reservists and for active-duty forces (e.g., hazardous duty pay).

According to DOD, that \$6.5 billion request represented a rough estimate of the additional funding that may be necessary to conduct operations in Afghanistan for six months, or until mid-March, 2002. The estimate reflected a 15% increase above normal operating tempo costs (i.e. for unit training and related areas) of all of DOD's forces, rather than the number and makeup of forces likely to be deployed, and is intended to ensure funding for the Afghan conflict through mid-March after the convening of the next Congress.<sup>29</sup>

With rapid and unpredictable changes in the situation in Afghanistan, any estimate of costs is uncertain, and initial estimates are likely to be revised in the coming months. The Department of Defense has not released any estimates of costs incurred in the conflict thus far. This funding is to be administered centrally by the

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<sup>27</sup> Of that \$13.4 billion, \$5.3 billion was available immediately and \$8.1 billion became available 15 days after the allocation was sent to Congress, by November 25, 2001 at the latest.

<sup>28</sup> The Office of Management and Budget will apportion (or release) funds in these categories, and any DOD proposals to shift funds among categories will require OMB approval.

<sup>29</sup> DOD provided the Appropriations Committees with additional descriptive materials concerning their \$7.3 billion request. According to policy guidance, funding for Afghanistan is to represent incremental operating costs, i.e. taking into account offsets for peacetime exercises funded in the normal budget that would not occur because units are deployed to the conflict.

Department of Defense with the services submitting requests as expenses for deployments and other areas are incurred.

***Improving Intelligence and Surveillance.*** The second largest category of funding – \$5.8 billion, referred to by DOD as “Increased situational awareness” – covers classified programs, including upgrades to reconnaissance platforms (aircraft, unmanned vehicles, communications stations), and improvements to intelligence collection and processing. Early reports suggested that the funding would include the purchase of additional unmanned vehicles such as RC-135 and EP-3 reconnaissance aircraft, assets in heavy use in Afghanistan.

***Enhancing Physical Security.*** An additional \$2.4 billion has been requested by DOD for “Enhanced Force Protection,” to purchase a variety of self-defense weapons and sensors for ships, aircraft and other forces, upgrades to and more physical security systems at bases, and increases in the number of active-duty military personnel doing security duty at bases. Some of the purchases were based on the recommendations of the Cole Commission, which reported on ways to improve security after the terrorist attack on the USS. Cole.

***Purchasing More Precision Guided Munitions.*** DOD requested another \$2 billion for “Offensive Counter-terrorism” to purchase additional precision-guided missiles and other munitions (Tomahawks, JDAMS, ALCMs, laser-guided bombs) that are being heavily used in the bombing attacks in Afghanistan. These expensive missiles are the ‘weapon of choice’ in conflicts where the military is particularly concerned about accurate targeting. The funding level in the supplemental was set to buy the maximum number of missiles that could be produced by defense contractors in FY2002 rather than a specific estimate of the number that would be used in the conflict.

***Improving Command and Communication Systems.*** DOD requested another \$1.5 billion to improve connections both within the military and to local, state, and federal governments.

***Repairing the Pentagon.*** Repair, renovation, and removal of debris at the Pentagon, as well as leasing of temporary space was anticipated to cost another \$1.5 billion.

***Aiding New York, Patrolling the Coasts, and Protecting Airports .*** The initial response to the bombing of the World Trade Center, as well as the new mission of conducting combat air patrols off the east and west coasts, and stationing National Guard personnel at airports – was estimated to cost almost \$1 billion.

The additional funding provided to DOD in the supplemental appeared to include a mixture of one-time or temporary expenses (such as the cost of the conflict in Afghanistan and repair of the Pentagon), accelerations in current programs now given higher priority, and recurring costs reflecting longer-term changes in mission. In the months and years ahead, Congress may assess whether these programmatic changes are permanent, requiring continuing investments in people, equipment or facilities, or whether DOD will need to reorient its missions, and force structure to reflect the new emphasis on combating terrorism.

**Table 6. DOD Allocations under \$40 billion Emergency Terrorism Response Supplemental**

Category	In millions of dollars					As percent of total		Description of category
	Cash <sup>a</sup>	15-day wait funds <sup>a</sup>	Admin. \$20B request <sup>a</sup>	Admin. total	Enacted total	Admin Total	Enacted	
Increased Situational Awareness	1,925	2,347	1,735	6,007	5,122	28.1%	29.2%	Upgrades to reconnaissance aircraft, unmanned aerial vehicles, sensors, and classified programs.
Enhanced Force Protection	775	734	881	2,390	1,509	11.2%	8.6%	Self-defense weapons for ships, aircraft, and other forces; physical security system upgrades, personnel alerting systems, and more security personnel.
Improved Cmd and Control	666	737	219	1,622	1,403	7.6%	8.0%	For connecting to local, state, and federal governments, and for military communication systems.
Increased Worldwide Posture	890	2,713	2,938	6,541	5,098	30.6%	29.1%	Funds increased operating tempo and higher personnel costs associated with Afghan war or related conflicts.
Offensive Counter-terrorism	252	1,207	545	2,004	1,831	9.4%	10.4%	Additional buys of precision-guided missiles and other munitions
Initial Crisis Response	561	76	106	743	676	3.5%	3.9%	Costs of deploying ships and combat air patrols off coasts, DOD support to FEMA, and to NYC.
Pentagon Repair and upgrade <sup>b</sup>	739	91	925	1,755	1,470	8.2%	8.4%	Debris removal, engineering studies, repairs, and renovation.
Airport security	30	198	0	228	228	1.1%	1.3%	Funds National Guard providing airport security
Other <sup>c</sup>	100	0	0	100	100	0.5%	0.6%	Potential cost of higher fuel prices.
Other mil. con.	0	0	0	0	104	0.0%	0.6%	Military construction funding added by Congress.
Transfers <sup>d</sup>	0	0	0	0	[130]	NA	NA	See note below.
Potential transfers <sup>e</sup>	0	0	0	0	[1,648]	NA	NA	DOD can transfer up to 1.5% of total funding for RDT&E and procurement for Afghan war and homeland defense.
<b>DOD Total<sup>f</sup></b>	<b>5,938</b>	<b>8,103</b>	<b>7,349</b>	<b>21,390</b>	<b>17,541</b>	<b>100.0%</b>	<b>100.0%</b>	<b>Not applicable</b>

Notes:

- a. P.L. 107-38, making emergency supplemental appropriations for FY2001 in response to the September 11, 2001 tragedy, provides that a total of \$10 billion is available immediately, another \$10 billion is available 15 days after the request is submitted to Congress, and \$20 billion is available to agencies after being enacted in a subsequent appropriations act.
- b. H.R. 3338 allocates \$300 million that was available for additional ‘cash’ transfers by the President to reconstruction and hardening of command centers in the Pentagon.
- c. The category ‘other’ includes potential increases in fuel costs.
- d. The conference version of H.R. 3338 transfers \$30 million of DOD funds to the Former Soviet Union Threat Reduction appropriation in the Department of State, and provides that up to \$100 million can be provided to Pakistan and Jordan for their military and logistic support in the Afghan war.
- e. Section 306 of H.R. 3338 provides that up to 1.5% of the total amount appropriated in FY2002 for RDT&E and procurement can be transferred to support the Afghan war (Operation Enduring Freedom) or DOD’s homeland defense activities (Operation Noble Anvil).
- f. The total for the Administration includes the \$300 million in ‘cash’ resources transferred by Congress for reconstruction of the Pentagon in H.R. 3338.

**Sources:**

P.L. 107-38, 2001 Emergency Response Terrorism supplemental; OMB submissions on allocations for supplemental, dated September 21, 28, October 5, 16, 22, November 5, 9, 30, see [<http://w3.access.gpo.gov/usbudget/FY2002/amndsup.html>]; see also materials provided to Appropriations committees; House of Representatives, H.Rept. 107-299, Report of Committee on Appropriations to accompany H.R. 3338, DOD Appropriations Bill, 2001, and supplemental appropriations; U.S. Senate, S.Rept. 107-109, Report of Committee on Appropriations to accompany H.R. 3338, and Department of Defense Appropriation Bill, 2002, and supplemental appropriations, and H.Rept. 107-350, Conference report to accompany H.R. 3338, Department of Defense Appropriation Bill, and supplemental appropriations. See also, Tony Capaccio, “Emergency Defense Funds going to improve military intelligence,” [<http://www.bloomberg.com>], September 27, 2001; Frank Wolfe, “Zakheim: supplemental includes RC-135 Upgrades, Global Hawk Acceleration, Defense Daily, September 25, 2001; and “Zakheim: New Defense Spending in 2001 will lead to increases in 2002 and 2003,” Aerospace Daily, September 25, 2001, and CRS calculations.

## Previous National Security Funding to Combat Terrorism

There is no consensus about either the definition of activities that are designed to combat terrorism or the categories to use to describe spending for those activities. Some use the term ‘homeland defense’ for programs designed to combat terrorism. In its 2002 report to Congress, OMB uses a set of categories for spending to combat terrorism that differs from those used by the Department of Defense for its current spending in response to the terrorist attacks, making a comparison between previous and current spending impossible based on the reporting provided thus far (see below).

In an amended version of its August 2001 report to Congress, OMB estimated that the national security community funding to combat terrorism in FY2001 totaled \$5.5 billion, or 57% of that total.<sup>30</sup> That total includes funding for both the Department of Defense and intelligence agencies; for security reasons, OMB did not segregate the portion for the Department of Defense. The OMB report also estimates that DOD was spending an additional \$1.8 billion in FY2001 to protect critical infrastructure, such as computer and communications networks.

For FY2002, the Administration’s estimated request for funding for the national security community to combat terrorism was \$6.4 billion, or \$930 million more than the previous year. This revised estimate reflected the amended budget request sent to Congress by the President on June 27 rather than the initial “current services” estimate included in OMB’s annual report to Congress that was issued in August 2001. (**Table 7** shows the revised estimates from OMB.) Using a set of categories that apply to all government agencies, the table below divides DOD’s spending into five categories:

- Law enforcement and investigative;
- Physical security of government;
- Physical security of national populace;
- Preparing for and responding to terrorist attacks; and
- Research and Development.

With the attack on the World Trade Center and the Pentagon, both these estimates and the amount of funding, as well as the role of the various federal agencies, are being reviewed both within the executive branch and by Congress on an ongoing basis.

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<sup>30</sup> See amended September version, “Annex 1: Funding to combat terrorism (including Defense against WMD) by Bureau and Category,” included in OMB, *Annual Report to Congress on Combating Terrorism*, August 2001.

**Table 7. OMB Estimate of National Security Community  
Funding to Combat Terrorism, FY2000 - FY2002**  
(in millions of dollars and percent of total)

Category	FY2000 \$	FY2001 \$	FY2002 \$	FY2000 %	FY2001 %	FY2000 %
<b>National Security Total <sup>a</sup></b>	<b>\$5,368</b>	<b>\$5,503</b>	<b>\$6,433</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Law enforcement and investigative	\$2,644	\$2,732	\$2,888	49%	50%	45%
Physical security of government	\$2,231	\$2,300	\$3,098	42%	42%	48%
Physical security of national populace	\$0	\$0	\$0	0%	0%	0%
Preparing for and responding to . . .	\$303	\$238	\$249	6%	4%	4%
Research and development	\$190	\$235	\$199	4%	4%	3%

**Sources:** OMB, “Annual Report to Congress on Combating Terrorism,” revised estimates as of September 2001 [[http://www.whitehouse.gov/omb/legislative/nsd\\_annual\\_report2001](http://www.whitehouse.gov/omb/legislative/nsd_annual_report2001)] and CRS calculations.

- a. Figures include funding for both the Department of Defense and intelligence agencies and an estimated \$609 million in FY2002 for defense against weapons of mass destruction.

Prior to the terrorist attacks, 93% of the national security funding for FY2002 was concentrated in two areas – \$2.9 billion for law enforcement and investigative activities and \$3.1 billion for physical security of government (see **Table 6**). Funding for law enforcement, as described by OMB, includes all monies provided to DOD’s investigative services and military police even though some of those assets may not be specifically directed against terrorism. In a similar fashion, the funding for physical security includes protection of federal facilities, including those located overseas where DOD has a substantial presence along with the State Department.

The remaining funding included \$249 million for preparing for and responding to terrorist attacks and \$199 million for R&D. The total for preparing for and responding to terrorist attacks includes funding to protect DOD facilities against attacks that rely on weapons of mass destruction (WMD), and DOD’s role as a coordinator of the actions by federal, state and local agencies who are the first to respond to terrorist incidents. R&D efforts include funding to develop responses to biological warfare and DOD’s contribution to interagency efforts to develop new technologies and equipment to counter terrorism.

Because DOD adopted a unique set of categories in its request under the Emergency Terrorism Response supplemental, and because few details are available about the composition of both sets of categories, it is difficult, if not impossible, to compare funding to combat terrorism before and after the September 11<sup>th</sup> attacks.

## Changes in the Budgetary Context since the Terrorist Attacks

Since the terrorist attacks of September 11, the budgetary context for decisions on spending levels for federal programs has changed dramatically. At the beginning of September, leaders of both parties were debating whether higher spending for discretionary programs – including an additional \$18.4 billion above the Administration’s initial request for the Department of Defense – could be accommodated after the tax cut in the spring without tapping the surplus generated by social security revenues. With the recession that began in the spring of 2001 and the new spending to combat terrorism, the possibility of keeping the social security surplus “off-limits” has disappeared, and both the Administration and the Congressional Budget Office are predicting deficit spending in 2002 and 2003.<sup>31</sup>

In August 2001, CBO estimated that the total surplus in 2002 would be \$176 billion (see **Table 8**), with all but \$2 billion resulting from the surplus in social security revenues.<sup>32</sup> The lower CBO estimate reflected primarily the effects of the tax decreases enacted in the spring as well as the downturn in the economy.<sup>33</sup> With higher funding for DOD as well as other agencies under consideration, it was likely that Congress would have to tap the surplus in the Medicare Hospital Insurance Fund (HI) and social security revenues. After the attacks of September 11, however, with the new concern about combating terrorism, and the ongoing conflict in Afghanistan, the fiscal debate shifted from the potential problem of tapping the social security surplus to adding funding for defense programs and homeland security. That additional spending, coupled with the recession, made worse by the terrorist attacks, made that prospect inevitable.

### Likely Reductions in the Surplus

A bipartisan estimate, “Budget Committees Lay Out Revised Surplus Estimates,” released on October 4, 2001, by the House and Senate Budget Committees suggested that the effects of a recession, coupled with additional emergency spending to combat terrorism, as well as additional discretionary spending for defense, education, and disasters agreed to by the Administration and Congress, could reduce the total surplus to \$52 billion in FY2002 and \$65 billion in FY2003.<sup>34</sup> That would absorb much of

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<sup>31</sup> Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2003-2012*, (January 31, 2002), p. xiv; and New York Times, “Security Buildup and Tax cuts Win Protection from the Deficit, January 30, 2002.

<sup>32</sup> Congressional Budget Office, *The Budget and Economic Outlook: An Update*, (August 2001), p. ix.

<sup>33</sup> *Ibid*, pp. ix-xi and pp. 5ff.

<sup>34</sup> Senate Budget Committee, Senators Kent Conrad, Chairman and Senator Pete V. Domenici, Ranking Member, and House Budget Committee, Representative Jim Nussle, Chairman, and Representative John M. Spratt, Jr., Ranking Member, House Budget Committee, tables accompanying “Budget Committees Lay Out Revised Budget Outlook, Principles for  
(continued...)

the social security surplus that the Administration and congressional leaders had hoped to reserve for debt reduction (see **Table 8**). Endorsed by the Chair and Ranking Minority of both budget committees, that estimate reflected the following factors:

- the possible economic effects of a recession;
- the effect of holding spending to \$686 billion for discretionary programs, as agreed to by the Administration and Congress at the end of September;<sup>35</sup>
- the effect of the \$40 billion emergency anti-terrorist supplemental spending passed by Congress in the wake of the September 11 attacks;
- the effect of the Airline Assistance Act; and
- the higher interest costs associated with servicing a larger public debt than previously assumed.

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<sup>34</sup> (...continued)

Economic Surplus,” October 4, 2001; see [<http://www.house.gov/budget>].

<sup>35</sup> New York Times, “White House and Congress Reach Deal on Budget,” September 28, 2001.



**Table 8. Bipartisan Estimate of the Post September 11, 2001 Budgetary Outlook: FY2002-FY2011**  
(Outlays in billions of dollars)

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	Total FY02- 11 <sup>a</sup>
<b>Total Surplus (as of August 2001 Update by CBO) <sup>b</sup></b>	176	172	201	244	289	340	389	450	507	628	3,397
On budget surplus <sup>c</sup>	2	-18	-3	21	47	78	106	147	184	283	847
Of which: Medicare HI <sup>c</sup>	[38]	[41]	[42]	[42]	[45]	[43]	[43]	[42]	[39]	[31]	[404]
Off-budget surplus <sup>d</sup>	174	190	204	224	242	262	283	303	323	345	2549
<b>Changes to Date <sup>e</sup></b>											
Possible economic effects of a recession and technical changes <sup>f</sup>	80	56	8	0	0	0	0	0	0	0	144
Total for discretionary spending of \$686 billion <sup>g</sup>	10	14	16	17	17	18	18	19	19	20	167
Emergency anti-terrorism supplemental <sup>h</sup>	25	22	21	21	22	22	23	23	24	25	229
Airline Assistance Act <sup>i</sup>	6	4	6	2	0	0	0	0	0	0	17
Higher interest costs <sup>j</sup>	4	10	15	19	22	25	29	33	37	41	236
<b>Sum of Changes <sup>k</sup></b>	<b>124</b>	<b>106</b>	<b>66</b>	<b>59</b>	<b>61</b>	<b>65</b>	<b>70</b>	<b>75</b>	<b>80</b>	<b>86</b>	<b>793</b>
<b>Staff Estimate of the Effect on the Surplus <sup>l</sup></b>	<b>52</b>	<b>65</b>	<b>135</b>	<b>186</b>	<b>228</b>	<b>275</b>	<b>318</b>	<b>375</b>	<b>427</b>	<b>543</b>	<b>2,604</b>

**Sources:** Adapted from Senate Budget Committee, Senators Kent Conrad, Chairman and Senator Pete V. Domenici, Ranking Minority Member and House Budget Committee, Representative Jim Nussle, Chairman, and Representative John M. Spratt, Jr., Ranking Minority Member, House Budget Committee, tables accompanying "Budget Committees Lay Out Revised Budget Outlook, Principles for Economic Surplus," October 4, 2001; see [<http://www.house.gov/budget>]. For breakout of surplus, see Congressional Budget Office, *The Budget and Economic Outlook: An Update*, (August 2001), Table 1-1, p. 1.

- a. Totals may not add due to rounding.
- b. Reflects estimate of the surplus included in CBO's mid-session update of August 28, 2001, which assumes that discretionary spending continues at the level enacted in 2001 with increases in later years for inflation, and that current tax policies, including the tax cuts enacted this spring are in effect.
- c. On-budget surplus includes the Medicare Hospital Insurance (HI) surplus.
- d. Off-budget surplus is made up of surplus in the social security trust fund as well as net cash flow of the Postal Service.
- e. Reflects congressional actions as of October 4, 2001, including passage of the Airline Assistance Act, the \$40 billion Emergency Anti-Terrorism supplemental, and agreement between Congress and the Administration to hold total discretionary spending to \$686 billion in 2002.
- f. Reflects estimate by budget committee of potential effect on the surplus of a recession; the estimate is higher than the Congressional Budget Office's estimates that are based on the 1990-91 recession - reducing the surplus by \$47 billion in the first year and \$63 billion in the second year; see Congressional Budget Office, *The Budget and Economic Outlook*, January 2001, p. 102.
- g. Reflects agreement between the Administration and Congress reached at the end of September that total discretionary spending would be held to \$686 billion in FY2002, \$24.2 billion more than was included in the Concurrent Budget Resolution passed by Congress; that total includes \$18.4 billion for defense, \$2.2 billion for emergencies, and \$4 billion for education. Out year estimates assume a level of \$686 billion adjusted for inflation after 2002.
- h. Reflects outlays from \$40 billion emergency supplemental enacted on September 14, 2001 (P.L. 107-38). Assumes \$20 billion to combat terrorism, adjusted for inflation, in each subsequent year.
- i. Preliminary staff estimates of costs of the Air Transportation Safety and System Stabilization Act (H.R. 2926).
- j. Higher interest costs associated with a larger public debt.
- k. Does not include "other possible claims on the surplus," listed in the following table.
- l. Difference between initial surplus and the effect of congressional actions as of October 4, 2001.

These estimates were uncertain. For example, estimating the effect of a recession - shown below as \$80 billion in the first year, \$56 billion the second year, and \$8 billion the third year - will vary with the length, depth, and timing of a downturn, none of which is easily predicted. Although the budget committee staff estimates below were somewhat larger than CBO's estimates of the effects of a recession - \$47 billion the first year, \$63 billion, the second year, tapering off to \$18 billion in the third year - that were included in CBO's January 2001 report (modeled on the experience of the 1990-1991 recession), those estimates have turned out to be too low.<sup>36</sup> New predictions from CBO, in its latest update in January 2002, predict that economic and technical changes will reduce the surplus by \$242 billion rather than \$80 billion as predicted by the budget committees last October.<sup>37</sup>

On the other hand, the estimate of \$686 billion for total discretionary spending, \$10 billion in outlays more than assumed in the concurrent budget resolution, turned out to be correct as Congress did, in fact, conform to the agreement reached between the President and Congress to allow \$24.6 billion more in new discretionary budget authority - \$18.4 billion more for defense, \$4 billion more for education, and \$2.2 billion more for disasters that would together increase government outlays by about \$10 billion.<sup>38</sup> Although Congress also conformed to the \$40 billion emergency supplemental as assumed in the October estimates of anti-terrorism spending in future years are uncertain. Estimates by the budget committee staff estimates below generally assumed a continuation of the policies agreed to in 2002, for example, a continuation of \$686 billion (with increases for inflation) for discretionary spending and an additional \$20 billion for emergency anti-terrorism spending each year.

## Other Potential Claims on the Surplus

The two budget committees also noted that Congress is considering a variety of other changes to current entitlement programs and tax policies that could place additional demands on the budget. Those policy changes - ranging from additions for the farm bill to coverage of prescription drugs for seniors and changes to the alternative minimum tax - could reduce the surplus further (see **Table 9**). In addition, because of a lack of consensus, the budget committees did not include two other changes that could place large additional demands on federal spending - an economic stimulus package that could reduce revenues by \$50 billion to \$100 billion and additional unspecified increases for the Department of Defense apart from the emergency supplemental. In light of these various demands, along with the ongoing recession, deficits are predicted to resurface in 2002 and 2003 if not beyond.

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<sup>36</sup> The staff estimates also include an unspecified amount for "technical changes," which are not included in the CBO estimates. See Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002-2011*, (January 2001), p. Table 5-5, p. 102.

<sup>37</sup> Congressional Budget Office, *The Economic and Budget Outlook, FY2002-FY2012* (January 2002), p. xiv.

<sup>38</sup> *New York Times*, "White House and Congress Reach Deal on Budget," September 29, 2001.

**Table 9. Other Potential Claims on the Surplus**  
(In billions of dollars)

Potential Claims on the Surplus	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	Total FY02-11 <sup>a</sup>
<b>Budget Resolution Policies</b>											
One-year extension of tax provisions expiring in 2001	1	2	0	0	0	0	0	0	0	0	3
Veterans programs	0	0	1	1	1	1	1	1	0	0	7
Other revenue policies	3	2	2	2	3	1	1	1	1	1	18
All other resolution policies	3	5	-0	4	2	5	5	5	5	5	39
<b>Budget Resolution Reserve Fund Policies <sup>b</sup></b>											
Prescription drugs	0	0	10	21	28	39	44	47	52	58	300
Farm program	7	8	8	8	7	7	6	6	7	7	74
Expanded health coverage	8	10	10	0	0	0	0	0	0	0	28
Home health, student loans, Family Opportunity Act	0	1	2	3	3	3	4	4	4	5	29
<b>Department of Defense</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>
<b>House- and Senate-Passed Bills</b>											
Faith-based Initiative (House)	0	1	1	1	1	1	2	2	2	2	13
Railroad Retirement (House)	16	0	0	-0	-0	-0	-0	-0	-0	-0	15
Energy (House)	2	3	4	5	5	4	3	3	2	2	34
Patients Bill of Rights (Senate)	-0	1	-0	0	2	3	3	3	3	4	18
Elementary and Secondary Education (Senate)	0	6	10	13	15	18	20	21	21	22	145
<b>Natural Disasters <sup>c</sup></b>	2	4	5	6	6	6	6	6	7	7	55
<b>Permanent Extension of Expiring Tax Provisions <sup>d</sup></b>	1	2	4	9	13	17	20	22	25	29	142
<b>Elimination of 2001 Tax Bill Sunsets <sup>e</sup></b>	0	1	1	1	1	2	1	2	3	100	113
<b>Alternative Minimum Tax</b>	0	0	0	2	12	22	30	39	48	54	208
<b>Economic Stimulus Package</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>	<b>NS</b>
<b>Range of Cost of Specified Possible Claimants</b>	<b>0 to 43</b>	<b>0 to 46</b>	<b>0 to 58</b>	<b>0 to 76</b>	<b>0 to 99</b>	<b>0 to 129</b>	<b>0 to 146</b>	<b>0 to 162</b>	<b>0 to 180</b>	<b>0 to 296</b>	<b>0 to 1241</b>

**Sources:**

Adapted from Senate Budget Committee, Senators Kent Conrad, Chairman and Senator Pete V. Domenici, Ranking Minority Member and House Budget Committee, Representative Jim Nussle, Chairman, and Representative John M. Spratt, Jr., Ranking Minority Member, House Budget Committee, see tables accompanying "Revised Budgetary Outlook and Principles for Economic Stimulus, October 4, 2001;" see [<http://www.house.gov/budget>].

**Notes:**

NS = Not specified

a. Numbers may not add due to rounding.

b. Includes increases for particular programs that are specified in the "reserve" funds set up in the 2002 Concurrent Budget Resolution. A "reserve" fund was set up for additional defense spending but no specific amount was specified.

c. Assumes annual outlays (adjusted for inflation) that would result from average historical spending of \$5.6 billion for emergencies.

- d. Assumes extension of expiring provisions in H.R. 1836, the “Economic Growth and Tax Relief Reconciliation Act of 2001,” as estimated by the Joint Committee on Taxation.
- e. Includes Alternative Minimum Tax Relief provision in Joint Committee on Taxation document #01-1-144R, excluding the treatment of non-refundable personal credits.

## Action on the FY2002 DOD Appropriations Bill

On December 20, 2001, the House and the Senate passed the conference version of H.R. 3338, the FY2002 DOD appropriations bill (H.Rept. 107-350) by 408-6 in the House and 92-2 in the Senate. In addition to DOD’s regular appropriations, the FY2002 Defense bill allocates the \$20 billion in funding from the Emergency Terrorism Response supplemental that had to be included in an appropriation act (see discussion above).

### Enacted Version of DOD Appropriations Bill

For regular defense appropriations, the enacted version of H.R. 3338 provides DOD with \$317.2 billion, \$1.7 billion below the Administration’s request. Congress reduced the amount for DOD in order to provide higher funding for defense-related activities that are funded in the Department of Energy (+\$750 million), Military Construction (+\$500 million), and defense-related activities that are funded in other appropriations (+\$200 million) (see **Table 2**). With these adjustments, the \$343.3 billion appropriated by Congress for national defense, including all defense-related funding, is close to the total requested by the Administration.<sup>39</sup>

Congress also significantly changed the allocation of the emergency response terrorism supplemental funds in the enacted bill by reducing the Administration’s request for emergency spending for DOD from \$7.3 billion to \$3.5 billion and shifted those funds to homeland security and recovery activities.

On the non-defense side, the chief changes in funding for homeland defense activities are a doubling of the Administration’s funding requests for bioterrorism, law enforcement, and infrastructure security activities. On the defense side, the enacted version halves the Administration’s request for funding for intelligence-related activities, higher operating tempo related to the Afghan war and homeland defense, and efforts to protect DOD facilities, personnel, and weapons (see discussion above).

Throughout the fall, much of the debate on the defense bill focused on the emphasis to be given to various policy priorities (see CRS Report RL31187, *Terrorism Funding: Congressional Debate on Emergency Supplemental Allocations*, by Amy Belasco and Larry Nowels).

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<sup>39</sup> The \$224 million decrease in total funding for National Defense primarily reflects differences between the Administration and CBO in estimates of the cost of the Energy Employee Compensation Fund, a mandatory program that provides benefits for Department of Energy Employees who contract illness related to exposure to radiation.

## Previous Congressional Action on FY2002 DOD Appropriations

**Senate Action on H.R. 3338.** On December 7, the Senate passed H.R. 3338, which reflected the markup by the Senate Appropriations Committee on December 5; (the committee substituted its version in H.R. 3338, see S.Rept. 107-109). That bill included \$317.6 billion for regular Department of Defense spending, the same amount as in the House-passed bill. With the amounts already appropriated for Military Construction and national security-related programs for DOE, the total for the national defense function is the same as requested by the President. (The Senate provided \$1.9 billion less than requested for the Department of Defense, and \$500 million more for military construction and \$1.2 billion more for DOE Nuclear Weapons Activities.)

**Military Pay and Benefits.** Following the authorizers, the Senate Appropriations Committee endorsed the Administration's proposals for increases in military pay and benefits, accelerating increases to housing allowances, and fully-funding the Defense Health program, including the new benefit for seniors, TRICARE for life. The committee also provided \$60.9 billion for procurement, \$440 million more than requested by the President and made a variety of changes to particular programs (see **Summary Tables A2 and A3**).

**Missile Defense.** The Senate appropriators provide \$8.3 billion for missile defense, but provided that the President could re-allocate \$1.3 billion of that total to combat terrorism, a provision that is not included in the House bill. The Senate bill also does not transfer missile defense programs to a separate title as provided in the House bill, a provision that is opposed by the Administration (see below).

**Savings in Operation and Maintenance.** Like the House, the Senate appropriators include several general provisions that would reduce funding for Operation and Maintenance (O&M) for pricing adjustments or savings as a result of management reforms while preserving funding in readiness-related programs. In the Senate version, these adjustments total \$1.9 billion in O&M (for contract savings, travel, and foreign currencies), less than half the amount that is included in the House bill (see below).

**Proposal on Tanker Aircraft.** The Senate Appropriations Committee also included a potentially controversial provision to lease commercial transport aircraft for up to ten years and eventually convert them to military tanker aircraft. As written, the language in the bill was categorized by CBO as an operating lease, which permits Congress to fund the proposal on an annual basis rather than provide \$20 billion in funding upfront as would be required in a lease/purchase arrangement. An operating lease, however, can only be used for commercial assets, but the aircraft would need to be modified for use as military tankers, a modification permitted by the legislation at a later date. The validity of this approach was debated on the Senate floor. The House bill does not have a similar provision.

**Major Procurement Programs.** Both the Senate and the House version of the bill fully-funded the Air Force's F-22 Captor program and criticized the Navy for

poor management of its shipbuilding program (including large cost growth of \$3 billion in the next five years for current ships) and poor definition of its new cruiser program (DD-21/DD(X)). Both houses cut the troubled V-22 tilt-rotor Osprey helicopter (see below) and added funds to accelerate conversion of retiring ballistic missile submarines (SSGNs) to use conventional cruise missiles. The Senate, like the House, also added \$500 million for procurement of equipment for the Guard and Reserve (see **Table A3**).

## House Action on DOD Appropriations Bill

**Overall Level.** On November 28, 2001, the House passed its version of H.R. 3338. In its first markup of the regular DOD bill on October 24, 2001, the House Appropriations Committee provided a total of \$317.5 billion for the Department of Defense, about \$2 billion below the Administration's request, and almost \$24.3 billion above the amount available to the Department of Defense in 2001.<sup>40</sup> For national defense as a whole, however, both houses provided the same amount in total. The Committee reduced the Administration's request in order to meet funding guidelines set by the full committee that allocated additional amounts – beyond the Administration's request – to defense-related programs in other appropriations, i.e. the Military Construction and the Department of Energy bills.

**Military Pay and Benefits.** In large part, the committee endorsed the Administration's request, including providing an across-the-board pay increase of 4.6% plus additional targeted pay raised, improved housing allowances, and full funding of the 50% increase in the Defense Health Program to cover the new Tricare for Life program for over-65 military retirees.

**Ballistic Missile Defense.** The House Appropriations Committee approved \$7.9 out of the \$8.1 billion request, all but \$300 million, of the funding for ballistic missile defense programs but transferred the programs to a separate title covering all counter-terrorism funding.

**New Appropriations Title for Counter-terrorism.** The House bill created a new appropriations title, "Counter-terrorism and weapons of mass destruction," with \$11.8 billion including:

- the transfer of funding requested for ballistic missile defense, RDT&E for chemical and biological weapons, Patriot PAC-3 procurement, and the Defense Threat Reduction Agency; and
- an additional \$1.7 billion in funding for enhancements to intelligence and military capabilities to prosecute Operation Enduring Freedom, the conflict in Afghanistan, and other actions to combat terrorism, to be split between the CIA

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<sup>40</sup> This comparison includes \$5.5 billion provided in a non-emergency supplemental appropriations for FY2001. These totals do not include additional funding for defense-related programs that are provided in other appropriations such as for military construction bill and the Department of Energy.

(\$451 million), DOD (\$1,219 million), as well as transferring \$180 million to other agencies.<sup>41</sup>

**Savings in O&M and Military Personnel.** The House appropriations bill preserved funding in readiness-related accounts but decreased funding by \$5.3 billion, \$4.4 billion in Operation and Maintenance (O&M) accounts, and the remaining \$.8 billion in military personnel to reflect various pricing adjustments (e.g. more favorable foreign currency rates), efficiencies (e.g. a saving of almost \$1.2 billion from reducing the number of contractor workyears and headquarters staff), and fact-of-life changes (e.g. lower utilities rates).<sup>42</sup> This amount is considerably larger than similar savings included in the Senate bill and is opposed by the Administration.

**Major Procurement Programs.** The House bill added funding for an additional DDG-51 ship (\$820 million) to offset a decrease of \$493 million in the RDT&E for the DD-21, the new surface combatant, eliminated one LHD-1 amphibious assault ship (-\$267 million), and funded the conversion of four rather than two Trident submarines from a strategic platform to a cruise missile carrier (+\$463 million). Like the Senate, the House also added about \$500 million for National Guard and Reserve equipment (see **Table A3** for changes to major weapon programs).

## Military Construction Appropriations

The conference version of the Military Construction appropriations bill was passed by the House and Senate on October 17 and October 18, respectively, and signed by the President on November 6, 2001 (P.L. 107-64). The Act provides \$10.5 billion in funding, \$500 million above the Administration's request (see CRS Report RL31010, *Appropriations for FY2002: Military Construction*, by Daniel Else). Earlier, the House Appropriations Committee passed its FY2002 Military Construction appropriations bill (H.R. 2904) on September 21 after completing its markup the previous day. The Senate Appropriations Committee passed its version on September 26 (S. 1460) after completing markup on September 25th.

## FY2001 Non-Emergency Supplemental Appropriations<sup>43</sup>

On July 20, both houses approved a conference agreement on a bill (H.R. 2216) providing supplemental appropriations for FY2001. The measure includes \$5.5 billion for the Department of Defense, and \$5.8 billion for national defense as a whole.

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<sup>41</sup> See Title IX, Counter -Terrorism and Operational Response Transfer Fund in bill for allocation of funds among various purposes and agencies.

<sup>42</sup> Of the total \$5.3 billion in reductions, \$4.4 billion affects Operation and Maintenance (O&M) accounts, \$788 million is in military personnel accounts, \$61 million in RDT&E, and \$14 million in working capital funds. Most of these reductions are implemented through general provisions.

<sup>43</sup> For detailed information on the FY2001 supplemental appropriations, see CRS Report RL30995, *Supplemental Appropriations for FY2001: Defense Readiness and Other Programs*, by Stephen Daggett.

Unlike other recent supplementals for defense, which typically provided funds mainly for contingency operations, this bill – submitted by the new Administration on June 1 – provided additional funding for day-to-day operating expenses and unanticipated cost growth in health and other areas. The bill was initially passed by the House on June 20, (H.R. 2216) and by the Senate on July 10 (S. 1077), and signed into law on July 24 (P.L. 107-20).

## Action on FY2002 DOD Authorization Act

On December 13, the House and Senate passed the FY2002 DOD Authorization Act by 382 to 40 in the House and 96 to 2 in the Senate (P.L. 107-107, H.Rept. 107-333, see **Table 1b**). The Act provides the \$343.3 billion as requested by the Administration, an 11% increase over FY2001 without taking into account funding from the emergency supplemental. Like the appropriators, the authorizers' action reduces the amount for the Department of Defense by \$1.2 billion, and re-allocates those funds to military construction (+\$600 million) and defense-related activities of the Department of Energy (+\$600 million).

Passage of the FY2002 DOD Authorization Act was delayed by the difficulty in resolving the issue of authorizing another round of base closures in 2003 as proposed by the Administration. Initially, the House opposed an additional round and the Senate supported another round.<sup>44</sup> In the final compromise included in the conference version, Congress agreed to authorize a round of base closures but delayed the date until 2005. As part of the compromise, the conference version also requires that a 'super-majority' of at least seven of the nine commissioners approve any decision to add bases to those suggested by the Secretary of Defense.<sup>45</sup> During House floor debate, several members raised concerns about the base closure provision. On the Senate side, the chief concern raised during floor debate was the potentially destabilizing effects of President Bush's decision to withdraw from the ABM Treaty announced on December 13, particularly at a time of rapid buildup in the U.S.'s ballistic missile defense program, an increase that was largely endorsed by Congress in the 2002 budget.

Completion and passage of the conference report was also delayed by the need to resolve the issue of the Navy's access to the training vase at Vieques (see below), and by the debate about the allocation of emergency supplemental spending (see above). Earlier, congressional action on FY2002 defense authorization and appropriations bills had been delayed because the Administration did not submit its amended request until June 27 because of the ongoing review of military strategy and because of the evacuation of Congress due to the delivery of anthrax-laden letters.

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<sup>44</sup> See House did not include any provision for base closures in its version of the authorization bill (see H.Rept. 107-194), and Senate authorized a round of base closures in FY2003 (see p. 405 in S.Rept. 107-62)

<sup>45</sup> See Section 2914 of Title XXX, P.L. 107-107 or p. 331 of H.Rept. 107-333; for floor debate, see Congressional Record, December 13, 2001, H. 10070-10080, and S. 13113 to S. 13138.



Major issues resolved in the conference report and changes made in each house are discussed below.

## Conference Version of FY2002 DOD Authorization Act

The conference version of S. 1438 resolve several contentious issues as follows:

- Approves the President's request for another round of base closures, but delayed the date to 2005, and changed the procedures proposed by DOD;
- Authorizes the Secretary of the Navy to close the training facilities at Vieques (and transfer the facility to the Department of the Interior) after certifying that alternative training sites are available;
- Provides \$7.0 billion for ballistic missile defense as requested by the President but authorizes the President to transfer \$1.3 billion of that total to efforts to combat terrorism, permitting the President to fund the request fully;
- Adopts provisions that reduced non-readiness related spending for Operation and Maintenance by \$2.1 billion and Working Capital Funds by \$400 million to reflect savings in management reforms, fuel and utility prices, foreign currency decreases.<sup>46</sup>

The conference version of the bill also authorizes the increases in pay (5% across-the-board and up to 10% for targeted skills) and housing allowances as requested by the Administration, and fully funds the increase for the Defense Health program, including the new benefit for seniors, TRICARE for life. The conference bill also increases funding beyond that requested by the Administration for military construction and family housing and equipment and training for the reserve components. Congress also authorizes \$21.2 billion in emergency funding to combat terrorism (see above), providing an upward limit on spending.<sup>47</sup> ( Combining the funding allocated at the Administration's discretion with the amounts provided by the appropriators, DOD received a total of \$17.5 billion as discussed above.)

Although the act endorses the proposal to authorize military retirees to receive VA disability compensation without a reduction in retirement benefits (known as "concurrent receipt"), the bill provides that the program will not go into effect until the President submits legislation and Congress offsets the \$55 billion in costs over the next 10 years (see below). DOD objects to this additional benefit both because of its high cost and because the two programs (retirement and disability payments) were

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<sup>46</sup> House Armed Services Committee, Chairman Bob Stump, "Conferees Reach Bipartisan Accord on Fiscal Year 2002 Defense Authorization Bill," and "Summary of Major Provisions, December 12, 2001, and H.Rept. 107-333, pages 601ff.

<sup>47</sup> National Journal's Congress Daily AM, "Conferees Reach Base Closing Pact," December 13, 2001; H.Rept. 107-333, p. 729.

designed to reach two different groups of beneficiaries.<sup>48</sup> For changes to specific programs, see below.

## House Action on S. 1438, FY2002 DOD Authorization Bill

The House matched the total amount requested by the Administration and made relatively few changes to individual programs.

**House Floor Action.** After considering the DOD Authorization bill, H.R. 2586, on September 20, 24, and 25, the House passed the bill by a vote of 398-17. The act provided a total of \$343.5 billion for the national defense function, matching the Administration's request. The Rules Committee limited the number of floor amendments, and debate was less extensive because of the bipartisan support for defense spending in response to the terrorist attacks.<sup>49</sup> The major amendments passed were the following:

- an add of \$250 million for testing of the F-22 aircraft;
- a \$400 million increase for combating terrorism that was offset by cuts to BMD programs and consulting services (see discussion above); and
- an amendment offered by Representative Traficant permitting the Secretary of Defense to assign active-duty military personnel to assist with border patrol.

Other amendments that were passed would (1) permit military installations to be used as polling places; (2) allow private donations to repair the Pentagon; and (3) establish a new medal to be awarded to civilians who are killed or wounded as a result of hostile action. (See **Summary Tables A2 and A3** for changes to major weapon system programs.)

**Markup by House Armed Services Committee.** The House Armed Services Committee markup of H.R. 2586 provided \$343.5 billion for the national defense function, generally endorsing the Administration's request. In military personnel, the Committee not only supported the Administration's requests for substantial improvements in military pay but also provided for other improvements in compensation and health care. In the case of funding for Operation and Maintenance (O&M), the Committee supported the Administration's request for additional funding for readiness-related funding but cut non-readiness related O&M by about \$1 billion and redistributed some of those funds to enhancement of training of reserve forces. See below for more detailed discussions of individual issues.

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<sup>48</sup> DOD estimated that concurrent receipt would require an additional \$41 billion in mandatory spending, which would have to be offset by cuts to other entitlement programs, and \$14 billion in additional costs to the Department of Defense; see Letter from Secretary of Defense David Rumsfeld to the Honorable Carl Levin, Chair, Committee on Armed Services, October 25, 2001.

<sup>49</sup> See H.Rept. 107-218, *Providing for further consideration of H.R. 2586, National Defense Authorization Act for Fiscal Year 2002*, September 24, 2001, for amendments ruled in order.

The Committee provided \$47.4 billion for RDT&E, \$300 million more than the Administration's request, and supported all but \$135 million of the President's request for \$8.2 billion for missile defense (see CRS Report RL31111, *Missile Defense: The Current Debate*, coordinated by Steven A. Hildreth and Amy F. Woolf). The Committee also added \$525 million to the Administration's request for procurement funds, citing it as the "weakest link" in the Administration's budget because decisions about modernization are awaiting completion of the Quadrennial Defense Review.

## Senate Action on S. 1438, FY2002 DOD Authorization Bill

Although the Senate bill, S. 1438, provided total funding of \$344.8, \$1.3 billion above the Administration's request, the Senate initially included more changes likely to be controversial. In a bipartisan compromise, however, the most controversial provisions requiring congressional approval of anti-ballistic missile testing were removed prior to floor debate (see below).

**Senate Floor Action.** On October 2, as a bipartisan compromise in the wake of the terrorist attacks, the Senate considered a new version of the DOD Authorization Act on the floor that stripped the bill of controversial provisions. (The new version, S. 1438, replaced S. 1416, the bill that was reported out of committee.) The new version passed unanimously. The compromise version no longer required that the President to certify and Congress to approve the funding of any activity that could violate the ABM Treaty.<sup>50</sup> The President had threatened to veto the bill if these provisions were included. Those provisions were included in a separate bill, S. 1439. The Senate permitted the President to restore \$1.3 billion in funding cut from ballistic missile programs by authorizing the President to allocate those funds either to combating terrorism or to the BMD program, a compromise that was adopted in the final version of the bill. That change increased the total amount authorized to \$344.8 billion, or \$1.3 billion above the Administration's request. The Senate passed S. 1438 by a vote of 97 - 0 on October 2.<sup>51</sup>

In floor action, the Senate included the following significant amendments:

- adopted a provision restoring \$1.3 billion that the Senate Armed Services Committee cut from ballistic missile defense (BMD) programs, and allowing the President to allocate those funds to either RDT&E for BMD, or combating terrorism; and
- rejected an amendment that would have removed provisions adopted by the Senate Armed Services Committee providing for a new round of base closures in 2003; and
- adopted the Reid amendment permitting "concurrent receipt" of benefits for military retirees with service-connected disabilities that would increase entitlement spending by \$2.9 billion in FY2002 by

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<sup>50</sup> See Subtitle C - Missile Defense, Sections 221 to 224; these provisions also included reporting requirements for missile defense programs.

<sup>51</sup> The Senate passed S. 1438 after debate over six days: September 21, 24, 25, and October 1 and October 2.

allowing eligible persons to receive both retirement and VA disability payments without the reduction required in current law.

**Long-Term Effect of Expanded Benefits to Veterans.** Authorizing “concurrent receipt” to improve the benefits received by military retirees with service-connected disabilities would have a significant effect on future budgetary requirements for the government as a whole. According to cost estimates from CBO, authorizing “concurrent receipt” of both retirement benefits and VA disability payments without requiring an offset to those eligible for benefits under both programs would increase mandatory or entitlement spending by \$2.9 billion in FY2002 and \$40.6 billion over the next ten years. In addition, the Defense Department would have to provide about \$1 billion annually to cover the estimated cost of providing this benefit in the future for service members currently in the force.<sup>52</sup> (The House version of the bill contained the language that was originally included in the Senate bill, which stated that the benefit would not be provided until the Administration provided an offset to cover the mandatory or entitlement spending.) The Administration supports current law.

**Markup by Senate Armed Services Committee.** Like the House Armed Services Committee, the Senate Armed Services Committee markup of S. 1416 provided \$343.3 billion for the national defense function, the same amount as the Administration’s request. The Senate Armed Services Committee, however, required that authorization of \$15.2 billion of the Administration’s \$18.4 billion increase would be contingent upon approval of additional funds for Defense by the Chair of the Senate Budget Committee as provided in the FY2002 concurrent budget resolution (see section below for a more detailed discussion of the budget resolution).<sup>53</sup>

The Senate Armed Services Committee also adjusted the Administration’s request to reflect the Committee’s priorities (see **Summary Tables A2 and A3** for changes to major weapons programs.) The Committee’s markup included the major changes outlined below. The committee added funds in the following areas:

- \$450 million for family housing and military construction;
- \$250 million for military compensation (primarily to reduce out-of-pocket housing costs for military personnel);
- \$400 million for procurement of additional helicopters and other equipment;
- \$307 million to convert four Trident ballistic missile submarines (SSBNs) to carry Tomahawk cruise missiles;
- \$625 million more for theater missile defense systems like PAC-3 and THAAD;

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<sup>52</sup> This accrual funding, where the agency is required to include the anticipated cost of providing benefits to its current members, is also used to fund military retirement. The cost of providing the benefit to current recipients is mandatory spending that is not part of the DOD budget.

<sup>53</sup> The Senate Armed Services Committee exempted the funding requested for military pay and Defense Health, which totals \$3.6 billion out of the \$18.4 billion increase requested on June 27 by the Administration (see Section 1302 of S. 1416).

- over \$800 million for “transformational” RDT&E programs, including over \$250 million for science and technology programs;
- over \$600 million for new initiatives to deal with non-traditional threats including over \$200 million to combat terrorism (see section below); and
- \$270 million to Operation and Maintenance to improve readiness.

At the same time, the Senate Armed Services Committee reduced the Administration’s request in the following areas:

- \$590 million less for the V-22 tilt-rotor Osprey aircraft;
- \$247 million less for the Joint Strike Fighter;
- \$1.3 billion less for ballistic missile defense; and
- \$1.6 billion reduction for savings from management efficiencies.

To improve the efficiency of defense operations and management, the Committee also authorized another round of base closures in 2003 and directed the Defense Department to save \$1.6 billion by applying best commercial practices and improving defense management. DOD was directed to achieve that \$1.6 billion reduction in the relevant appropriations.

## **FY2002 Congressional Budget Resolution**

Congress completed action on the FY2002 congressional budget resolution (H.Con.Res. 83) in early May – the House approved a conference agreement on the resolution on May 9, and the Senate on May 10 – before the Administration had determined its defense spending plans. The conference agreement established a provisional target of \$324.8 billion in new budget authority for the national defense budget function (which includes Department of Energy defense-related activities and defense-related activities of other agencies as well as of the Department of Defense).

To allow for further increases in defense, the resolution used the mechanism of reserve funds, separately administered in the House and the Senate, to accommodate increased spending in FY2002 and over the whole FY2002-FY2011 period. With the lower mid-session estimates of the surplus issued by both OMB and CBO in August (reflecting the effect of the tax cut in the spring as well as other changes), the downturn in the economy, and additional spending in response to the terrorist attacks, it will be impossible to accommodate the defense increase without tapping social security revenues. In fact, both CBO and the Administration now predict deficit spending in FY2002 through FY2004, in addition to fully using the Medicare and Social Security surplus (see above).

### **Section 302 (b) Allocations**

Section 302 of the Congressional Budget Act established procedures through which budget resolution ceilings on spending are implemented in the appropriations process. Under Section 302 (a) procedures, the congressional budget resolution allocates funds to the appropriations committees. Section 302 (b) then requires that

the appropriations committee in each house report how funds are subdivided among the appropriations subcommittees. These “302 (b) allocations” ultimately determine how much money will be available for each of the regular appropriations bills, including defense. The 302 (b) allocations may be adjusted at any time, and often change as action on appropriations bills proceeds.

In the conference version of the FY2002 DOD appropriations act, (P.L. 107-117, H.R. 3338), Congress raised the initial ceilings set for Defense in the FY2002 concurrent budget resolution to amounts appropriated by Congress.<sup>54</sup> Prior to submission of the Administration’s revised request, on June 8, 2001, the House Appropriations Committee released its initial 302(b) allocations for FY2002 appropriations bills. The Subcommittee on Defense received \$300.3 billion in budget authority, compared to \$301 billion anticipated in the Bush Administration’s April 9 “placeholder” request. (Note that this is below the \$310.5 billion in discretionary funding requested for the Department of Defense because it does not include funds provided to DOD in the military construction appropriations bill.) On June 21, 2001, the Senate Appropriations Committee approved its initial allocations – the Subcommittee on Defense received \$298.6 billion in new budget authority. Following receipt of a revised budget request, the budget resolution allowed the defense allocation to increase, with the approval of the chairs of the House and Senate Budget Committees.

## Overview of the Bush Administration Request<sup>55</sup>

### Initial Budget Projections

The Bush Administration released an initial outline of its overall budget plans, *A Blueprint for New Beginnings*, on February 28, and its official, more detailed budget request was submitted on April 9. Both the “Budget Blueprint” and the April 9 budget included \$310.5 in discretionary budget authority<sup>56</sup> for the Department of Defense, about the level the Clinton Administration had planned. Note that this does not include defense-related activities of the Department of Energy and other agencies – with all defense-related activities added, the April 9 budget projected \$325.1 billion in FY2002 for the national defense budget function.

The defense totals in the February 28 “Budget Blueprint” and in the April 9 budget request were, however, characterized simply as “placeholder” numbers. The Administration’s plan was to submit a revised budget request by the summer, following completion of a review of defense strategy and plans. Defense budget

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<sup>54</sup> See H.Rept. 107-333, p. 462.

<sup>55</sup> For more background on the Administration request, see CRS Report RL30977, *Defense Budget for FY2002: An Overview of Bush Administration Plans and Key Issues for Congress*, by Stephen Daggett.

<sup>56</sup> Discretionary funds are controlled through annual appropriations acts. For definitions of this and other budget terms, including “budget authority,” see CRS Report RL30002, *A Defense Budget Primer*, by Mary Tyszkiewicz and Stephen Daggett.

estimates beyond FY2002 simply reflected projected growth of the original FY2002 \$310.5 billion for DOD at the rate of inflation rather than the results of any policy assessment (see **Table 10**).

## June 27 Budget Amendment

On June 27, the Administration submitted an amended FY2002 defense budget request totaling \$328.9 billion dollars in discretionary funding for the Department of Defense – \$18.4 billion more than the April 9 budget, and \$32.6 billion above the amount initially enacted for FY2001 (not including FY2001 supplemental appropriations). For the national defense budget function, the revised total amounts to \$343.5 billion. The Administration revised its estimates of defense spending beyond FY2002 in the mid-session update in August 2001 (see **Table 10**). Table 10 shows the actual FY2000 level, the original FY2001 enacted level, supplemental appropriation for FY2001, the FY2002 amended request, and the enacted level in FY2002.

In discussing the amended budget, Administration officials said that increased spending – \$32.6 billion above the FY2001 level appropriated by Congress last year for DOD – was necessary to “address severe shortfalls in readiness, healthcare, operations, maintenance, and infrastructure ... inherited” from the previous administration.<sup>57</sup> The amended request was 11% higher than the FY2001 level passed by Congress last year. Taking into account the effect of inflation, the request reflected real growth of 7%, a reversal of the modest declines in spending that have characterized the second half of the 1990s, with the exception of an increase in 1999 to fund the conflict in Kosovo<sup>58</sup>. The Administration modified projections of funding beyond 2002 in its Mid-Session Review issued on August 22, 2001 (see below). Final projections of funding for later years, however, will not be provided until DOD submits the FY2003 budget after completion of the national strategy review in September 2001.

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<sup>57</sup> Letter from President Bush transmitting the amended FY2002 request to the Speaker of the House of Representatives, June 27, 2001.

<sup>58</sup> For the long term trend in defense spending up to FY2000, see CRS Report RL30447, *Defense Budget for FY2001: Data Summary*, February 23, 2000, Table 10.

**Table 10. Department of Defense Funding,  
FY2000 through the Amended FY2002 Budget Request**  
(billions of dollars)

<b>Title</b>	<b>FY2000 Actual</b>	<b>FY2001 April Estimate<sup>a</sup></b>	<b>FY2001 Supple- mental<sup>a</sup></b>	<b>FY2001 with Supple- mental<sup>a</sup></b>	<b>FY2002 Amended Request<sup>a</sup></b>	<b>FY2002 vs. FY2001 (Apr. Est.) (\$)</b>	<b>FY2002 vs. FY2001 (Apr. Est.) (%)</b>
Military Personnel	73.8	75.4	0.5	76.0	82.3	+6.9	+9%
Operation and Maintenance	108.1	108.0	4.7	112.7	125.7	+17.7	+16%
Procurement	55.0	62.1	-0.2	61.9	61.6	-.5	-1%
RDT&E	38.7	40.8	0.5	41.3	47.4	+6.6	+16%
Rev., Mgt. & Other Funds	3.1	1.0	-0.1	1.0	2.3	+1.2	+118%
Military Construction	5.1	5.3	0.0	5.4	5.9	+0.6	+11%
Family Housing	3.5	3.6	0.1	3.7	4.1	+0.4	+12%
<b>Total DOD Discretionary<sup>b</sup></b>	<b>287.3</b>	<b>296.3</b>	<b>5.5</b>	<b>301.9</b>	<b>328.9</b>	<b>+32.6</b>	<b>+11%</b>
<b>DOD Mandatory<sup>c</sup></b>	<b>3.2</b>	<b>-1.3</b>	<b>NA</b>	<b>-1.3</b>	<b>-1.1</b>	<b>+0.2</b>	<b>-15%</b>
<b>Total DOD Funding</b>	<b>290.5</b>	<b>295.0</b>	<b>5.5</b>	<b>300.6</b>	<b>327.8</b>	<b>+32.8</b>	<b>+11%</b>

**Sources:** U.S. Office of Management and Budget, *Budget of the United States Government, FY2002*, April 2001; Conference report to accompany H.R. 2216, H.Rept. 107-148, *Congressional Record*, July 20, 2001, pp. H4388-4389, and CRS calculations.

- a. In April, 2001, the Bush administration submitted its FY2002 budget to Congress including “placeholder” numbers for the Department of Defense. The President sent Congress a request for supplemental appropriations for FY2001 on June 1, 2001 and an amended FY2002 budget request on June 27. Congress passed the FY2001 supplemental on July 20, 2001, and the President signed the bill on July 24, 2001.
- b. Discretionary budget authority is appropriated to the Department of Defense annually.
- c. Mandatory funding is governed by standing law – in DOD it reflects primarily offsetting receipts received by certain DOD activities.



## Future Defense Spending Plans

On August 22, 2001, OMB issued its Mid-Session Review of the FY2002 budget, including revised estimates of not only the surplus but also new estimates of defense spending in later years (see **Table 11**). Those estimates added \$98 billion to projected spending between FY2001 and FY2006, compared to the Administration's initial April 2001 estimates. The increase was designed to make later years consistent with the amended budget request for FY2002, which added \$18.4 billion to the defense budget.

**Table 11. Changes in Administration's Estimates for National Defense, FY2000 - FY2006**

(Budget authority in billions of current and constant FY2002 dollars)

Fiscal Year	Actual 2000	Estimate 2001	Request 2002	Proj. 2003	Proj. 2004	Proj. 2005	Proj. 2006	Total, 2001-2006
<b>Initial April 2001 Request<sup>a</sup></b>								
<b>National Defense Budget Function<sup>a</sup></b>								
Current Year Dollars	304.1	310.6	325.1	333.9	342.8	352.2	361.9	2,026.5
Constant FY2002 Dollars	322.0	319.8	325.1	326.0	326.1	326.2	326.5	1,949.6
Real Growth/ Decline	1.5%	-0.1%	1.6%	0.0%	0.0%	0.0%	0.0%	NA
<b>Department of Defense Budget<sup>a</sup></b>								
Current Year Dollars	290.5	295.1	309.4	318.0	326.9	336.0	345.5	1,930.8
Constant FY2002 Dollars	307.5	303.7	309.4	310.5	310.9	311.2	311.6	1,857.3
Real Growth/Decline	1.8%	-1.2%	1.9%	0.0%	0.0%	0.0%	0.0%	NA
<b>Amended Request without Supplemental FY2001 Funding<sup>b</sup></b>								
<b>National Defense Budget Function<sup>b</sup></b>								
Current Year Dollars	304.1	310.6	343.5	352.9	362.4	372.2	382.5	2,124.2
Constant FY2002 Dollars	322.0	319.8	343.5	344.6	344.7	344.8	345.0	2,042.4
Real Growth/Decline	1.5%	0.1%	5.4%	0.3%	0.0%	0.0%	0.0%	NA
<b>Department of Defense Budget<sup>b</sup></b>								
Current Year Dollars	290.5	295.1	328.0	336.9	346.3	356.0	366.0	2,028.3
Constant FY2002 Dollars	307.5	303.7	328.0	329.0	329.4	329.8	330.2	1,950.1
Real Growth/Decline	1.8%	-1.2%	0.1%	0.0%	0.0%	0.0%	0.0%	NA
<b>Amended Request with Supplemental FY2001 Funding<sup>c</sup></b>								
<b>National Defense Budget Function<sup>c</sup></b>								
Current Year Dollars	304.1	316.7	343.5	352.8	362.3	372.1	382.5	2,129.9
Constant FY2002 Dollars	322.0	326.0	343.5	344.5	344.6	344.7	345.0	2,048.3
Real Growth/Decline	1.5%	1.2%	5.4%	0.3%	0.0%	0.0%	0.0%	NA
<b>Department of Defense Budget<sup>c</sup></b>								
Current Year Dollars	290.5	300.6	327.8	336.9	346.3	356.0	366.0	2,033.6
Constant FY2002 Dollars	307.5	309.5	327.8	329.0	329.4	329.8	330.1	1,955.1
Real Growth/Decline	1.8%	0.6%	5.9%	0.0%	0.0%	0.0%	0.0%	NA

**Sources:** U.S. Office of Management and Budget, Budget of the United States Government, FY2002 Historical Tables, April 2001; U.S. Office of Management and Budget, Mid-Session Review, FY2002 (August 22, 2001); deflators from Department of Defense Comptroller; Conference Report to Accompany H.R. 2216, H.Rept. 107-148.

- a. Reflects the Bush Administration's initial April request for the Department of Defense for FY2002 - 2006.
- b. Reflects amended budget for FY2002 submitted on June 27, 2001, excludes FY2001 supplemental enacted on July 20, 2001, and includes new estimates for FY2003-2006 included in Mid-Session update of August 22, 2001.
- c. Reflects amended budget request for FY2002 submitted on June 27, 2001, supplemental funding for FY2001 enacted on July 20, 2001, and new estimates for FY2003-2006 included in Mid-Session update of August 22, 2001.

**Quadrennial Defense Review.** Sent to Congress on September 30, the much-anticipated Quadrennial Review (QDR) set out four key goals for U.S. military strategy:

- assuring U.S. allies;
- dissuading competitors from challenging the U.S. or our allies;
- deterring aggression; and
- defeating adversaries decisively should deterrence fail.<sup>59</sup>

Citing the unpredictability of threats in the post-Cold War world, the QDR called for adopting a “capabilities-based” strategy rather than a regional approach oriented to conflicts in two particular regions (i.e. the two “major regional conflicts” endorsed in the previous QDR). Under a “capabilities” approach, the military would focus more on “how an adversary might fight rather than specifically whom the adversary might be or where a war might occur.”<sup>60</sup> In light of the September terror attacks, the report called for restoring “the emphasis once placed on defending the United States and its land, sea, air, and space approaches.”<sup>61</sup>

At the same time, U.S. military forces are still to be prepared to defeat attacks in “two theaters of operation in overlapping time frames,” with a decisive defeat in one theater, and holding the enemy in the second, as well as being ready to conduct smaller-scale contingencies (SSCs) of varying durations.<sup>62</sup> In the new capabilities approach, however, U.S. military forces are to emphasize information operations, ensuring U.S. access to distant theaters, and defending the United States. Despite the shift in approach, the QDR did not propose any changes in the current force structure or military end strength.

Unlike most of the report, which is very general, the QDR specifically required the services to make plans to redeploy forces to re-orient the global posture of the U.S. to give additional emphasis to the Middle East and South Asia rather than the current emphasis on western Europe and northeast Asia; for example, the Secretary of the Air Force is tasked to develop plans to base more forces in the Arabian Gulf.<sup>63</sup>

Calling for a “transformation” of U.S. forces, operational capabilities, and management practices, the new QDR emphasized:

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<sup>59</sup> Secretary of Defense Rumsfeld, *Quadrennial Defense Review Report*, September 30, 2001.

<sup>60</sup> *Ibid*, p. IV in foreword.

<sup>61</sup> *Ibid*, p. 14.

<sup>62</sup> *Ibid*, p.21-22.

<sup>63</sup> *Ibid*, p. 27.

- improving U.S. capabilities in information warfare, intelligence, and space;
- strengthening joint operations, command and control, and training;
- “selectively” replacing current equipment; and
- reforming DOD management and acquisition practices to achieve efficiencies, including achieving \$3.5 billion in savings through consolidations.

Citing the new requirements arising from the September terrorist attacks, the QDR abandoned previous plans for gradual increases in defense spending to be achieved through savings from efficiencies and stated that DOD was developing new estimates of future funding needs.<sup>64</sup>

### **Composition of Changes in the FY2002 Amended Budget**

Of the \$32.6 billion increase in requested FY2002 DOD discretionary funds compared to FY2001, fully three-quarters was allocated to Operation and Maintenance (54%) and Military Personnel (21%) accounts, which fund readiness-related and other support activities and military compensation (see **Table 12**). Another 20% of the increase was allocated to RDT&E, reflecting, in large part, the growth in spending for ballistic missile defense – half of the \$6 billion increase in R&D was allocated to a 61% increase in funding for ballistic missile defense, with the remainder spent on increases for “transformational R&D,” such as digitization of weapon systems and unmanned combat vehicles, and other R&D programs.

The FY2002 request included only small changes in funding for weapons procurement, reflecting the fact that the Administration had not yet completed its strategic review. Completed by the end of September 2001, the conclusions in Quadrennial Defense Review (QDR), are to be reflected in the FY2003 budget, rather than in FY2002, where spending on Procurement is slated to decrease by \$.5 billion.

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<sup>64</sup> *Ibid*, p. 48.

**Table 12. Composition of Changes Between FY2002 Amended Request and FY2001 Enacted Amounts**  
(billions of dollars)

Title	FY2002 Amended vs. FY2001 Original Enacted Level (in billions of dollars)	Shares of Change Between FY2001 and FY2002 (in percent)
Military Personnel	6.9	21%
Operation and Maintenance (O&M)	17.7	54%
Procurement	-0.5	-2%
RDT&E	6.6	20%
Military Construction	0.6	2%
Family Housing	0.4	1%
Revolving & Mgt. & Other Funds	1.2	4%
Legislative Contingencies	-0.3	NA
<b>Total, DOD Discretionary BA</b>	<b>32.6</b>	<b>100%</b>

**Sources:** FY2002 amended request from Office of Management and Budget, Transmission of the FY2002 Amended DOD budget to the Speaker of the House of Representatives, June 27, 2001; FY2001 original enacted levels from U.S. Office of Management and Budget, *Budget of the United States, FY2002*, April 2001, Table 22-1; CRS calculations.

**Table 13** and the discussion that follows provide a more detailed breakdown of the Administration's \$32.6 billion increase in funding between FY2001 and FY2002.

**Military Personnel.** The amount for Military Personnel in the FY2002 amended budget reflected the Administration's decision to exploit a variety of tools to improve military compensation in order to meet recruitment and retention goals, a major concern of the services and Congress in recent years. Those tools include:

- an increase in basic pay that averages 5% (including a 4.6% across-the-board increase in basic pay and higher raises for certain grades);
- a 15% increase in the housing allowance provided to military personnel;
- \$1 billion for improvements in pay targeted to particular grades and skills where retention problems have persisted; and
- \$2.9 billion of additional funding for bonuses and other incentive payments.

**Table 13. Major Changes in FY2002 Amended Bush Budget**  
(budget authority in billions of dollars)

Category	Original FY2001 Enacted Level	Amended FY2002 Request	Change Between FY2002 and FY2001	
	billions of dollars		billions of dollars	percent
Military personnel total	75.4	82.3	6.9	9%
Across-the board increase to basic pay <sup>b</sup>	39.4	42.4	2.0	5%
Targeted pay raise <sup>b</sup>	NA	NA	1.0	0%
Reduction in housing costs	6.4	7.4	1.0	15%
Bonuses and other increases	NA	NA	2.9	NA
Operation and maintenance total	108.0	125.7	17.7	16%
Defense Health	11.6	17.9	6.3	54%
New benefits for retirees	(0.2)	(3.9)	(3.7)	NA
Growth in TRICARE and other costs	(11.4)	(14.0)	(2.6)	23%
Optempo-related activities	13.0	15.0	2.0	15%
Depot maintenance	6.6	7.9	1.3	20%
Base support	17.9	20.7	2.8	16%
Reserve training	11.2	12.5	1.3	12%
Other	47.7	51.7	4.0	8%
Procurement	62.1	61.6	-0.5	-1%
RDT&E	41.0	47.4	6.4	16%
Ballistic Missile Defense	5.3	8.3	3.0	57%
Other R&D	35.7	39.1	3.4	10%
Military Construction	5.3	5.9	0.6	11%
Family Housing	3.6	4.1	0.5	14%
Revolving & Management and other <sup>c</sup>	1.0	2.0	1.0	NA
<b>TOTAL</b>	<b>296.3</b>	<b>328.9</b>	<b>32.6</b>	<b>NA</b>

**Sources:** CRS calculations based on DOD, Under Secretary of Defense Comptroller, National Defense Budget Estimates for FY2001, March 2000; Transmission of FY2002 DOD Amended Budget to Congress, June 27, 2001; FY2002 DOD Briefing to the Press (with slides); Office of the Under Secretary of Defense (Comptroller), Department of Defense Amended Budget, Fiscal Year 2002, Military Personnel Programs, Programs, (M-1), June 2001.

**Note:** Totals may not add due to rounding.

- Reflects April 2001 estimate for FY2001; does not include 2001 supplemental appropriations passed by both houses on July 20, 2001 and signed into law on July 24.
- Includes both active-duty and reserve pay.
- Includes appropriations to Revolving and Management funds and legislative contingencies.

**Operation and Maintenance.** Funding for O&M in the Administration's FY2002 request grew dramatically – from \$108 billion in FY2001 to \$126 billion, a 16% increase of almost \$18 billion. This increase pushed O&M's share of the DOD budget to 38%. Although O&M spending is commonly associated with readiness, this increase boosted spending in a variety of areas reflecting the fact that O&M funds support activities that range from training operational units to cutting the grass on military installations.

Chief areas that grew in the amended request included –

- **Defense Health:**<sup>65</sup> The amended budget included an additional \$3.7 billion for the expanded health care coverage that Congress authorized last year for military retirees over the age of 65 (see below for more detail about the Tricare for Life program), and \$2.6 billion more to cover expanded benefits and higher costs for dependents of active-duty personnel. The Administration claimed that this reflects more “realistic” estimates for pharmacy costs and contracts for managed care.<sup>66</sup>
- **Optempo-related activities and depot maintenance:** For the day-to-day training of military units, typically referred to as “optempo-related activities,” the new budget provided an additional \$2 billion.<sup>67</sup> That 15% boost in funding over the FY2001 level did not necessarily mean a higher pace of training of operational units (except for naval aviation units) but rather more funding for the purchase of spare parts, higher levels of depot repair, and improving firing ranges in response to concerns raised by military leaders about shortfalls that could affect readiness.<sup>68</sup> An additional \$1.3 billion for depot maintenance, a 20% increase, was also intended to improve readiness.
- **Base support:** Another \$2.8 billion proposed addition in O&M was for base support, 16% above last year’s level.<sup>69</sup> The Administration argued that such increases are necessary to improve the condition of military installations, which the services suggest have been shortchanged in recent years.
- **Other areas:** Other areas within O&M grew by about 10%.

**Procurement Funding.** The FY2002 amended budget included \$61.6 billion for procurement of new weapon systems, \$0.5 billion below last year’s level. Procurement spending largely followed plans laid in previous years because the Administration had not yet decided on its investment strategy pending its review of the national military strategy.

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<sup>65</sup> About two-thirds of the cost of the Defense Health Program is funded in O&M. The remaining one-third is the cost of military medical personnel (physicians, nurses, hospital corpsmen) that is funded in the Military Personnel title.

<sup>66</sup> DOD News Briefing on Amended Budget for FY2002 by Secretary of Defense Rumsfeld, Under Secretary of Defense (Comptroller) Dov Zakheim, and Deputy comptroller (Programs/Budget), Bruce Dauer, June 27, 2001, slide number 9.

<sup>67</sup> “Optempo” is an abbreviation for “operating tempo,” the term that refers to the amount or pace of training of operational units.

<sup>68</sup> Office of Management and Budget, Transmission of the FY2002 Amended DOD budget, as included in the White House letter to the Speaker of the House of Representatives, June 27, 2001.

<sup>69</sup> Ibid, and DOD News Briefing on Amended Budget for FY2002, June 27, 2001, cited above.

**RDT&E.** Of the \$6.4 billion or 16% increase in the R&D budget proposed for this year:

- \$3 billion was for the Administration's more ambitious pursuit of missile defense, a decision that generated considerable controversy (see below), and
- additional funding of more than \$1 billion was for programs characterized as "transformational," (e.g. unmanned systems like Global Hawk).

Funding for basic research (the Science and Technology share of R&D) was pegged at \$8.8 billion, some \$200 million below the level provided in 2001.<sup>70</sup>

**Military Construction and Family Housing.**<sup>71</sup> Military construction and family housing – programs designed to maintain and modernize the defense infrastructure – were slated for increases of 11% (\$0.6 billion) and 14% (\$0.5 billion) respectively. The Administration justified the increase for military construction as part of a long-term initiative to improve the condition of facilities. At the same time, the Administration proposed an "Efficient Facilities Initiative" – including a round of base closures in FY2003, coupled with expansion of a new way to share the use of land and facilities on military facilities, based on a pilot project at Brooks Air Force Base. After much debate, Congress approved a new round of base closures, and agreed to an expanded pilot program of the Brooks Air Force base initiative.

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<sup>70</sup> Slides included with DOD News Briefing on Amended Budget for FY2002, June 27, 2001.

<sup>71</sup> For more information on military family housing, see CRS Report RL31039, *Military Housing Privatization Initiative: Background Issues*, by Daniel Else.

## Major Issues in the FY2002 Amended Defense Budget

Several issues emerged as key matters of debate on the FY2002 defense budget though the salience of some of these issues changed in response to the September 11 terrorist attack and new issues emerged about the appropriate role for the Department of Defense in combating terrorism, and the changes in funding should flow from that role (see discussion above about funding to combat terrorism). Major issues raised during this year's debate on the defense budget included:

- Was the \$343.5 billion requested by the new Administration the appropriate amount relative to defense needs, and could that amount be accommodated without dipping into the Medicare surplus in FY2002?
- Was increased funding of over 60% and proposed restructuring of the ballistic missile defense program appropriate, and how would the Administration's plans affect the Anti-Ballistic Missile Treaty (ABM)?
- Was funding for procurement – slightly below last year's level – adequate?
- What, if any, implications arise from the rapid growth in defense health costs?
- Were the large proposed increases in operation and maintenance funding necessary to support readiness, and will higher funding for O&M squeeze out other defense needs in the future?

A variety of other important issues – ranging from the level of military compensation to finding alternatives to Navy live fire training on Vieques – were also be considered, and are discussed in later sections of this report.

### Accommodating the FY2002 Increase Within Budget Constraints

The Administration characterized the defense budget increase in FY2002 as an initial down payment designed to make up for several years of shortfalls in funding of the day-to-day requirements of the services. Some argued that the increase was insufficient. In response to a request from Representative Skelton, the ranking minority member in the House Armed Services Committee, the military services, submitted a list of “unfunded” requirements that totals another \$32 billion in FY2002. The total for this list was twice as large as that submitted by the services last year. Supporters of higher funding argued that the Administration's request did not correct “shortfalls” in long-term funding for weapon systems designed to “recapitalize” and “modernize” the force, an issue that has been the focus of debate in recent years. Members of the defense committees expressed their dissatisfaction with the procurement levels proposed in the amended request.

Others, however, argued that the Administration's request could not be accommodated without dipping into the surplus generated by the Medicare Hospital Insurance Fund or shortchanging competing demands for higher funding for



education, new coverage for Medicare prescription drugs, and adequate support of other domestic programs. Critics complained that the size of the Administration's tax cut left little or no room for defense increases.

Although this perennial "guns versus butter" debate grew more intense when new, lower estimates of the FY2002 federal budget surplus – reflecting the effect of the tax cut on revenues and recent downturns in the economy – were published in August in OMB and CBO's mid-session updates, these concerns dissipated temporarily, at least, with the terrorist attacks. The defense appropriations bill was delayed because of congressional response to the terrorist attack, and eight continuing resolutions were passed that covered government spending through January 10, 2002 when the final appropriation bills were signed into law.

During this congressional session, attention focused on the Administration's proposals about allocation of the \$40 billion provided in the emergency supplemental. Congress was less concerned with reconciling increases for defense with other competing spending demands, although concerns about the effect of higher defense spending in the future could resurface with the re-emergence of deficit spending and the reliance on the social security surplus to fund government programs, rather than using those funds to pay down the debt and reduce the burden of payments for social security and Medicare for the baby boomer generation.

**Constraints in the Congressional Budget Resolution.** The final Congressional Budget Resolution approved in May established "reserve funds" for defense and certain other high-priority areas. The Chair of the Budget committees in each House could tap the "reserve funds" – in other words, approve higher levels of spending than those included in the Congressional Budget Resolution – only if the proposed increases would not reduce the surplus in the Medicare Hospital Insurance (HI) Fund, and if certain other conditions are met.<sup>72</sup> If the proposed increase, taken together with all previously enacted legislation, tapped the Medicare HI Fund surplus, any member could raise a point of order against the proposal.<sup>73</sup> On the Senate side,

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<sup>72</sup> The FY2002 Congressional Budget Resolution establishes "reserve funds" in each house to allow higher levels of defense spending and other programs, subject to the limitation that the increase not reduce the size of the Medicare surplus—the excess of revenues over outlays. This authority is likely to be exercised by revising the 302(a) allocations to the appropriations committees, which are the mechanism by which the budget committees implements the targets included in the resolution. On the Senate side, as long as the Medicare surplus would not be reduced, the Chair of the Budget Committee can approve higher levels if the President submits an amended request and the authorizing and appropriating committees report bills with higher levels based on the recommendations of the President's National Defense review. (See Section 217 in H.Con.Res. 83, May 10, 2001. The same restriction on dipping into the Medicare surplus applies on the House side, and the Chair of the Budget Committee can consider the recommendations of the President's National Defense Review and other Administration policy or budget submissions.

<sup>73</sup> See Section 217 of H.Con.Res. 83, H.Rept. 107-60, p 24-25 for the reserve fund for defense in the Senate. The limitation—about dipping into the Medicare HI surplus— applies to all reserve funds except for Medicare, where the surplus in the Hospital Insurance Fund can be used to finance a new prescription drug benefit as long as funding does not exceed the caps

(continued...)

sixty votes were required to override a point of order. On the House side, the Rules Committee would decide whether a point of order could be raised. (This limitation applied to all the reserve funds except for Medicare itself, where the HI surplus could be used to finance a new prescription drug benefit.) Unlike the other reserve funds, the one set up for defense in the Senate did not include any specified limits on the amount of additional funding that may be provided. The Chairman of the Budget Committee could adjust committee allocations to reflect use of this reserve fund.<sup>74</sup> See CRS Report RL30977, *Defense Budget for FY2002: An Overview of Bush Administration Plans and Key Issues For Congress*, by Stephen Daggett for a more extensive discussion of the budget resolution.

These guidelines - which were included in the concurrent budget resolution and hence did not have statutory effect - were essentially set aside by Congress during the debate on the DOD appropriations bill because no member raised a point of order. Support for higher defense spending was high because of the September 11<sup>th</sup> attacks, and overcame concerns about protecting the Social Security and Medicare surpluses.

## Missile Defense

(This section was prepared by Steve Hildreth and Amy Woolf)

Whether and when the United States should deploy defenses designed to protect against attack from long-range ballistic missiles has been a divisive defense issue for nearly 20 years. Although the Bush Administration has not outlined a specific architecture for missile defense, it has indicated that the development and deployment of missile defenses would be part of a broader shift in the framework for international strategic stability, away from reliance on nuclear and conventional deterrence and towards a growing reliance on a mix of offensive capabilities and missile defenses.

Where the Clinton Administration sought to develop and deploy a system that consisted of land-based interceptor missiles and radars, with some reliance on space-based sensors, the Bush Administration has suggested that the United States develop and deploy land- and sea-based interceptors, along with more extensive space-based capabilities for identifying and tracking attacking missiles. (For an overview of national and theater missile defense, see CRS Report RL31111, *Missile Defense: The Current Debate*, coordinated by Steven A. Hildreth and Amy F. Woolf.)

The amended FY2002 budget included a dramatic overall increase in missile defense funding – a 60% increase compared to FY2001 funding. It does not appear, however, that the new Administration significantly changed the relative priorities given to the main categories of missile defense – terminal, midcourse, and boost-phase defenses – that the Administration is using to present the program (see **Table 14**). The Administration did not propose different rates of increase for individual programs, however. In congressional testimony, the Administration emphasized these new categories for classifying various programs, as well as certain organizational

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<sup>73</sup> (...continued)

in the resolution. For FY2002, the cap is zero (see Section 211 of H.Con.Res. 83, H.Rept. 107-60, p. 21-22.)

<sup>74</sup> See Section 218 of H.Con.Res. 183, in H.Rept. 107-60, p. 25.

changes – programs that were initially designed for an air defense role (to shoot down missiles launched from aircraft) are being transferred from the purview of the Ballistic Missile Defense Organization to the services.<sup>75</sup>

Debate about the Administration's missile defense program focused on the following issues:

- the foreign policy and arms control implications of the Administration's plans;
- the pace, long-range cost, design, and acquisition strategy of the Administration's program;
- the potential squeeze on other R&D efforts; and
- the blurring of the distinction between the threats posed by theater and long-range missiles as well as the defense systems to be developed to meet those threats.

In a test on July 14, 2001, which came on the heels of two previous failures, an interceptor destroyed a dummy missile warhead in space about 140 miles above the ocean. Supporters contended that these results justify accelerating the program. In response, critics suggested that the test was not realistic because there was only one rather than many decoys, and the target emitted a signal whereas the decoy did not. Such differences in interpreting test results have been common in the past.

The large increase in funding – from \$5.1 billion in FY2001 to \$8.3 billion in FY2002 – reflected the Administration's decision to accelerate R&D efforts on systems currently in development in order to deploy missile defenses as soon as possible. On December 13, 2001, President Bush announced that the U.S. would withdraw from the ABM Treaty, in order to pursue testing, development, and deployment of missile defense system without constraint. Despite concerns that the Russians would react negatively, the growing cooperative relationship between the two nations in the wake of September 11th blunted the expected response. The withdrawal was prompted partly by plans to construct a missile defense test site in Ft. Greely near Fairbanks Alaska in spring of 2002 and to test the capabilities of the Navy's AEGIS radar system (a tactical system) during a missile defense test, and partly by pressure by some within the Administration to get rid of a "relic of the Cold War." (See CRS Report RL30967, *National Missile Defense: Russia's Reaction*, by Amy F. Woolf. )

The Bush program included R&D on systems designed to intercept missiles at each stage from the initial "boost" phase, to mid-course, to the "terminal" phase of the flight. Secretary of Rumsfeld's plan to pursue a wide range of programs, and deploy a rudimentary system as soon as possible – before the technologies are fully mature – is a new and more risky acquisition strategy that has raised concerns (See CRS Issue Brief IB10034, *National Missile Defense: Issues for Congress*, by Steven Hildreth and Amy F. Woolf, and CRS Issue Brief IB98028, *Theater Missile Defense: issues for Congress*, by Robert D. Shuey.). Some have questioned whether such an

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<sup>75</sup> Testimony of Lieutenant General Ronald T. Kadish, USAF, Director, Ballistic Missile Defense Organization, before the House Armed Services Committee, July 19, 2001.

approach is merited, particularly in light of the potential effects on arms control, and the strain put on defense resources.

In congressional testimony, DOD emphasized the common elements in long-range, national ballistic missile defense (NMD) and short-range, theater missile defense (TMD) systems, a new approach that blurs the distinction between strategic and tactical threats and the missile defense responses to those threats. That approach concerns many, both inside and outside of Congress.

The Administration has not developed cost estimates for its new missile defense plan, and some legislators have questioned whether sufficient funding will be available in light of the overall budget squeeze, as well as other competing defense needs. For example, funding for missile defense could limit funding for other defense R&D and procurement.

*Congressional Action.* The conference version of the authorization bill, S. 1438, provided that \$1.3 billion in funding could be used by the President either for RDT&E for BMD programs or for activities to combat terrorism. If the President allocated the funding to BMD, the Administration's request would be funded fully. This provision mirrored a compromise adopted on the Senate floor after September 11<sup>th</sup> when Senator Levin agreed to remove controversial sections included in the markup by the Senate Armed Services Committee that would have reduced funding for BMD by \$1.3 billion and required congressional approval of activities that would violate the ABM Treaty; the President had threatened to veto the defense authorization bill if those provisions were included. The authorizers also transferred three terminal defense programs - PAC-3, MEADs, and Navy Area Defense - from the services to BMDO because of concern that the services would not adequately fund those programs.

In their conference report, the appropriators approved a total of \$7.7 billion, reducing the President's request by over \$500 million, and did not include the provision permitting a transfer of funds that was recommended by the authorizers (see **Table 14** below). The size and rationale for the cuts made by Congress are:

- *Sea-based Terminal or Navy Area Defense* - a cut of \$289 million reflecting a Navy's decision to cancel the program leaving only funding for cancellation costs;
- *Sea-based Midcourse/Navy Theater Wide* - a cut of \$120 million because Congress considered the Navy's request for missiles that would be used for testing or contingencies to be premature;
- *Space Sensors/Space-Based Infrared System (SBIRS) Low* - a cut of \$135 million in response to the announcement of a 2-year delay in the program.

Notwithstanding the reduction, congressional action appears to preserve the general priorities of the Administration as well as approve the substantial increase requested by the Administration.

**Table 14. Congressional action on Ballistic Missile Defense  
Funding: FY2001 to FY2002 Enacted**  
(In millions of dollars or percent of total)<sup>a</sup>

New Program Categories/ Stage	Program Names	FY2001 Estimated Funding	FY2002 Amended Budget Funding	FY2002 Enacted	FY2001 Share of Total	FY2002 Enacted Share of Total	FY2002 enacted vs. FY2001 % change
<b>Terminal subtotal</b>		<b>1,399.4</b>	<b>2,240.9</b>	<b>1,975.5</b>	<b>27%</b>	<b>26%</b>	<b>41%</b>
	Ground-based Terminal/Patriot PAC-3	442.0	783.7	865.7	9%	11%	96%
	Ground-based Terminal/MEADS	52.6	73.6	71.6	1%	1%	36%
	Ground-based Terminal/THAAD	541.0	922.4	872.5	11%	11%	61%
	Sea-based Terminal/ Navy Area Defense	269.6	395.5	100.0	5%	1%	-63%
	Arrow/b/	94.3	65.7	65.7	2%	1%	-30%
<b>BMD Midcourse subtotal</b>		<b>2,411.3</b>	<b>3,940.5</b>	<b>3,820.5</b>	<b>47%</b>	<b>49%</b>	<b>58%</b>
	Ground-based BMD/National Missile Defense (NMD)	1,954.9	3,230.7	3,230.7	38%	42%	65%
	Sea-based BMD/ Navy Theater Wide	456.4	596.0	476.0	9%	6%	4%
	Other	0.0	113.8	113.8	0%	1%	NA
<b>Boost defense segment subtotal</b>		<b>304.0</b>	<b>685.4</b>	<b>609.4</b>	<b>6%</b>	<b>8%</b>	<b>100%</b>
	Air-based Boost/Airborne Laser	231.5	410.0	484.0	5%	6%	109%
	Space-based boost/Space-based laser	72.5	190.0	40.0	1%	1%	-45%
	Sea-based Boost and other	0.0	85.4	85.4	0%	1%	NA
<b>Sensors subtotal</b>		<b>274.2</b>	<b>495.6</b>	<b>340.6</b>	<b>5%</b>	<b>4%</b>	<b>24%</b>
	Space Sensors/Space-Based Infrared System (SBIRS) Low (AF)	238.8	384.8	249.8	5%	3%	5%
	RAMOS and other/b/	35.4	110.8	90.8	1%	1%	156%
<b>BMD Technology</b>		<b>745.3</b>	<b>912.5</b>	<b>960.2</b>	<b>15%</b>	<b>12%</b>	<b>29%</b>
	BMD system and Technology/BMD Support and Technology	745.3	912.5	960.2	15%	12%	29%
<b>Headquarters Subtotal</b>		<b>4.7</b>	<b>34.4</b>	<b>34.4</b>	<b>0%</b>	<b>0%</b>	<b>627%</b>
	BMD Headquarters	4.7	34.4	34.4	0%	0%	627%
<b>TOTAL</b>		<b>5,139.0</b>	<b>8,309.3</b>	<b>7,740.6</b>	<b>100%</b>	<b>100%</b>	<b>51%</b>

**Sources:** CRS calculations based on H.Rept. 107-350 and Office of the Undersecretary of Defense (Comptroller), "Department of Defense Amended Budget, Fiscal Year 2002," (June 2001); Ballistic Missile Defense Organization, "FY2002 Amended Budget Submission," June 2001; Ballistic Missile Defense Program, Briefing of 30 July 2001; Office of the Undersecretary of Defense (Comptroller), "Department of Defense Amended Budget, Fiscal Year 2002, RDT&E Program (R-1)," June 2001; and Office of the Undersecretary of Defense (Comptroller), "Department of Defense Amended Budget, Fiscal Year 2002, Procurement Programs (P- 1)," June 2001. Prepared with the help of Yeonmin Cho.

- a . Comparisons reflect April estimate for FY2001 and FY2002 Amended budget request, and final FY2002 congressional action. Funding includes RDT&E, procurement, and military construction.
- b. Arrow and RAMOS were both funded under International Cooperative Programs in FY2001.

## Adequacy of Funding for Procurement

The new Administration decided to delay major changes in funding for new weapon systems pending completion of its national defense review. Presumably for that reason, the procurement budget in the amended FY2002 budget was \$61.6 billion, \$0.5 billion below last year's level.<sup>76</sup> Until the review was completed, the Administration decided to emphasize "funding of systems that will continue to be necessary even with significant shifts in defense strategy" – purchases of airlift aircraft was given as one example.<sup>77</sup> Based on that rationale, the Administration's procurement request included only modest changes in current plans.

Limited funding procurement fueled concerns among some defense supporters in Congress, particularly in light of the debate in recent years about alleged "shortfalls" in long-term defense funding, particular for weapons modernization. That debate has centered on whether the spending on new weapon systems needs to be increased – and at what rate – to "recapitalize" or replace those systems as they age. Although estimates of the amount necessary to replace current systems have varied widely, there is near consensus among Members of the defense committees in Congress that some increase in the procurement budget in the near term is needed.<sup>78</sup>

In testimony, Secretary of Defense Rumsfeld acknowledged that the current budget did not address the replacement issue. But he argued that decisions on that issue could not be made until completion of the Quadrennial Defense Review, which would incorporate the findings of the National Defense Review. Those decisions, which are to be included in the FY2003 budget, are likely to be contentious within the Defense Department as well as in Congress, in part because changes in strategy and the "transformation" of today's forces to meet new military goals could require a different mix of forces.<sup>79</sup> (See **Summary Tables A2 and A3** for the number and procurement and RDT&E funding for major weapon systems requested by the Administration as well as congressional action.)

*Congressional Action.* Reflecting these concerns, the authorizers added about \$500 million to the President's request, making a variety of changes to selected

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<sup>76</sup> The new budget does leave room for some additions to procurement because the FY2001 budget included a one-time expense – \$4 billion for full funding of a carrier – which is not repeated in FY2002.

<sup>77</sup> Letter from OMB Director Mitch Daniels to the President included with the transmission of the amended FY2002 budget to Congress, June 27, 2001.

<sup>78</sup> See CRS Report RL30977, *Defense Budget for FY2002: An Overview of Bush Administration Plans and Key Issues for Congress*, May 22, 2001 for a description of this debate. Estimates of the appropriate level of future procurement budgets have ranged from a high of \$111 billion to \$164 billion annually proposed by a study conducted by the Center for Strategic and International Studies in 1999 to a mid-range "steady-state" budget of \$90 billion included in a study by the Congressional Budget Office in 2000 to \$75 billion by FY2005 suggested by Secretary Cohen and senior DOD officials during the Clinton Administration.

<sup>79</sup> Tom Ricks, "For Military, 'Change Is Hard'," *Washington Post*, July 19, 2001.

programs (e.g. UH-60 Black Hawk helicopters). The appropriators, however, generally funded weapon systems at the request. See discussion of individual weapon systems below.). This issue is likely to resurface in the FY2003 budget debate.

## **Implications of Recent Rise in Defense Health Costs**

(This section was prepared by Richard Best)

The Defense Health Program (DHP) has been a matter of considerable congressional interest in recent years because of initiatives to expand medical coverage to military retirees and their dependents and, also, because of concern about continuing cost growth, particularly for managed care contracts. The substantial increase for the Defense Health Program in the new budget reflected both additional benefits for military retirees, a 15% increase in the cost of drugs, and a 12% increase in the managed care contracts that provide care to the dependents of military personnel.<sup>80</sup> DOD spokesman said that these higher funding levels were designed to eliminate the practice in recent years of turning to supplementals to cover earlier, unrealistic estimates. (Some \$1.4 billion of the \$5.5 billion supplemental recently passed by Congress, was for higher-than-anticipated costs in the Defense Health Program.)

The FY2001 Defense Authorization act provided new benefits – dubbed “TRICARE for Life” – for Medicare-eligible military retirees. The measure required that the Defense Department pay the full cost of the program for current beneficiaries out of appropriated funds in FY2002, but established a trust fund to pay future costs, which will be counted as mandatory spending financed outside of the defense budget in later years.<sup>81</sup>

In future years, the Defense Department’s cost will reflect an actuarial estimate of the cost of future benefits for current personnel, the same approach now used for retirement benefits. There is great uncertainty about the size of those estimated, future costs.<sup>82</sup> If the estimated costs are smaller than the \$3.9 billion included for these benefits for Medicare-eligible military retirees in the FY2002 budget, the pressure on DOD’s budget created by the Defense Health Program may subside in later years. Otherwise, DOD could continue to face significant, or even additional pressure on its total resources because of the obligation to provide this new benefit.

Meanwhile, the costs of other medical care in DOD continued to increase, and just as importantly, the Defense Department has seldom been able to project its required expenditures accurately. According to one congressional committee, the Defense Department has requested either substantial reprogramming of funds or

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<sup>80</sup> DOD Press Briefing of June 27, 2001, p. 14.

<sup>81</sup> Although the Treasury will finance the costs of current beneficiaries, the Defense Department will have to pay into the trust fund annually to cover the cost in the future of this benefit for current personnel.

<sup>82</sup> The DOD actuary will estimate those costs, which will have to be included in DOD’s budget beginning in FY2003.

supplemental appropriations to meet unbudgeted health care costs for 12 of the past 16 years.<sup>83</sup>

Faced with both the obligation to provide more extensive benefits and rapidly rising costs, senior DOD officials suggested that Congress may want to consider transferring other defense health costs to the mandatory side of the overall federal budget to relieve this pressure. Although such a transfer would free up resources in the defense budget, the government would, of course, still pay those costs.

Along with the economy-wide pressure on medical costs from rising drug costs and technological advances, DOD's health care system lacks mechanisms such as copayments that restrain the usage of medical services.<sup>84</sup> With removal of most copayments for active-duty beneficiaries, and only modest copayments for retirees, DOD cannot rely on the tools that are typically used in the civilian sector to restrain health care usage and, thus, contain costs.

*Congressional Action.* The authorizing and the appropriating committees both endorsed the Administration's request. The appropriators also added \$235 million for research into breast and prostate cancer.<sup>85</sup>

## Spending for Operation and Maintenance

The amended FY2002 defense budget request included an increase of \$17.7 billion in spending on operation and maintenance. Of that total, about \$2 billion was additional funding for flying hours, steaming hours, and training, the funding that is most clearly related to military readiness. (Day-to-day training of operational units, or operational tempo, is typically referred to as "optempo," a shortened version of the term.) Other funding increased with a direct effect on readiness included depot maintenance – ensuring that weapon systems are available for training.<sup>86</sup>

A large share of the increase in the Operation and Maintenance budget this year, however, was for objectives that may not contribute so directly to military readiness. Some \$6.3 billion is for the Defense Health Program (see discussion above). Although better benefits for retirees may contribute, in some fashion, to the morale of some military personnel, showing a direct effect on readiness would be difficult. The other major increase in the O&M budget was to upgrade the facilities on military installations. DOD justified those increases as a readiness-related expense – a way to improve the morale of military personnel by improving the quality of their workplace

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<sup>83</sup> House Appropriations Committee, Report to Accompany H.R. 2216, Making Supplemental Appropriations for FY2001, H.Rept. 107-102, p. 10.

<sup>84</sup> CBO, "Budget Options for National Defense," Option 4-08 and Option 4-09, pp. 73-74. Although those options refer to beneficiaries who use military health care facilities, the argument could also be applied to Medicare-eligible retirees who receive the new benefits under the "TRICARE for life" program.

<sup>85</sup> See H.Rept. 107-350, p. 392 and 393.

<sup>86</sup> See slide entitled "Operation and Maintenance" that is included in DOD Press Briefing on the FY2002 Budget, June 27, 2001.



– but it may be difficult to show how such spending directly affects the readiness of units to go to war.

*Congressional Action.* Although Congress has generally supported increases in the O&M budget in order to preserve and protect readiness, this year, both the authorizers and the appropriators cut O&M funding by about \$3 billion, partly on the basis that DOD could achieve savings from a variety of management reform initiatives as well as specific pricing adjustments for fuel, utility costs, and foreign currency and cuts to administrative areas like headquarters. Citing testimony by Secretary of Defense Rumsfeld that DOD should be able to save 5% overall, the authorizers included a variety of reform initiatives, particularly for procurement of services, on which DOD spends over \$50 billion, and cut funding by \$1.3 billion.<sup>87</sup> The Administration argued that such savings could not be achieved so quickly, and that funding might therefore be drawn from readiness-related accounts.<sup>88</sup> The appropriators also reduced funding for the Overseas Contingency Operations Transfer fund, set up to give the Secretary resources for unexpected costs, by \$650 million in response to GAO work that found poor oversight of that spending, as well as cuts in management headquarters and administrative areas.<sup>89</sup>

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<sup>87</sup> See H.Rept. 107-350, p. 685.

<sup>88</sup> See Letter from Secretary David Rumsfeld to the Honorable Senator Carl Levin, Chairman, Committee on Armed Services, U.S. Senate, October 26, 2001, and Letter to the Honorable Daniel K. Inouye, Chairman, Subcommittee on Defense, Committee on Appropriations, U.S. Senate, December 10, 2001.

<sup>89</sup> See S.Rept. 107-109, Department of Defense Appropriations bill, 2002, and supplemental appropriations, 2002, Senate Appropriations Report on H.R. 3338, p. 53.

## Other Important Issues

### Personnel-Related Issues

**Military Recruiting, Retention and Compensation.** (This section was prepared by Robert Goldich.) As did the Clinton Administration in its last years, the Bush Administration entered office emphasizing the need to increase pay and benefits for military personnel to deal with serious recruiting and career retention problems, or continue a recovery process which had already begun. In February, President Bush announced that he would request a 4.6% pay raise for military personnel, with additional increases targeted to particular skills and grades. The Administration later raised its minimum to 5%, and Congress ended up approving that 5% request plus some targeted raises for members in particular pay grades and years of service up to 10%, essentially ratifying the Administration proposal.

There were proposals for higher minimum raises—some close to 8%—but they were defeated. For the third year in a row, Congress refused to repeal a statute which requires that any Department of Veterans' Affairs (VA) disability compensation received by a military retiree must be offset by an equivalent reduction in DOD retired pay (i.e. prohibiting 'concurrent receipt' of benefits). In separate legislation, Congress also approved a substantial increase in GI Bill educational benefits and allowed limited transferability of such benefits to dependents.

These increases in military pay and benefits in recent years were a response, in part, to problems in recruiting and retaining sufficient numbers of qualified military personnel that began in the late 1990s. Frequently cited reasons include (1) competition for qualified workers from a growing economy; (2) a rise in consumer living standards against which military families measure their own quality of life; (3) increased military operations and training away from home and family; (4) a decreased propensity for military service among young people; and (5) the availability of federal educational assistance that does not require military service. Although recruiting improved in 2000 and 2001, with the services meeting or exceeding their goals, few if any observers felt that long-term solutions have been found.

It is not yet clear what effects the ongoing war against terrorism which began on September 11, 2001 will have on military personnel issues. A sense of near-total national support, military successes with minimal combat casualties, and compensation increases, could well contribute to easier recruiting and retention. A recovering economy, the possible need to increase the strength of the active duty forces to replace reservists who will have to be released, and the stark realization that military service could indeed lead to combat could possibly hamper it, or at least increase military compensation costs. In the short term, war-related personnel deployments and military administrative action—known as "stop-loss"—to prevent skilled personnel in particular occupational specialties from leaving active duty at least mask the underlying significance of retention statistics.

*Congressional Action.* There was little if any fundamental disagreement between the two Armed Services Committees in their yearly reworking of the Administration's proposed military personnel programs; both houses of Congress endorsed the

Administration's proposal to expands compensation increases of recent years, including the following actions:

- Accepting the Administration proposal for a January 1, 2002 basic pay raise of a minimum 5% and a maximum 10% for military personnel, depending on pay grade and years of service. This was the largest annual raise since that of October 1, 1981 (FY1982), as well as being higher than the 4.6% that the permanent statutory formula would have provided.
- Increasing the proportion of housing costs that are reimbursed as part of an effort to completely eliminate "out-of-pocket" housing costs not covered by military housing allowances by FY2005.
- Increasing reimbursements for a wide range of moving costs.
- Authorizing officer accession bonuses for some officer candidates up to \$60,000.
- Increasing the maximum age to commission college ROTC scholarship recipients to from 27 to 31.
- Creating a new re-enlistment bonus of up to \$30,000 in U.S. savings bonds for those with critical skills who agree to serve at least six additional years of active duty.
- Allowing military personnel with critical skills to transfer up to 18 months of Montgomery GI Bill benefits to family members in return for serving at least another four years.

In a matter with major implications for both government-wide and DOD funding that is of great interest to military retirees, the FY2002 defense authorization act, for the third year in a row, did *not* repeal a statute that requires that those military retirees who receive VA disability compensation must take an offset to their military retirement that is equal to their VA disability payment (the prohibition against 'concurrent receipt' of benefits). DOD opposes any change in this prohibition, arguing that the two programs - military retirement and VA disability payments - were intended for different groups, veterans who are eligible for retirement and veterans who are eligible for disability payments but not for retirement. To ensure that military retirees with service-connected disabilities do not receive less than disabled veterans who are not eligible for retirement, the current law permits disabled veterans to choose the larger of the two payments, as long as the veteran waives the equivalent amount of retirement compensation.

Although both the House and the Senate version of the authorization act eliminated this offset and permitted veterans to receive full benefits under both programs, the houses differed in their approach to funding the program. The Senate adopted an amendment, which would have provided that concurrent receipt would be considered an entitlement program that would go into effect on October 1, 2002. That change would have triggered an additional \$3 billion in mandatory spending in 2002 and \$40 billion in spending over the next ten years as well as requiring that DOD provide an additional \$1 billion annually. Under the House version, this authorization of "concurrent receipt" of the two benefits would have become effective only if the President submitted a budget proposal to offset the mandatory spending costs of the change in law, and if Congress approved legislation to provide such an

offset.<sup>90</sup> By accepting the House version, Congress guaranteed that concurrent receipt would not take place unless the Administration reversed its consistent opposition. Possibly as partial recompense, Congress expanded the eligibility for some severely disabled military retirees.

**Social Issues.** (This section was prepared by David Burrelli.) Social issues are frequently matters of debate in the defense authorization process. This year it was speculated that there could be efforts to revisit a number of issues including the current policy under which, in all services except the Marine Corps, males and females receive basic training together. Likewise, Congress required last year that DOD notify Congress in advance of any plans to change the current policy of assigning only males to duty on submarines. In addition, according to press accounts, a panel reviewing the Uniform Code of Military Justice had concluded that sodomy between consenting adults should not be prohibited under the code. Despite that speculation, these issues were not considered during this legislative session. However, efforts to expand the availability of abortion services to members of the armed forces and their dependents appear to be a subject of annual debate.

*Congressional Action.* On September 25, by a vote of 217-199, the House rejected an amendment offered by Representative Sanchez that would have allowed DOD facilities overseas to perform privately-funded abortions for military personnel and their dependents.

## Major Weapons Issues

The Administration's FY2002 budget does not reflect decisions on major weapons programs, but is largely a continuation of previous plans. This leaves unresolved two key budget issues: (1) how much is needed for weapons procurement over the next several years, and (2) whether some programs should be terminated to free up money for leap-ahead technologies that would support a transformation in defense capabilities.

**Aviation Forces.** (This section was prepared by Christopher Bolkom.)

**Air Force Transformation.** Many airpower advocates argue that the Air Force's emphasis on long range precision strike and stealth technology best reflects the goals of defense transformation. The debate about the Air Force's transformation approach has centered on 1) whether emerging capabilities will enable air forces to "halt" enemy ground forces single-handedly, without relying on U.S. ground forces for followup; and 2) what is the most effective balance between shorter-range combat aircraft (e.g. F-22, Joint Strike Fighter) and longer-range combat aircraft (B-52s, and B-2s) in light of the threats posed by surface-to-air missiles, ballistic missiles, and weapons of mass destruction.

**Combat Aircraft.** Currently three theater-range combat aircraft modernization programs are in procurement or development – the Air Force F-22, the Navy F/A-

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<sup>90</sup> If this provision were enacted and funded, the accrual funding for military retirement would increase.

18E/F, and the multi-service Joint Strike Fighter (JSF). (See CRS Issue Brief IB92115.) The central issue for policy makers is whether DOD can afford to pursue all three programs simultaneously, an issue raised by President Bush himself in an impromptu discussion with reporters, and whether threats today or in the future would justify the need for these three programs.

Some advocates of defense transformation argue that DOD is placing too much emphasis on short range combat aircraft, like the JSF, at the expense of long range combat aircraft like the B-2 bomber. Most recently, however, one of the panels contributing to the Administration's defense policy review strongly recommended going ahead with the JSF as well as with other planned theater aircraft programs.

*Congressional Action.* Authorization and appropriation conferees both matched the administration's request for JSF funds despite an initial \$250 million cut proposed by the Senate Armed Services Committee in expectation of a likely delay in the selection of the final contractor. Funding at the level of the request keeps the R&D program on track but both committees expressed concern about industrial base issues. Both conference committees also matched the F-22 funding requests, and the authorizes removed the \$20 million legislative cost cap on F-22 Engineering Manufacturing development designed to control costs.

**Long-Range Bombers.** The proposal in the Administration's FY2002 budget amendment to reduce the number of B-1s in service from 93 to 60 and to consolidate operations at two, rather than the current five bases, which would have eliminated the B-1 mission of the National Guard. This proposal was ultimately overturned by legislators in states where B-1 operations would have been reduced. (See CRS Report RS20859.) Restarting B-2 production, retiring the B-1 entirely, and embarking on a new bomber program was also discussed.

*Congressional Action.* Both the House and the Senate Armed Services Committees expressed concern about the Administration's proposal to consolidate basing of B-1s, and restored funds to the Air National Guard to maintain its B-1 capabilities. To restore their B-1 role, appropriations conferees provided the Air National Guard with an additional \$100 million in O&M funding .

**Unmanned Aviation Systems.** Unmanned aerial vehicles (UAVs) and unmanned combat aerial vehicles (UCAVs) are seen as useful in performing missions too dangerous or too onerous for manned aircraft, potentially at less cost. The high altitude, long endurance Global Hawk surveillance UAV will augment and may replace the U-2, and UCAVs in research and development (R&D) may eventually augment or replace numerous combat aircraft. The precise capabilities of these unmanned systems are still unclear as is the pace at which they will be developed. Many observers predict that the Predator UAV's successful performance and the deployment of the prototype Global Hawk in the war in Afghanistan will lead to the acceleration of many UAV programs. (See CRS Report RL30727 and CRS Report RL31014.)

**Air Mobility.** A 2001 Air Force study found a significant shortfall in the long-range airlift fleet's ability to meet the current national military strategy. Ongoing operations in Afghanistan - with its long-range deployments - raise this issue anew.

The best way to resolve a shortfall – either through procurement of additional C-17s, refurbishing some C-5s, or increased use of commercial variants – continues to be debated. Increased use of commercial variants is also being explored (See CRS Report RS20915.) Replacing aging KC-10 and KC-135s that provide aerial refueling, a key capability for expeditionary operations, was also addressed this session. Recapitalizing this fleet is potentially a \$50 billion dollar endeavor. (See CRS Report RS20941.)

*Congressional Action.* Both committees endorsed the Administration’s request for an additional 15 C-17 aircraft in FY2002, and also added a provision authorizing the Secretary of the Air Force to enter into another multi-year contract. Section 8159 of the P.L. 107-117 gives DOD the authority to lease 100 commercial Boeing 767 aircraft and convert them into replacements for the oldest KC-135 tanker aircraft, using an operating lease and O&M rather than procurement funds to obtain the aircraft. Providing this authority generated controversy in Congress and the administration partly because some (including the Administration) argue that the operating lease would be far more expensive than buying the aircraft, and partly because some suggest that alternatives have not been adequately explored.

**V-22 Tilt-Rotor Aircraft.** Another controversial aviation program is the V-22 tilt-rotor aircraft (that takes off and lands like a helicopter but flies like an airplane). The centerpiece of Marine Corps plans to transport forces within theaters, this program is also designed to satisfy Air Force special operations forces needs. The program has been blemished by four crashes, (three of which resulted in crew fatalities), as well as recent findings by DOD’s Inspector General that V-22 maintenance records were falsified. Critics have suggested cancelling or drastically curtailing the V-22 program. In December 2001, Undersecretary of Defense Aldridge approved the resumption of V-22 testing at the same time expressing his concerns regarding the program.

*Congressional Action.* Reflecting congressional concerns about the technical maturity of the program, authorization conferees cut one aircraft from the Navy’s 12 aircraft procurement request and deleted Air Force procurement funds. Appropriation conferees reduced Navy procurement by three aircraft rather than the one cut by the authorizes. The appropriators also eliminated Air Force procurement funds, but increased Air Force RDT&E funding by \$226 million to purchase two development aircraft. Both committees cut \$100 million from Navy.

**Naval Forces.** (This section was prepared by Ronald O’Rourke.)

**Naval Transformation.** Navy transformation plans center on the concept of network-centric warfare (NCW), which entails using computers, data links, and networking software to tie naval personnel, ships, aircraft, and installations into highly integrated networks. The defense committees have closely followed certain Navy programs for implementing NCW, particularly the Cooperative Engagement Capability (CEC) program for ship air defense and the Navy-Marine Corps Intranet (NMCI) program for tying together Navy and Marine Corps shore installations. Some Members of the defense oversight committees have also expressed some interest in other proposals for naval transformation, such as the “Streetfighter” concept for building smaller ships to fight in heavily-defended littoral waters. Some

analysts have suggested that turning to these types of smaller (and less expensive) ships could help relieve the pressure to maintain the current size of the fleet. (See CRS Report RS20851 and CRS Report RS20557.)

*Congressional Action.* The conference report of the defense authorization bill permits the Navy to proceed with the NMCI project after meeting certain testing requirements. The provision also requires the Navy to submit to Congress a report on the scope and status of NMCI testing, and requires GAO to study the impact of NMCI implementation on the rate structure of naval shipyards and other repair depots. The conferees expressed concern about delays in implementing the program and the resulting shortage of data about the viability and performance of NMCI.

**Size of the Navy.** The Bush Administration's 2001 Quadrennial Defense Review (QDR), submitted to Congress on September 30, 2001, did not make any substantial changes to the Clinton Administration's plan for maintaining a Navy of about 310 ships, including 12 aircraft carriers, 116 major surface combatants, 55 attack submarines, 12 amphibious ready groups. The 2001 QDR report did note, however, that as DOD's transformation effort matures, "DOD will explore additional opportunities to restructure and reorganize the Armed Forces."

Some analysts, noting the pace of Navy operations in recent years, have questioned whether a 310-ship fleet is adequate. They and some Navy officials have called for increasing the planned size of the Navy to about 360 ships, including 15 aircraft carriers, about 135 major surface combatants, 60 to 70 attack submarines, and 14 amphibious ready groups. Other analysts have questioned the need for maintaining forward deployments of carriers and other naval forces, particularly in the Mediterranean Sea. They have advocated reducing naval-forward presence requirements in this region, which could lead to a reduction in the planned size of the Navy below 310 ships.

The Bush Administration echoed concerns raised by the defense committees in recent years about the rate of Navy ship procurement, which has been about 6 ships per year since the early 1990s, less than the average of about 9 ships per year (assuming an average 35-year service life) that would be needed over the long run to maintain a 310-ship fleet (the so-called steady-state replacement rate). An even higher procurement rate of 10 to 12 ships per year (a "catch-up rate") may be required to eliminate the backlog of deferred ship procurement that has accumulated relative to the steady-state rate since the early 1990s. A similar situation exists regarding the rate of naval aircraft procurement. (See CRS Report RS20535.)

**Ship Financing Alternatives.** In the last two years, some Members of the defense oversight committees have begun to explore alternative ways to finance ship procurement. Under longstanding policy, known as the "full funding" policy, the full cost of a ship is appropriated at one time, even though funds may be obligated and expended over several years. Alternatives to full funding include incremental funding, which has been approved for the LHD-8 amphibious ship, and advance appropriations (which can be thought of as a legislatively locked-in form of incremental funding), which some Navy officials proposed last year.

**Cost Overruns and Schedule Delays.** Various ships procured in previous fiscal years have experienced cost overruns totaling at least \$2.4 billion. The Navy requested \$800 million in FY2002 to cover the portion of these overruns that the Navy says must be covered that year if work on these ships is to continue.

*Congressional Action.* The defense authorizers and appropriators both approved about \$725 million in FY2002 for prior year cost overruns, reducing the request by \$75-million reduction overruns on previously appropriated LPD-17 class amphibious ships.

**New DD(X) Future Surface Combatant Program.** On November 1, 2001, in the midst of congressional deliberations on the defense budget, the Navy announced that it was replacing the DD-21 destroyer program with a restructured program, called DD(X), for developing a family of surface combatants (rather than a single destroyer in coming years. Under the Navy's plan, the two industry teams that were competing for the DD-21 program would now compete for the DD(X) program, with a winning team to be selected on April 30, 2002. The DD(X) program raises potential issues for Congress regarding the rationale for ending the DD-21 program, the potential impact of the DD(X) program on the shipbuilding industrial base, the Navy's proposed acquisition strategy for the DD(X) program, and future Navy capabilities.

The replacement of the DD-21 program with the DD(X) program also created an immediate issue regarding the treatment of the \$643-million request for FY2002 funding for research and development work on the DD-21 program. The Navy, in briefings to Congress, explained that the initial DD(X) ship would use many of the same technologies as the DD-21 and that all of the \$643 million requested for the DD-21 program in FY2002 would be needed for the new DD(X) program.

*Congressional Action.* Because the authorization conferees did not have specifics about the DD(X) program, the conferees recommended a \$50-million reduction in the \$643-million funding request "resulting from the delay in the down-select to a future destroyer detail design;" the conferees plan to review the Navy's decision to restructure the DD-21 program when more information is available.<sup>91</sup> To protect the destroyer industrial base, the authorization conferees call on the Secretary of the Navy to "include procurement of three Arleigh Burke [DDG-51]-class destroyers in the fiscal year 2003 budget request to attain an economic rate of production and consider options for maintaining and transitioning the industrial base, including second tier suppliers, to future destroyer production."<sup>92</sup> Echoing the authorizers concerns, the appropriation conferees reduced the \$643-million DD-21/DD(X) research and development funding request by \$125 million. (See CRS Report RS20698.)

**Submarines.** The Bush Administration's amended FY2002 budget requested \$116 million in R&D and procurement funding to begin converting two Trident ballistic missile submarines (SSBNs) into cruise-missile submarines (SSGNs), and

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<sup>91</sup> H.Rept. 107-33, p. 557.

<sup>92</sup> *Ibid*, p. 510.



additional funds to retire and dismantle two other Trident SSBNs. Congressional supporters of the SSGN conversion program were interested in increasing the conversion funding so as to support a 4-boat SSGN conversion program.

*Congressional Action.* The authorization conferees' increase of \$66 million is intended to support a 4-boat conversion program but falls short of the \$163-million increase that the Navy considers the minimum for such a program. The appropriation conferees provided a \$324 million increase, more than needed for a faster conversion of four boats. (See CRS Report RS21007).

**Ground Forces.** (This section was prepared by Edward Bruner.)

**Army Transformation.** The Army's current transformation plans were reflected in the amended FY2002 budget. The goal is to build a new "Objective Force" centered on a Future Combat System to be developed over the next ten years, that would be fully fielded by 2020. More controversial may be the size of the Army's "Legacy Force", the current mix of light and heavy forces. The Army plans some modernization and recapitalization of this "Legacy Force" to maintain combat readiness. In the meantime, to meet the need for forces that would be both mobile and yet lethal enough to survive in a high-intensity, fast-breaking conflict that could arise in many regions – a gap in the current mix of forces – the Army is creating an "Interim Force" of 6 to 8 Interim Brigade Combat Teams (IBCT) that would be deployable in C130 aircraft. (See CRS Report RS20787.)

**Congressional Concerns.** Some have questioned whether a major effort to transform ground forces should be a priority today, given the current superiority of U.S. military forces and a perceived low-level of conventional ground combat threats. In particular, there is great concern that transformation be properly balanced with current readiness and recapitalization. Even if future dangers justify a transformation, has the Army picked the right path? Perhaps it need not cover the entire spectrum of combat capabilities, leaving more tasks to other services. Perhaps the Objective Force should create less stress on airlift assets by relying more on sealift. Some have suggested that a radical reorganization of current units could yield a more agile ground component for joint strike forces now, long before any Future Combat System is fielded. In general, capabilities envisioned for the Objective Force will have more utility in situations like Afghanistan than the current legacy force.

Affordability is a second major question. Critics have suggested that the transformation plan pays for three separate armies at once: the Legacy, Interim, and Objective Forces. The Army's counter argument is that the overall size of the Army's force structure remains constant throughout the transformation. Yet, the Army Chief of Staff testified that Army plans require a sustained increment of \$10 billion annually beyond its average post-Cold War expenditures for R&D and procurement. In FY2002, Congress supported the Army's transformation efforts.

**Weapon Systems Issues.** A key aviation component of the future Objective Force, the Army's Comanche (RAH-66), an armed reconnaissance helicopter, is being designed with stealth and other advanced features, and will replace aging helicopters. (See CRS Report RS20522.) The Army received full funding for two systems scheduled for fielding in FY08 - the Comanche helicopter, and the more controversial

(because of its weight) 40-ton Crusader, which is designed to improve fire support in the Legacy Force.

The Army also received its request for its largest effort to recapitalize the Legacy Force, the \$1 billion to rebuild and upgrade the current fleets of M1 Abrams tanks and M2 Bradley fighting vehicles. Some of that money is dedicated to “digitizing” the battlefield in order to enable systems to operate in computer nets, an improvement that the Army eventually wants to include in all its systems in the Objective, Interim, and Legacy forces. A \$4 billion program over six years, the Army’s new Light Armored Vehicle III – a 20 ton wheeled platform – is intended to be the linchpin for equipping the new IBCTs of the Interim Force.

## **Defense R&D Spending**

(This section was prepared by Jack Moteff.)

In its June 27 budget amendment, the Bush Administration requested \$47.4 billion in research and development for the Department of Defense (DOD) in FY2002, almost \$7 billion more than the 2001 level. About half of that increase was slated for missile defense, however. Although the Bush Administration proposed increasing DOD’s research and development by \$20 billion over the next 5 years, the \$8.8 billion requested for DOD’s science and technology (S&T) part of the request (i.e. basic and applied research and advanced technology development), traditionally a congressional concern, was slightly below the \$9 billion provided in FY2001. The Administration stated that it wants to redirect investments away from legacy systems and toward more forward-looking systems such as lasers, nanotechnology, space-based systems, miniaturization, and unmanned combat platforms (See CRS Issue Brief IB10063, *Defense Research: DOD’s Research, Development, Test and Evaluation Program*, by John Moteff.)

**Table 15** shows the total obligational authority for RDT&E over the last three years, the amended FY2002 request, and the enacted version of the defense authorization and appropriations bills.

*Congressional Action.* Congress authorized \$46.5 billion for research and development, with just under \$9.0 billion of that going toward S&T. This included the Senate’s proposal to reduce BMDO’s RDT&E funding by \$1.3 billion to set up a fund from which the President may support either ballistic missile defense RDT&E or other activities to combat terrorism. Congress appropriated \$49.0 billion for RDT&E, with almost \$10 billion going toward S&T. The final appropriation act includes \$113 million for RDT&E within a new Counter-terrorism Transfer Fund, which supports antibiotics and vaccines development, research on unconventional nuclear threats, post-biological-exposure therapeutics, and information assurance attack warning/response.

**Table 15. Department of Defense RDT&E: Total Obligational Authority**  
(in millions of dollars)

	FY1999 Actual	FY2000 Actual	FY2001 Estimate	FY2002 Amended Request	FY2002 Author- ization Enacted	FY2002 Appropri- ations Enacted
<b>Accounts</b>						
Army	5,031	5,314	6,280	6,694	6,675	7,106
Navy	8,942	9,065	9,458	11,123	10,784	11,499
Air Force	13,732	14,527	13,993	14,344	14,407	14,670
Defense Agencies	10,093	9,551	11,053	15,051	14,426	15,415
(DARPA)	(1,888)	(1,850)	(2,010)	(2,281)	(2,285)	(2,304)
(BMDO) <sup>a</sup>	(3,910)	(3,457)	(4,204)	(7,036)	(6,359 <sup>d</sup> )	(7,069)
Dir. Test & Eval	258	265	–	–	–	–
Dir. Op. Test/Eval	47	31	225	217	221	232
<b>Total Obligational Authority</b>	<b>\$38,103</b>	<b>\$38,753</b>	<b>\$41,009</b>	<b>\$47,429</b>	<b>\$46,513</b>	<b>\$48,922<sup>f</sup></b>
<b>Budget Activity</b>						
Basic Research	1,063	1,139	1,317	1,304	1,308	1,389
Applied Res.	3,057	3,409	3,676	3,659	3,763	4,135
Advanced Dev.	3,453	3,789	4,000	3,815	3,915	4,455
Demonstr./Valid.	7,364	6,514	7,830	11,381	11,925	10,487
Engrg/Mftg. Dev.	7,646	8,879	8,735	10,249	9,878	11,108
Mgmt. Support <sup>b</sup>	2,553	3,076	2,634	3,003	2,829	2,862
Op. Systems Dev.	11,967	11,947	12,816	14,235	14,356	14,533
<b>Total Obligational Authority<sup>c</sup></b>	<b>\$38,103</b>	<b>\$38,753</b>	<b>\$41,008<sup>e</sup></b>	<b>\$47,429</b>	<b>\$47,974<sup>e</sup></b>	<b>\$48,969<sup>e</sup></b>

**Source:** FY2000 to FY2002 figures based on Department of Defense Amended Budget, Fiscal Year 2002 RDT&E Programs (R-1), June 2001. FY1999 figures from Department of Defense, Budget for Fiscal Year 2000, RDT&E Programs (R-1), February 2000. Totals may not add due to rounding.

- a. Includes only RDT&E funding for the Ballistic Missile Defense Organization (BMDO). Does not include procurement and military construction.
- b. Includes funds for Developmental and Operational Test and Evaluation.
- c. Does not include the additional funds and rescissions associated with the FY2001 Supplemental P.L. 107-20. The bill added \$5 million to the Army, \$128 million to the Navy, \$275.5 million to the Air Force, and \$84.1 million to Defense Agencies RDT&E accounts. The bill also rescinded \$7 million from the Defense Agencies account.
- d. Includes the \$1.3 billion reduction, some of which the President may decide to put back into BMDO's RDT&E program
- e. Does not include \$150 million in general reductions associated with management reform initiatives allocated to Title II RDT&E authorizations. Although these reductions were allocated for each Service and across agencies, and are to be allocated without prejudice, their impact at the budget activity level is not yet known. Nor does this figure include the \$1.3 billion reduction in BMDO funding, since it is not yet known how that reduction will affect budget activity. Note: this figure also does not include the \$53 million reduction in BMDO funding the authorization report suggested be taken as a result of Congress

- targeting that amount for the Arrow program. The BMDO line item that includes this program accounted for those targeted funds.
- f. Does not include the \$113 million in additional RDT&E funding appropriated to the Counter-terrorism Transfer Fund, since it is not specified to which Service or agency all of those funds should be transferred. The conference report does specify \$30 million of this, however, goes to DARPA. The DARPA figure in this column does include this addition.
  - g. Does not include a net \$46.5 million in general reductions associated with management reform initiatives and other adjustments made in the appropriations conference report. Although the general reductions were allocated by Service and across agencies, and are to be allocated without prejudice, their impact at the budget activity level is not yet known.

## Chemical Weapons Destruction, and Cooperative Threat Reduction

**Cooperative Threat Reduction.** (This section was prepared by Amy Woolf.) Established by Congress in 1991 after the collapse of the Soviet Union, the Nunn-Lugar Cooperative Threat Reduction Program (CTR) is dedicated to help Russia and the former Soviet republics safeguard, store, or destroy their nuclear weapons. After a comprehensive review, the Bush Administration requested \$403 million, slightly below the 2001 level.

*Congressional Action.* Both the final defense authorization and appropriations acts approve the Administration's request for DOD's CTR programs, including funding for construction of a chemical weapons destruction facility in Russia that had been withheld for the past two years. The emergency supplemental appropriations bill transferred \$30 million from existing CTR accounts to the State Department, to help fund programs designed to reduce the threat of biological weapons proliferation from Russia.

The authorization conferees provide \$776.9 million for Department of Energy's defense nuclear non-proliferation programs, many of which are geared to improving the security and control over nuclear materials in Russia and other former Soviet Republics, restoring the program to its 2001 level, and providing \$100 million more than requested by the Administration. A January 2001 report to DOE, authored by former Senator Howard Baker and Lloyd Cutler, recommended sharp increases in funding for these programs, calling the proliferation risks created by nuclear materials in the former Soviet Union the "greatest unmet national security need" for the United States. Congress also increased funding for two DOE programs designed to provide alternative employment for nuclear weapons scientists in the former Soviet Union, as did the emergency supplemental appropriations bill reflecting growing concerns about proliferation from Russia and the threat of terrorist use of WMD.

**Chemical Weapons Destruction Program.** (This section was prepared by Steve Bowman.) This program is designed to carry out the congressional mandate, stated in 1985, to destroy obsolete U.S. chemical weapons (CW) stockpile. The chief issues in this program are escalating costs, public concerns about methods of destruction, and whether the program will meet its 2007 deadline. The Chemical Weapons Convention, ratified by United States in 1997, mandated that destruction be completed by 2007, with a possible extension of five years if approved by the Organization for the Prohibition of Chemical Weapons. Incineration or neutralization facilities are being constructed at each depot where the weapons are currently stored.

(See CRS Issue Brief IB94029, The Chemical Weapons Convention: Issues for Congress.)

*Congressional Action.* Congress appropriated the \$1.1 billion requested by the Administration for the Chemical Weapons Destruction program, which is the same level as in the previous year.

## **Military Bases, Competitive procurement, and Defense Industry**

**Base Closure and Realignment.** (This section was prepared by David Lockwood.) An important issue for Members in the 107 Congress was whether or not to authorize new rounds of military base closures.<sup>93</sup> For the past four years, DOD has sought congressional approval for one or two more rounds of base closures, but to no avail. Although most Members of Congress acknowledge the need for additional base closures, Members have been reluctant to authorize additional rounds because of continued resentment over President Bill Clinton's controversial 1995 intervention in the closing of McClellan Air Force Base in California and inherent concern for the economic and social dislocations that local communities would face. By FY2002, DOD completed implementation of the 1988, 1991, 1993, and 1995 rounds as scheduled. About 451 installations and facilities have been closed or affected in some fashion during the past 12 years.

On August 3, 2001, the Administration submitted a proposal to Congress for another round of base closures in FY2003, as well as a new "Efficient Facilities Initiative" (EFI) designed to share facilities and land on some military bases. The Administration's proposal would have enhanced the role of the Secretary of Defense compared to the procedures used in previous base closures. The EFI was a wide-ranging proposal that would permit base commanders to waive current regulations and statutes and contract with public or private entities for use of military facilities and services in return for payments that would be deposited in an Installation Efficiency Project Fund that would be available to the Secretary of Defense to use at his discretion.

*Congressional Action.* The House opposed any new round of closures and the Senate supported another round. The impasse was finally resolved when the authorization conferees reached a compromise that authorized a new round but delayed the date to 2005. The authorizers also basically extended the procedures used in previous rounds but as part of the compromise, made it more difficult for the Base Closure Commissioners to add bases to those recommended by the Administration; any additions would require approval by a 'super-majority' of at least seven of the nine commissioners. The authorizes also permitted DOD to extend the pilot program for alternative uses of military bases but with more restrictions than proposed by the Department.

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<sup>93</sup> "Closure" is often used as a generalized term including realignment.

**Competitive Sourcing.** (This section was prepared by Valerie Grasso.)

The Bush Administration promised to mount ambitious efforts to improve efficiency by relying on the method that DOD also pursued under the Clinton Administration – competitive sourcing – where private companies can compete with government organizations to perform work. Conducted under the rules established by OMB Circular A-76, the program remains controversial because estimates of savings are considered problematic, and the economic, social and political ramifications from cuts in government jobs are painful. (See CRS Report RL30392, *Defense Outsourcing: The OMB Circular A-76 Policy*.)

*Congressional Action.* The FY2002 Department of Defense Appropriations Act (H.R. 3338) prohibits the conversion of certain DOD activities or functions to contractor performance, if the activities are performed by ten or more civilian DOD employees, until a “most efficient and cost-effective analysis” is completed and certified to the congressional appropriations committees (see Section 8014). The DOD appropriation conferees also reduced O&M funds by \$25 million to reflect their belief that the schedule for studies assumed by the Administration was overly optimistic.<sup>94</sup>

**Shipbuilding Industrial Base.** (This section was prepared by Ronald O’Rourke.) Until recently, the six private-sector shipyards that build the Navy’s major ships were owned by three organizations – General Dynamics Corporation (GD), which owned three of the yards, Northrop Grumman Corporation (NOC), which owned two of them, and Newport News Shipbuilding (NNS), which was an independent, publicly traded shipbuilding company. In the Spring of 2001, both GD and NOC made offers to buy NNS. Implementing either merger proposal would consolidate ownership of the six yards under two organizations and very likely end a process of consolidation in the ownership of these yards that began in 1995. The Department of Defense and the Department of Justice reviewed both merger proposals for several months. On October 23, 2001, the two departments announced that they would oppose GD’s offer on the grounds that it would reduce competition and innovation in naval shipbuilding, but would not oppose NOC’s Northrop’s offer. NOC completed its acquisition of NNS on November 30, 2001. The two competing merger proposals raised issues for Congress regarding the potential savings they would generate and their potential impact on competition in Navy ship acquisition, on the shipyards’ employment levels, and on the shipyards’ strength in the political process. (See CRS Report RL30969.)

**Navy Live-Fire Testing at Vieques.** (This section was prepared by Ronald O’Rourke.) On June 14, 2001, the Bush Administration announced that it had decided to end military training operations at the U.S. naval training range on the small Puerto Rican island of Vieques by May 2003. The Bush Administration’s new plan superseded a January 2000 agreement between President Clinton and the previous Governor of Puerto Rico, Pedro Rossello, that called for holding a referendum on Vieques (first scheduled for November 2001, then rescheduled for January 2002) in which voters could choose to either end the military’s use of the range by May 2003 or allow it to continue indefinitely beyond that point. To implement the

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<sup>94</sup> See H.Rept. 107-298, p. 46-47.

Clinton-Rossello plan, Congress in 2000 approved \$40 million in assistance funding for Vieques and other legislation as part of P.L. 106-246 (H.R. 4425) and P.L. 106-398 (H.R. 4205). The Bush Administration had previously supported the Clinton-Rossello plan as implemented by Congress, but the new Governor of Puerto Rico, Sila Maria Calderon, who took office in January 2001, did not and has instead worked toward an immediate end to the military training operations on the island.

*Congressional Action.* The conference report on the defense authorization bill contains a provision (Section 1049) that (1) cancels the requirement for holding the January 2002 referendum; (2) authorizes the Secretary of the Navy to close the Vieques range if the Secretary certifies that equivalent or superior training facilities exist and are immediately available; (3) requires the Secretary, in making this determination, to take into account the views of Navy and Marine Corps leaders; and (4) transfers the lands to the Department of the Interior if the range is closed. (See CRS Report RS20458, *Vieques, Puerto Rico Naval Training Range: Background and Issues for Congress.*)

## **Space, Intelligence, and Communications Issues**

**National Security Space Programs.** (This section was prepared by Marcia Smith.) Today, approximately \$14.5 billion per year is spent on national security space activities (for an overview, see CRS Issue Brief IB92011, *U.S. Space Programs: Civil, Military, and Commercial*, by Marcia Smith). Concern about how DOD and the intelligence community manage and execute space programs led to creation by Congress of a commission, chaired by now Secretary of Defense Donald Rumsfeld, to assess national security space program management. In May 2001, Secretary Rumsfeld announced a number of management changes in the Air Force and DOD to implement many of the Commission's recommendations. Recommendations made by two other congressionally created commissions—one on the National Imagery and Mapping Agency (NIMA); the other on the National Reconnaissance Office (NRO)—may also impact the national security space program.

Among the national security space programs that received attention during the FY2002 budget cycle were space control (the means to deter and defend against hostile acts directed at U.S. space assets, and against the uses of space hostile to U.S. interests); space-based weapons (lasers or kinetic energy weapons) for missile defense; and a new early warning satellite system consisting of two sets of satellites, SBIRS-High and SBIRS-Low. Both SBIRS programs have been the subject of management and technological readiness concerns. SBIRS-Low was transferred from the Air Force to BMDO, while SBIRS-High remains an Air Force program.

*Congressional Action.* Although the House and Senate sought to codify some of the recommendations of the Space Commission, the final version of the FY2002 DOD authorization bill requires only reports to Congress on DOD's actions to implement the Commission's recommendations. Congress approved the full request of \$33 million for space control in the final versions of the appropriations and authorization bills. For space-based weapons, the authorizers fully funded the \$165 million requested for space-based laser (SBL) development and the \$20 million requested for kinetic energy weapons, but the appropriators cut the SBL request by \$120 million, and cut kinetic energy weapons by \$10 million. Although SBIRS-High

and SBIRS-Low were both almost fully funded in the authorization bill, the appropriations bill cut all \$94 million requested for procurement for SBIRS-High but increased the \$405 million in RDT&E funding for that program by \$40 million. For SBIRS-Low, the appropriations bill cut the entire \$385 million requested but created a new line item funded at \$250 million which the Secretary of Defense may choose to spend on SBIRS-Low or development of other sensor technologies.

**Intelligence.** (This section was prepared by Richard Best.) Most of the funding for the nation's intelligence effort is provided in national defense authorization and appropriations bills. The budget of the Central Intelligence Agency, which is separate from the Defense Department, is, from a practical standpoint, overseen by the two intelligence committees, but is included in various parts of the defense budget to preclude public disclosure.

The work of intelligence agencies that are part of the Defense Department, including the Defense Intelligence Agency, the National Security Agency, the National Reconnaissance Office, and the National Imagery and Mapping Agency, is overseen by armed services and defense appropriations committees as well as by the two select intelligence committees. Budgetary allocations for specific intelligence programs are usually classified and discussed only in separate annexes to committee reports that are not available to the public, though issues sometimes may become matters of open debate in Congress. (See CRS Issue Brief IB10012, *Intelligence Issues for Congress*, by Richard A. Best, Jr.).

*Congressional Action.* Changes to specific programs made by the authorizing committees are covered in a separate, classified annex to their reports.

**Radiofrequency Spectrum for DOD.** (This section was prepared by Lennard Kruger and Linda K. Moore.) The Department of Defense uses various portions of the radiofrequency spectrum to support its operations and activities. Many in the wireless communications industry would like to use part of this spectrum for deployment of a next generation wireless service known as "3G". That portion of the spectrum – the 1755-1850 MHz - is currently used by DOD for such applications as satellite systems, precision guided munitions, tactical radio relay communication systems, air combat training systems, targeting, intelligence, and other communications systems.

Citing a shortage of available spectrum for 3G, the Clinton Administration directed the two agencies charged with management of the spectrum – the Federal Communications Commission for commercial users and the National Telecommunications and Information Administration for federal government users – to identify suitable 3G spectrum for commercial services by July 2001, and to auction licenses to competing applicants by September 30, 2002. On June 26, 2001, however, FCC Chairman Michael Powell recommended to Secretary of Commerce Donald Evans the extension of this deadline so that other ways to make additional spectrum available for advanced wireless services could be considered.

One option is to relocate DOD to other frequency bands and auction the 1755 - 1850 MHz band for commercial use. To meet requirements in the FY1999 and FY2000 DOD's authorization acts, DOD must be reimbursed for relocation costs and



provided with spectrum that has comparable technical capabilities so there is no loss of mission capability in case of any transfer to the civilian sector. (See CRS Report RL30829, *Radiofrequency Spectrum Management: Background, Status, and Current Issues*, and CRS Report RS20993, *Wireless Technology and Spectrum Demand: Third Generation (3G) and Beyond*).

DOD now contends that full migration to another frequency band could take many years because satellites currently in orbit cannot be reprogrammed to operate on another frequency. For that reason, they argue that relocation could not occur until 2010 for non-space systems, and 2017 for satellite control systems, assuming that DOD also received alternative, comparable spectrum width and compensation. Thus far, no comparable bandwidth for DOD has been proposed. In a new report, GAO concluded that more analysis is needed before making decisions about the 1755-1850 MHz band (GAO-01-795, August 2001).

*Congressional Action.* Neither the House nor the Senate Armed Services Committees included any language about the issue of relocating DOD to another frequency.

## Legislation

### Budget Resolution

#### **H.Con.Res. 83 (Nussle)**

A concurrent resolution establishing the congressional budget for the United States government for FY2002, revising the congressional budget for the United States government for FY2001, and setting forth appropriate budgetary levels for each of fiscal years 2003 through 2011. Reported by the House Budget Committee (H.Rept. 107-26), March 23, 2001. Passed the House (222-205), March 28, 2000. Passed the Senate (65-35), April 6, 2001. Conference report filed (H.Rept. 107-55), May 8, 2001. Conference report passed the House (221-207), May 9, 2001, and the Senate (50-48), May 10, 2001.

### Supplemental Appropriations

#### **P.L. 107-20, H.R. 2216/S. 1077**

An original bill making emergency supplemental appropriations for the fiscal year ending September 30, 2001, and for other purposes. H.R. 2216 reported by the House Committee on Appropriations (H.Rept. 107-102), June 19, 2001; passed the House (223-205), June 20, 2001. S. 1077 reported by the Senate Committee on Appropriations (S.Rept. 107-33), June 21, 2001; passed Senate July 10. Conference report (H.Rept. 107-148) passed the House and the Senate on July 20, 2001. Signed into law July 24, 2001.

## Emergency Supplemental Appropriations

### **P.L. 107-38, H.R. 2888**

Making emergency supplemental appropriations for fiscal year 2001 for additional disaster assistance, for anti-terrorism initiatives, and for assistance in the recovery from the tragedy that occurred on September 11, 2001, and for other purposes. Passed by the House and Senate on September 14, 2001.

## Authorization for Use of Military Force

### **P.L. 107-40, S.J.Res. 23**

Authorizing the use of United States armed forces against those responsible for the recent attacks launched against the United States. Passed House and Senate on September 14, 2001.

## Continuing Resolution

### **H.J.Res. 79/P.L. 107-97**

Making continuing appropriations for the fiscal year 2002 through December 15, 2001, and for other purposes. Signed by the President on December 21, 2001.

## Defense Authorization

### **H.R. 2586 (Stump)**

A bill to authorize appropriations for FY2002 for military activities of the Department of Defense, to prescribe military personnel strengths for FY2002, and for other purposes. Ordered to be reported by the House Committee on Armed Services, August 1, 2001; reported (H.Rept. 107-194) on September 4. Considered by the full house on September 20, 24, and 25, 2001. Passed the House on September 25, 2001 (398-17).

### **S. 1438 and S. 1416 (Levin)**

A bill to authorize appropriations for FY2002 for military activities of the Department of Defense, for military construction, and for defense activities of the Department of Energy, to prescribe personnel strengths for such fiscal year for the Armed Forces, and for other purposes. S. 1416 ordered to be reported by the Senate Committee on Armed Services on September 7, 2001; reported (S.Rept. 107-162) on September 12, 2001. Senate took up S. 1438 (an amended version of S. 1416) on September 21, 24, 25, 26, and October 2. S. 1438 passed by the Senate with amendments on October 2, 2001. House took up S. 1438, substituted the text of H.R. 2586, and considered and passed the bill on October 17, 2001. Conference agreement reported on December 12 (H.Rept. 107-333), and passed by the House on December 13 (382-40) and the Senate (96-2). President signed the bill into law (P.L. 107-107) on December 28, 2001.

## Defense Appropriations

### **H.R. 3338 (Young)**

A bill making appropriations for the Department of defense for the fiscal year ending September 30, 2002, and for other purposes. Ordered to be reported by the House Committee on Appropriations on November 19, 2001 (H.Rept. 107-298). Passed House on November 28, 2001 (406-20). Senate took up H.R. 3338, and adopted an amendment in the nature of a substitute and reported out the bill on December 5 (S. Rept 107-109); it passed the Senate on December 7, 2001 by voice vote. Conference report was filed on December 19, 2001 (H.Rept. 107-350). Approved by the House (408-6) and the Senate (94-2) on December 20, 2001.

## For Additional Reading

### CRS Products

CRS Report 95-387. *Abortion Services and Military Medical Facilities*, by David F. Burrelli.

CRS Report RS20859. *Air Force Transformation: Background and Issues for Congress*, by Christopher Bolkom.

CRS Report RL31010. *Appropriations for FY2002: Military Construction*, by Daniel H. Else.

CRS Report RS20787. *Army Transformation and Modernization: Overview and Issues for Congress*, by Edward F. Bruner.

CRS Issue Brief IB96022. *Defense Acquisition Reform: Status and Current Issues*, by Valerie Bailey Grasso.

CRS Report 98-756. *Defense Authorization and Appropriations Bills: A Chronology, FY1970-2001*, by Gary K. Reynolds.

CRS Report RL30976. *Defense Budget for FY2002: Data Summary, Final Version*, by Mary Tyszkiewicz.

CRS Report RL30002. *A Defense Budget Primer*, by Mary Tyszkiewicz and Stephen Daggett.

CRS Report RL30392. *Defense Outsourcing: The OMB Circular A-76 Program*, by Valerie Grasso.

CRS Report RL30639. *Electronic Warfare: EA-6B Aircraft Modernization and Related Issues for Congress*, by Christopher Bolkom.

CRS Issue Brief IB87111. *F-22 Raptor Aircraft Program*, by Christopher Bolkom.

CRS Report RL30113. *Homosexuals and U.S. Military Policy: Current Issues*, by David F. Burrelli.

CRS Issue Brief IB10012. *Intelligence Issues for Congress*, by Richard A. Best.

CRS Report RL30563. *Joint Strike Fighter (JSF) Program: Background, Status, and Issues*, by Christopher Bolkcom.

CRS Report RL30624. *Military Aircraft, the F/A-18E/F Super Hornet Program: Background and Issues for Congress*, by Christopher Bolkcom.

CRS Report RL30051. *Military Base Closures: Time for Another Round?*, by David E. Lockwood.

CRS Report RL30440. *Military Base Closures: Where Do We Stand?*, by David E. Lockwood.

CRS Issue Brief IB93103. *Military Medical Care Services: Questions and Answers*, by Richard A. Best.

CRS Issue Brief IB85159. *Military Retirement: Major Legislative Issues*, by Robert Goldich.

CRS Report RL31111. *Missile Defense: The Current Debate*, coordinated by Steven A. Hildreth and Amy F. Woolf.

CRS Report RL30427. *Missile Survey: Ballistic and Cruise Missiles of Foreign Countries*, by Robert D. Shuey.

CRS Report RS20151. *National Guard & Reserve Funding, FY1990-2001*, by Mary Tyszkiewicz.

CRS Report RS20062. *National Missile Defense and the ABM Treaty: Overview of Recent Events*, by Amy F. Woolf.

CRS Report RL30654. *National Missile Defense and Early Warning Radars: Background and Issues*, by Larry Chasteen.

CRS Issue Brief IB10034. *National Missile Defense: Issues for Congress*, by Steven A. Hildreth and Amy Woolf.

CRS Report RS20967. *National Missile Defense: Russia's Reaction*, by Amy F. Woolf.

CRS Report RS20851. *Naval Transformation: Background and Issues for Congress*, by Ronald O'Rourke.

CRS Report RS20862. *Navy Amphibious Shipbuilding Programs: Background and Issues for Congress*, by Ronald O'Rourke.

- CRS Report RS21007. *Navy Trident Submarine Conversion (SSGN) Programs: Background and Issues for Congress*, by Ronald O'Rourke.
- CRS Report RS20643. *Navy CVN-77 and CVX Aircraft Carrier Programs: Background and Issues for Congress*, by Ronald O'Rourke.
- CRS Report RS20557. *Navy Network-centric Warfare Concept: Key Programs and Issues for Congress*, by Ronald O'Rourke.
- CRS Report RS20535. *Navy Ship Procurement Rate and the Planned Size of the Navy: Background and Issues for Congress*, by Ronald O'Rourke.
- CRS Report RL30969. *Navy Shipbuilding: Proposed Mergers involving Newport News Shipbuilding: Issues for Congress*, by Ronald O'Rourke.
- CRS Report RS20698. *Navy Zumwalt (DD-21) Class Destroyer Program: Background and Issues for Congress*, by Ronald O'Rourke.
- CRS Report RL30699. *Nuclear, Biological, and Chemical Weapons and Missiles: the Current Situation and Trends*, by Robert S. Shuey.
- CRS Report 97-1027. *Nunn-Lugar Cooperative Threat Reduction Programs: Issues for Congress*, by Amy F. Woolf.
- CRS Issue Brief IB94040. *Peacekeeping: Issues of U.S. Military Involvement*, by Nina Serafino.
- CRS Report RL30828. *Radiofrequency Spectrum Management: Background, Status, and Current Issues*, by Lennard Kruger.
- CRS Issue Brief IB93062. *Space Launch Vehicles: Government Activities, Commercial Competition, and Satellite Exports*, by Marcia Smith.
- CRS Report RS20915. *Strategic Airlift Modernization: Background, Issues, and Options* by Christopher Bolkcom.
- CRS Report RL30457. *Supplemental Appropriations for FY2001: Defense Readiness and Other Programs*, by Stephen Daggett.
- CRS Issue Brief IB92115. *Tactical Aircraft Modernization: Issues for Congress*, by Christopher Bolkcom.
- CRS Issue Brief IB98028. *Theater Missile Defense: Issues for Congress*, by Robert D. Shuey.
- CRS Report RL30345. *U.S. Nuclear Weapons: Policy, Force Structure, and Arms Control Issues*, by Amy F. Woolf.
- CRS Issue Brief IB92011. *U.S. Space Programs: Civilian, Military, and Commercial*, by Marcia Smith.

CRS Issue Brief IB86103. *V-22 Osprey Tilt-Rotor Aircraft*, by Christopher Bolkcom.

CRS Report RS20458. *Vieques, Puerto Rico Naval Training Range: Background Issues for Congress*, by Ronald O'Rourke.

CRS Report RS20993, *Wireless Technology and Spectrum Demand: Third Generation (3G) and Beyond*, by Linda K. Moore

## **Selected World Wide Web Sites**

Information regarding the defense budget, defense programs, and congressional action on defense policy is available at the following web sites.

### **Congressional Sites/OMB**

House Committee on Appropriations  
[<http://www.house.gov/appropriations>]

Senate Committee on Appropriations  
[<http://www.senate.gov/~appropriations/>]

House Armed Services Committee  
[<http://www.house.gov/hasc/>]

Senate Armed Services Committee  
[[http://www.senate.gov/~armed\\_services/](http://www.senate.gov/~armed_services/)]

CRS Appropriations Products  
[<http://www.loc.gov/crs/products/apppage.html>]

Congressional Budget Office  
[<http://www.cbo.gov>]

General Accounting Office  
[<http://www.gao.gov>]

Office of Management and Budget  
[<http://www.whitehouse.gov/OMB/>]

FY2002 Federal Budget Publications  
[<http://w3.access.gpo.gov/usbudget/index.html>]

### **Defense Department and Related Sites**

Defense LINK  
[<http://www.defenselink.mil/>]

Defense Issues (Indexed major speeches)

[<http://www.defenselink.mil/speeches/>]

Under Secretary of Defense (Comptroller) FY2001 Budget Materials

[<http://www.dtic.mil/comptroller/fy2001budget/>]

Assistant Secretary of the Army (Financial Management & Comptroller) Budget

[<http://www.asafm.army.mil/budget/budget.asp>]

Army Link — the U.S. Army Home Page

[<http://www.army.mil/>]

Navy On-Line Home Page

[<http://www.navy.mil/index-real.html>]

Navy Budget Resources

[[http://navweb.secnav.navy.mil/pubbud/01pres/db\\_u.htm](http://navweb.secnav.navy.mil/pubbud/01pres/db_u.htm)]

Navy Public Affairs Library

[<http://www.navy.mil/navpalib/.www/subject.html>]

United States Marine Corps Home Page

[<http://www.usmc.mil/>]

AirForceLINK

[<http://www.af.mil/>]

Air Force Financial Management Home Page

[<http://www.saffm.hq.af.mil/>]

Air Force Budget Resources

[<http://www.saffm.hq.af.mil/FMB/pb/2001/afpb.html>]

**Table A1. Defense Appropriations, FY1998 to FY2002**  
(budget authority in billions of current year dollars)

Actual FY1998	Actual FY1999	Actual FY2000	Estimate FY2001	Enacted FY2002
250.7	265.7	278.7	306.9 <sup>a</sup>	320.7 <sup>b</sup>

**Sources:** Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2002*, Apr. 2001, for FY1998 through FY2000; FY2001 includes estimate from OMB, *Budget of the United States Government*, April 2001 plus additional appropriations for Department of Defense included in P.L. 107-20, Supplemental Appropriations Act, 2001; FY2002 request from the White House, Transmission to Congress of the FY2002 amended budget request, June 27, 2001.

**Notes:** These figures represent current year dollars; exclude permanent budget authorities and contract authority; and reflect subsequent supplemental appropriations, rescissions, and transfers.

- a. Includes regular FY2001 DOD appropriation of \$287.4 billion, non-emergency supplemental of \$5.5 billion, and \$14.0 billion from Emergency Terrorism Response supplemental allocated to FY2001 by CBO.
- b. Includes regular FY2002 DOD appropriation of \$317.2 billion and \$3.5 billion from Emergency Terrorism Supplemental allocated to FY2002 by CBO.



**Table A2. Congressional Action on Major Weapons Programs, FY2002: Appropriations**  
(amounts in millions of dollars)

	FY2001 Estimate			FY2002 Request			House Appropriation			Senate Appropriation			Appropriation Conference		
	#	Proc.	R&D	#	Proc.	R&D	#	Proc.	R&D	#	Proc.	R&D	#	Proc.	R&D
<b>Army</b>															
Apache Longbow Upgrade	—	720.3	—	—	888.6	—	—	898.6	—	—	885.6	—	—	890.9	—
Comanche Helicopter	—	—	608.4	—	—	787.9	—	—	816.4	—	—	787.9	—	—	787.9
Blackhawk Helicopter	18	187.9	—	12	174.5	—	12	174.5	—	12	174.5	—	—	179.5	—
M1A2 Abrams Tank Upgrade	—	290.9	—	—	395.8	—	—	395.8	—	—	395.8	—	—	395.8	—
Bradley FVS Base Sustainment	—	427.7	—	—	400.8	—	—	400.8	—	—	373.2	—	—	387.0	—
Artillery Systems (Crusader)	—	—	371.9	—	—	510.4	—	—	510.4	—	—	475.4	—	510.4	—
Tactical Unmanned Aerial Vehicles	4	37.4	34.1	12	84.3	38.2	9	63.3	38.2	12	48.5	38.2	—	38.2	—
<b>Navy/Marine Corps</b>															
AV-8B Harrier	12	259.8	28.6	—	—	32.9	—	—	32.9	—	—	32.9	—	—	32.9
F/A-18 Hornet	39	2,750.5	234.5	48	3,067.5	253.3	48	3,067.5	233.3	48	3,032.5	260.3	48	3,037.5	259.3
V-22A/MV-22 Osprey Aircraft	11	1,009.6	146.6	12	1,009.9	546.7	9	825.9	446.7	9	783.2	546.7	9	783.2	446.7
DD-21/DD(X)/SC-21	—	—	545.7	—	—	643.5	—	—	160.5	—	—	577.5	—	—	535.1
DDG-51/Surface Combat Systems	3	2,678.6	200.3	3	2,966.0	262.0	4	3,786.0	286.9	3	2,966.0	176.0	3	2,966.0	329.5
Carrier Replacement	1	4,016.4	—	—	—	—	—	—	—	—	—	—	—	—	—
Virginia-class/New Design SSN	1	1,193.7	212.1	1	1,608.9	201.6	1	1,578.9	208.6	1	1,608.9	201.6	1	1,578.9	206.5
LPD-17 Amphibious Transport	—	—	0.2	—	—	1.0	—	—	1.0	—	—	1.0	—	—	1.0
Trident SSGN Conversion	—	—	37.4	—	—	30.0	—	—	30.0	—	—	0.0	—	—	75.0
ADC(X) Auxiliary Cargo Ship	1	335.8	—	1	370.8	—	1	30.8	—	0	0.0	—	—	370.8	—
Tactical Unmanned Aerial Vehicles	—	121.8	—	—	66.3	—	—	76.3	—	—	—	66.3	—	—	73.3
<b>Air Force</b>															
B-2 Bomber Support/Modification	—	85.2	129.1	—	63.1	155.0	—	76.6	222.0	—	63.1	218.0	—	74.1	219.0
C-17 Airlift Aircraft	12	2,729.2	174.8	15	3,456.3	110.6	15	3,389.6	110.6	15	3,420.3	110.6	15	3,402.3	110.6
F-15 Aircraft Support/Modification	5	722.7	68.2	—	219.6	101.4	—	244.6	101.4	—	242.6	113.4	—	242.6	108.4
C-5 Aircraft Modification	—	94.5	91.7	—	103.2	166.5	—	12.7	152.5	—	103.2	166.5	—	32.7	156.5
F-22 Aircraft	10	2,130.4	1,398.8	13	2,658.2	881.6	13	2,655.6	881.6	13	2,658.2	881.6	13	2,769.6	881.6
CV-22 Osprey Aircraft	—	8.3	—	—	95.1	10.0	2	180.0	10.0	—	—	—	—	—	190.0
HAEUAV (Global Hawk)	—	39.3	—	2	85.4	—	2	85.4	—	2	85.4	—	2	85.4	—
Predator UAV (piston)	7	31.8	—	6	19.6	—	6	39.6	—	6	19.6	—	—	15.5	—
Predator UAV (turboprop/jet)	—	—	—	—	—	—	—	—	—	—	—	—	3	36.6	—
<b>Joint/Defense-Wide</b>															
Airborne Laser (AF)	—	—	231.4	—	—	—	—	—	—	—	—	355.0	—	—	—
Joint Strike Fighter (AF, Navy)	—	—	682.3	—	—	1,536.8	—	—	1,536.8	—	—	1,294.7	—	—	1,539.3
E-8C Joint Stars Aircraft (AF, A)	1	347.2	195.2	1	387.5	187.3	1	358.8	290.9	1	376.0	207.9	1	364.3	201.8

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	FY2001 Estimate			FY2002 Request			House Appropriation			Senate Appropriation			Appropriation Conference		
	—	439.9	4,204.4	—	—	7,036.5	—	—	7,053.7	—	—	5,681.0	—	—	6,930.4
Ballistic Missile Defense (BMDO)	—	—	563.9	—	—	405.2	—	—	435.2	—	—	455.2	—	—	445.2
Space-Bsd Infrard Syst-Hi (AF)	—	—	238.8	—	—	[496.6]*	—	—	[395.6]*	—	—	[264.8]*	—	—	[340.6]*
Space-Bsd Infrard Sys-Lo (BMDO)	—	99.1	—	—	—	—	—	501.5	—	—	560.5	—	—	699.1	—
Guard & Reserve Equipment	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

**\*Notes:** All amounts exclude initial spares, advance procurement, and military construction. V-22 Osprey, C-17, and Global Hawk data for FY2001 Estimate include adjustments made in the DOD Non-Emergency Supplemental Appropriation for FY2001. SBIRS Low funds are to be drawn from a central Satellite Sensor Technology Program within BMDO and are included within the BMDO total. Conferees specified that the National Guard and Reserve components should control equipment modernization funds. Guard and Reserve funding includes \$436 million for the acquisition and modernization of 10 UH-60 Blackhawk helicopters and four C-130J transport aircraft.

**Sources:** Office of the Secretary of Defense (Comptroller), Department of Defense Amended Budget, Fiscal Year 2002 (June 2001), Procurement Programs (P-1), Reserve Components (P-1R), RDT&E Programs j(R-1), H.Rept. 107-350, Conference report on Department of Defense Appropriations, 2002, and H.Rept. 107- 298, S.Rept. 107-109, and CRS calculations by Daniel Else.

**Table A3. Congressional Action on Major Weapons Programs, FY2002: Authorization**  
(amounts in millions of dollars)

Program	FY2001 Estimate			FY2002 Request			House Authorization			Senate Authorization			Authorization Conference		
	#	Proc.	R&D	#	Proc.	R&D	#	Proc.	R&D	#	Proc.	R&D	#	Proc.	R&D
<b>Army</b>															
Apache Longbow Upgrade	—	720.3	—	—	888.6	—	—	898.5	—	—	935.6	—	—	898.6	—
Comanche Helicopter	—	—	608.4	—	—	787.9	—	—	816.4	—	—	816.2	—	—	866.2
Blackhawk Helicopter	18	187.9	—	12	174.5	—	12	174.5	—	22	277.0	—	22	277.0	—
M1A2 Abrams Tank Upgrade	—	290.9	—	—	395.8	—	—	385.8	—	—	395.8	—	—	395.8	—
Bradley FVS Base Sustainment	—	427.7	—	—	400.8	—	—	460.8	—	—	400.8	—	—	460.8	—
Artillery Systems (Crusader)	—	—	371.9	—	—	510.4	—	—	510.4	—	—	510.4	—	—	510.4
Tactical Unmanned Aerial Vehicles	4	37.4	34.1	12	84.3	38.2	12	91.6	18.2	12	100.5	44.2	12	91.6	38.2
<b>Navy/Marine Corps</b>															
AV-8B Harrier Aircraft	12	259.8	28.7	—	—	32.9	—	—	32.9	—	—	32.9	—	—	32.9
F/A-18 Hornet	39	2,750.5	234.5	48	3,067.5	253.3	48	3,067.5	214.3	48	3,082.5	280.3	48	3,080.5	253.3
V-22A/MV-22 Osprey Aircraft	11	1,009.6	146.6	12	1,009.9	546.7	12	1,009.9	446.7	9	783.2	451.7	11	959.9	446.7
DD-21/DD(X)	—	—	545.7	—	—	643.5	—	—	622.5	—	—	647.5	—	—	596.5
DDG-51/Surface Combat Systems	3	2,678.6	200.3	3	2,966.0	262.0	3	2,966.0	276.9	3	2,966.0	268.0	3	2,966.0	276.9
Carrier Replacement	1	4,016.4	—	—	—	—	—	—	—	—	—	—	—	—	—
Virginia-class/New Design SSN	1	1,193.7	212.1	1	1,608.9	201.6	1	1,608.9	201.6	1	1,608.9	201.6	1	1,608.9	201.6
LPD-17 Amphibious Transport	—	—	0.2	—	—	1.0	—	—	1.0	—	—	1.0	—	—	1.0
Trident SSGN Conversion	—	—	37.4	—	—	30.0	—	—	30.0	—	—	64.0	—	—	45.0
ADC(X) Auxiliary Cargo Ship	1	335.8	—	1	370.8	—	1	370.8	—	1	370.8	—	1	370.8	—
Tactical Unmanned Aerial Vehicles	—	—	121.8	—	—	66.3	—	—	66.3	—	—	77.3	—	—	66.3
<b>Air Force</b>															
B-2 Bomber Support/Modification	—	85.2	129.1	—	63.1	155.0	—	96.0	245.0	—	61.3	229.0	—	76.6	204.9
C-17 Airlift Aircraft	12	2,729.2	174.8	15	3,456.3	110.6	15	3,420.3	110.6	15	3,477.4	110.6	15	3,466.1	110.6
F-15 Aircraft Support/Modification	5	722.7	68.2	—	219.6	101.4	—	272.1	75.9	—	244.6	109.9	—	252.6	101.9
C-5 Aircraft Modification	—	94.5	91.7	—	103.2	166.5	—	103.2	136.5	—	103.2	166.5	—	103.2	166.5
F-22 Aircraft	10	2,130.4	1,398.8	13	2,658.2	881.6	13	2,658.2	866.5	13	2,658.2	881.6	13	2,658.2	881.6
CV-22 Osprey Aircraft	—	8.3	—	—	95.1	10.0	—	—	10.0	—	—	10.0	—	—	10.0
HAEUAV (Global Hawk)	—	39.3	—	2	85.4	—	2	85.4	—	2	85.4	—	2	85.4	—
Predator UAV (piston)	7	31.8	—	6	19.6	—	6	19.6	—	8	25.6	—	6	36.0	—
Predator UAV (turboprop)	—	—	—	—	—	—	—	20.0	—	—	—	—	—	20.0	—
<b>Joint/Defense-Wide</b>															
Airborne Laser (AF)	—	—	231.4	—	—	—	—	—	0.0	—	—	—	—	—	—
Joint Strike Fighter (AF, Navy)	—	—	682.3	—	—	1,536.8	—	—	1,546.8	—	—	1,289.6	—	—	1,536.8
E-8C Joint Stars Aircraft (AF, A)	1	347.2	195.2	1	387.5	187.3	1	387.5	286.3	1	376.0	198.8	1	376.0	211.8
Ballistic Missile Defense (BMDO)	—	439.9	4,204.4	—	—	7,036.5	72	676.6	7,471.0	—	—	5,747.9	72	676.6	7,658.7
Space-Bsd Infrared Sys-Hi (AF)	—	—	564.0	—	148.1	405.2	—	148.1	405.2	—	148.1	405.2	—	—	405.2
Space-Bsd Infrared Sys-Lo (BMDO)	—	—	238.8	—	—	[496.6]*	—	—	[470.6]*	—	—	[399.0]*	—	—	[495.6]*
Guard & Reserve Equipment	—	99.1	—	—	—	—	—	501.5	—	—	560.5	—	—	699.1	—

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**\*Notes:** All amounts exclude initial spares, advanced procurement, and military construction. BMDO procurement includes 72 Patriot PAC-3 missiles in the House and Senate authorization report. SBIRS-Low funds are to be drawn from a central Satellite Sensor Technology Program within BMDO and are included within the BMDO total in FY2002. V-22 Osprey, C-17, and Global Hawk data for FY2001 Estimate include adjustments made in the DOD Non-Emergency Supplemental Appropriation for FY2001.

**Sources:** Office of the Secretary of Defense (Comptroller), Department of Defense Amended Budget, Fiscal Year 2002 (June 2001), Procurement Programs (P-1), Reserve Components (P-1R), RDT&E Programs j(R-1), H.Rept. 107-333, Conference report on National Defense Authorization Act, 2002, and H.Rept. 107- 194, S.Rept. 107-62, and CRS calculations by Daniel Else.