

# Looming Sequestration's Potential Impact on the Air Force and Navy

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The hot topic of budget sequestration that has been simmering all summer continues to heat up. We have been focusing efforts this week looking at the latest Office of Management and Budget (OMB) report that was released last Friday outlining the impact of potential budget sequestration on federal agencies. This entry will focus on defense – namely Air Force and Navy.

The **OMB report**, required under the Sequestration Transparency Act of 2012 (STA) signed by the President in early August, was intended to provide Congress with an impact assessment at the program, project, and activity (PPA) level for each agency. What OMB was able to provide, albeit a week past the STA deadline, was a much more basic assessment at the budget account level, including the top-line FY 2013 reductions by budget account and sequester/exempt classifications by budget account.

The Budget Control Act (BCA) of 2011, the law that started all the latest sequestration wrangling, established a uniform percentage reduction across “all programs, projects, and activities within a budget account” unless otherwise exempted. According to the OMB report, under the assumptions outlined by the STA, the sequestration would result in a 9.4 percent reduction in non-exempt defense discretionary funding. Sequestration would also require a 10 percent reduction to non-exempt defense mandatory programs. These rates would be applied to defense accounts related to the FY 2012 discretionary base of \$580 billion and mandatory base of \$679 million respectively.

OMB provides very limited detail about each budget account in the report. Yet, there is still some useful information that shows how sequestration would impact these two departments.

## Notable Exemptions and Sequestration Amounts

The Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA) as amended, identifies programs that are exempt from sequestration and subject to special rules. Further, an administration cannot choose which programs to exempt or what percentage cuts to apply. The percentage cuts in OMB's sequestration report and the identification of exempt and non-exempt accounts reflect the requirements set forth in the BBEDCA.

The notable exemptions (>\$200m) and sequestration amounts (>\$200m) per budget account for DHS are shown below.

Dept./Bureau	Budget Account	Total Budget Amount (\$M)	Exempt Amount (\$M)	Sequestration Amount (\$M)
<b>Air Force</b>				
Military Personnel	Military Personnel, Air Force	29,971	29,971	-
	National Guard Personnel, Air Force	3,147	3,147	-
	Reserve Personnel, Air Force	1,747	1,747	-
	Medicare-Eligible Retiree Health Fund Contribution, Air Force	1,442	1,442	-
	Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force	277	277	-
Operation and Maintenance	Operation and Maintenance, Air Force	47,056	1,659	4,267
	Operation and Maintenance, Air National Guard	6,388	254	577
	Operation and Maintenance, Air Force Reserve	3,501	84	321
Procurement	Other Procurement, Air Force	24,204	525	2,226
	Aircraft Procurement, Air Force	21,936	550	2,010
	Missile Procurement, Air Force	7,380	275	668
Research, Development, Test, and Evaluation	Research, Development, Test and Evaluation, Air Force	35,658	6,758	2,717
Revolving and Management Funds	Working Capital Fund, Air Force	24,963	24,883	8

Dept./Bureau	Budget Account	Total Budget Amount (\$M)	Exempt Amount (\$M)	Sequestration Amount (\$M)
<b>Navy</b>				
Military Construction	Military Construction, Navy and Marine Corps	3,618	538	290
Military Personnel	Military Personnel, Navy	28,341	28,341	-
	Military Personnel, Marine Corps	14,316	14,316	-
	Reserve Personnel, Navy	2,037	2,037	-
	Medicare-Eligible Retiree Health Fund Contribution, Navy	1,409	1,409	-
	Medicare-Eligible Retiree Health Fund Contribution, Marine Corps	880	880	-
	Reserve Personnel, Marine Corps	672	672	-

Operation and Maintenance	Operation and Maintenance, Navy	50,979	5,330	4,291
Procurement	Other Procurement, Navy	7,656	289	692
	Aircraft Procurement, Navy	23,837	5	2,240
	Shipbuilding and Conversion, Navy	22,774	-	2,141
	Procurement, Marine Corps	3,943	45	366
	Weapons Procurement, Navy	3,926	4	369
Research, Development, Test, and Evaluation	Research, Development, Test and Evaluation, Navy	19,120	221	1,777
Revolving and Management Funds	Working Capital Fund, Navy	25,488	25,488	-

### Implications

As was widely expected across the industry, the key areas impacted by sequestration would be Operation and Maintenance and the procurement of aircraft, shipbuilding and weapons systems. Research, Development, Test and Evaluation activities would also be significantly impacted. Personnel areas are exempt.

While it will take time for the details to fully come to light on which specific programs would be impacted, if sequestration were to occur what it would mean is a natural disruption to those O&M and procurement contracts. In addition, some contracts that may duck the sequestration bullet in these areas may experience collateral damage of delays, postponements and scope reductions. At this point, without detailed PPA information, that may be as precise as we can be.