

DEFENSE BUSINESS BOARD



Reducing Overhead and
Improving Business Operations
Initial Observations

July 22, 2010

Task Group Overview

Terms of Reference

The Secretary of Defense is concerned over the ability of the Department of Defense to sustain current force structure levels and to continue critical modernization of military capabilities given the current and projected fiscal climate. It is imperative that the Department identify and pursue every opportunity to economize and increase the efficiency of its business operations.

Deliverables

Provide recommendations on options to materially reduce overhead and increase the efficiency of the Department's business operations. This effort should identify both short- and long-term opportunities to achieve budget savings as well as make process or organizational changes that will yield long-term operational efficiencies.

Task Group

Mr. Arnold Punaro (Chair)
Mr. Fernando Amandi
Mr. Pierre Chao
Mr. Patrick Gross
Mr. Joseph Wright

“The Defense Department must take a hard look at every aspect of how it is organized, staffed and operated”

Defense Secretary Robert M. Gates, May 8, 2010

Military Assistant

Captain Michael Bohn, USN



INTRODUCTION

Background

- Since its inception in 2001, the DBB has been recommending ways for the department to improve its effectiveness and service delivery
- Most importantly, during the Transition of the current administration in 2009, the DBB articulated three existential challenges facing the Department that needed fixing. Those were
 - Acquisition
 - Overhead
 - Health care costs
- This effort is an expansion of the issues we raised in that transition report on the threat presented to the department by the escalating costs and burden of overhead
- Without this fixed, the Department will be unable to provide adequate resources to its warfighters



Presentation Purpose

- The purpose of this briefing is to
 - Outline the challenge
 - Describe near term opportunities for the Department to pursue
 - Outline longer term systemic fixes necessary to meet the Secretary's challenging end state goals

- We see four major themes
 - There has been an explosion of overhead work because the Department has failed to establish adequate controls to keep it in line relative to the size of the warfight
 - In order to accomplish that work, the Department has applied ever more personnel to those tasks which has added immensely to costs
 - The majority of this new work is being done by contractors, the cost of which is nearly invisible to the Department as it is buried within O&M accounts rather than in the more visible personnel accounts
 - There is a sizeable portion of the active military who are performing what would otherwise be not inherently government work or work that should be more appropriately assigned to DoD civilians. The military are compensated at rates substantially greater than their civilian counterparts but, more importantly, are needed at the tip of the spear



Some Initial Observations

- The Nation cannot sustain a strong defense on a weak economy
 - The Country's current fiscal posture is a national security threat
- Congress and DoD have a poor track record in addressing overhead expenses
- Whether it's improving the tooth-to-tail ratio; increasing the “bang for the buck”, or converting overhead to combat, Congress and DoD must significantly change their approach
- Must think “smarter” ... not “richer”
- Must focus on “outputs” ... not “inputs”
- Must use the numerous world-class business practices and proven business operations that are applicable to DoD's overhead



What This is Not

- It is not a criticism of DoD leadership in current or previous administrations
 - Many of these problems have been in the “too hard” box for years because the solutions are not easy
- It is not a suggestion that no improvements have occurred
 - The measure is not how far we’ve come ... but how far we have to go
- It is not ignoring the past 10 years of fighting two wars and more including increasing homeland security
- It is not a suggestion that anyone knows precisely what DoD’s overhead costs are, the best way to define them, that changing the adverse trend lines can occur quickly or without significant opposition



History of DoD Characteristics by Presidential Administration

Category	End of Carter	End of Reagan	End of Bush	End of Clinton	End of GW Bush	Obama	Change 1980-2010	Change 1988-2010
	1980	1988	1992	2000	2008	2011		
Total Budget Authority (\$B - Constant \$)	\$383	\$518	\$451	\$381	\$694	\$553	44%	7%
Total Budget Authority (\$B - Current \$)	\$142	\$288	\$285	\$287	\$672	\$553	289%	92%
Supplementals (\$B)	\$0	\$0	\$4	\$0	\$190	\$159		
Active Duty Personnel (K)	2,101	2,209	1,886	1,449	1,406	1,484	-29%	-33%
Reserve and Guard Personnel (K)	851	1,158	1,135	865	843	845	-1%	-27%
DoD Civilian Personnel (K)	1,019	1,090	1,006	698	671	785	-23%	-28%
Active in Commission Ships	521	573	471	341	282	284	-45%	-50%
Army Divisions (active)	19	20	20	10	10	10	-47%	-50%
AF Fighter/Attack (Total Active Inventory)	2,789	3,027	2,000	1,666	1,460	1,280	-54%	-58%

Source: National Defense Budget Estimates for FY 2011, April 2010

Significant “More for Less” Trends

- Paying more for smaller numbers
 - Military personnel, force structure, equipment
- Paying more for more of the same
 - Overhead, HQs + staffs + agencies + layers + commands
- Adding costs and inefficiencies due to the cumulative weight of laws, rules, and regulations
 - most Congressionally driven
- Paying for much of this with operations and maintenance funds which have evolved to a catch-all
 - \$184.5B for FY10 (approximately 3% CAGR)



Significant Unsustainable Trends

- Paying the military and their families for 60 years to serve for only 20 years
 - Military “entitlements”, which have expanded rapidly, have become part of the nation’s mandatory spending problems
- Allowing 340,000 military personnel to serve in commercial activities (not inherently governmental)
- Allowing military personnel to serve in inherently governmental activities billets that otherwise should be occupied by DoD government civilians
- Increasing the number of contractors in all activities without proper planning, adequate visibility, or careful oversight
- Creating new organizations and large staffs without sufficient controls to ensure their efficiencies



Significant Opportunity Areas

- Ignoring proven business processes in areas like logistics and supply chain, knowledge based services, IT expenses, and contracted services
 - Driving costs much higher than required in these enormous expenditure areas

Total for contracted services \$197B

Total for supplies and equipment \$179B

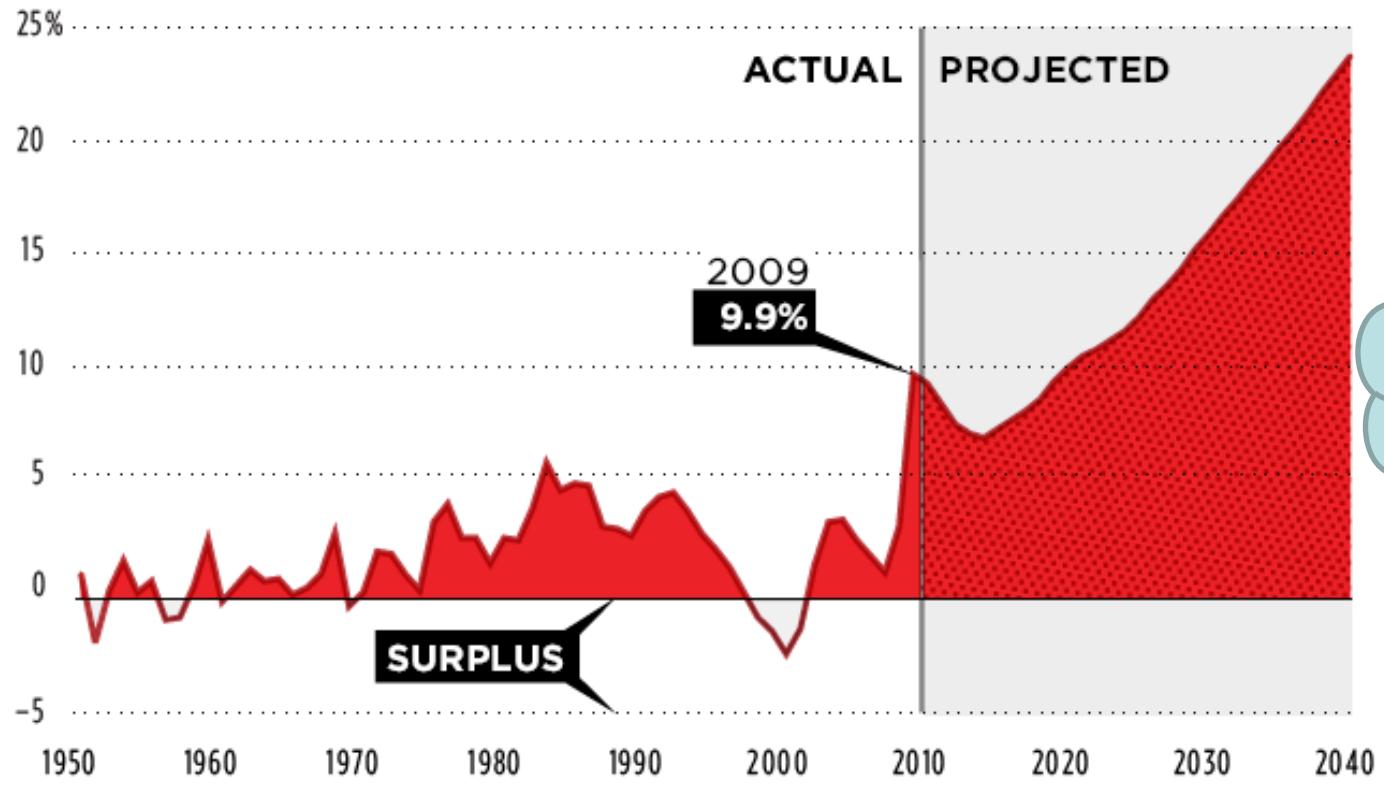
- Logistics and Supply Chain \$190B
- Knowledge Based Services \$ 52B
- Information Technology Expenses \$ 37B



FEDERAL AND DOD SPENDING



Federal Deficits as a Percent of GDP



Mandatory spending and interest on debt crowding out discretionary

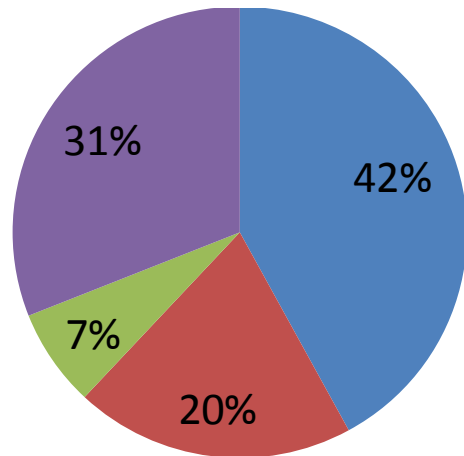
Interest will exceed defense budget in 2017

SOURCES: Data the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget*, Historical Tables and the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook: January 2010 Update*, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

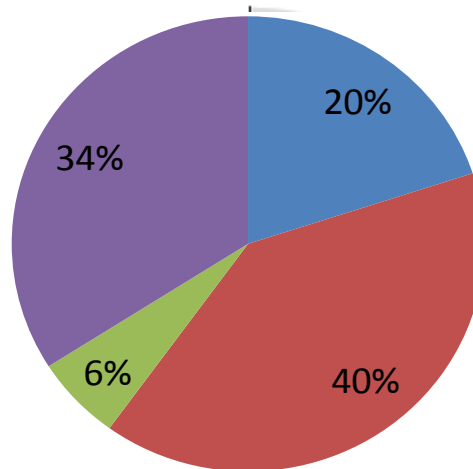
Source: Peterson Foundation *State of the Union's Finances – A Citizen's Guide* April 2010

Discretionary and Mandatory Trends

Percent of Total in Constant 2009 Dollars

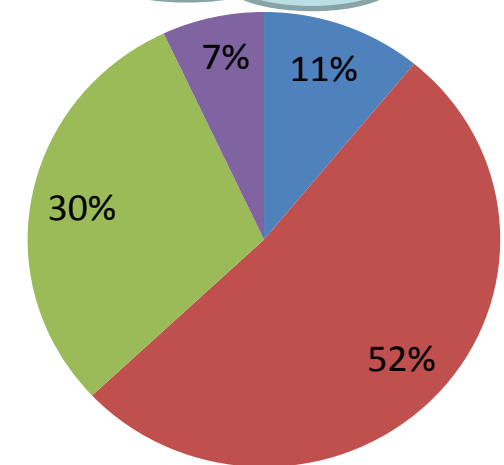


1970 TOTAL SPENDING
\$900 BILLION



2010 TOTAL SPENDING
\$3.5 TRILLION

DoD's budget has an ever increased percentage of fixed obligations for personnel entitlements



2040 TOTAL SPENDING
\$12.3 TRILLION



SOURCES: Data derived from the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget*, Historical Tables and the Congressional Budget Office, *Preliminary Analysis of the President's Budget*: March 2010. Calculated by PGPF.

Source: Peterson Foundation *State of the Union's Finances – A Citizen's Guide* April 2010

FY 2010 Base Budget (Enacted)

(Dollars in Billions)

\$530.7B

Military Personnel: \$135.0

Procurement: \$104.8

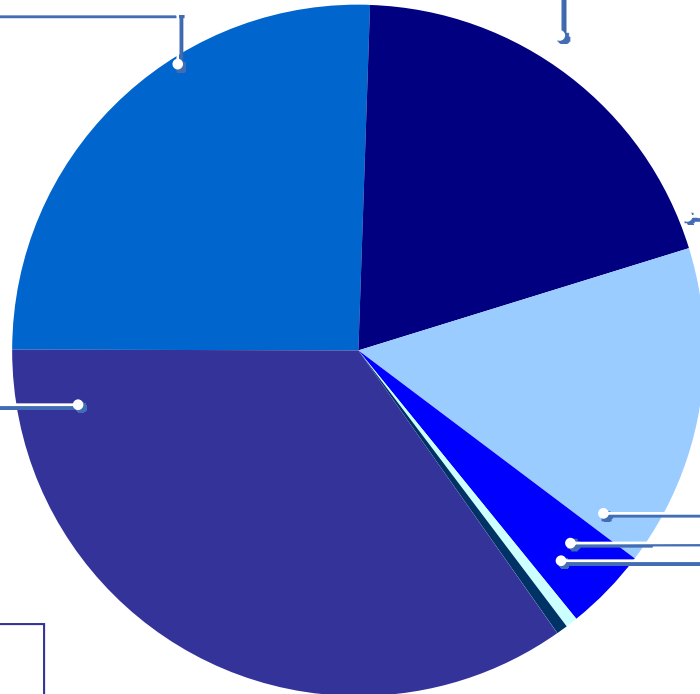
RDT&E: \$80.1

Military Construction: \$21.0

Operation &
Maintenance: \$184.5

Family Housing: \$2.3

Revolving Funds: \$3.1



At least \$200 billion (\$1 trillion across the FYDP) is “overhead”

\$660.7B with OCO

Numbers may not add due to rounding

DEFENSE BUSINESS BOARD



Putting DoD Overhead in Perspective

If DoD overhead was a separate country, it would rank 49th in GDP

RANK	COUNTRY	GDP (\$B)*
45	Chile	244
46	Bangladesh	242
47	Singapore	235
48	Portugal	232
49	DoD Overhead	212
50	Israel	205
51	UAE	200

◆ But it is run, not through market forces, but through bureaucratic processes:

- Planning, Programming, Budgeting, and Execution System and Future Year Defense Plan
- Acquisition Boards and Teams
- DoD Instructions and Directives
- Audits/Investigations/
Congressional Oversight

*Sources: Year 2009 Country GDP PPP Statistics (CIA Factbook); Federal Budget for Fiscal Year 2011, Analytical Perspectives, Table 32-1 (Base budget of \$513B, not including \$130B in OCO funding); FY09 Defense Manpower Requirements Report, Chapter 2, Tables 2-1a through 2-1d, Infrastructure (40% of total).



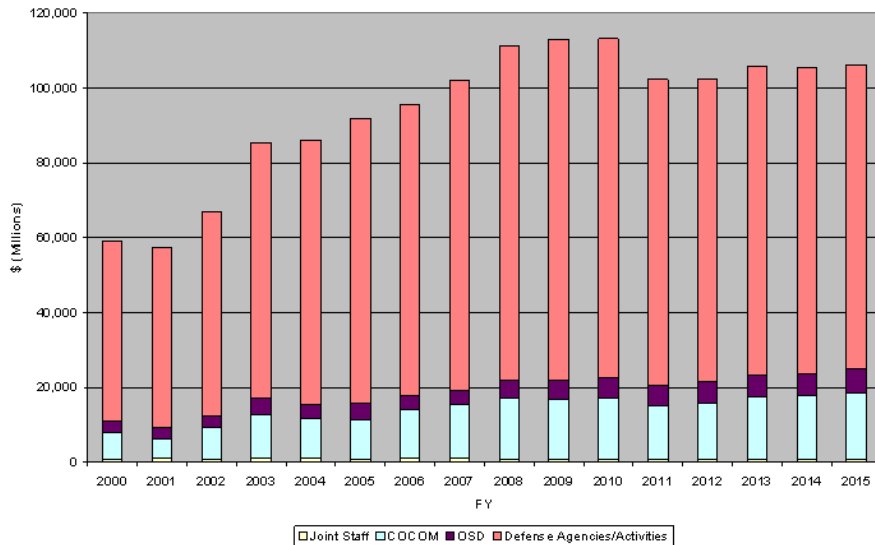
Organizational Totals

OSD, Joint Staff, COCOMs, and Defense Agencies

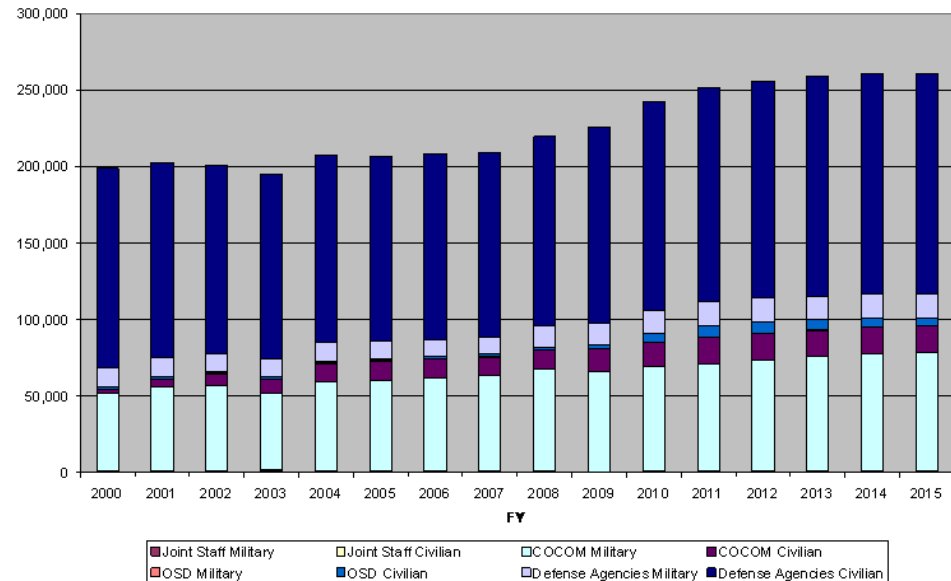
Dollars: \$113B

People: 240,000

Joint Funding (2000-2015)



Joint Manpower (2000-2015)



No Reliable Contractor Data Available



PEOPLE

DoD Layers

A Long Trip To The Top

Joint Staff

Chairman
 Vice Chairman
 Director, Joint Staff
 Vice Director
 Director, J-#
 Vice Director
 Deputy Director
 Regional/Subject Officer

AO

AO

AO

Service Secretariat

Secretary
 Under Secretary
 Assistant Secretary
 Principal Deputy Assistant Secretary
 Deputy Assistant Secretary
 Director
 Action Officer

OSD

Secretary
 Deputy Secretary
 Under Secretary
 Principal Deputy Under Secretary
 Assistant Secretary
 Principal Deputy Assistant Secretary
 Deputy Assistant Secretary
 Office Director
 Action Officer

Service Military Staff

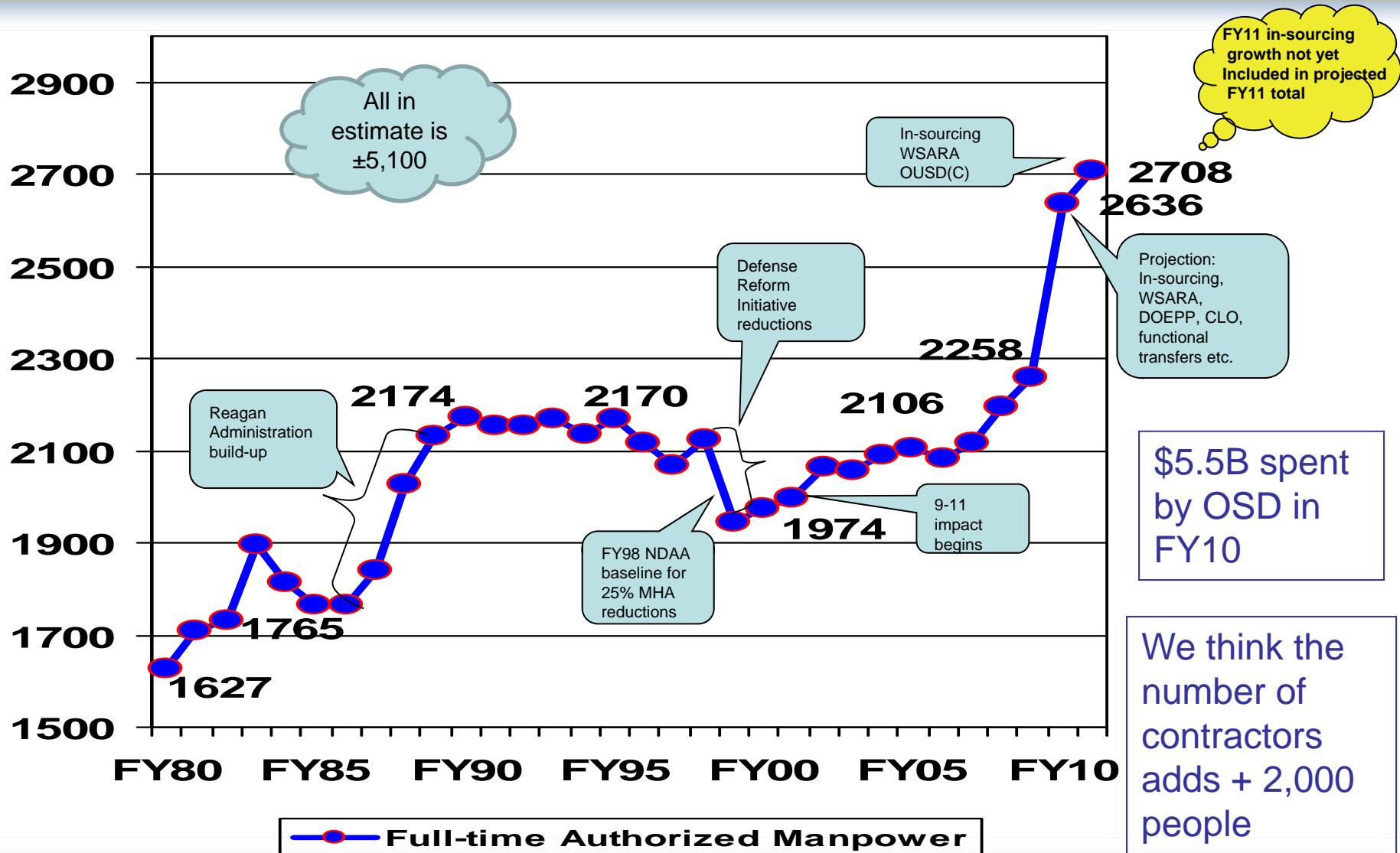
Chief of Staff
 Vice Chief of Staff
 Assistant Vice Chief of Staff
 Director of Service Staff
 Deputy Chief of Staff
 Assistant Deputy Chief of Staff
 Division Chief
 Office Chief
 Action Officer

Start with AO



Trends in OSD Staff Size

Projection a/o June 2010



Note: Chart does not include active duty reservists, detailees, contractor manpower, or temporary overstrengths

Source: Carol Walker at ODAM June 2010



PERSONNEL ISSUES

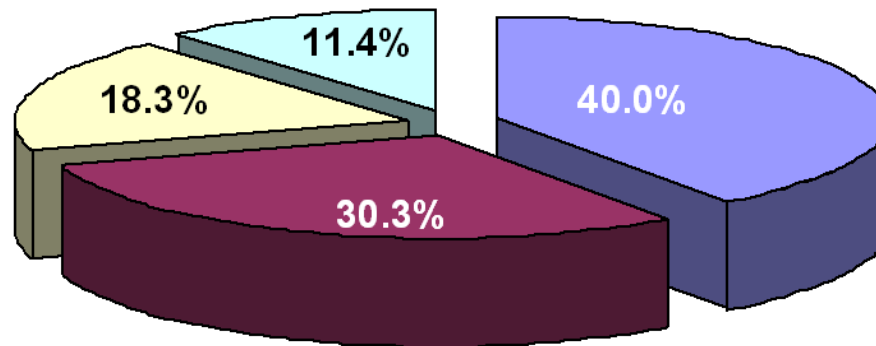


Where is Pvt. Waldo?



Is the Department overdeployed and undermanned, or just performing too many “non-military” functions?

DoD Total for Active Duty

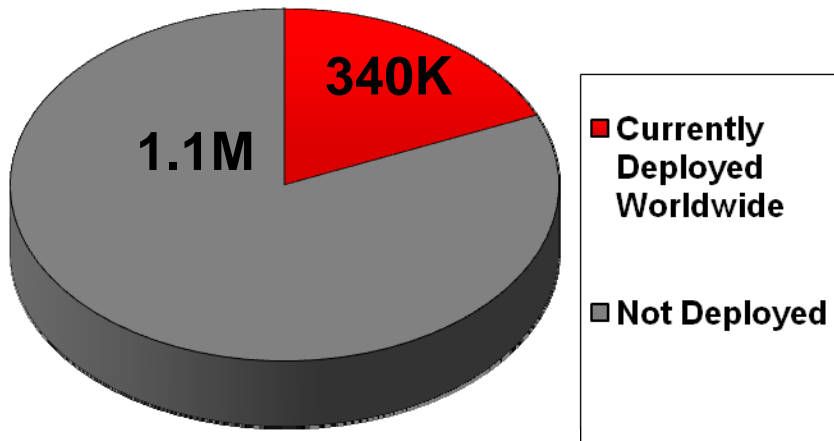


■ Never Deployed ■ Deployed Once ■ Deployed Twice ■ Deployed Three or More Times

Never deployed:	560K
Deployed once:	424K
Deployed twice:	256K
Deployed three times or more:	160K

Where is Private Waldo?

**1.4M Total Active Duty
340K Deployed as of May 2010**



- **What are the other 1.1M doing?**
- **More active duty would be available for deployment if non-military functions converted to civilians or eliminated**

Cost of Military doing not Inherently Governmental Commercial Activities

- 339,142 active duty military performing commercial activities (per FY2009 FAIR inventory)
 - Using an average cost of \$160K/yr (CRS Milpers/troop index), this costs over \$54B/yr!
 - 8% of the FY10 base budget!
- Eliminating 10% of commercial activities positions could save \$5.4B
- Poor use of our most expensive personnel – active duty military

\$54 BILLION ANNUALLY!!!



Cost of Military in DoD Civilian Roles

- Another group of personnel are most likely to be found within the non-deployable portions of each of the Services that have never deployed
- This number is not known
- Poor use of our most expensive personnel – active duty military



ORGANIZATIONS



Defense Agencies are Big Businesses

Defense Agencies Compared with Top Defense Contractors

Rank	Contractors (Rank)/Defense Agencies	DoD Contracts/Agency Budget (\$,M)
1	Defense Logistics Agency	38,890
2	Lockheed Martin Corp. (1)	30,052
3	Defense Health*	29,001
4	Northrop Grumman Corp. (2)	23,494
5	Boeing Co. (3)	23,338
6	BAE Systems (4)	16,280
7	General Dynamics Corp. (5)	14,438
8	Raytheon Co. (6)	14,219
9	Missile Defense Agency	11,584
10	United Technologies Corp (7)	8,300
11	Defense Commissary Agency	7,618
12	Defense Information Systems Agency	7,026

Five of the 12 Top Defense Contractors Are Defense Agencies

FY2009 Contracts Data from govexec.com;
 FY2009 Agency Budgets Include Defense
 Working Capital Revenues

*Defense Health Programmed Portion Only;
 Includes "Tricare for life" accruals; Excludes Service
 Medical Funding that is Outside Defense Health Program



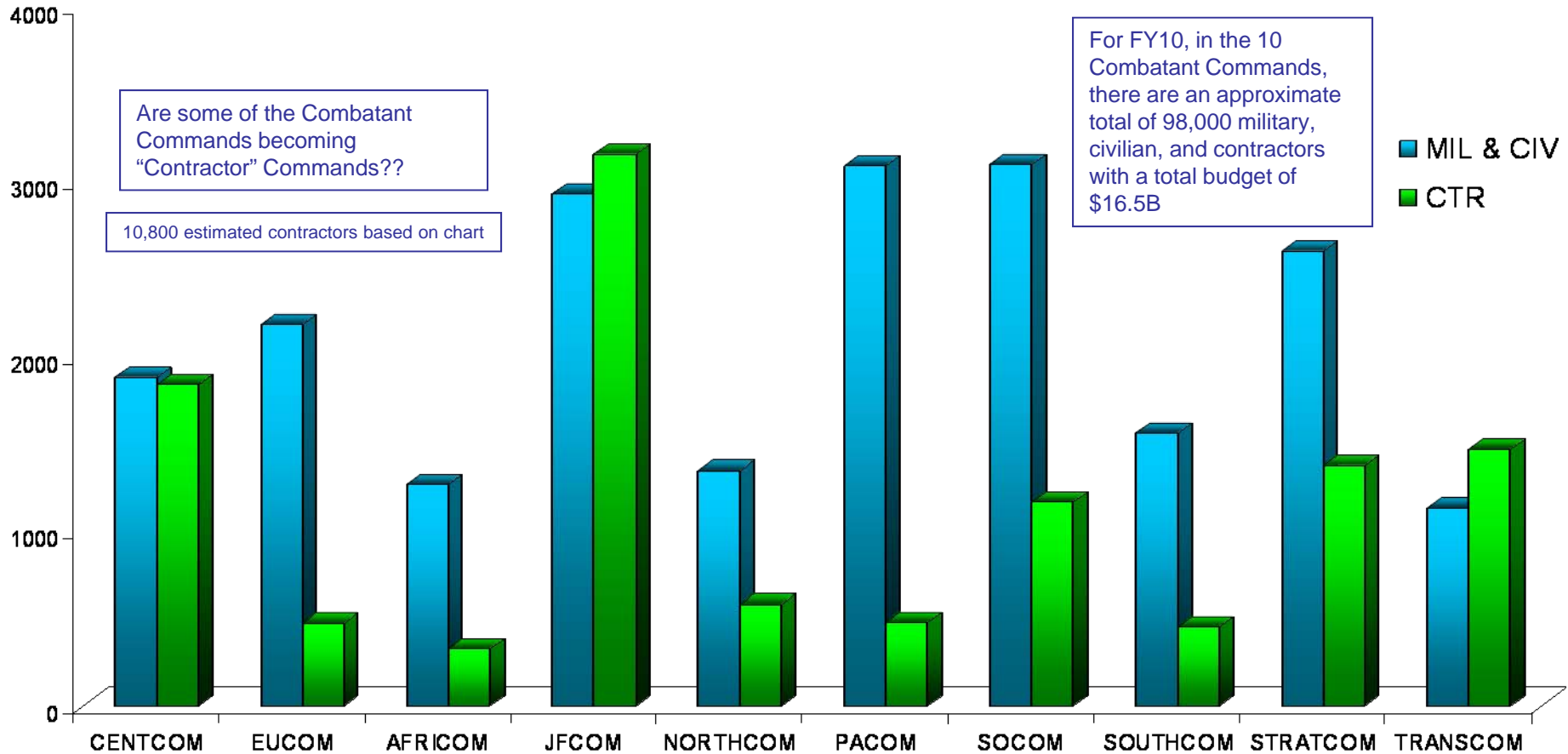
Defense Agencies and Field Activities

- Have continued to grow and spend
 - The number and scope have outstripped current management and oversight mechanisms
- Fundamental problem: DAs/FAs are not being managed as cost-effective businesses or recognized as a major element of overhead
 - They spend over 20% of DoD's entire budget
 - There is limited application of best business practices – military leadership – for most part – of largely business activities
 - Few meaningful performance management systems
 - Continued operation of non-core functions
 - Passive supervision but strong advocacy by over-worked OSD officials
 - Services believe they are being overcharged – and they are
- In spite of assertions to the contrary, there are substantial gains yet to be made by making them more cost-effective thru: business processes, consolidations of overhead functions, elimination, privatization, devolving, and merging



Combatant Commands

“Many Combatant Commands are staff and contractor heavy and very expensive”



Source: BGEN Walters J8 June 2010

Note: Contractor data was self-reported by COCOMs. All data is as of July 2009.

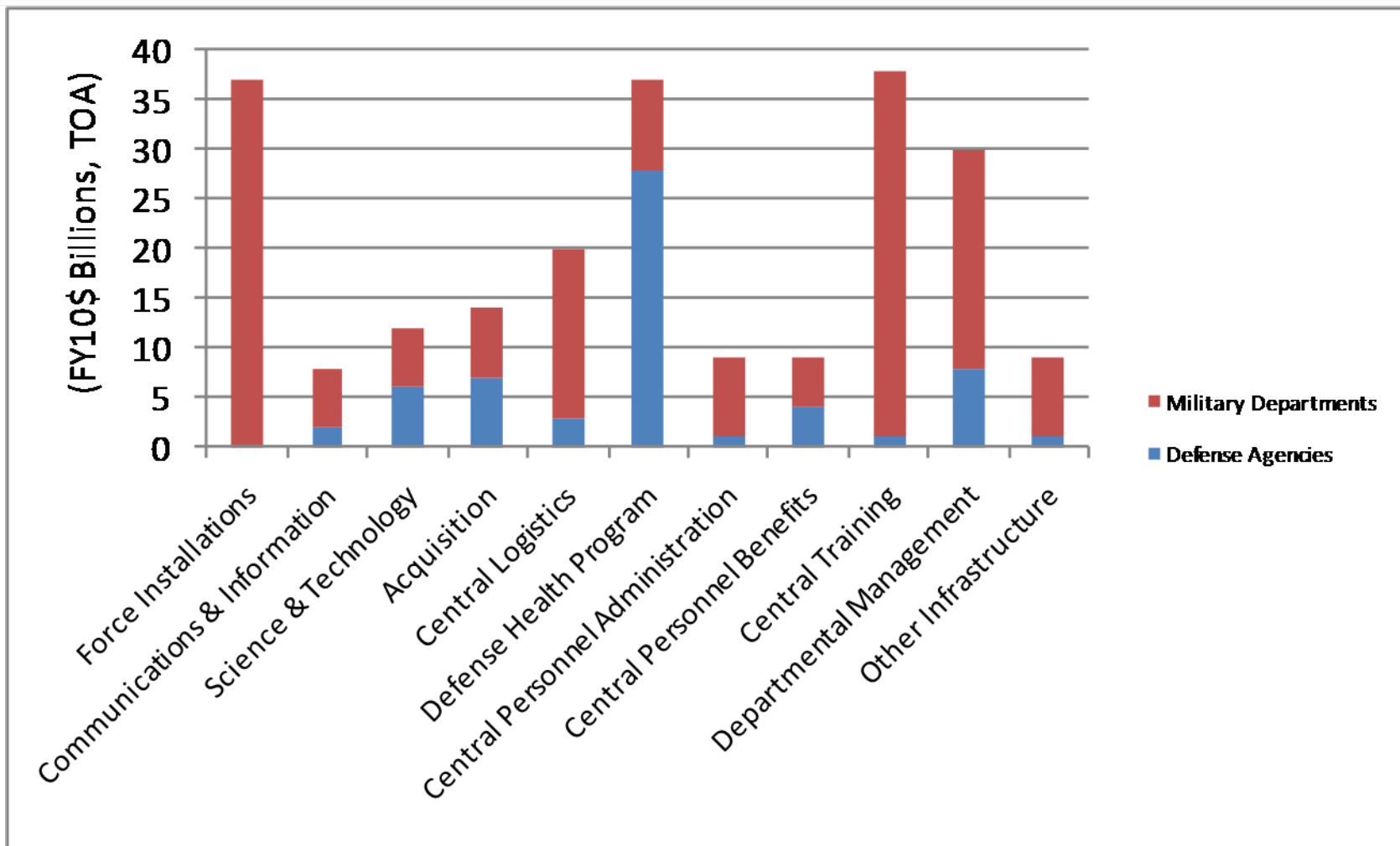
Draft – Pre-decisional Pending Full Board Deliberations

Joint Forces Command's own Joint Commands and Activities

- Joint Center for Operational Analysis (JCOA)
- Joint Irregular Warfare Center (JIWC)
- Joint Warfare Analysis Center (JWAC)
- Joint Warfighting Center (JWFC)
- Joint Communication Support Element (JCSE)
- Joint Systems Integration Center (JSIC)
- Joint Enabling Capabilities Command (JECC)
- Joint Unmanned Aircraft Systems Center of Excellence (JUAS COE)
- Joint Public Affairs Support Element (JPASE)
- Joint Deployment Training Center (JDTC)
- Joint Fires Integration and Interoperability Center (JFIIT)
- Joint Personnel Recovery Agency (JPRA)
- Joint National Training Capability (JNTC)
- Joint Knowledge Development and Distribution Capability (JKDDC)



Most Infrastructure (73%) is in the Military Departments



An effective infrastructure reduction effort must include the military departments.



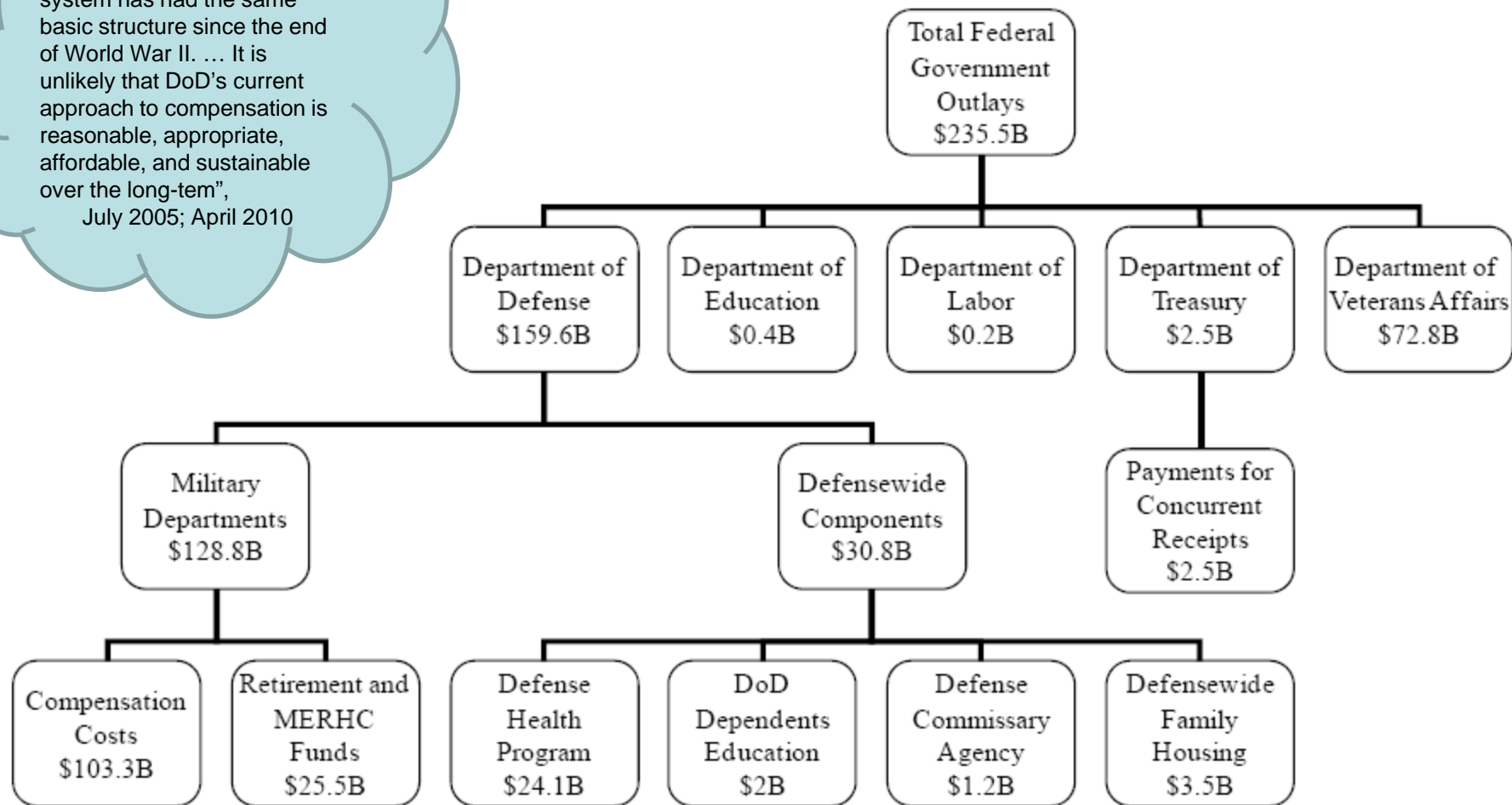
BENEFITS, ENTITLEMENTS, & DEFERRED COMPENSATION



Outlays for Military Personnel and Retirees Fiscal Year 2007

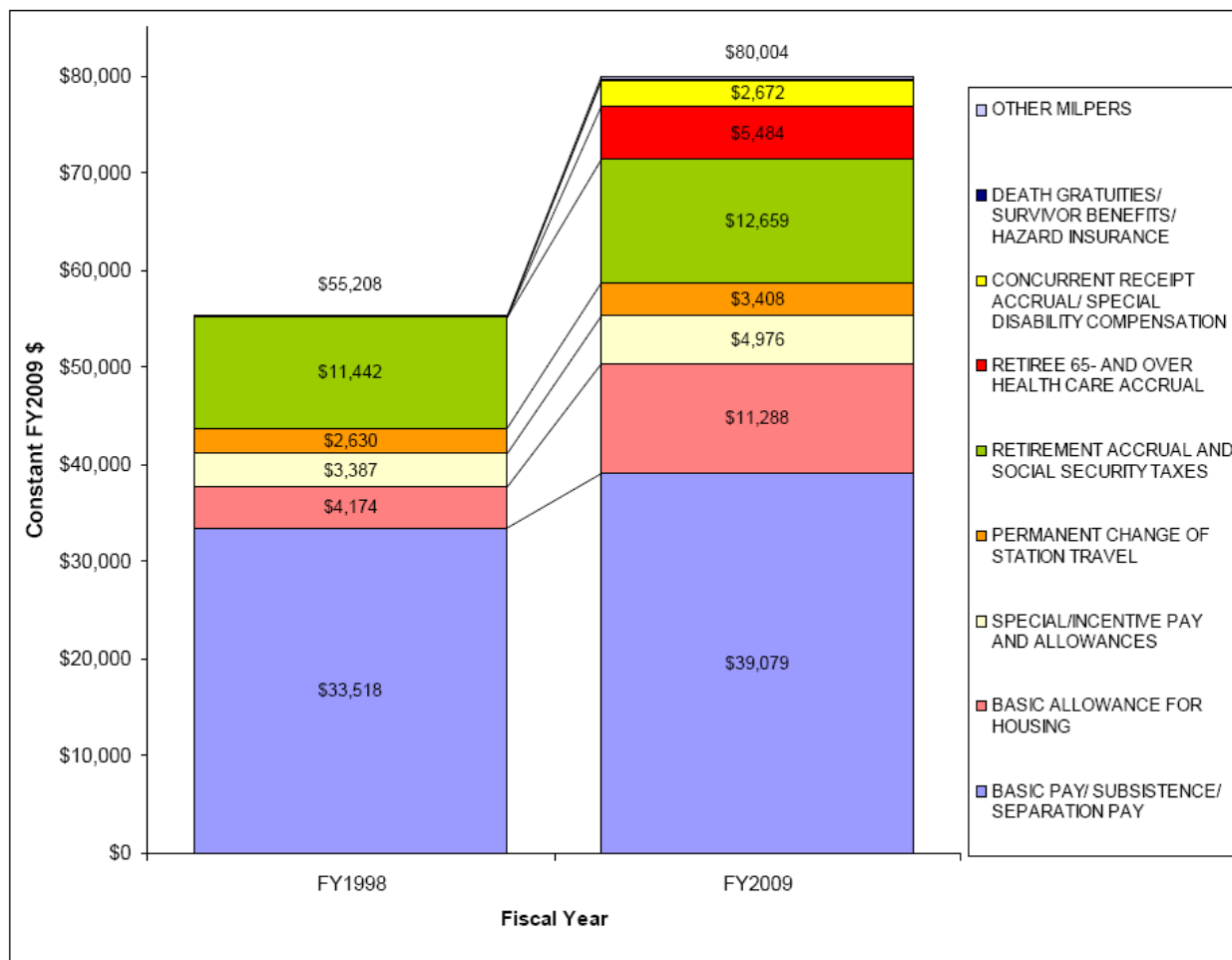
GAO:

“The military compensation system has had the same basic structure since the end of World War II. ... It is unlikely that DoD’s current approach to compensation is reasonable, appropriate, affordable, and sustainable over the long-term”,
July 2005; April 2010



Source: DTM 09-007, January 29, 2010

Changes in Military Pay and Benefits per Active Duty Troop FY1998-FY2009

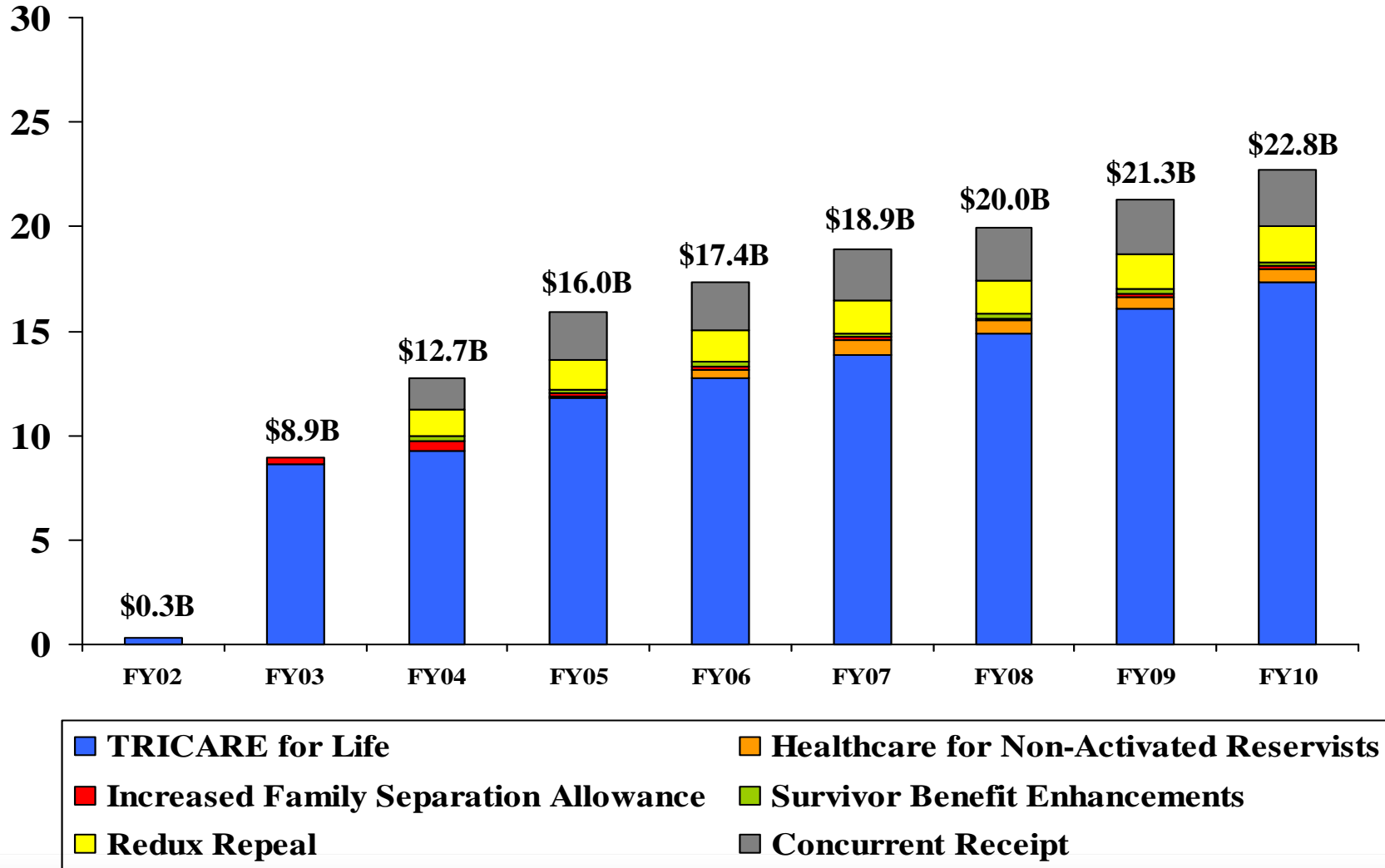


Source: CRS based on Department of Defense budget data.

Source: STATEMENT OF STEPHEN DAGGETT SPECIALIST IN DEFENSE POLICY AND BUDGETS CONGRESSIONAL RESEARCH SERVICE BEFORE THE HOUSE COMMITTEE ON ARMED SERVICES HEARING ON RESOURCING THE NATIONAL DEFENSE STRATEGY: IMPLICATIONS OF LONG-TERM DEFENSE BUDGET TRENDS NOVEMBER 18, 2009



Congressional Actions Shape the Compensation Bill



The “Military Retirement” sacred cow is increasingly unaffordable

- # of military retired for:

–	1980	1,264,525	
–	1990	1,472,129	
–	2000	1,701,218	
–	2010	1,905,074	projected
–	2020	1,935,840	projected

All recent serious studies have recommended changing the 20 year retirement, including the 10th QRMC

- Amount treasury pays in military retirement pay each year from 1990 projected to 2020

1990	\$21,645,293	2000	\$32,857,908	2010	\$46,710,544	2020	\$59,325,445
1991	\$23,221,989	2001	\$34,154,145	2011	\$47,051,038		
1992	\$24,573,765	2002	\$35,137,252	2012	\$47,329,394		
1993	\$25,812,350	2003	\$35,443,953	2013	\$48,423,020		
1994	\$26,799,869	2004	\$36,895,426	2014	\$49,763,256		
1995	\$27,896,463	2005	\$38,790,217	2015	\$50,987,103		
1996	\$28,974,224	2006	\$41,130,056	2016	\$52,248,515		
1997	\$30,240,029	2007	\$43,573,120	2017	\$53,597,259		
1998	\$31,206,731	2008	\$45,656,789	2018	\$55,362,008		
1999	\$31,912,636	2009	\$46,250,532	2019	\$57,307,992		

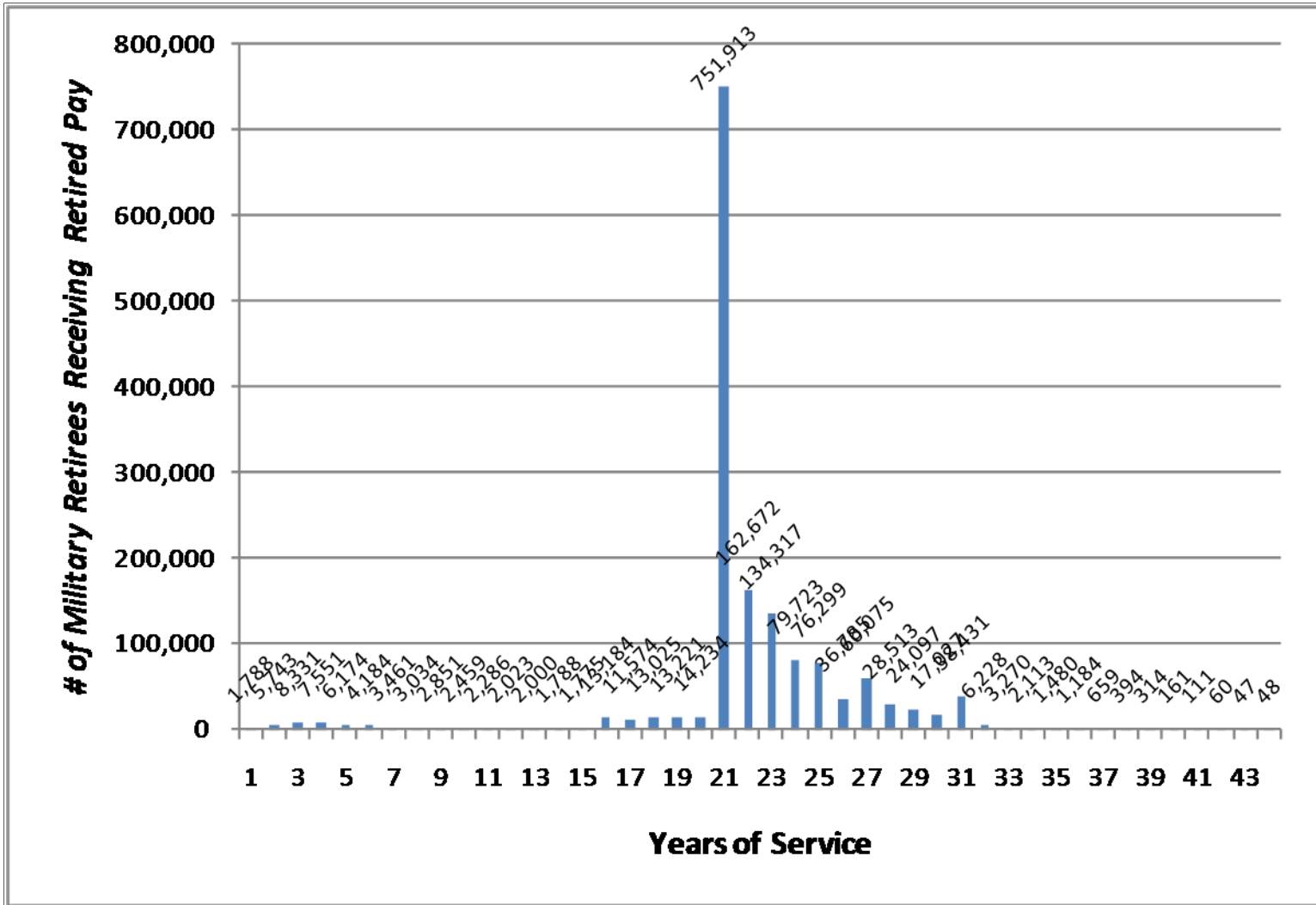
Does not include retiree health care

- Percentage of people that join the military that earn retirement

- Based on current decrement rates, 17 percent of a typical group of new entrants attains 20 years of active duty service and becomes eligible for non-disability retirement from active duty. Specifically, 47 percent of new officers and 15 percent of new enlistees attain 20 years of active duty service. It should be noted that some military personnel who begin their careers on active duty move to the reserves and retire from there. The stated percentages also reflect the effect of reentrants.



Number of Military Retirees receiving retired pay by years of service



CONCLUSION

Best Business Practices for Immediate Consideration

1. Initiate hiring freeze and headcount control process
 - Start with OSD, JCS, and COCOMs
 - Establish a high-level process to track and control military, civilian, and contractor head counts and costs denominated by full-time equivalents
 - Direct Military Department and Defense Agencies to do same
 - Direct civilian reductions back to FY 2003 levels or 15% whichever is greater
 - Find out how many contractors work for DoD
 - Freeze “contractor” spending at current levels until this headcount is known
 - Once known, reduce to FY 2003 levels in all activities

2. Eliminate organizational duplication and overlap
 - Focus first in areas such as OSD/JCS in Public Affairs, Legislative Affairs, Legal Affairs, Personnel Oversight, Cables, J-8/CAPE and JROC and AT&L



Best Business Practices for Immediate Consideration

3. Downsize Combatant Commands beginning with elimination of JFCOM and do the same for OSD organizations as NII

4. Curtail indirect spending now
 - Reduce the frequency of duty station moves
 - Reduce travel
 - Reduce conferences
 - Modify end of year “use it or lose it” policy



Finding the \$100B

- While DoD's near term goal is to achieve \$7B in savings, the harder task is to find the gains sufficient to reach the \$100B goal set by the Secretary of Defense
- Much of the initiatives just briefed will take years to develop and years more to begin to harvest the benefits and savings
- This requires managing in parallel the harvesting of near term efficiencies and cost savings along with the initiation of these just discussed major reforms to control work and redefine the compensation of uniformed and contract personnel
- Without immediate action and long term discipline, the Department will not have sufficient active duty military, or be able to properly train and equip them to defeat the nation's enemies



DEFENSE BUSINESS BOARD



Questions?

DEFENSE BUSINESS BOARD

Business Excellence In Defense of the Nation