



Memorandum

March 28, 2007

TO: Senate Budget Committee
Attention: [REDACTED]

FROM: [REDACTED]
Specialist in National Defense
Foreign Affairs, Defense and Trade Division

SUBJECT: How long can the Army finance its operational needs in FY2007 in advance of supplemental appropriations?

This memo addresses your question of how long the Army can finance (or cash flow) its FY2007 operation and maintenance (O&M) requirements for both baseline and wartime programs. This is the area where the greatest concern has been raised by Army and Department of Defense (DOD) officials, who suggest that the Army could have to curtail various programs ranging from facilities maintenance to training if the FY2007 Supplemental is not passed by sometime in April.

Using Army and other data, this memo analyzes the:

- Army's projections of its O&M spending; and
- Army's projections plus additional funding that would be available if DOD used its transfer authority to temporarily move additional funds into Army O&M.

Thus far, Congress has provided the Army with a total of \$52.6 billion to fund operation and maintenance activities for both its baseline and wartime requirements (see **Table 1** below). This total includes \$24.2 billion for the Army's regular or baseline operating expenses and \$28.4 billion in the Title IX bridge fund that was included in DOD's regular FY2007 appropriations act (P.L.109-289) to finance war costs until passage of a supplemental.¹

On March 9, 2007, the president submitted a revised FY2007 Supplemental request that reflected the new plan to send additional troops to Iraq this spring. This request included

¹ The baseline total also includes \$1.8 billion for Army O&M that was included in the FY2007 Continuing Resolution, P.L.110-5/H.J. Res.2.

\$20.4 billion for Army O&M in addition to the budget authority (BA) already enacted in the bridge fund.

If the FY2007 supplemental request is approved, Army O&M would receive a total of \$73.1 billion in budget authority (BA) to meet both its baseline and war needs. If these funds were obligated evenly, about \$6.1 billion would be obligated each month including some \$2.0 billion for the baseline program and \$4.1 billion for wartime O&M. Although the services do not necessarily obligate funds evenly, averages provide a useful way to see whether obligations are front loaded towards the beginning of the year or back loaded towards the end of the year.

Table 1. FY2007 Army Operation and Maintenance Funding for War and Baseline Activities
in billions of dollars

Funding	Baseline, P.L.109-289 and P.L.110-5	Title IX Bridge Funds, P.L.109-289	Total Enacted as of 3-28-07	FY2007 Amended Supp Request	Total Wartime w/ FY07 Supp Request	Total FY2007 O&M with Supp Req.
Budget Authority	24.2	28.4	52.6	20.4	48.9	73.1
Monthly Average ^a	2.0	NA	NA	NA	4.1	6.1

Notes and Sources:

a. CRS calculations based on DOD data.

Conference Reports and FY2007 Supplemental amended request submitted by OMB on March 9, 2007.

How Long Could the Army Finance Its O&M Spending?

Based on Army data and estimates, the Army could finance its O&M expenses through the end of May by tapping the \$52.6 billion in O&M funding already provided by Congress in the FY2007 DOD Appropriations Act (P.L.109-289) and the Continuing Resolution (P.L.110-5/H.J. Res. 20) (See **Table 1**). This estimate assumes obligations that have already been incurred for the first quarter of the fiscal year – through December 2006 – and the Army’s projected monthly spending as shown in (**Table 2**).²

The Army could also tap additional funds if DOD transferred funds from other appropriations – funds that could later be restored once the FY2007 supplemental is passed. DOD has a total of \$7.5 billion in transfer authority for FY2007 funds. This total transfer authority includes \$4.5 billion that applies to the \$366.7 billion appropriated for the baseline

² Total Army obligations for O&M are reported in Standard Form 133s which are available on OMB’s web site; DOD’s Defense Finance Accounting Service Reports, *Supplemental & Cost of War Execution Reports* show DOD’s war-related obligations each month by component and appropriation account. CRS used Army estimates for obligations beyond December 2006 as shown in an Army chart dated February 2007.

program and \$3.0 billion that applies to the \$70 billion for war funds provided in FY2007 DOD appropriations. To use this transfer authority, DOD would have to submit a reprogramming request that could temporarily move for example, procurement funds into Army O&M as long as the four defense committees approved.

If the Army temporarily tapped all this transfer authority, it could have a total of \$60.1 billion available rather than \$52.6 billion. Based on projections of monthly obligations rates, the Army could finance the O&M costs of both its baseline and war program for almost two additional months or through most of July 2007, if it tapped all of this transfer authority (see **Table 2**). It would be \$1.4 billion short of meeting total July obligations. If DOD used only some of its transfer authority, the Army could last through the end of June 2007.³

The Army has suggested that these actions would disrupt its programs including facilities repair, depot maintenance, and training. In order to ensure that funding is available for the later months of the year, the Army may very well decide that it must slow down its non-war-related operations before money would run out by, for example, limiting facility maintenance and repairs, delaying equipment overhauls, restricting travel and meetings, and, perhaps, slowing down training. Although it is true that a delay in passage of the FY2007 supplemental could require additional management actions, Congress has given DOD flexibility by providing transfer authority so that funds can be moved to meet more urgent requirements. In this case, because the transfers would presumably be temporary, the disruptions might also be less onerous.

In addition, funding for operation and maintenance finances a wide variety of activities ranging from day-to-day maintenance of military facilities to pre-deployment training of troops. The Army could take some actions that might be less efficient but would not necessarily harm readiness by for example, delaying facilities repairs until later in the year or splitting support contracts into smaller increments so that obligations would be smaller initially and larger later in the year.

Comparison to FY2006

In this year's bridge fund, Congress provided \$28.4 billion to meet the Army's operational needs, some \$7 billion higher than last year's bridge fund.⁴ On the other hand, the Army obligated a total of \$35.7 billion for its wartime O&M in FY2006 but is requesting a total of \$48.9 billion for FY2007. The FY2006 supplemental was passed in mid-June of last year, which reportedly created problems at some Army bases. Among other things, the Army halted non-essential travel, limited meetings and conferences, limited some hiring, and stopped work on some contracts. Army officials have complained, in particular, that restrictions on hiring were disruptive to some Army families because non-serving family members often seek work at military bases.

If the FY2007 Supplemental request is approved, the average monthly obligation for war costs this year would be \$4.1 billion compared to \$2.9 billion last year. Thus far in the first quarter of the fiscal year, the Army has obligated \$14.6 billion, a monthly average of

³ Thus far, Congress has approved less than \$100 million of reprogrammings or transfers submitted thus far. Others may be pending.

⁴ See *H. Rept. 109-676*, p. 357 and *H. Rept. 109-359*, p. 468.

\$3.7 billion, somewhat below the \$4.1 billion that would reflect the total including the supplemental request.

On the other hand, the Army's obligations for its baseline program for the first quarter total \$7.2 billion or an average of \$2.4 billion, somewhat above the monthly average of \$2.0 billion, suggesting some front loading that might make it easier to slow down spending later in the year.

Please feel free to call with any additional questions [REDACTED] **Table 2** is attached.

Table 2. Projected Obligations under Army Plan and Alternative
(billions of dollars)

TOTAL ENACTED BA FOR ARMY O&M WITHOUT TRANSFERS:													52.6
TOTAL BA AVAILABLE FOR ARMY O&M WITH TRANSFERS:													60.1
ARMY PROJECTIONS													
Month	Oct.06	Nov. 06	Dec. 06	Jan. 07	Feb. 07	Mar. 07	April 07	May 07	June 07	July 07	Aug. 07	Sept. 07	Total
Monthly Obligations/a/	4.7	7.1	7.2	5.8	6.3	6.3	6.3	6.3	5.8	5.8	5.8	5.8	73.1
Baseline	2.3	2.1	2.8	2.2	NA	NA	NA	NA	NA	NA	NA	NA	NA
Wartime	2.4	5.0	4.4	3.6	NA	NA	NA	NA	NA	NA	NA	NA	NA
Army estimated. cum. obs:	4.7	11.8	19.0	24.8	31.1	37.4	43.7	50.0	55.8	61.5	67.3	73.1	NA
Army projected balance available end of month	47.9	40.8	33.6	27.8	21.5	15.2	8.9	2.6	-3.1	-8.9	-14.7	-20.4	NA
ARMY PROJECTIONS PLUS \$7.5 BILLION IN TRANSFER AUTHORITY													
Monthly Obligations/a/	4.7	7.1	7.2	5.8	6.3	6.3	6.3	6.3	5.8	5.8	5.8	5.8	73.1
Estimated cum. obs end of month with transfers	4.7	11.8	19.0	24.8	31.1	37.4	43.7	50.0	55.8	61.5	67.3	73.1	NA
Balance available end of month with transfers	55.4	48.3	41.1	35.3	29.0	22.7	16.4	10.1	4.4	-1.4	-7.2	-12.9	NA

Notes and Sources:

a. Monthly obligations are actuals through December 2006 and Army estimates for January through May 2007; CRS estimated the other months by dividing the total remaining BA assuming approval of the supplemental request divided by the four months left in the fiscal year. Army monthly obligations from chart provided to appropriators in February 2007. Split of baseline and wartime obligations is from Defense Finance and Accounting Service, Supplemental & Cost of War Execution Reports for October, November and December 2006.