

MEMO TO: Secretary Rumsfeld

DATE: April 27, 2004 -0850

FROM: Paul Wolfowitz *PW*

SUBJECT: Budget Issues

110.01

Don,

We are trying to bring the issues related to three different budgets through the needle head:

Attached are:

1. The seven major tasks we are working;
2. A schematic that shows the three budgets and how the seven tasks fit in;
3. A talking paper to use with POTUS on the FY '04 Supp;
4. A talking paper on how we think we must handle Afghanistan in FY '06 – i.e. an \$8-10 B topline increase instead of another supplemental.

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OSD 07785-05

- 1) Adequacy of FY '04 Supp;
- 2) Timing of FY '05 Supp;
- 3) What to say now about possible size of FY '05 Supp;
- 4) Content of FY '05 Supp, particularly with respect to equipment replacement and other costs to “reset” the force;
- 5) Funding Army restructuring and the temporary overstrength;
- 6) Funding Afghanistan in FY '06 and beyond;
- 7) Funding of must-pay bills from healthcare cost growth and Tricare for Reservists in FY '06 and beyond.



	FY'04 Execution	FY'05 Supplemental Strategy	FY'06 Fiscal Guidance and Budget Strategy
Question	Do we need more Money than we have in the budget and supplemental combined before the end of FY'04?	How much will we need in FY'05 for: Operations Army Stressed Assets OIF Modularity Losses OEF Usage Rates ONE (deferred maintenance)	How to handle "unfinanced risk" in FY'06 fiscal guidance: Traditional Bills (fuel, pay, currency) Program Decisions (Global Basing, Health Care) 7 6 Extraordinary items (Afghan and Army Modularity)
Problem	Actual Operations are greater than the plan upon which the supplemental was built in 9/03. Potentially offset by Slower than budgeted execution rates in some accounts and other areas of opportunity (I.e., working capital balances)	3 Amount – Conventional Wisdom (\$50B) vs. Back of Envelope 4 Timing – When supplemental is granted affects amount of cash flowing (scale is large) 5 Inclusion – Operations vs. materiel for reset and the future	What do we ask for help? vs. What do we provide to services for guidance
Key Data Needs	Mid-year Review 1. Service actuals and forecasts 2. Adjusted for evolving plans	Doing our own back of envelope Working with services to understand stressed assets	-- have enough today --
Timeline	Next 3 weeks	First cut of options to DSD by COB Wednesday	Now



Fiscal Year 2004 Budget

- The Fiscal Year 2004 Supplemental appropriation was prepared based on a set of assumptions that were developed in September 2003.
- As one would expect, as the year has unfolded, combat and combat support requirements have evolved.
- Examples of some of current budget stresses include:
 - The delayed redeployment of military personnel (mostly the First Armored Division)
 - The pace of the military operations has been high
 - Additional Marine Corps units have been deployed to Iraq
 - Force protection needs such as additional uparmored High Mobility Multi-Wheeled Vehicles (HMMWV), individual body armor and vehicle ballistic protection kits
- We are in the annual process of reviewing our actual spending versus the budget. At this moment, we expect to find savings in non-Iraq-related areas to free up money to pay new, emergent bills. This is an on-going process and I should have a better assessment of where we are by mid-May.
 - The Department will need to reprogram money between accounts. We may need to request additional reprogramming authorities.
- Potential areas of savings include:
 - Fact of life changes in acquisition programs
 - Reduced number of training exercises because the troops are deployed
 - Programs executing below budgeted levels
 - Lower priority maintenance and support efforts that are being deferred

