

Carl Levin and Howard P. 'Buck' McKeon National Defense Authorization Act for Fiscal Year 2015, The FY 2016 Defense Budget and Procurement Reform



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DRYE

December 17, 2014

DISCUSSION AREAS

- Key Leadership Changes
- Macro Political and GeoPolitical Drivers
- Summary of FY 2015 Bills
- Procurement Reform
- BRAC
- Energy
- Installations
- Domestic Sourcing
- Industrial Base

LEADERSHIP AND COMMITTEE ASSIGNMENTS

DoD Leadership

Secretary of Defense



Ashton "Ash" Carter

Deputy Secretary of Defense



Robert Work

HASC Majority Members



John Kline
(R- MN)



Mike Turner
(R-OH)



Rob Bishop
(R-UT)



Frank LoBiondo
(R-NJ)



Joe Wilson
(R-SC)



Jeff Miller
(R-FL)



Randy Forbes
(R-VA)



Walter B. Jones
(R-NC)



Chair
Mac Thornberry
(R-TX)



Mike Coffman
(R-CO)



John Fleming
(R-LA)



Duncan Hunter
(R-CA)



Rob Wittman
(R- VA)



Doug Lamborn
(R-CO)



Mike Conaway
(R- TX)



Bill Shuster
(R-PA)



Trent Franks
(R-AZ)



Mike Rogers
(R-AL)



Paul Cook
(R-CA)



Kristi Noem
(R-SD)



Rich Nugent
(R-FL)



Mo Brooks
(R-AL)



Steven Palazzo
(R-MS)



Joe Heck
(R-NV)



Vicky Hartzler
(R-MO)



Chris Gibson
(R-NY)



Scott Rigell
(R-VA)



Tom
MacArthur
(R-NJ)



Steve Knight
(R-CA)



Martha
McSally
(R-AZ)



Elise Stefanik
(R-NY)



Ryan Zinke
(R-MT)



Sam Graves
(R-MO)



Bradley Byrne
(R-AL)



Jackie
Walorski
(R-IN)



Brad Wenstrup
(R- OH)



Jim
Bridenstine
(R-OK)

HASC Minority Members (Committee Assignments TBD)



Ranking
Adam Smith
(D-WA)



Loretta Sanchez
(D-CA)



Bob Brady
(D-PA)



Susan Davis
(D-CA)



Jim Langevin
(D-RI)



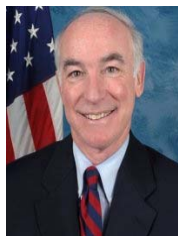
Rick Larsen
(D-WA)



Jim Cooper
(D-TN)



Madeleine
Bordallo (D-CU)



Joe Courtney
(D-CT)



Dave Loebsack
(D-IA)



Niki Tsongas
(D-MA)



John Garamendi
(D-CA)



Hank Johnson
(D-GA)



Colleen
Hanabusa (D-HI)



Jackie Speier
(D-CA)



Andre Carson
(D-IN)



Dan Maffei
(D-NY)



Derek Kilmer
(D-WA)



Joaquin Castro
(D-TX)



Tammy
Duckworth
(D-IL)



Scott Peters
(D-CA)



MG Bill Enyart
(D-IL)



Marc Veasey
(D-TX)



CPT Tulsi Gabbard
(D-HI)

HASC Sub-Committee Leadership

- **Airland**
 - Chair Mike Turner (R-OH)
 - Ranking Loretta Sanchez (D-CA)
- **Intelligence, Emerging Threats & Capabilities**
 - (New Chairman) Joe Wilson (R-SC)
 - Ranking James Langevin (D-RI)
- **Seapower & Projection Forces**
 - Chair J. Randy Forbes (R-VA)
 - ?
- **Military Personnel**
 - (New Chairman) Joe Heck (R-NV)
 - Ranking Susan Davis (D-CA)
- **Strategic Forces**
 - Chair Mike Rogers (R-AL)
 - Ranking Jim Cooper (D-TN)
- **Readiness**
 - Chair Rob Wittman (R-VA)
 - Ranking Madeleine Bordallo (D-Guam)
- **Oversight & Investigations**
 - (New Chairman) Vicky Hartzler (R-MO)
 - Ranking Niki Tsongas (D-MA)

SASC 2015 Majority Members

Chair



Lindsey Graham
(R-SC)



Deb Fischer
(R-NE)



Kelly Ayotte
(R-NH)



Roger Wicker
(R-MS)



Jeff Sessions
(R-AL)



James Inhofe
(R-OK)



John McCain
(R-AZ)



Thom Tillis
(R-NC)



Dan Sullivan
(R-AK)



Mike Rounds
(R-SD)



Joni Ernst
(R-IA)



Tom Cotton
(R-AR)



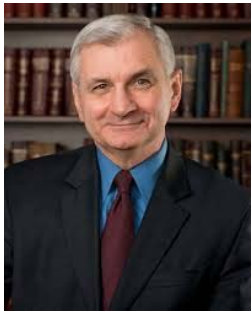
Ted Cruz
(R-TX)



Mike Lee
(R-UT)

SASC 2015 Minority Members

Ranking



Jack Reed
(D-RI)



Bill Nelson
(D - FL)



Claire
McCaskill
(D - MO)



Joe Manchin III
(D - WV)



Jeanne
Shaheen
(D - NH)



Kirsten
Gillibrand
(D - NY)



Richard
Blumenthal
(D - CT)



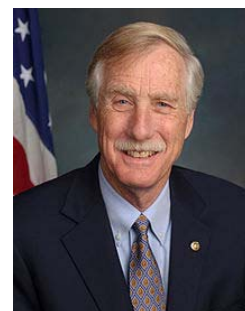
Joe Donnelly
(D - IN)



Mazie Hirono
(D - HI)



Tim Kaine
(D - VA)



Angus King
(I - ME)



Martin Heinrich
(D-NM)

HAC-D 2015 Majority Members (TBD)



Tom Cole
(R-OK)



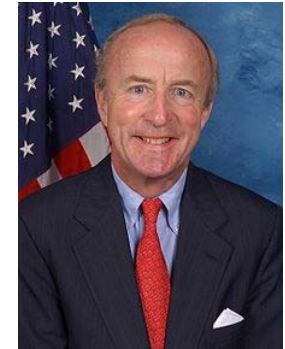
Ken Calvert
(R-CA)



Ander Crenshaw
(R-FL)



Kay Granger
(R-TX)



Chair
Rodney Frelinghuysen
(R-NJ)



Hal Rogers
(R-KY)



John Carter
(R-TX)

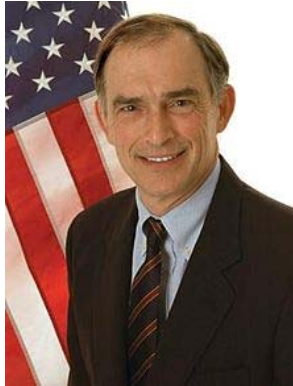


Robert Aderholt
(R-AL)



Steve Womack
(R-AR)

HAC-D 2015 Minority Members (TBD)



Ranking
Pete Visclosky
(D-IN)



Betty McCollum
(DFL-MN)



Tim Ryan
(D-OH)



Marcy Kaptur
(D- OH)



Nita Lowey
(D-NY)

SAC-D 2015 Majority Members (TBD)



Susan Collins
(R-ME)



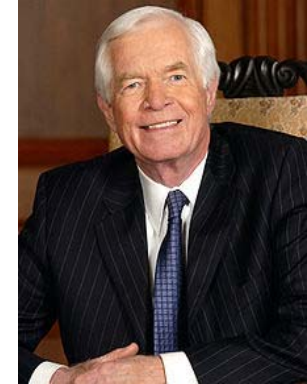
Lamar Alexander
(R-TN)



Richard Shelby
(R-AL)



Mitch McConnell
(R-KY)



Chair
Thad Cochran
(R-MS)



Roy Blunt
(R-MO)



Dan Coats
(R-IN)

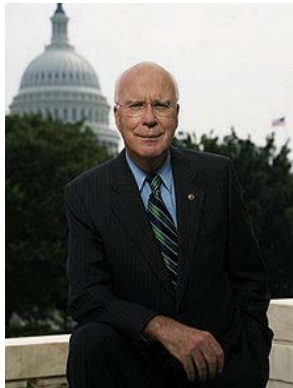


Lindsey Graham
(R-SC)



Lisa Murkowski
(R-AK)

SAC-D 2015 Minority Members (TBD)



Ranking
Patrick Leahy
(D-VT)



Dianne Feinstein
(D-CA)



Barbara Mikulski
(D-MD)



Patty Murray
(D-WA)



Jack Reed
(D-RI)

CURRENT MACRO POLITICAL AND GEOPOLITICAL FORCES

POLITICS OF SEQUESTER

Q: Did passage of the NDAA and the Omnibus last Week indicate a move towards “regular order” in the Budget Process?

A: Possibly, But Many Macro Political and Geopolitical Forces Will Influence the Final Answer

- Sequester never fully implemented because of Ryan-Murray Spending Deal for FY14 and FY15 raised the top line budget under the BCA to \$1.012 trillion.
- In FY16, without new law, new caps would be \$967 billion and a sequester or an across-the-board cut will be triggered if a spending cap is breached.
- The President’s FY16 Defense Budget is widely expected to be \$60 Billion over BCA not including Energy Programs.
- In November, CBO projected that Pentagon base budget requests between 2015 and 2019 will likely be \$47 billion higher per year than the levels designated by the BCA.

POLITICS

- Presidential Election Cycle
- Republican Control of Congress
 - John McCain priorities
 - Mac Thornberry priorities
- Divisions within Republican Caucus – Fiscal Hawks versus Defense Hawks
 - Senate Budget Committee assignments TBD
 - House Budget Committee Tom Price replaces Paul Ryan as chairman
- Electoral Defeat of Conservative Democrats particularly in the South
- Defense-minded Republicans favor sequester relief for the Pentagon, Democrats would demand relief for domestic spending. No clear bipartisan path to sequester relief.
- Most Likely Scenario: BCA Sequestration Mechanism remains with relief on caps along the lines of Murray-Ryan after legislative battles over entitlement reform, taxes, and balance of cuts between defense and non-defense.

Geopolitical Forces

- Syria, ISIS/ISIL
- Iraq
- Afghanistan/Pakistan
- Ebola and Humanitarian Contingencies
- Ukraine/NATO
- Asia
- Unanticipated Events May force Supplemental Appropriations
- Reprogramming Authorities. NDAA provides transfer authorities to Sec Def between authorizations not to exceed specified dollar thresholds (e.g. \$4,500,000,000 general, \$3,500,000,000 contingency ops).

HIGHLIGHTS OF FY 2015 BILLS

Topline

	FY 2014	FY 2015
President's Budget Request	\$540	\$496
Defense Total	\$572 billion	\$554.2 billion
Base	\$486.8 billion	\$490.2 billion
OCO	\$85.2 billion	\$64 billion
MILCON	\$9.808 billion	\$6.558 billion

DoD Plan versus Sequester

	2015	2016	2017
CBO Projection	\$ 497	\$ 542	\$ 556
BCA Levels	\$ 498	\$ 499	\$ 511
Cuts Needed if Sequester Remains	0	\$ 43	\$ 45

Personnel End Strength

ACTIVE FORCES		RESERVE	
Army	490,000	National Guard	350,200
Navy	323,600	Army	202,000
Marines	184,100	Navy	57,300
Air Force	312,980	Marines	39,200
		Air Force	67,100
		Air National Guard	105,000

Installations MILCON

		Requested	Authorized	Appropriated
Army	MILCON	\$539.2 million	\$543.4 million	\$528.4 million
Army	Housing	\$429.6 million	\$429.6 million	\$426.6 million
Navy	MILCON	\$1.02 billion	\$993.2 million	\$1.12 billion
Navy	Housing	\$370.4 million	\$370.4 million	\$370.4 million
Air Force	MILCON	\$811.7 million	\$846.2 million	\$811.8 million
Air Force	Housing	\$327.7 million	\$327.7 million	\$327.7 million
Defense Wide	MILCON	\$2.06 billion	\$1.96 billion	\$2.0 billion
Defense Wide	Housing	\$61.1 million	\$61.1 million	\$61.1 million
National Guard & Reserves	MILCON	\$426.5 million	\$532.1 million	\$426.5 million

PROCUREMENT REFORM

Defense Acquisition Reform Status and Outlook

- Over the past year plus, the HASC, SASC and the Pentagon have engaged in an outreach program to engage the Defense Community in a dialog over Defense Acquisition Reform. Dialog has produced input from Republicans, Democrats, House and Senate Committees, DoD and Military Services, industry and trade associations, and think tanks.
- To date, dialog has focused on information gathering and identifying shortcomings in the system.
- General consensus confirms the historical belief that the system wastes money, resources, time and effort.
- Belief that ever-elusive reform is more obtainable in the current budget constrained environment. But, reform has been elusive because the problem is not merely one of acquisition law.
- Likely to result in some degree of reform in legal/regulatory regime, managerial and workforce issues, requirements reform, and budget reform.

Defense Acquisition Reform Status and Outlook

- **Regulatory reform:** Overly complex legal regime
 - Commercial practices (understanding business incentives, technology upgrades, IP, purchasing methods, cost and pricing)
 - Relationship between industry and government (audit and oversight, communications, contractual risk sharing).
 - Eliminate unnecessary laws and regulations (sunset or repeal)
- **Management and Workforce Reform and Cultural Change** – historically intractable problems
 - Incentives for acquisition workforce (career advancement, training, experience, and tenure)
 - Leadership responsibilities
- **Requirements Reform** – requirements creep, change orders, cost overruns
 - Create realistic, early, and budget-informed requirements development.
- **Budget Reform** – incentivizing the wrong behaviors
 - Year end spending rather than savings.

NDAA Procurement Provisions Clues to Reform Efforts?

- IT Procurement Related Provisions
- **Modular Open Systems Approach in Acquisition Programs** requires USD AT&L to develop standards and define architectures necessary to enable open systems approaches in key mission areas. Requires new acquisition guidance. Impact on IT procurements, Major Defense Acquisition Programs and Major Automated Information Systems (MAIS) programs.
- **Major Automated Information Systems Programs.** Requires report on cost overruns and delays of MAIS programs so that failure of any automated information system or IT investment to achieve a full deployment decision within five years after the Milestone A decision.
- **Defense Business Systems** – directs DoD to require business process reengineering before milestone decisions for MAIS programs.
- **Acquisition Process reforms for IT Systems.** DoD push toward the acquisition of commercial IT solutions has been criticized. Report to Congress.
- **Retained some provisions of the Federal Information Technology Acquisition Reform Act** – addresses authority for DoD and civilian agency CIOs, reviews of agency IT portfolios. Addressed government-wide data center consolidation efforts. (Title 40 provisions).

NDAA Procurement Provisions

- Cap on aggregate annual amount spent on service contracts extended for one year. House generated. Push for common data system to collect contractor manpower data that is currently collected via the military services' and defense agencies' service contract inventories.
- Created Permanent Authority For **Use of Simplified Acquisition Procedures For Certain Commercial Items** (not exceeding \$5 million). Commercial Item Test Program was first authorized by the Clinger-Cohen Act of 1996.
- Effort to clarify 2012 NDAA Counterfeit Electronic Parts language on Sourcing Requirements Related to Avoiding Counterfeit Electronic Parts – use of “trusted suppliers” within the supply chain.
- **Reverse Auctions** prohibits reverse auctions resulting in single-bid contracts unless they are compliant with existing federal regulations and DoD memoranda providing guidance on single-bid offers.
- **Contracting with the Enemy.** Requires contractors performing work overseas to undertake due diligence to prevent the flow of contract funds to enemy combatants. Penalties for non-compliance include government authority to terminate or void existing contracts or restrict the award of future contracts.

NDAA Procurement Provisions

- **Program Manager Development Report** – requires the Secretary of Defense to submit a report to the congressional defense committees on enhancing the role of DoD program managers in developing and executing acquisition programs. The report must address recommendations for enhancing education and training, improving career path opportunities, increasing accountability for program objectives, including monetary bonuses for successful outcomes, and more.
- DoD Deputy Chief Management Officer and the Chief Information Officer into a single position titled “Under Secretary of Defense for Business Management and Information,” and designates the position as the highest ranking official within DoD behind the Secretary of Defense and the Deputy Secretary of Defense.
- Authority for Sole Source Contracts to women-owned small businesses where CO does not have a reasonable expectation that 2 or more women-owned small business that can perform the work, and the contract is below \$4 million (economically disadvantaged).
- Health Care: Annual Health Assessments for mental health screening and Acquisition Strategy for Health Care Professional Staffing Services.

NDAA Procurement Provisions

- Consolidation of Joint Improvised Explosive Device Defeat Fund , alignment of rapid acquisition organizations. Requires plan to consolidate and align all of the rapid acquisition or quick reaction capability organizations, including:
 - JIEDDO
 - Joint Rapid Acquisition Cell (JRAC).
 - Warfighter Senior Integration Group (SIG).
 - Intelligence, Surveillance, and Reconnaissance (ISR) Task Force.
 - Afghanistan Resources Oversight Council (AROC).
 - Any other Department of Defense-wide or military department specific organizations, and associated capabilities and funding, carrying out comparable joint urgent operational needs (JUONs) or joint emergent operational needs (JEONs) efforts.

REAL PROPERTY AND INSTALLATIONS

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BRAC

- Encouraged an update of the amount of excess real property
- Rescinded Secretary of the Army's authority to close an arsenal
- Prohibits changes to Army contracting command New Jersey without prior notification
- Prohibited use of Minor MILCON to transfer or relocate units from one installation to another
- Prohibited the transfer of finance functions from Defense Finance and Accounting Services
- Our Take – BRAC may eventually be authorized but it will be different than the last round and may be driven by force structure
- Limitation on moving Army test activities

Energy

- Added \$20 million to Army, Navy, Air Force for alternative energy research
- Authorized and appropriated \$150 million for Energy Conservation Projects
- Created an Assistant Secretary of Defense for Installations, Energy, Environment
- Required a business case analysis before any plan to design, refurbish or build a biofuel refinery
- Prohibition on the purchase of drop-in biofuels unless the cost is comparable with traditional fuels
- Requirement for additional considerations of operational energy during DOD planning and budgeting

Energy

- Directed a GAO report on the cost and benefits of renewable energy projects

Not adopted

- House provision to exempt DOD from the requirements related to alternative or synthetic fuel required by the Energy Independence Act of 2007
- Set aside of SRM funds for energy projects

Bottom line – DOD remains active in energy projects but facilities projects under increased Congressional scrutiny for costs, broad support for operational energy efficiency

Installations Legislation

- Design-Build procurements over \$4 million only 5 firms may be down selected to phase 2 (with exceptions)
- Prohibited the use of reverse actions for projects that require a specific congressional authorization
- Prohibited use of cost-plus fixed-fee for any project costing more than \$25,000
- Placed limitation on the use of payment-in-kind to fund MILCON projects
- Authorized expanded use of turn-key selection procedures for MILCON projects
- Authorized sole-source award for intergovernmental support agreements
- Clarified that reimbursements received under section 2695 may be merged with the current appropriation
- US contractors have a 20% price advantage for overseas MILCON

Installations

- Green building standards – allowed use of green building standards in residential construction but
 - DOD should consider all consensus green systems
 - Focus on energy savings & cost efficiency
 - Consider using third party to verify
 - Include user training
- Continued limitation on spending MILCON in Europe
- Allowed use of O&M to build facilities related to contingency operations

Installations

- Guam
 - Placed an overall cost cap on the Okinawa to Guam relocation
 - Continues prohibition on new construction of public infrastructure
- Places limitation on the award of:
 - Cadet barracks
 - Family housing at Camp Walker
 - Appropriations placed limit on squadron operation building at Cannon Air Force Base
- Authorized land swap between Lake Lanier and Camp Merrill
- Installation physical security report required

Sourcing Restrictions

- American steel producers and fabricators must be allowed to compete
- Armor steel plate must be melted and rolled in the US
- Ball bearings must be manufactured in the US
- Limits contracting with Rosoboronexport
- Applies Berry Amendment rules to flag purchases
- No Russian Rocket Engine Suppliers
- No photovoltaic devices from China (non-U.S.)

Industrial Base

- Arsenals
 - Rescinded Secretary of the Army's authority to close an arsenal
 - Added \$225 million for arsenal sustainment
- Depots
 - Funded around requested levels
 - No significant policy changes
- Tank Plant
 - \$120 million added to “maintain critical industrial base”
- Body Armor industrial base added \$80 million

WHO WE ARE



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