

CBO

Funding for Overseas Contingency Operations and Its Impact on Defense Spending



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At a Glance

Since 2001, the Department of Defense (DoD) has regularly requested large appropriations to supplement its base-budget funding. Most of that nonbase funding has been designated for overseas contingency operations (OCO) that began after 9/11. The Congressional Budget Office examined how DoD's use of OCO funding has affected its spending.

- **Growth of Funding.** Between 1970 and 2000, nonbase funding accounted for about 2 percent of DoD's total spending. Since 2001, such funding has accounted for a much larger and persistent share of annual defense appropriations.
- **Amounts of Funding.** Nonbase funding peaked at 28 percent of DoD's budget in 2007 and 2008. From 2001 to 2018, it has averaged about \$116 billion per year (in 2019 dollars), totaling about 20 percent of DoD's total funding.
- **Use of Funding.** DoD's use of nonbase funding for operations immediately after 9/11 followed historical convention. But its continued use of nonbase funding for what have become large-scale, long-term operations is a departure from past practice.
- **Funding for Enduring Activities.** In CBO's estimation, from 2006 to 2018, more than \$50 billion in OCO funding per year (in 2019 dollars), on average, has gone toward the costs of enduring activities rather than the temporary costs of overseas operations. DoD's most recent budget request indicates that, beginning in 2019, the department plans to increase the base budget to include most of that enduring funding in future years.



Contents

Summary	1
How Has DoD's Funding for Military Conflicts Changed Over Time?	1
How Does OCO Funding Affect Perceptions of DoD's Spending?	1
How Does OCO Funding Affect the Anticipated Cost of DoD's Plans?	1
Trends in DoD's Funding	2
Nonbase Funding Before the 1970s	3
BOX 1. WHAT ARE BASE-BUDGET AND NONBASE FUNDS?	4
Nonbase Funding in the 1970s and 1980s	5
Nonbase Funding in the 1990s	6
Nonbase Funding Since 2001	6
Advantages and Disadvantages of Funding OCO Outside the Base Budget	9
Effects of OCO on the Perceived Costs of Defense	10
Understating the Anticipated Costs of Defense Programs	11
Boosting Base-Budget Spending	13
Effects of OCO Spending on the Anticipated Cost of Defense Plans	15
Temporary OCO Funding	16
Enduring OCO Funding	17
The Magnitude of Enduring Costs in the OCO Budget	19
Implications of Enduring OCO Spending for Future Defense Budgets	19
BOX 2. HOW OCO FUNDING CAN SHAPE PERCEPTIONS OF DEFENSE SPENDING	20
Appendix: Recent Appropriations and the 2019 Budget Request	23
List of Tables and Figures	24
About This Document	25

Notes

All years referred to are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

Unless otherwise stated, dollar amounts are expressed in 2019 dollars as amounts of budget authority, adjusted to remove the effects of inflation.

Numbers in the text and table may not add up to totals because of rounding.

The photograph on the cover, taken in Iraq, shows members of the Army's 3rd Brigade Combat Team, 25th Infantry Division, and (in the background) a controlled detonation of an improvised explosive device (photo by Air Force Master Sgt. Andy Dunaway).



Funding for Overseas Contingency Operations and Its Impact on Defense Spending

Summary

Since 2001, the Department of Defense (DoD) has regularly requested and received large appropriations to augment the base-budget funding provided in its regular, annual appropriations. The additional, or nonbase, funding has totaled about \$2.2 trillion, amounting to about 20 percent of total defense appropriations over that time. About 98 percent of that sum has been designated for military operations in Iraq, Afghanistan, and elsewhere—known as overseas contingency operations (OCO)—that began after 9/11.

The Congressional Budget Office analyzed how nonbase spending affects DoD's budget planning process and alters projections of the future costs of defense. First, CBO reviewed nonbase appropriations before 2001 to provide a historical context for DoD's current use of such funds. It then examined how DoD's practice of funding OCO outside the base budget affects the department's resource-management process and the anticipated cost of defense programs. Finally, CBO identified activities supported by OCO funding that will probably endure regardless of reductions in U.S. contingency operations and then estimated how spending on those activities might affect the size of DoD's future budgets.

CBO estimates that in each year since 2006, more than \$50 billion, on average, of the total funding designated for OCO has been used to support enduring activities rather than the temporary costs of overseas operations. Beginning in 2019, DoD plans to start moving some of that enduring funding into the base budget.

How Has DoD's Funding for Military Conflicts Changed Over Time?

In the latter half of the 20th century, DoD generally requested nonbase funding in supplemental appropriations at the beginning of military conflicts and then incorporated that funding into the base budget if the operations lasted for multiple years (see Figure 1). Between 1970 and 2000, nonbase funding from

supplemental appropriations averaged about 2 percent of DoD's total appropriations, CBO estimates. After 2001, however, DoD began to treat funding for OCO and funding for base-budget functions differently in its long-term plans.

Funding for OCO was originally requested separately from base-budget funding because the combat operations it supported were not expected to last long or to become part of the enduring cost of defense. As the operations in Afghanistan and Iraq continued and the base and OCO budgets remained separate, some funding for enduring activities—those that would probably continue in the absence of overseas conflicts—has migrated from the base budget into OCO budgets.

How Does OCO Funding Affect Perceptions of DoD's Spending?

Because nonbase funding is generally assumed to be temporary, OCO funding is omitted from DoD's estimates of future defense costs. However, OCO funding has increasingly been used to support enduring activities, including activities that would normally be funded in the base budget. Together, those factors have created uncertainty about the current and future costs of DoD's national defense strategy, in two ways. First, when OCO funding is used to support base-budget activities, the base budget understates their costs. Second, because of overlap between the resources needed for contingency operations and for regular base-budget functions, DoD's involvement in those operations has led to increases in the funding for some base-budget activities that are not obviously connected to them.

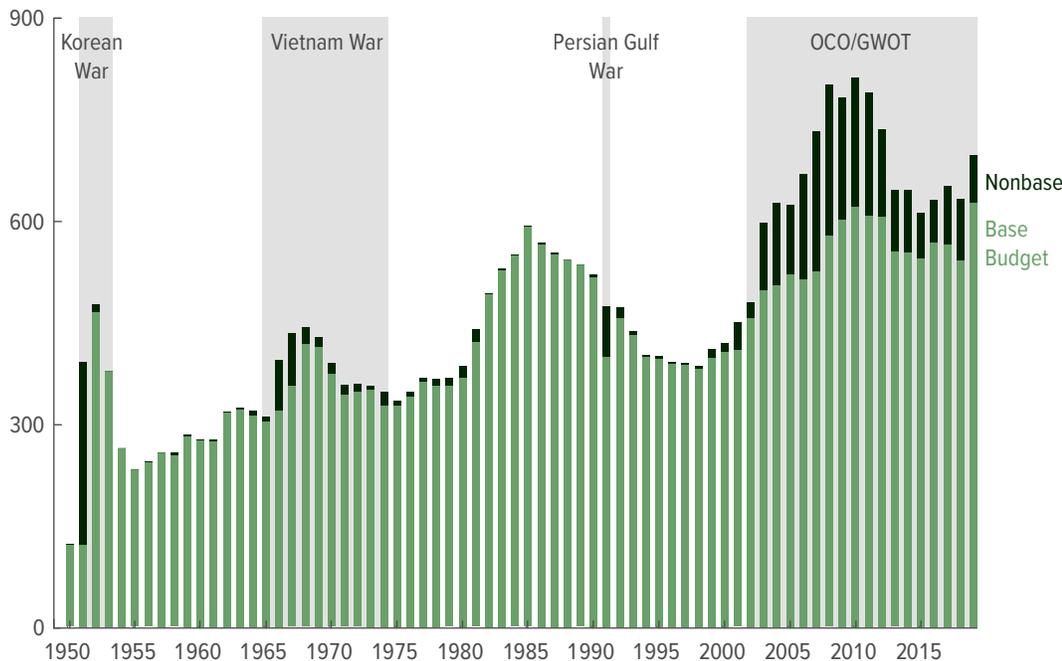
How Does OCO Funding Affect the Anticipated Cost of DoD's Plans?

To estimate how DoD's treatment of nonbase funding affects the anticipated costs of its plans, CBO identified activities supported by OCO funding that could be expected to endure into the future. CBO classified OCO spending as enduring if it supported operations

Figure 1.

Base-Budget and Nonbase Funding for DoD, 1950 to 2019

Billions of 2019 Dollars



Before 2001, the costs of contingency operations that continued for multiple years were incorporated into DoD's base budgets.

Source: Congressional Budget Office, using data from the Congressional Research Service and the Department of Defense.

In this figure, the starting year for the Vietnam War is shown as 1964—the year of the Gulf of Tonkin incident, which marked the beginning of heavy U.S. involvement in the conflict. For historical data underlying the figure, see the supplemental material posted online with this report.

DoD = Department of Defense; GWOT = Global War on Terrorism; OCO = overseas contingency operations.

or activities that would occur whether or not the United States was at war; if it was used to procure facilities or equipment that would continue to need funding whether or not the United States was at war; or if it had been appropriated expressly to support base-budget activities despite its OCO designation. Using that approach, CBO estimates that from 2006 to 2018, about \$53 billion in OCO funding per year, on average, has supported enduring activities that could have been funded in the base budget. If the scope and pace of DoD's operations do not change significantly, given the size of the proposed 2019 budget, CBO estimates that funding for those activities would total about \$47 billion per year, on average, in 2019 and beyond.

However, the 2019 President's budget suggested a change in the allocation of spending. The request moved \$20 billion from the OCO budget to the base budget in 2019 and indicated that, starting in 2020, DoD plans

to move even more funding from the OCO budget to the base budget—about \$45 billion per year, on average. That amount is slightly less than CBO's estimate of \$47 billion for enduring costs currently funded in the base budget.

Trends in DoD's Funding

Since the 1960s, DoD has created its base-budget requests through a process (currently called Planning, Programming, Budgeting, and Execution) that integrates funding for long-term plans and priorities with funding for current operational needs.¹ The process is intended to ensure that funding meets near-term needs while also allowing DoD to accomplish its long-term strategic goals.

1. Edward J. Drea, *McNamara, Clifford and the Burdens of Vietnam 1965–1969*, vol. 6 of the *Secretaries of Defense Historical Series* (Office of the Secretary of Defense, 2011), p. 83, <https://tinyurl.com/y79epwnt>.

The base budget prioritizes funding for activities that are essential to DoD's functioning and to national defense:

- Sustaining the U.S. military forces in peacetime,
- Ensuring the military's readiness for national security crises, and
- Maintaining forces stationed around the world in support of the nation's global military presence.

However, the base budget does not include funding for some activities that are central to defense or national welfare because they are difficult or impossible to plan for. Additional funds, referred to as nonbase funding in this report, are therefore needed for activities or costs not incorporated in the base-budget planning process, such as:

- Overseas contingency operations (see Box 1);
- DoD's participation in relief efforts after natural disasters and responses to public health crises; and
- Unexpected costs caused by rapid changes in the price of commodities or labor.

Since the first Congress, nonbase funding mechanisms have been a necessary part of the budget process, used when the government's costs have exceeded initial expectations. For most of the nation's history, unanticipated spending was typically funded in supplemental appropriation acts handled outside of the regular appropriation process; the first supplemental legislation was enacted in 1818.²

However, legislators and policymakers have cautioned against excessive use of nonbase funding. Those critics have warned that providing funds outside of the standard base-budget appropriation process makes it difficult to clearly establish the cost of government programs. Some have also suggested that the availability of nonbase funding can allow agencies to underrepresent the costs of vital functions with the knowledge that additional funds will be forthcoming.

2. See Congressional Budget Office, *Supplemental Appropriations in the 1980s* (February 1990), p. 1, www.cbo.gov/publication/17127.

Nevertheless, agencies and programs need a mechanism to fund unanticipated costs. Before the 1970s, large-scale, long-term military operations were initially funded with emergency supplemental appropriations but were integrated into the base budget after a few years. From the 1970s through the 1990s, DoD increasingly requested nonbase funding for short contingency operations; that practice set a precedent for DoD's later reliance on nonbase funding for operations that extended for longer periods.³ Between 1970 and 2000, nonbase funding accounted for about 2 percent of DoD's total appropriations. Since 2001, nonbase funding has accounted for a much larger and persistent share of annual defense appropriations, peaking at 28 percent in 2007 and 2008. Almost all of that nonbase funding has been used to support activities and operations designated for either OCO or what has been deemed the Global War on Terrorism (GWOT).

To provide context for DoD's current use of nonbase funding, CBO examined how nonbase funding was used for military operations in earlier periods. DoD's recent reliance on large amounts of OCO funding might suggest that the department has had difficulty anticipating its future operational needs in its budget planning process. However, since 2001, a number of factors have created incentives for DoD and the Congress to use appropriations designated as OCO funding for activities that are enduring and would normally be funded in the base budget.

Nonbase Funding Before the 1970s

In the last half of the 20th century, only two major U.S. operations were comparable in size and duration to current operations: the Korean and Vietnam Wars.

During the first year of the Korean War, DoD's budget more than tripled, from \$122 billion (in 2019 dollars) in 1950 to \$391 billion in 1951. Nonbase supplemental appropriations accounted for more than two-thirds of that \$391 billion total. In 1952, DoD's total budget

3. This report uses the term "contingency operation" to broadly describe any military operation that is likely to result in combat or subject U.S. forces to threats from combatants—from relatively low-intensity peacekeeping missions to high-intensity violent conflicts. Such operations may be given different labels, including "war," "major theater war," "major combat operations," and "combat operations other than war." In each case, however, they meet the criteria for contingency operations as defined in 10 U.S.C. §101.

Box 1.

What Are Base-Budget and Nonbase Funds?

This report uses the convention that base-budget funding is provided only through regular appropriations. By contrast, it uses the term “nonbase funding” to refer to funding appropriated for needs that were not included in the base-budget plans. Nonbase funding is provided through either regular or supplemental appropriations, typically under an “emergency” or “Overseas Contingency Operations/Global War on Terrorism (OCO/GWOT)” designation. Colloquially, terms such as “emergency,” “supplemental,” and “OCO” or “OCO/GWOT” may be used interchangeably to describe nonbase funding.

The following provision in the supplemental appropriations portion of the 2018 Bipartisan Budget Act is an example of how nonbase funds are designated as an emergency requirement:

For an additional amount for “Operation and Maintenance, Army,” \$20,110,000, for necessary expenses related to the consequences of Hurricanes Harvey, Irma, and Maria: Provided, that such amount is designated by the Congress as being for an emergency requirement pursuant to section 251(b)(2)(A)(i) of the Balanced Budget and Emergency Deficit Control Act of 1985.¹

The following provision in the 2017 omnibus appropriation act is an example of how nonbase funds are designated as OCO/GWOT funds:

For an additional amount for “Military Personnel, Army,” \$1,948,648,000: Provided, that such amount is designated by the Congress for Overseas Contingency Operations/Global War on Terrorism pursuant to section 251(b)

(2)(A)(ii) of the Balanced Budget and Emergency Deficit Control Act of 1985.²

Subsections 251(b)(2)(A)(i) and (ii) identify certain types of appropriations that result in adjustments to the statutory limits on discretionary appropriations. The former specifies appropriations that “the Congress designates as emergency requirements in statute on an account by account basis and the President subsequently so designates.” The latter addresses appropriations that “the Congress designates for Overseas Contingency Operations/Global War on Terrorism on an account by account basis and the President subsequently so designates.”

In this report, CBO makes a distinction between “nonbase funding for OCO” and “OCO funding.” Nonbase funding for OCO comprises funds that have been expressly requested to support ongoing contingency operations. OCO funding refers to appropriations designated by the Congress as OCO/GWOT funding in accordance with the Balanced Budget and Emergency Deficit Control Act of 1985 (as in the example above). OCO funding is a broader category than nonbase funding for OCO; it also includes costs that are only indirectly related to contingency operations (such as the costs to expand the size of the Army’s equipment inventories), enduring operational costs (as opposed to temporary costs alone), and the costs of certain base-budget activities that would cause defense funding to exceed budgetary caps if it was appropriated without an OCO designation.

1. H.R. 1892, the Bipartisan Budget Act of 2018, P.L. 115-123, p. 10, www.congress.gov/bill/115th-congress/house-bill/1892/text.

2. H.R. 244, the Consolidated Appropriations Act, 2017, P.L. 115-31, p. 143, www.congress.gov/bill/115th-congress/house-bill/244/text.

increased again, to \$476 billion, but included only \$11 billion from supplemental appropriations. In the last year of the conflict, 1953, DoD’s total budget dropped to \$377 billion and did not include nonbase supplemental funds.⁴

4. Stephen Daggett, *Military Operations: Precedents for Funding Contingency Operations in Regular or in Supplemental Appropriations Bills*, Report for Congress RS22455 (Congressional Research Service, June 13, 2006), p. 3.

Though the Korean War was short, the armistice that ended it signaled the beginning of a new U.S. defense posture. Rather than demobilize, as the United States had done after other major wars, DoD maintained the size of its forces and retained a relatively high state of readiness as the United States entered a Cold War competition with the Soviet Union. As a result, DoD’s base budget never returned to pre-Korean War levels.

The Gulf of Tonkin incident in 1964 marked the beginning of heavy U.S. involvement in Vietnam. By

1965, about 184,000 U.S. troops were in the country, a number that grew to about 540,000 by the end of 1968.⁵ In 1965, DoD's total budget was about \$310 billion and included about \$6 billion (roughly 2 percent of the department's total funding) in nonbase funds for emerging war costs. In 1966, the total budget grew to about \$393 billion, and nonbase funding peaked at \$74 billion (19 percent of the budget); in 1968, the total budget grew to \$443 billion, the highest level during the war, but nonbase funding fell to \$24 billion (about 6 percent of the budget).

Over the course of the Vietnam War, DoD anticipated that the conflict would become an ongoing part of future defense activities and endeavored to fund it within the fiscal constraints of the base budget.⁶ To curtail requests for supplemental funds, DoD used a number of standard financial management practices, such as reprogramming funds appropriated for nonwar activities to pay for war costs. As the conflict continued, the base budget increased to incorporate its costs, and DoD became less reliant on nonbase supplemental funding, which dwindled from \$24 billion in 1968 to \$14 billion in 1969.⁷ By 1970, the war's costs were fully integrated into DoD's base budget, and no further nonbase funds for the war were provided.

Nonbase Funding in the 1970s and 1980s

During the 1970s, in an effort to better control the budget process by increasing the legislative branch's power over it, lawmakers enacted the Congressional Budget Act of 1974, which established the modern Congressional procedures for appropriating funds. A central feature of that process is a budget resolution to be adopted annually by the Congress. The budget resolution sets aggregate funding limits that, if exceeded, allow any Member to raise a point of order, halting consideration of the

appropriation act.⁸ Because supplemental appropriations follow regular appropriations, they are more likely to breach the aggregate limits and trigger a point of order, which makes them harder to enact.

Throughout the 1970s, supplemental appropriations accounted for about 3 percent of DoD's total funding. Most of that nonbase funding was requested for reasons unrelated to national defense emergencies, such as responses to natural disasters and increases in military and civilian pay during a period of high inflation.⁹

In the 1980s, the budget process changed further, in two ways. First, the 1985 Balanced Budget and Emergency Deficit Control Act set fixed targets for deficits and established sequestration (spending cuts triggered when deficit targets were exceeded) to enforce them. Second, the 1987 and 1989 budget summit agreements between the President and Congressional leaders explicitly linked supplemental appropriations to emergency spending by stating that supplemental appropriations were to be used only for "dire emergencies."¹⁰ However, no special mechanism was created to enforce that dictum.

The 1980s began with DoD's modest use of nonbase funds (amounting to about 4 percent of total appropriations in 1980 and 1981) to support a military buildup after the Soviet invasion of Afghanistan. Throughout the rest of the decade, despite U.S. engagement in several small-scale, short-term contingencies funded by supplemental appropriations (including operations in Panama and Grenada), nonbase funding represented less than 1 percent of DoD's total annual budget, on average.¹¹

5. Graham A. Cosmas, *The Joint Chiefs of Staff and The War in Vietnam: 1960–1968, Part 2* (Office of Joint History, 2012), p. 429; Willard J. Webb, *The Joint Chiefs of Staff and The War in Vietnam: 1969–1970* (Office of Joint History, 2002), p. 15.

6. Edward J. Drea, *McNamara, Clifford and the Burdens of Vietnam 1965–1969*, vol. 6 of the *Secretaries of Defense Historical Series* (Office of the Secretary of Defense, 2011), p. 240, <https://tinyurl.com/y79epwnt>.

7. Stephen Daggett, *Military Operations: Precedents for Funding Contingency Operations in Regular or in Supplemental Appropriations*, Report for Congress RS22455 (Congressional Research Service, June 13, 2006), p. 5.

8. The strength of a point of order as a control measure is that it can be raised by any Member (unless the House Rules Committee waives all points of order) and generally requires 60 votes in the Senate to be waived. See Committee for a Responsible Federal Budget, "Appropriations 101" (May 30, 2018), www.crfb.org/papers/appropriations-101.

9. Staff of the Congressional Research Service, personal communication (June 15, 2017); Congressional Budget Office, *Supplemental Appropriations in the 1970s* (July 1981), p. 19, www.cbo.gov/publication/15398.

10. Congressional Budget Office, *Supplemental Appropriations in the 1980s* (February 1990), p. ix, www.cbo.gov/publication/17127.

11. Staff of the Congressional Research Service, personal communication (June 15, 2017); and Congressional Budget Office, *Supplemental Appropriations in the 1980s* (February 1990), p. 31, www.cbo.gov/publication/17127.

Nonbase Funding in the 1990s

In the 1990s, a combination of legislative changes and extended contingency operations set conditions for DoD's current use of nonbase funding. The Budget Enforcement Act of 1990 replaced the fixed deficit targets defined in the Deficit Control Act with caps on discretionary spending and a pay-as-you-go, or PAYGO, system for revenues and mandatory spending.¹² Subsequent legislation extended the discretionary spending caps through 2002.¹³

By imposing caps on appropriations but allowing adjustments to accommodate funding designated as an emergency requirement, the new legislation arguably created an incentive to use nonbase funding to avoid budget controls.¹⁴ On average, however, nonbase appropriations made up a small fraction of total defense funding, amounting to about 3 percent of DoD's annual appropriations from 1990 to 1999.¹⁵ The only large-scale use of nonbase funding in the 1990s was for the Persian Gulf War in 1991, amounting to about 16 percent of total funds appropriated that year. After 1991, related follow-on operations (including the enforcement of no-fly zones to ensure Iraq's compliance with United Nations Security Council Resolution 688, which was intended to protect the civilian population) and other contingencies in Bosnia, Kosovo, and Somalia were supported with nonbase supplemental appropriations. In total, nonbase funding varied from 0.4 percent to

3 percent of DoD's total yearly funding over the course of the decade.

Unlike those in the 1980s, most of the small-scale contingency operations in the 1990s lasted for a number of years. Postcombat peacekeeping operations in the Middle East and operations in Bosnia, Kosovo, and Somalia were funded with supplemental appropriations through 1996. The President's 1997 budget requested base-budget funding for those operations. Rather than directly including that funding in the appropriation accounts for DoD, the Congress established the Overseas Contingency Operations Transfer Fund (OCOTF) in the regular appropriation bill for that year. As a transfer account included in the base budget, the OCOTF provides funding for contingency operations in advance through regular appropriations; when such funding is needed, it is transferred to the appropriate base-budget accounts.¹⁶ DoD is required to document how that funding is being used. The OCOTF thus allowed the Congress to integrate funding for contingency operations into the base budget while maintaining oversight of how that funding has been used, even though it was not appropriated in separate supplemental legislation.¹⁷

Nonbase Funding Since 2001

DoD's use of nonbase funding since the terrorist attacks of September 11, 2001, can be divided into four phases. DoD's initial response to 9/11 during the first phase, from 2001 to 2004, was marked by uncertainty about the length and cost of operations. In the second phase, from 2005 to 2009, though DoD began to change its plans and programs to accommodate contingency operations that might extend indefinitely, it did not include associated costs in its formal longer-term resource-planning process and continued to request nonbase funds. During the third phase, from 2010 to 2015, DoD made efforts to synchronize its base and nonbase funding requests but continued to omit OCO funding from its long-term planning considerations. The fourth and current phase has been characterized by the explicit

12. Congressional Budget Office, *Supplemental Appropriations in the 1990s* (March 2001), p. 5, www.cbo.gov/publication/12999; and Title XIII of the Omnibus Budget Reconciliation Act of 1990, www.congress.gov/bill/101st-congress/house-bill/5835/text.

13. Congressional Budget Office, *Supplemental Appropriations in the 1990s* (March 2001), p. 5.

14. Budget resolutions typically include provisions that establish a Senate point of order against designating any provision as an emergency requirement. Sixty votes are needed to waive the point of order. See Committee for a Responsible Federal Budget, "Appropriations 101" (May 30, 2018), www.crfb.org/papers/appropriations-101.

15. Staff of the Congressional Research Service, personal communication (June 15, 2017); Department of Defense, Office of the Assistant Secretary of Defense (Comptroller), Director for Program and Financial Control, *DoD Basic Budget Authority Request, Supplemental Requests, Congressional Action and Appropriations, FY 1950 Through 1978*, FAD-809 (January 1978). See "A Source for CBO's Analysis of Funding for Overseas Contingency Operations" (supplemental material for this report), <https://go.usa.gov/xPUDw>.

16. For an example of recent OCOTF documentation, see Office of the Secretary of Defense, *Justification for Base Funded Contingency Operations and the Overseas Contingency Operations Transfer Fund (OCOTF)* (July 2017), p. 2, <https://go.usa.gov/xUMkA> (PDF, 63 KB).

17. Jeffrey Chamberlin, *Funding for Military and Peacekeeping Operations: Recent History and Precedents*, Report for Congress RL32141 (Congressional Research Service, November 7, 2003), p. 2.

use of OCO funding for base-budget needs to avoid exceeding spending caps.

If DoD's funding in future years proceeded as outlined in its 2019 budget request, the department would enter a fifth phase in its approach to funding overseas operations. In that request, DoD has proposed breaking from past practice and moving nonbase funding for enduring activities into the base budget starting in 2020. However, the Congress would have to accede to a considerable base-budget increase for that change to occur.

Initial Years of Conflict: 2001 to 2004. In the early 2000s, nonbase funding was requested to initiate operations in Afghanistan, Iraq, and elsewhere. Although no timetable for withdrawal was provided, the use of nonbase funding was justified by the Administration's public assertion that the conflict would be short.¹⁸ Because its costs were therefore expected to be nonrecurring, the Congress approved DoD's request to fund it through emergency supplemental appropriations. That funding was primarily used to support the day-to-day costs (for fuel, food, transportation, and other needs) of contingency operations. Nonbase appropriations for OCO rapidly grew as a share of DoD's total funding, from 9 percent in 2001 to 19 percent in 2004. But the base budget also grew over that period, by 23 percent in real terms, from \$409 billion to \$504 billion.

Expanding Expenses and Surging Forces: 2005 to 2009. As the operations in Afghanistan and Iraq continued, nonbase funding requests increased further, but their content changed. DoD and the Congress increasingly used nonbase appropriations to fund needs that would generally have been base-budget requirements in earlier years, such as the reorganization of military units and the procurement or modernization of equipment.¹⁹ A growing share of OCO spending went toward major equipment such as night vision devices, radios, trucks, armored vehicles, and aircraft; that spending increased from 8 percent of OCO funding in 2004 to 23 percent in 2005. Appropriations for military construction also

increased, from 1 percent of OCO funding in 2004 to 2 percent in 2005.

In 2006, DoD's leadership expanded the scope and the nature of activities that could be supported by OCO funding.²⁰ For example, in addition to funding the repair of equipment damaged in Iraq and Afghanistan, OCO funding could now be used to enhance equipment or buy more advanced equipment. Similarly, OCO funding could be used not only for operations in Iraq and Afghanistan but to man, train, and equip the forces before their deployment.

Some of those changes had long-term implications, such as reconfigurations of ground forces to better prepare them for counterinsurgency operations, increases in manpower and equipment to sustain a large ground force in Iraq, and the acquisition of new equipment to counter enemy tactics such as the heavy use of improvised explosive devices (IEDs). Although such activities met DoD's immediate needs in operations, they also required new institutions and changes in staffing, equipping, and training that resulted in longer-term funding commitments.

Even as it became apparent that the war would not be short, DoD did not provide the Congress with multi-year funding projections for the cost of operations in Afghanistan and Iraq.²¹ DoD's justifications centered on the fact that certain aspects of those operations depended on whether military successes were achieved, which made their costs too uncertain to be reliably forecast.²² DoD continued to formulate funding requests for operations in Afghanistan and Iraq as if they were for a series of temporary measures. Though DoD did not provide detailed estimates of future OCO budgets, the Administration's Office of Management and Budget

18. John Esterbrook, "Rumsfeld: It Would Be a Short War," *CBS* (November 15, 2002), www.cbsnews.com/news/rumsfeld-it-would-be-a-short-war/.

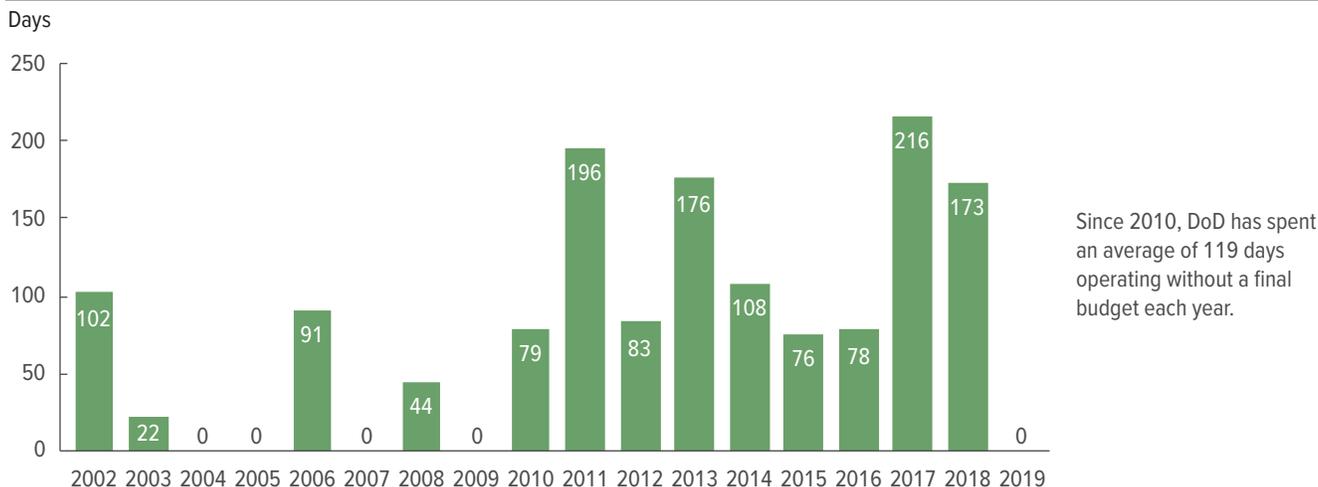
19. Department of Defense, Deputy Secretary of Defense, *Ground Rules and Process for FY'07 Spring Supplemental* (October 25, 2006).

20. *Ibid.* See also "Pentagon Seeks \$150B Emergency Funding," *UPI* (November 29, 2006), <https://tinyurl.com/y8b7mqa7>.

21. Meghan A. O'Connell, "DOD Not Tracking Terror War Costs: GAO," *UPI* (July 24, 2006), www.upi.com/DOD-not-tracking-terror-war-costs-GAO/72411153771672/; testimony of John P. Roth before the Subcommittee on National Security, Emerging Threats, and International Relations of the House Committee on Government Reform (July 18, 2006), video timestamp 01:35:24, <https://tinyurl.com/y7j9guax>.

22. Department of the Army, Secretary of the Army and Chief of Staff of the Army, *2008 Army Posture Statement* (February 26, 2008), p. 11, www.army.mil/aps/08/APS2008.pdf (7.6 MB).

Figure 2.

Number of Days DoD Has Operated Under a Continuing Resolution Since 2002

Source: Congressional Budget Office, using data from the Congressional Research Service.

DoD = Department of Defense.

(OMB) provided placeholders for total OCO funding in some of its future spending projections.²³

New Incentives to Continue Using OCO Funding: 2010 to 2015. Before 2010, nonbase funding for OCO came from a patchwork of regular and supplemental appropriations throughout the year. Beginning in 2010, DoD generally requested OCO funding and base-budget funding simultaneously rather than requesting supplemental appropriations over the course of the fiscal year.²⁴ However,

OCO funding was still excluded from consideration in DoD's formal long-term resource-planning process.

During this third phase, two factors created a funding environment in which DoD had few incentives to move nonbase funding for OCO into the base budget. The first was the enactment of the Budget Control Act of 2011, which established caps on defense and nondefense funding through 2021 but explicitly permitted adjustments to those caps to accommodate OCO funding. The act thus made it possible for DoD to use OCO funding for base-budget activities to avoid constraints imposed by the caps.²⁵ The second factor was the budgetary uncertainty caused by frequent continuing resolutions. Since 2010, DoD has operated, on average, for 119 days of the fiscal year without a full appropriation for the year (see Figure 2).²⁶ Continuing resolutions have different effects on different programs, but they generally prevent programs from operating as planned during a budget year—both by imposing constraints (for example, freezes on hiring or new contracts) and by raising the risk of

23. The 2008 volume of OMB's *Analytical Perspectives* included a \$50 billion placeholder for GWOT funding in 2009 only; see Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2008: Analytical Perspectives* (February 2007), Table 27-1, www.govinfo.gov/app/collection/budget/. Starting in 2010, OMB intermittently included placeholders for contingency operations funding in years beyond the budget (for example, see Table 26-1 in the 2010 volume). In the 2013 volume, the Obama Administration proposed capping OCO/GWOT budget authority at a total of \$450 billion for the years 2013 through 2021; see Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2013: Analytical Perspectives* (February 2012), p. 162.

24. The Obama Administration moved to the use of the term "overseas contingency operations" rather than "Global War on Terrorism" starting in 2009. In 2010, OCO funding was included in DoD's annual defense budget overview; see Department of Defense, *Fiscal Year 2011 Budget Request: Overview* (February 2010), <https://go.usa.gov/xPq36>.

25. Grant A. Driessen and Megan S. Lynch, *The Budget Control Act: Frequently Asked Questions*, Report for Congress R44874 (Congressional Research Service, February 23, 2018), pp. 8 and 11.

26. Lynn M. Williams and Jennifer H. Roscoe, *Defense Spending Under an Interim Continuing Resolution: In Brief*, Report for Congress R44636 (Congressional Research Service, February 23, 2018), p. 8.

budget shortfalls even if spending adheres to planned amounts. Operating under continuing resolutions thus compels DoD's leadership to focus on pressing short-term decisions necessary to keep the department functioning rather than long-term resource planning.

Using OCO Funding to Avoid Budget Caps: 2015 to 2018. In 2015, lawmakers enacted the Bipartisan Budget Act, which amended the Budget Control Act by raising the budget caps for defense and nondefense spending for 2016 and 2017. It also set OCO funding targets of about \$60 billion (measured in 2019 dollars) for each of those years. Because those targets exceeded what DoD needed for OCO activities, the department requested that a portion be used for base-budget needs (about \$8 billion in 2016 and about \$5 billion in 2017).

In March 2017, to increase the size and readiness of the military, the new Administration amended the original 2017 budget, requesting an additional \$31 billion—\$5 billion for OCO and \$26 billion for the base budget.²⁷ The Congress appropriated about half of the requested funding but designated all of it for OCO.²⁸ As a result, of the \$86 billion appropriated for OCO in 2017, 22 percent was used for base-budget needs—\$8 billion in the original request and an estimated \$11 billion in the amended request. The overt use of OCO for base-budget activities to avoid exceeding Budget Control Act caps continued in 2018.

The President's 2019 Budget. In its original 2019 budget request, submitted to the Congress on February 12, 2018, DoD included \$89 billion of OCO funding in 2019, stating that about \$17 billion of that amount was for base-budget needs.²⁹ The budget was submitted only a few days after the Budget Control Act's caps on base-budget spending were increased by the

Bipartisan Budget Act.³⁰ Rather than delay the submission of the budget, DoD amended the budget request on the same day, moving \$20 billion of the funding originally requested for OCO into the base budget.³¹ (Funding amounts for 2018 and 2019 throughout this report are based on the estimates for 2018 and the proposal for 2019 in the 2019 budget request. The appendix describes the effects of recent appropriations on defense spending and the report's estimates.)

Despite the Administration's use of OCO funding for base-budget activities, OMB's leadership has expressed a desire to restrict the use of OCO funding after 2019.³² In DoD's amended 2019 budget request, the base budget includes about \$45 billion per year, on average, in what DoD calls "OCO-to-base" funding from 2020 through 2023.³³ Including those OCO-to-base funds, the planned budget grows from \$626 billion in 2019 to \$676 billion in 2020; after 2020, DoD's total spending decreases slightly in real terms through 2023. The amended budget request was the first budget request in which DoD provided placeholders for annual OCO spending, indicating that such spending would amount to about \$20 billion per year from 2020 to 2023, on average.³⁴

Advantages and Disadvantages of Funding OCO Outside the Base Budget

DoD's recent reliance on nonbase appropriations for OCO represents a departure from past practices. There are advantages and disadvantages to maintaining a separate OCO budget for operations that extend for a number of years.

27. Office of the Under Secretary of Defense (Comptroller), Chief Financial Officer, *Request for Additional FY 2017 Appropriations* (March 16, 2017), Tables 1, 4, and 7, <https://go.usa.gov/xUMkp> (PDF, 1.2 MB).

28. Consolidated Appropriations Act, 2017, P.L. 115-31, division C, title X (May 5, 2017).

29. Office of the Under Secretary of Defense (Comptroller), Chief Financial Officer, *Defense Budget Overview: United States Department of Defense Fiscal Year 2019 Budget Request* (February 12, 2018), Figure 4.3, <https://go.usa.gov/xPQQX> (PDF, 6.7 MB).

30. On February 9, lawmakers enacted the Bipartisan Budget Act of 2018, which increased the Budget Control Act's caps on defense spending by about \$77 billion in 2018 and \$81 billion in 2019. See the Bipartisan Budget Act of 2018, P.L. 115-123, division C, title I.

31. Mick Mulvaney, Director, Office of Management and Budget, letter to the Honorable Paul D. Ryan, Speaker of the House of Representatives (February 12, 2018), p. 2, <https://go.usa.gov/xUMky> (PDF, 6.7 MB).

32. Testimony of Mick Mulvaney, Director, Office of Management and Budget, before the House Committee on the Budget (February 14, 2018), p. 2, <https://go.usa.gov/xUMks> (PDF, 107 KB).

33. Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates Fiscal Year 2019* (April 2018), p. 82, Table 6-8, <https://go.usa.gov/xUMkv> (PDF, 8.2 MB).

34. *Ibid.*

At the beginning of a conflict, costs may be unpredictable, which makes OCO appropriations particularly useful. Over the longer term, requesting OCO and base-budget funding separately can prevent nonbase funding for combat operations from competing with the base-budget funding needed to maintain a ready and capable force. During the Vietnam War, funding for contingency operations was integrated into the base budget in an effort to control DoD's total costs. Some have argued that this integration of base and nonbase funds forced DoD to make trade-offs when allocating resources, which led to reductions in funding for base-budget activities that supported military readiness. (For example, the argument goes, funding constraints led DoD to divert some trained military personnel and munitions from Europe to Vietnam.)³⁵

Another potential advantage of presenting the costs of contingency operations separately from base-budget costs is that it could make OCO spending easier to track and analyze. However, although DoD has requested the funds separately, it has not separately documented how they are actually used, which arguably undercuts the effectiveness of that approach. For example, it is difficult to differentiate OCO outlays from base-budget outlays using DoD's data on spending.³⁶

Furthermore, there is evidence that war costs can still be tracked when they are integrated into the base budget. During the Vietnam War, the Congress was able to exercise oversight over DoD's spending on military operations in Southeast Asia despite the integrated budget.³⁷ And during the late 1990s, the OCOTF allowed the Congress to integrate nonbase spending for OCO into the base budget without losing sight of those costs. Since its inception in 1997, the use of the OCOTF has varied, but by 2002, the operations it funded (in Bosnia, Kosovo, and the Middle East) had become predictable

enough for their costs to be fully integrated into DoD's base budget.³⁸ Although the OCOTF is not currently being used, the documentation for it provides an up-to-date record of how base-budget spending is used for contingency operations around the world.³⁹

A key disadvantage of excluding the cost of OCO activities from the base budget is that doing so creates an inaccurate picture of what future defense spending might be in the absence of military conflicts. As contingency operations have become the norm and DoD has adjusted its allocation of resources to accommodate them, it has become increasingly difficult to distinguish between the incremental costs of military conflicts and DoD's regular, enduring costs.

Effects of OCO on the Perceived Costs of Defense

DoD's leadership decided in the early 2000s to not publish multiyear estimates of the future costs of contingency operations, arguing that warfare's unpredictable nature makes its future costs unknowable.⁴⁰ They also asserted that using nonbase funding for OCO would prevent funding for base-budget programs from being eroded by the cost of contingency operations—a concern motivated by DoD's experience during the Vietnam War.⁴¹ But the distinction between the resources needed for contingency operations and nonwar costs is not always clear, and nonbase spending has supported both.

That overlap can make it difficult to distinguish between the costs of OCO and base-budget activities. Some costs

35. Edward J. Drea, *McNamara, Clifford, and the Burdens of Vietnam: 1965–1969*, vol. 6 of the *Secretaries of Defense Historical Series* (Office of the Secretary of Defense, 2011), pp. 537, 538, and 540, <https://tinyurl.com/y79epwnt>.

36. Government Accountability Office, *Defense Budget: DOD Needs to Improve Reporting of Operation and Maintenance Base Obligations*, GAO-16-537 (August 2016), www.gao.gov/products/GAO-16-537.

37. Richard A. Hunt, *Melvin Laird and the Foundation of the Post-Vietnam Military: 1969–1973*, vol. 7 of the *Secretaries of Defense Historical Series* (Office of the Secretary of Defense, 2011), p. 276, <https://tinyurl.com/y7qdy64z>.

38. Office of the Secretary of Defense, *Fiscal Year (FY) 2003 Budget Estimate, Justification for FY 2003 Overseas Contingency Operations Transfer Fund (OCOTF)* (February 2002), p. 1, <https://go.usa.gov/xUMk7> (PDF, 2.8 MB).

39. Office of the Secretary of Defense, *Justification for Base Funded Contingency Operations and the Overseas Contingency Operations Transfer Fund (OCOTF)* (July 2017), p. 3, <https://go.usa.gov/xUMkA> (PDF, 917 MB).

40. Meghan A. O'Connell, "DOD Not Tracking Terror War Costs: GAO," *UPI* (July 24, 2006), <https://tinyurl.com/y922yed2>. Despite the lack of detailed plans, OMB included placeholders in some long-term budget estimates. Eventually, the Congress provided guidance on OCO funding for appropriators in the 2015 Bipartisan Budget Act, setting funding targets for defense programs at about \$60 billion.

41. Department of Defense, *FY 2002 Supplemental Request to Continue the Global War on Terrorism* (March 2002), p. 2, <https://go.usa.gov/xUM8y> (PDF, 361 KB).

identified in the OCO budget are clearly related to military conflicts and are incremental expenses that would not be funded in the base budget—for example, the costs of mobilizing reservists for contingency operations, issuing additional pay to troops who perform high-risk tasks, or transporting equipment to Afghanistan or Iraq. Other costs, however, cannot be so easily categorized—for example, the costs of repairing equipment or training forces. Such activities would have occurred in the absence of contingency operations; although those operations have surely increased their costs, estimating that increase using DoD’s data is challenging.

The lack of clear distinctions between OCO and base-budget expenses in many categories of spending can affect perceptions of the costs of defense in two ways. First, the enduring cost of defense programs can be obscured when OCO funding is used to support activities that would be required even if contingency operations ceased. Second, contingency operations can lead to increases in base-budget spending on activities that are not directly related to war or might otherwise not have been funded, creating inaccurate expectations about future funding needs.

Understating the Anticipated Costs of Defense Programs

When OCO funding is used to support part or all of a base-budget activity, the base budget will not accurately reflect how much money that activity actually requires. As a result, because estimates of future spending are generally based on current spending, the anticipated future costs of base-budget activities can become skewed if those activities are supported by OCO funds. That problem is intensified when a base-budget activity receives OCO funding for a number of years. For example, the cost of a maintenance or acquisition program could be understated in long-term budgets to the extent that OCO funding substituted for base-budget spending in prior years. Two programs in particular—one for ship repair and one for overhauling and upgrading armored vehicles—illustrate those effects.

Effects on Anticipated Operating Costs: The Example of Ship Maintenance. From 2006 through 2019, nonbase funding made up about 30 percent of the Navy’s annual funding for ship depot maintenance, on average

(see Figure 3).⁴² That fraction is larger than would be expected on the basis of how much of the ships’ use is attributable to contingency operations. For example, in 2017, nonbase funding made up about 40 percent of the total funding for Navy ship depots, but only about 30 percent of the ships’ use was attributable to OCO.⁴³ That discrepancy might suggest that contingency operations cause excessive wear to ships, but the stress to Navy ships in current contingency operations is not markedly different from the stress to ships in their usual day-to-day operations around the world.

The Navy has stated that the depot maintenance program relies heavily on OCO funding. However, the service has also stated that it will maintain its level of operations in the Middle East “for the foreseeable future” to uphold commitments to U.S. allies—which indicates that the Navy’s current level of operations is independent of the number of ground forces in Syria, Iraq, and Afghanistan.⁴⁴ Together, those conditions imply that the enduring cost of depot maintenance for ships is more accurately reflected by the program’s total funding than by its base-budget funding alone.

The use of OCO funding to support base-budget operational costs is not limited to the Navy or to ship depot maintenance. Similar shifts in funding from the base budget to the OCO budget can be seen in many of DoD’s operation and maintenance programs.

Effects on Anticipated Acquisition Program Costs: The Example of Tank Recapitalization. DoD’s equipment programs ensure that the military forces are optimally supplied by keeping inventories full, upgrading equipment to keep pace with technological advances, and acquiring new equipment to address changes in adversaries’ tactics. Nonbase appropriations have allowed DoD

42. This discussion is based on the Navy’s budget data for ship depot maintenance from 2006 (when the service first began distinguishing between base-budget and total funding) to 2019. Spending for such maintenance is categorized under Subactivity Group 1B4B in Department of the Navy, *Fiscal Year (FY) 2019 Budget Estimates: Justification of Estimates* (February 2018), <https://go.usa.gov/xUeKf> (PDF, 6.5 MB).

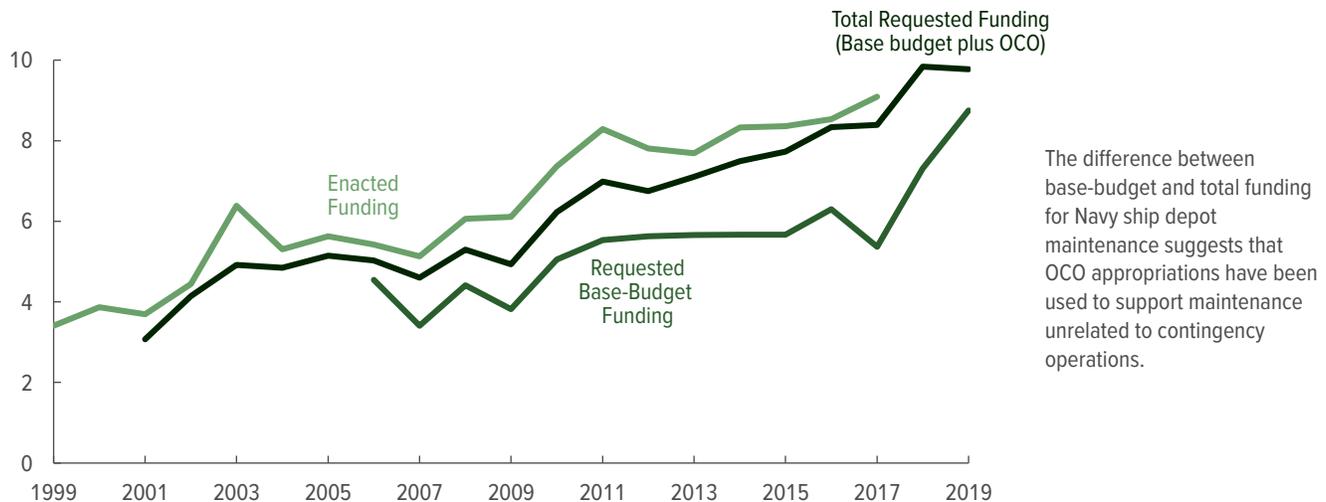
43. Department of the Navy, Office of Budget, *Highlights of the Department of the Navy FY 2019 Budget* (February 2018), pp. 3-4 and 3-6, <https://go.usa.gov/xUMQC> (7.6 MB).

44. Department of the Navy, *Highlights of the Department of the Navy FY 2018 Budget* (May 2017), p. 8-2, <https://go.usa.gov/xUMQ2> (2.1 MB).

Figure 3.

Funding for Navy Ship Depot Maintenance, 1999 to 2019

Billions of 2019 Dollars



Source: Congressional Budget Office, using data from the Department of Defense.

OCO = overseas contingency operations.

to accelerate or enhance its plans to procure weapon systems such as tanks without including funding for those programs in future base budgets. However, investments in equipment that occur in the short term often incur longer-term costs: Buying more, or more complex, equipment results in higher yearly maintenance costs and higher investment costs when the equipment must later be replaced. Therefore, omitting the costs of investing in equipment from planning considerations can mask the total cost of owning the equipment.

Since 2001, DoD has spent about \$4 trillion (in 2019 dollars) on investments in equipment; about \$444 billion (or 11 percent) of that amount has come from nonbase funding for OCO. Some of that funding went toward replacing equipment lost in combat, but most was used to change the size and composition of DoD's equipment inventories to meet needs specific to the ongoing conflicts.⁴⁵ Equipment that entered

DoD's inventories as a result of unanticipated needs will require funding in future base budgets to maintain it and to replace or recapitalize (that is, renovate, update, or restore) it when it reaches the end of its service life. However, because the equipment was procured with nonbase OCO funding, which is typically not included in DoD's formal resource-planning process, future base-budget plans may not include those costs.⁴⁶

OCO spending on the Army's Abrams tank inventory provides an example of how OCO funding can change the spending and schedule of a long-term investment program. Equipment failures in tanks that had returned from the Persian Gulf War caused the Army to more carefully examine tanks returning from contingency operations after 2001.⁴⁷ In 2004, the Army decided to use an acquisition program intended to modernize equipment, rather than a maintenance program,

45. Russell Rumbaugh, *What We Bought: Defense Procurement from FY01 to FY10* (The Henry L. Stimson Center, October 2011), pp. 6 and 10, <https://tinyurl.com/y93rgrqv>; also see Department of Defense, *Ground Forces Equipment Repair, Replacement, and Recapitalization Requirements Resulting from Sustained Combat Operations* (April 2005), Tables 7 and 8.

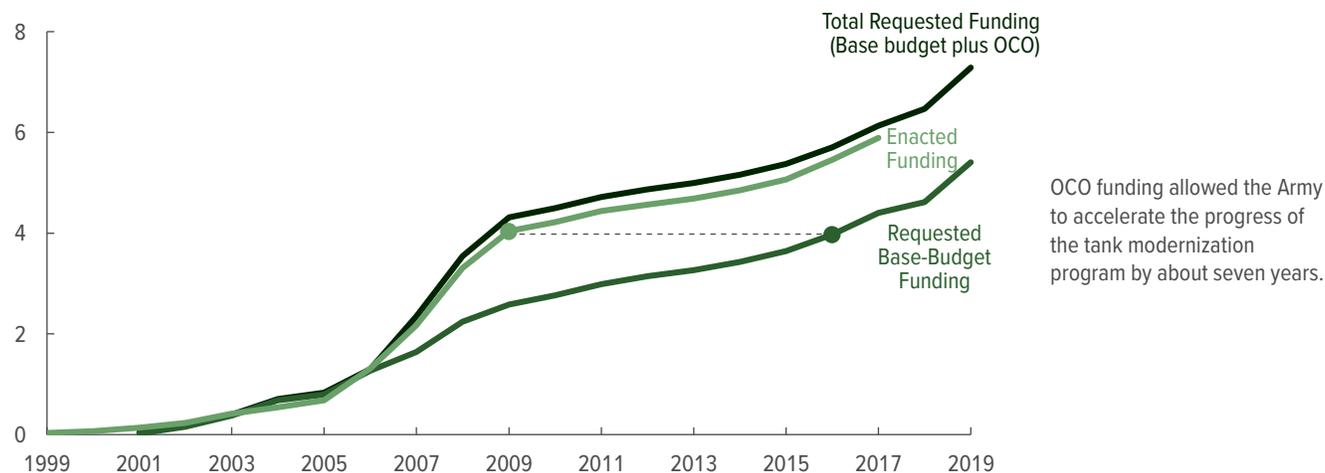
46. Aaron L. Martin, "Paying for War: Funding U.S. Military Operations Since 2001" (Ph.D. dissertation, Pardee RAND Graduate School, 2011), www.rand.org/pubs/rgs_dissertations/RGSD283.html.

47. Congressional Budget Office, *Replacing and Repairing Equipment Used in Iraq and Afghanistan: The Army's Reset Program* (September 2007), p. 14, www.cbo.gov/publication/19142.

Figure 4.

Cumulative Funding for the Army's Abrams Tank Fleet Modification Program, 1999 to 2019

Billions of 2019 Dollars



OCO funding allowed the Army to accelerate the progress of the tank modernization program by about seven years.

Source: Congressional Budget Office, using data from the Department of Defense.

Cumulative funding, rather than annual amounts of funding, is used to show that nonbase funds accumulated over time, changing the schedule of the program's execution.

OCO = overseas contingency operations.

to remediate damage to Abrams tanks that had been directly linked to operations in Iraq.⁴⁸ All Abrams tanks that were deployed were sent through the program.

From 2005 to 2009, about 46 percent of the program's funding—about \$1.6 billion in all—came from the OCO budget.⁴⁹ Without OCO funding, it would have taken until 2016 for DoD's spending on the tank program to reach the amount that was actually spent by 2009 (see Figure 4). Because aggregate estimates of DoD's future funding typically omit nonbase spending, they would probably not include that cost.

That problem extends beyond the Abrams tank program: OCO funding has been used to subsidize the

recapitalization of other Army equipment (such as armored personnel carriers, helicopters, and trucks), and spending on those acquisition programs has been accelerated in a similar manner.

Boosting Base-Budget Spending

The previous examples show how funding for particular programs can migrate from the base budget into the OCO budget. That migration reduces the apparent amount of funding the programs require and, consequently, can result in underestimates of the resources needed to support all of DoD's activities. Contingency operations can also lead to increases in funding for some base-budget activities that are not obviously connected to those operations. Three possible mechanisms could cause such increases in base-budget spending.

Effects on Base-Budget Support Costs. Large-scale contingency operations, particularly those lasting several years or more, might increase the scope and costs of support activities funded in the base budget. For example, increases in the number of deployed forces could increase the base-budget costs of operating, sustaining, and expanding the facilities they use.

48. Association of the United States Army Torchbearer National Security Report, *Resetting the Force: The Equipment Challenge* (October 2005), pp. 11 and 16, <https://tinyurl.com/ydxtnrkr> (PDF, 1.4 MB).

49. This discussion is based on data for the Army's account for procurement of weapons and tracked combat vehicles (W&TCV) from 2006 (when the service first began distinguishing between base-budget and total funding) to 2019, in *Department of Defense Fiscal Year (FY) 2019 Budget Estimates, Army Justification Book of Procurement of W&TCV, Army* (February 2018).

That effect might explain some of the increases that DoD has experienced in the average base-budget cost of support per active service member. Such increases in spending have been seen in several areas—for example, spending for force installations, which includes spending for installations at which military units are based; services and organizations necessary to sustain those units and support their daily operations; programs for maintaining, restoring, and modernizing each installation's buildings; and programs for protecting the environment.⁵⁰ Per capita costs in the force installations category grew by about 30 percent as operations were initiated in Afghanistan and Iraq (from \$20,000 in 2000 to \$27,000 in 2003) and then remained relatively constant for the next few years (see Figure 5). After the increase in the number of troops in Iraq in 2007, per capita funding for the category increased by an additional 27 percent (from \$28,000 to a peak of \$35,000 in 2010).⁵¹ Support funding in the base budget began to fall after 2010, dropping to \$27,000 per service member in 2015 after the withdrawal of most forces from Afghanistan and Iraq.

Overall, since 2000, base-budget funding per service member for force installations activities has increased and decreased with the number of troops deployed. That pattern suggests, in CBO's assessment, a connection to contingency operations. Funding per service member for central training and central logistics has exhibited similar changes.

Effects on Funding for Low-Priority Activities. When OCO funding is used for high-priority activities that would normally be funded from the base budget without a commensurate decrease in base-budget funding, base-budget resources become available for lower-priority activities—including some that might not have been funded otherwise. For instance, given a fixed amount of resources, the Army would probably prioritize funding the training and maintenance of a tank unit over funding repairs to facilities. But if the tank unit's operations were funded in the OCO budget, the Army could use its base-budget dollars to fund the facilities' repairs. In that

situation, the importance of repairing facilities would not change, but the Army would be more likely to carry out those repairs because the availability of OCO funding allowed for it.

By distorting DoD's priorities, OCO funding can thus increase DoD's base-budget costs, skewing the anticipated size of future base budgets. Combining high-priority OCO spending and low-priority base-budget spending results in base budgets that are larger than they would be if priorities were allowed to compete. Generally, such competition acts to reduce spending on a wide array of priorities or eliminate spending on low priorities altogether.

Effects on Benefits and Compensation. Public support for the military in wartime can drive increases in pay and benefits not only for forces deployed to combat zones but for all service members, including those who have retired. For example, in 2004, nonbase funding was used to expand TRICARE health insurance benefits to members of the reserve forces for one year. That policy was extended in subsequent National Defense Authorization Acts until 2007, when it was made permanent and funding for it was moved into the base budget.⁵² Although the expanded benefits were not directly related to the war or limited to reservists who had deployed, the policy change supported all who might be called upon to deploy.

Similar legislation that expanded life insurance coverage and survivor's benefits was also initially intended to temporarily support deployed service members but was extended to the entire force and made permanent. Likewise, increases in military pay (in excess of growth in private-sector wages) and total retirement compensation may have been motivated by a desire to show support for all troops during wartime. Such changes to pay and benefits, even small ones, can have large and lasting effects on DoD's costs because they permanently increase the costs of compensating service members. Those increased costs are then carried over to future base budgets.

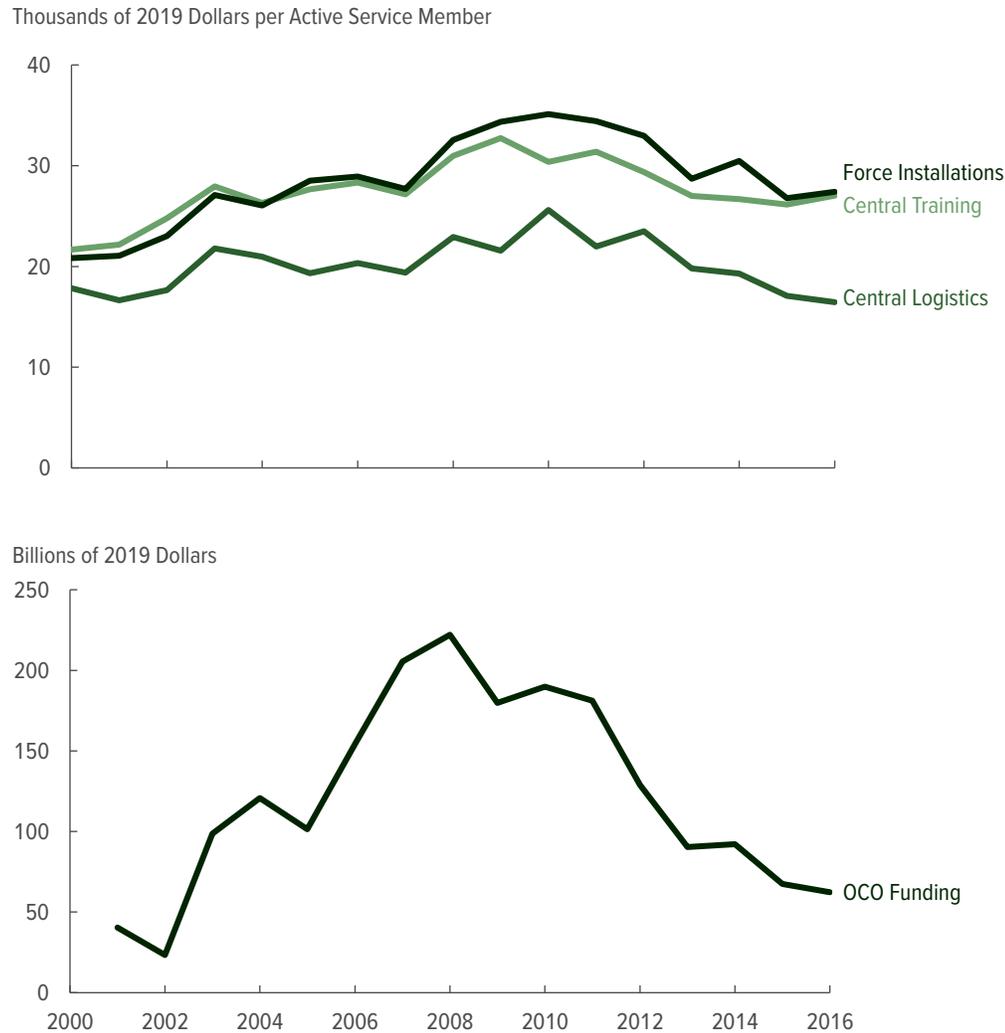
50. For a detailed discussion of support costs, see Congressional Budget Office, *Trends in the Department of Defense's Support Costs* (October 2017), Figure 4, p. 7, www.cbo.gov/publication/53168.

51. Office of the Press Secretary, "Fact Sheet: The New Way Forward in Iraq," George W. Bush White House Archives (January 10, 2007), <https://go.usa.gov/xUM8u>.

52. Aaron L. Martin, "Paying for War: Funding U.S. Military Operations Since 2001" (Ph.D. dissertation, Pardee RAND Graduate School, 2011), pp. 33–34, www.rand.org/pubs/rgs_dissertations/RGSD283.html.

Figure 5.

Base-Budget Spending per Active Service Member for Selected Support Costs, 2000 to 2016



Base-budget spending on some support activities has changed in line with increases and decreases in OCO funding amounts.

Source: Congressional Budget Office, using data from the Department of Defense.

OCO = overseas contingency operations.

Effects of OCO Spending on the Anticipated Cost of Defense Plans

To determine how OCO funding might affect estimates of future defense costs, CBO examined budget data for 2006 through 2019 in DoD’s budget requests to identify OCO funding that would probably continue in the absence of current conflicts. (CBO could not estimate enduring costs in earlier years because DoD’s budget requests did not group OCO funds by functional category until 2006.) For every year since 2006, DoD’s budget requests have categorized OCO funding

by operation (such as Operation Iraqi Freedom or Operation Enduring Freedom), by location (such as Iraq or the Horn of Africa), and by function (such as equipment reset, or repairs and replacements for equipment damaged in contingency operations). CBO used those categories to separate OCO funding into temporary and enduring costs (see Table 1). All told, by CBO’s estimate, enduring costs funded by OCO appropriations have ranged from \$31 billion to \$85 billion per year over the 2006–2018 period, averaging about \$53 billion annually.

Table 1.

Temporary and Enduring OCO Funding, by Functional Category, 2006 to 2019

Billions of 2019 Dollars

DoD's Functional Category ^a	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 ^b	2019 ^b	Total
Temporary Emergency Funding															
Operations/Force Protection	90	108	120	106	130	116	75	31	28	13	9	14	13	15	869
Support for Coalition Forces	1	2	2	2	2	2	2	2	2	2	1	1	1	1	25
Temporary Military End Strength	*	*	*	*	2	3	2	6	5	2	*	*	*	*	21
Afghanistan Security Funding	*	9	3	7	11	14	13	6	5	4	4	4	5	5	91
Iraq Train and Equip Fund	6	7	4	2	1	2	*	*	*	2	1	2	2	1	30
Other Emergency Funding	12	10	8	6	3	-1	6	-8	*	-2	*	-1	5	*	37
Subtotal	110	135	137	122	149	136	98	38	41	22	15	21	26	22	1,072
Enduring OCO Funding															
In-Theater Support	1	1	2	2	1	1	*	26	22	22	16	20	20	20	153
Equipment Reset and Readiness	24	44	60	27	22	24	15	12	10	9	12	10	9	9	287
Classified and Military Intelligence Programs	9	11	14	13	13	14	13	10	19	9	9	10	11	10	164
Joint Improvised Explosive Device (IED)															
Countermeasures	4	5	5	4	3	4	3	2	1	1	*	1	1	1	33
Security Cooperation	*	*	*	*	*	*	*	*	*	2	2	5	6	7	22
Forces and Infrastructure	6	8	4	7	2	1	*	*	*	*	*	*	*	*	31
OCO for Base Budget	*	*	*	*	*	*	*	*	*	2	8	19	18	*	48
Subtotal	45	70	85	53	41	45	31	51	52	44	47	65	64	47	738
Total	154	205	222	176	190	181	129	88	92	66	62	86	90	69	1,810

Source: Congressional Budget Office, using data from the Department of Defense.

DoD = Department of Defense; OCO = overseas contingency operations; * = between -\$500 million and \$500 million.

a. Most of the names of functional categories shown here are identical to those used by DoD. CBO renamed or combined some categories because their names or the activities they included have changed over time. For more information about those categories, see the supplemental material posted online with this report.

b. Values for requested funding are based on DoD's 2018 and 2019 budget reports.

Temporary OCO Funding

CBO identified three kinds of OCO funding as temporary: funding for forces directly engaged in contingency operations; “pass-through” funding to support the formation, training, and equipping of security forces that aid the U.S. military in Afghanistan and Iraq; and all other nonbase spending unrelated to war that met temporary needs or could probably be incorporated into the base budget in the future. Together, those temporary costs account for about \$22 billion of DoD's \$69 billion OCO request for 2019, in CBO's estimation, and about 60 percent of OCO funding over the 2006–2018 period.

Funding for Forces Directly Engaged in Contingency Operations. Such funding is determined by the size and pace of ongoing operations. In the OCO budget, that funding is assigned to functional categories including operations and force protection (which supports forces located in Afghanistan, Iraq, and Syria), support to

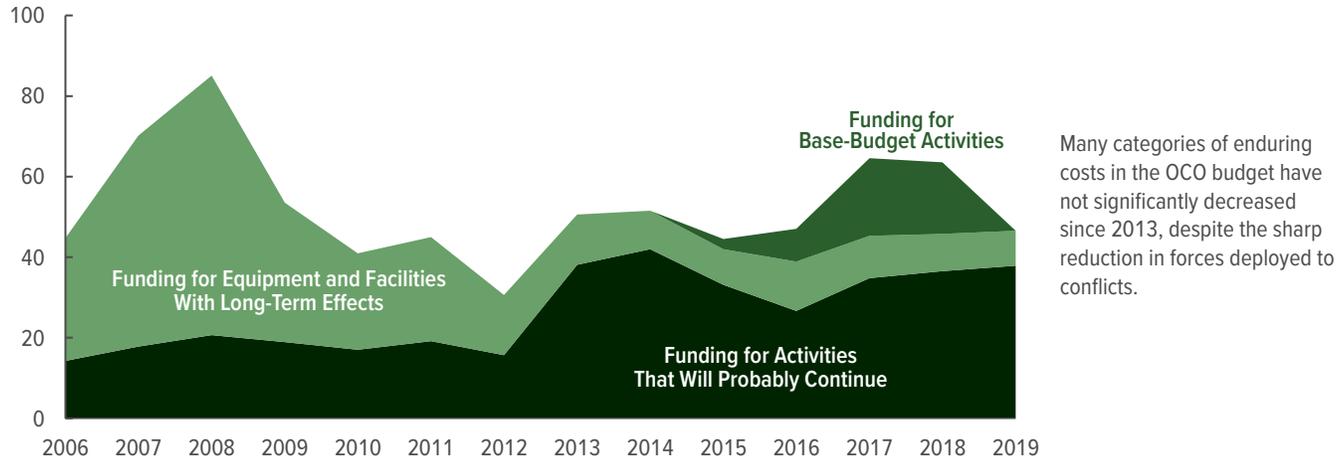
coalition forces (which provides resources for allies fighting alongside U.S. forces), and temporary end-strength increases (which temporarily boost the size of the military to reduce stress on the force caused by frequent deployments). The bulk of temporary OCO funding is for the first of those three items—operations and force protection. Such funding peaked at \$130 billion in 2010 and fell to \$15 billion in the President's proposed 2019 budget.

Funding for Foreign Security Forces. Such funding supports Afghan and Iraqi security forces and is not part of DoD's long-term resource-planning considerations. (Although U.S. financial support of the Afghan and Iraqi military and police forces might endure after U.S. operations in Afghanistan and Iraq have ended, this spending does not support any of DoD's programs.)

Figure 6.

CBO's Estimate of Enduring OCO Funding, 2006 to 2019

Billions of 2019 Dollars



Source: Congressional Budget Office, using data from the Department of Defense.

OCO = overseas contingency operations.

Other Emergency Funding. Examples include funding that supported DoD's participation in disaster relief efforts, funding to account for pay raises or unanticipated increases in the price of commodities (such as fuel), or funding that was appropriated to stimulate the economy as part of the American Recovery and Reinvestment Act.

Enduring OCO Funding

The remaining funding in DoD's 2019 OCO request—\$47 billion (or about 70 percent)—would go toward enduring costs, in CBO's assessment. CBO identified spending as enduring if it supported activities that would probably continue in the absence of operations in Iraq, Afghanistan, or Syria; if it involved investment funding for procurement programs that would incur longer-term costs; or if it was explicitly identified in the OCO budget as meeting base-budget needs to avoid exceeding budgetary caps (see Figure 6).

Funding for Activities Likely to Continue in the Absence of Current Conflicts. The first type of enduring OCO funding supports activities that would probably continue into the future. Starting in 2013, the largest share of enduring spending falls in this category: spending for in-theater support forces, which provide support to operational forces directly engaged in contingency

operations. (DoD did not separately report the costs for in-theater support personnel and operational forces for years before 2013, so CBO could not make estimates for earlier years.)

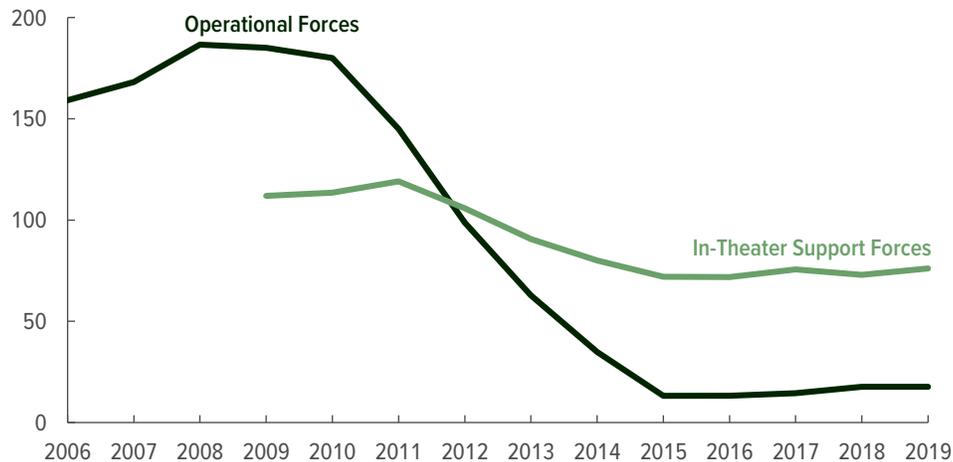
The number of operational forces in Afghanistan, Iraq, and Syria has decreased markedly over the past decade. From 2009 to 2014, the average number of operational forces per year was 118,000; after 2014 (including in the 2019 budget request), it fell to 15,000 (an 87 percent decline). The number of in-theater support forces also fell, but to a lesser extent—from an average of 104,000 per year through 2014 to an average of 74,000 beginning in 2015 (a 29 percent decrease; see Figure 7). (DoD did not report the number of in-theater support personnel for years before 2009, so CBO could not make estimates for earlier years.) That much smaller decline suggests that the number of support forces in the Middle East is largely independent of the number of operational forces deployed there and represents an enduring presence in the region.⁵³

53. Amy Belasco, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, Report for Congress RL33110 (Congressional Research Service, December 8, 2014), p. 71.

Figure 7.

Average Numbers of Operational Forces in Iraq and Afghanistan and In-Theater Support Forces, 2006 to 2019

Thousands of Service Members



Despite a sharp decrease in the number of operational forces, the number of in-theater support forces has changed little.

Source: Congressional Budget Office, using data from the Department of Defense.

The Department of Defense did not separately report the number of operational and in-theater support forces until 2009.

Likewise, in-theater support spending has generally remained at around \$20 billion (in 2019 dollars) since 2014 (see Figure 8). That trend, taken together with the trend in the number of support forces, suggests that the costs of in-theater support are enduring.

Similarly, since 2013, other enduring OCO funding (except OCO funding for base-budget costs) has changed little, despite reductions in U.S. engagements overseas. Those categories include equipment reset and readiness, classified and military intelligence, and joint improvised explosive device countermeasures (see Table 1).

Funding for Equipment or Facilities With Long-Term Costs. The second type of enduring funding has been used to increase equipment inventories, accelerate procurement programs, recapitalize existing equipment inventories, or build new facilities. In some cases, the additional equipment or added facilities have created an immediate and enduring need for more base-budget sustainment funding; in others, they have created a future need for more base-budget procurement funding, which may not be included in the base-budget planning process. For example, procurement spending for the M1 Abrams Tank Fleet Modification Program

accelerated DoD's schedule for tank recapitalization, affecting future budgets; spending to increase the armor on trucks for their safe operation in insurgent environments made the trucks heavier and more complex, increasing the costs of maintaining and replacing them; and spending on military construction has increased the number of DoD's facilities, which will need funding for their sustainment.

OCO Funding Explicitly Identified as Supporting Base-Budget Activities. The third type of enduring OCO funding has been used explicitly for base-budget costs. The movement of those costs into the OCO budget, starting in 2015, has resulted from efforts to avoid exceeding spending caps set by the Budget Control Act and Bipartisan Budget Act.

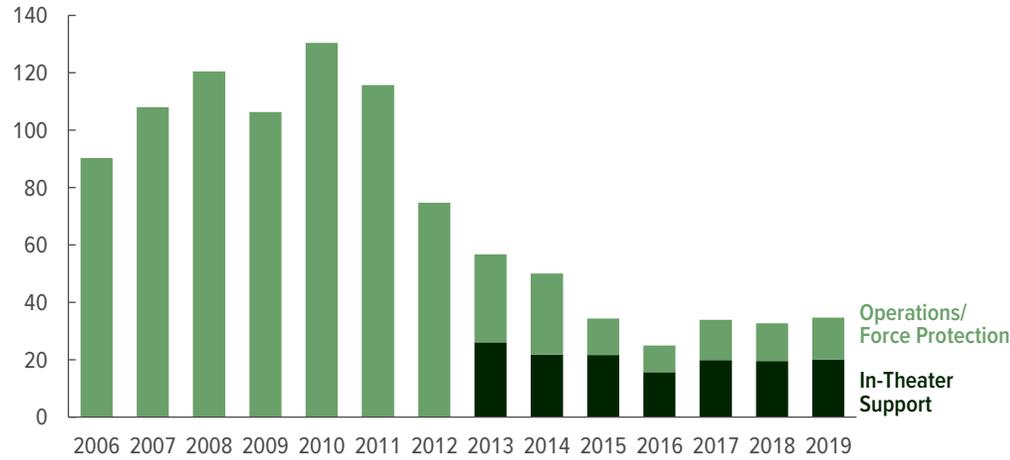
According to DoD, about \$2 billion of appropriated OCO funding was designated for base-budget activities in 2015.⁵⁴ In the following year, DoD began explicitly requesting OCO funding for base-budget activities to

54. Office of the Under Secretary of Defense (Comptroller), Chief Financial Officer, *Defense Budget Overview: United States Department of Defense Fiscal Year 2019 Budget Request* (revised, February 13, 2018), Figure 4.3, <https://go.usa.gov/xUMQB> (PDF, 6.7 MB).

Figure 8.

OCO Funding for Operations and In-Theater Support, 2006 to 2019

Billions of 2019 Dollars



Funding for in-theater support has remained relatively constant since 2013 despite a decrease in funding for operational forces.

Source: Congressional Budget Office, using data from the Department of Defense.

Before 2013, funding for all deployed forces was included in the Operations/Force Protection category. In 2013, funding for forces was separated geographically, with funds supporting forces in Iraq, Afghanistan, and Syria included in the Operations/Force Protection category and all other funding categorized as In-Theater Support.

OCO = overseas contingency operations.

comply with nonbinding OCO spending targets under the 2015 Bipartisan Budget Act. OCO funding for base-budget activities totaled about \$8 billion in 2016, about \$19 billion in 2017, and about \$18 billion in 2018.

DoD’s original 2019 budget request identified about \$17 billion in base-budget funding to be designated for OCO to avoid Budget Control Act caps. However, after the 2018 Bipartisan Budget Act increased those caps, the Administration submitted an amended request for the 2019 budget that moved an even greater amount—\$20 billion—out of the OCO budget and into the base budget.

The Magnitude of Enduring Costs in the OCO Budget

In CBO’s estimation, enduring costs over the 2006–2018 period have ranged from \$31 billion to \$85 billion per year, averaging about \$53 billion annually. CBO estimates that about \$47 billion of DoD’s \$69 billion amended OCO budget request for 2019 would fund enduring activities. The remaining \$22 billion in

nonbase funding was requested either to directly support military operations overseas (\$15 billion) or to fund Afghan or Iraqi security forces (\$7 billion).

Implications of Enduring OCO Spending for Future Defense Budgets

Before it submitted its 2019 budget request, DoD generally omitted OCO funding from estimates of defense costs in its Future Years Defense Program—a five-year plan associated with the budget that DoD submits to the Congress in most years. That omission was predicated on the assumption that OCO spending is for temporary measures and reflects only the incremental costs of operations funded in the current year’s budget. But the exclusion of enduring OCO costs has skewed those estimates and allowed for a distorted perception of defense spending (see Box 2). As a result, estimates of future spending that rely on DoD’s prior base budgets may fall short of the amount of funding needed to support the department’s long-term plans and policies.

Box 2.

How OCO Funding Can Shape Perceptions of Defense Spending

If the wars that began in or after 2001 had been funded in the same way as earlier conflicts, then within a few years—as the operations became more predictable—the Department of Defense’s (DoD’s) base budget would have been adjusted to absorb their costs, and nonbase appropriations would have been used primarily to fund responses to natural disasters and other emergencies.

To explore how that approach would have affected DoD’s funding from 2006 to 2019, the Congressional Budget Office modified data from the department’s 2019 budget request to include all funding related to OCO that directly affected DoD’s programs. (CBO could not identify such spending in earlier years because DoD did not categorize OCO funding by function or mission until 2006.) CBO excluded nonbase funding for foreign security forces and for spending not related to OCO.

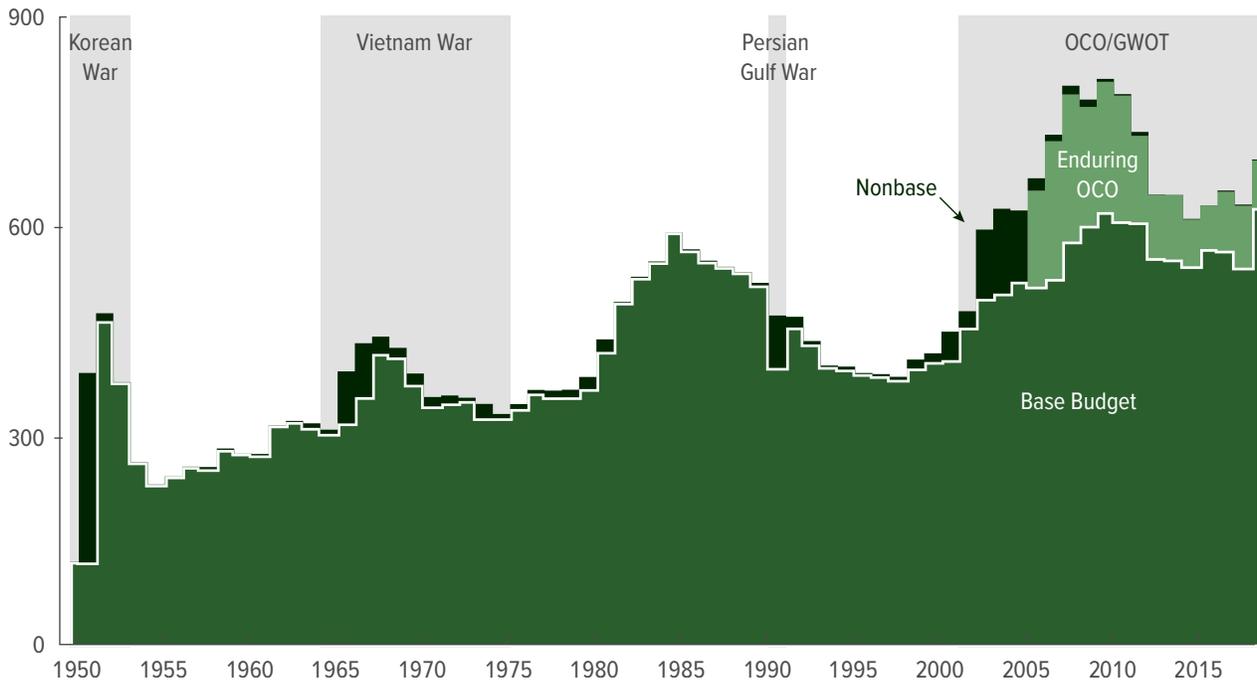
With those adjustments, nonbase funding from 2001 to 2019 falls from about 20 percent to about 4 percent of total funding. The adjusted base budget is more consistent with

trends in DoD’s funding before 2001, showing an initial heavy reliance on nonbase funds after 9/11, followed by a gradual integration of those costs into the base budget (see the figure). CBO determined that if the Congress had followed that approach in appropriating DoD’s 2019 budget, about 99 percent of the funding requested for 2019 (\$679 billion of \$686 billion) would have been included in the base budget.

Viewing DoD’s spending in this way shows how OCO funding can change perceptions of defense costs. For example, consider how peak defense funding is identified. Between 1950 and 2001, DoD’s total appropriations peaked in 1985, at \$591 billion (in 2019 dollars). Data that exclude OCO funding indicate that after 2001, the 1985 peak was exceeded in five years: from 2009 through 2012 and in 2019 (see Figure 1 on page 2). By contrast, if OCO funding had been included in DoD’s base-budget costs, the base budget would have exceeded the 1985 peak in every year since 2006, in CBO’s estimation.

How Base-Budget Funding Would Look If It Included All OCO-Related Funding, 1950 to 2019

If the total costs of conflicts that began in or after 2001 were included in the base budget—as the costs of previous large-scale military operations had been since 1945—the base budget would have been 19 percent larger each year, on average.



Source: Congressional Budget Office, using data from the Congressional Research Service and the Department of Defense.

In this figure, the starting year for the Vietnam War is shown as 1964—the year of the Gulf of Tonkin incident, which marked the beginning of heavy U.S. involvement in the conflict. For historical data underlying the figure, see the supplemental material posted online with this report.

GWOT = Global War on Terrorism; OCO = overseas contingency operations.

Figure 9.

The Possible Effect of Moving Enduring OCO Funding Into DoD’s Base Budget

Billions of 2019 Dollars



Including the projected costs of enduring activities in the base budget would increase it by about \$47 billion per year starting in 2020.

Source: Congressional Budget Office, using data from the Department of Defense.

DoD = Department of Defense; OCO = overseas contingency operations.

a. DoD’s base budget plus CBO’s estimate of enduring OCO funding. Projected values are based on DoD’s 2019 Future Years Defense Program.

The 2019 budget request included a proposal to increase the 2019 base budget by \$20 billion, drawing that amount from the OCO budget. The request also indicated that DoD plans to move even more funding from the OCO budget to the base budget in the future—totaling about \$45 billion per year, on average. Doing so would allow DoD to dramatically reduce its reliance on OCO funding for enduring operational needs in future years. The funding appropriated for 2019 is consistent with those plans (see the appendix).

The \$45 billion per year, on average, which DoD terms “OCO-to-base” funding, is close to CBO’s estimate of \$47 billion for enduring costs contained in the 2019 OCO budget request (see Figure 9). Moving those enduring costs into the base budget would result in future OCO budgets similar in size to CBO’s estimate of temporary OCO funding—roughly \$20 billion to \$25 billion per year—provided that the scope and pace of DoD’s operations remains constant (see Table 1 on page 16).



Appendix: Recent Appropriations and the 2019 Budget Request

Much of the analysis underlying this report was performed before the Department of Defense’s (DoD’s) appropriations for fiscal years 2018 and 2019 were enacted. For that reason, the 2018 and 2019 budget amounts in the report reflect the estimates of total budget authority (both mandatory and discretionary) shown in DoD’s materials detailing the President’s 2019 budget request.

Fiscal Year 2018

Because the 2019 budget request was submitted before funding for 2018 was appropriated, it reflects DoD’s estimate of 2018 funding for the base budget and overseas contingency operations (OCO) under the continuing resolution for that year, as well as emergency funding provided by the Department of Defense Missile Defeat and Defense Enhancements Appropriations Act, 2018. That estimate for total budget authority was \$631 billion (in 2019 dollars)—\$541 billion for the base budget and \$90 billion of nonbase funding, \$85 billion of which was designated for OCO. (The remaining nonbase funding was mostly for missile defense.) The requested amount for OCO in 2018 explicitly included about \$18 billion for base-budget activities.

In March 2018, the Congress approved discretionary appropriations of \$684 billion (in 2019 dollars) for DoD—\$611 billion for the base budget and \$73 billion of nonbase funding, \$67 billion of which was designated for OCO. Combined with mandatory appropriations of \$7 billion, that funding made total appropriations enacted for 2018 about 10 percent more than DoD had estimated for that year in its 2019 budget request.

(That request was submitted before the enactment of the Bipartisan Budget Act of 2018, which increased the caps on discretionary funding.) The total appropriations for the 2018 base budget were 14 percent more than the amounts DoD had estimated, and appropriations for nonbase funding were 18 percent less. OCO funding was \$18 billion less than the amount shown in the budget request—which corresponds to the amount of OCO funding DoD had estimated would be used for base-budget activities.

Because of those differences, compared with the actual 2018 appropriations, the 2018 values used in this report (drawn from the President’s 2019 budget request) are smaller and differ in how they are allocated between base-budget and designated OCO funding. Incorporating the actual amounts would change CBO’s estimate of enduring OCO funding over the 2006–2018 period from about \$53 billion per year, on average, to \$51 billion per year.

Fiscal Year 2019

For 2019, the President’s budget included discretionary funding of \$617 billion for base-budget activities and \$69 billion for OCO, for a total of \$686 billion. Discretionary appropriations for 2019, enacted in September 2018, provided \$616 billion for the base budget and \$69 billion designated for OCO, totaling \$685 billion—very close to the sums proposed in the President’s request and the numbers used in this report. Including about \$9 billion in mandatory budget authority, both requested and enacted funding total about \$695 billion.



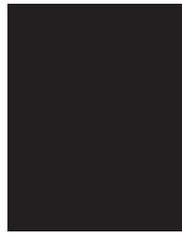
List of Tables and Figures

Table

1. Temporary and Enduring OCO Funding, by Functional Category, 2006 to 2019 16

Figures

1. Base-Budget and Nonbase Funding for DoD, 1950 to 2019 2
2. Number of Days DoD Has Operated Under a Continuing Resolution Since 2002 8
3. Funding for Navy Ship Depot Maintenance, 1999 to 2019 12
4. Cumulative Funding for the Army's Abrams Tank Fleet Modification Program, 1999 to 2019 13
5. Base-Budget Spending per Active Service Member for Selected Support Costs, 2000 to 2016 15
6. CBO's Estimate of Enduring OCO Funding, 2006 to 2019 17
7. Average Numbers of Operational Forces in Iraq and Afghanistan and In-Theater Support Forces, 2006 to 2019 18
8. OCO Funding for Operations and In-Theater Support, 2006 to 2019 19
9. The Possible Effect of Moving Enduring OCO Funding Into DoD's Base Budget 21



About This Document

This report was prepared at the request of the Ranking Members of the House Committee on the Budget and the Senate Committee on the Budget. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

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CBO continually seeks feedback to make its work as useful as possible. Please send any feedback to communications@cbo.gov.

Keith Hall
Director
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