

# CRS Report for Congress

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## **Adequacy of the Army's FY2004 Funding for Operations in Iraq**

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# Adequacy of the Army's FY2004 Funding for Iraq

## Summary

With the upsurge in violence in Iraq in recent months, Members of Congress and others have voiced concerns about whether the \$37.3 billion received by the Army in the fiscal year 2004 Emergency Supplemental (P.L.108-106) will be sufficient to fund operations for the remainder of the fiscal year or whether a second supplemental is needed before the end of the fiscal year. In recent testimony before the House Armed Services Committee, Chairman of the Joint Chiefs of Staff Richard Myers suggested that the Army is facing a shortfall of \$4 billion for FY2004 and stated that the Department of Defense (DOD) was assessing whether additional resources could be found from within either DOD's regular or current supplemental appropriations or whether more funds would be needed. Using monthly obligations data on the cost of Army operations in Iraq, this report estimates the size of the potential Army funding shortfall and assesses whether sufficient funding is likely to be available to fund the Army's military personnel and operation and maintenance (O&M) requirements for its wartime missions in Iraq in FY2004.

As of the end of February 2004, combined funding obligations for Iraq, Afghanistan, and enhanced security for defense installations (Operation Noble Eagle) for all services totaled \$27.0 billion or about \$3.2 billion less than forecast. For the Army in particular, however, obligations totaled \$17.9 billion or about \$1.6 billion higher than anticipated, primarily because of operations in Iraq. Based on CRS estimates for Iraq, the Army might face a shortfall in FY2004 of from \$5.3 billion to \$7.1 billion for that mission depending on assumptions about likely monthly obligations for the remainder of the year.

At the same time, however, the Army might be able to finance such a shortfall using about \$7.0 billion in funds that are available because certain other costs are proving to be lower than anticipated. For example, DOD recently lowered rates charged to the services for transportation of personnel and equipment because those rates exceeded costs. And obligations to cover enhanced security at defense installations are running about \$2 billion less than forecast. Some peacetime training exercises, which were slated for troops that are currently deployed, have also been cancelled.

This report includes monthly data on the cost of operations in Iraq, Afghanistan and enhanced security for defense installations for FY2003 and FY2004.. To assess estimates of costs for the rest of FY2004 or for the FY2005 supplemental, it could be useful for Congress to have data beyond that currently available including monthly manpower levels, cost factors for recurring costs, and distinctions between one-time and recurring costs. This report will be updated as necessary.

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# Adequacy of the Army's FY2004 Funding for Iraq

## Debate About Army Needs And Supplementals

On April 21, 2004, Chairman of the Joint Chiefs of Staff General Richard Myers suggested that the Army might be facing a shortfall in FY2004 funding for its Iraqi operations of about \$4 billion. According to General Myers, the Department of Defense (DOD) is currently reviewing whether funds will be available to finance such an Army shortfall using either regular DOD appropriations or other DOD funds within the FY2004 Supplemental before the end of the fiscal year.<sup>1</sup> In recent hearings, Members of Congress have questioned whether the Army will be able to fund its operational needs in Iraq without reducing funding for readiness-related activities such as peacetime exercises.<sup>2</sup>

Earlier this year, Members also questioned the Administration about its initial decision to wait until January 2005 to request a supplemental for the next fiscal year, FY2005, because this decision would require the military services to tap peacetime funding for occupation-related needs.<sup>3</sup> On May 12, 2004, the White House sent Congress a request for a \$25 billion "contingent emergency reserve fund" to support operations in Iraq and Afghanistan for the first part of FY2004.<sup>4</sup> This report addresses only the adequacy of the Army's FY2004 funding to cover its cost in Iraq until September 30, 2004.

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<sup>1</sup> House Armed Services Committee, *Iraq's Transition to Sovereignty*, April 21, 2004, testimony by General Myers, p. 19 and Chair, Congressman Hunter, p. 19; transcript available from Reuters. See also, *Philadelphia Inquirer*, "\$4 Billion Shortfall Seen On Iraq War," April 22, 2004, and *Los Angeles Times*, "U.S. Occupation of Iraq Running Over Budget," April 22, 2004.

<sup>2</sup> Senate Armed Services Committee, *Iraq/Afghanistan Operations*, April 20, 2004; transcript available from Reuters; *Congressional Quarterly Weekly*, "Congress Steps Up Questioning On Spending Schedule For Iraq," by Joseph C. Anselmo and John M. Donnelly, April 24, 2004; *Washington Post*, "U.S. Troops Need More Funds Soon," April 21, 2004.

<sup>3</sup> House Armed Services Committee, *Iraq's Transition to Sovereignty*, April 21, 2004, Congressman Weldon, p. 23, and Congressman Spratt, p. 26. See also, *Inside the Pentagon*, "Zakheim Discounts Worries About Funding Iraq, Afghanistan In FY-05," February 12, 2004, and *Inside the Air Force*, "Jumper Wary of Funding Gap Between Supplementals To Pay For War," February 13, 2004.

<sup>4</sup> Letter from President George Bush to Speaker of the House of Representatives J. Dennis Hastert, transmitting \$25 billion contingent emergency reserve fund, May 12, 2004; see [[http://www.whitehouse.gov/omb/budget/amendments/amendment\\_5\\_12\\_04.pdf](http://www.whitehouse.gov/omb/budget/amendments/amendment_5_12_04.pdf)].

## Pressures on the Army

The Army is managing a total of \$90.7 billion in military personnel and operation and maintenance (O&M) funding to fund both its wartime operations and support and peacetime funding for training and running military installations in FY2004. Of that total, about \$37.4 billion finances Army costs in Iraq, Afghanistan, and enhanced security for defense installations and the remaining \$53.3 billion is covering costs for the Army's peacetime active-duty personnel and O&M support. In FY2004, the Army's supplemental O&M funding is about equal to its war and occupation-related funding.<sup>5</sup> Funds from either war-related or peacetime operations, as well as funds currently budgeted for other services, could be tapped to meet a shortfall.

Of the \$65.2 billion appropriated to DOD in the FY2004 Emergency Supplemental, the Army received about \$37.3 billion or about 60% of the funding.<sup>6</sup> With the largest number of forces deployed in Iraq and Afghanistan, the Army is the service that is most vulnerable to unanticipated changes in cost. The recent announcement by DOD that additional forces will be remaining in Iraq because of ongoing conflict has heightened concerns about the adequacy of funding in FY2004.<sup>7</sup>

Because of the Army's key role and vulnerability, this report focuses on the cost picture facing the Army in the second half of FY2004, and in particular, on military personnel and operation and maintenance costs because these accounts pay for the day-to-day operating costs in Iraq and cannot easily be deferred. Decisions about investment costs, on the other hand, typically take a longer time and can, if necessary, be made at a later time.

## Estimating The Potential Shortfall and Available Resources

To reflect uncertainties in estimating total costs in FY2004, this report presents a range of estimates of the potential shortfall and outlines the assumptions underlying each estimate. The estimates use DOD's reports of contractual obligations to date and other data.<sup>8</sup> The report also includes a rough estimate from DOD of the additional expenses that may be associated with the current higher operating tempo

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<sup>5</sup> In FY2004, the Army's regular O&M funding is \$25.0 billion and its war-related funding is \$24.6 billion.

<sup>6</sup> CRS Report RL32090, *FY2004 Supplemental Appropriations for Iraq, Afghanistan, and the Global War on Terrorism: Military Operations & Reconstruction Assistance*, by Stephen Daggett, Larry Nowels, Curt Tarnoff, and Rhoda Margesson, November 13, 2003.

<sup>7</sup> House Armed Services Committee, *Iraq's Transition to Sovereignty*, April 21, 2004, p. 19 and p. 26.

<sup>8</sup> CRS relied on monthly reports from the Defense Finance and Accounting Service (DFAS) for the costs of Operation Iraqi Freedom, Operation Enduring Freedom (Afghanistan), and Operation Noble Eagle (enhanced security for defense installations) through February 2004 and Standard Forms 1002, 1176, and 133 for the Army, which track the obligation and expenditure of funds by appropriation account for both peacetime and wartime operations; those forms are available through March 2004.

and the additional 20,000 troops who may remain in Iraq for the remainder of the year. This CRS analysis then compares those estimates to resources that could be available to the Army from DOD's regular (P.L.108-87) and supplemental FY2004 appropriations (P.L.108-106), transfers and potential savings.

## **FY2004 Costs to Date For All Services: Actual vs. Forecast**

**Comparison For All Services and All Missions.** As of February 2004, obligations for all services combined for Iraq (Operation Iraqi Freedom), Afghanistan (Operation Enduring Freedom), and enhanced security for defense bases (Operation Noble Eagle) totaled \$27.0 billion, or about \$3.2 billion below DOD's forecast (see **Table 1** below).<sup>9</sup> By mission, rounded obligations to date are:

- about \$1.9 billion less than anticipated in Iraq;
- as expected for Afghanistan; and
- about \$1.4 billion less than forecast for enhanced security for DOD's installations (Operation Noble Eagle).

**Table 1. FY2004 Costs By Mission Thru February 2004:  
Actual vs. Forecast**  
(in billions of dollars)

<b>Mission</b>	<b>Obligations</b>	<b>Forecast</b>	<b>Obligations Less Forecast</b>
Iraq	22.1	24.0	(1.9)
Afghanistan	3.1	3.1	0.0
Enhanced Security	1.8	3.2	(1.4)
<b>Total</b>	<b>27.0</b>	<b>30.2</b>	<b>(3.2)</b>

**Sources:** CRS calculations based on Office of the Comptroller, Department of Defense, "Forecast: FY2004 Incremental Obligations," February 28, 2004, and reported obligations from Defense Finance and Accounting Service, *Terrorist Response Cost Report, FY2004 Supplemental Appropriation*, monthly reports from October 2003 to February 2004.

**Notes:** Totals may not add due to rounding. Excludes procurement funds from the FY2003 Emergency Supplemental that were obligated in FY2004 as well as pricing adjustments to contracts made in FY2003. DOD's forecast includes only projected obligations of funds appropriated in the FY2004 Emergency Supplemental (P.L.108-106). May not add to total due to rounding.

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<sup>9</sup> Office of the Comptroller, Department of Defense, "Forecast: FY2004 Incremental Obligations," February 28, 2004. Data on actual obligations from monthly reports by the Defense Finance and Accounting Service, *Terrorist Response Cost Report, FY2004 Supplemental Appropriation*, October 2003 to February 2004 monthly reports.

**Volatility of Monthly Costs Makes Prediction Difficult.** These totals, however, represent only a snapshot in time, which may be misleading because of the month-to-month variation in obligations data. Monthly obligations - sometimes referred to by DOD as the monthly “burn rate” - have varied considerably for each of the three missions, for example:

- from a low of \$3.2 billion in February 2003 to a high of \$6.5 billion in January 2004 for Iraq;
- from a low of \$180 million in February 2004 to a high of \$850 million in December 2003 for Afghanistan; and
- from a low of \$200 million in November 2002 to a high of \$1.1 billion in September 2003 for enhanced security (see **Table A-1** in the appendix; see also **Table A-2** for Army examples).<sup>10</sup>

The volatility of monthly obligations may reflect the stage of the operation (e.g. the buildup for Iraq in the spring of 2003), variations in operating tempo, or the signing of large contracts in a particular month (e.g. the Army signed a large support contract in January 2004). Obligations measure the cost of contracts signed and military and civilian checks issued in a given month, not the actual expenses in a given month.<sup>11</sup>

## Army’s War-Related Costs

**Total Costs to Date Exceed Plans.** To see the cost picture facing the Army, **Table 2** shows cumulative obligations to date for each service and defense agencies. As of February 2004, obligations for the Army exceeded DOD’s forecast by \$1.6 billion even before the recent upsurge in conflict and DOD’s decision to keep additional troops in Iraq. Air Force obligations are currently running about \$2.6 billion below projections, reflecting primarily slower-than-anticipated obligations of procurement contracts.<sup>12</sup> Marine Corps and Navy obligations are close to those forecast. Obligations for defense agencies and reserve forces are \$2.1 billion less than forecast.<sup>13</sup>

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<sup>10</sup> All figures from Defense Finance and Accounting Service, *Terrorist Cost Response Reports*, monthly.

<sup>11</sup> DOD does not report actual expenses or outlays for Afghanistan, Iraq, or enhanced security.

<sup>12</sup> DOD forecast procurement obligations would total \$3.5 billion and obligations to date total \$1.3 billion for the Air Force; see DOD, “Forecast of FY2004 Obligations,” February 28, 2004 and DFAS, *Terrorist Response Cost Report*, February 2004.

<sup>13</sup> All comparisons include only obligations categorized as FY2004 obligations in order to be consistent with DOD’s forecast, which includes only FY2004 obligations. All figures from DFAS, *Terrorist Cost Response Report, FY2004 Supplemental*, October 2003 - February 2004.

**Table 2. FY2004 Costs By Service Thru February 2004:  
Actual vs. Forecast**  
(in billions of dollars)

Service	Obligations	Forecast	Obligations Less Forecast
Army	17.9	16.3	1.6
Navy	1.4	1.3	0.2
Marine Corps	0.9	1.1	(0.2)
Air Force	5.0	7.7	(2.6)
Other <sup>a</sup>	1.7	3.8	(2.1)
<b>Total</b>	<b>27.0</b>	<b>30.2</b>	<b>(3.2)</b>

**Sources:** CRS calculations based on Office of the Comptroller, Department of Defense, "Forecast: FY2004 Incremental Obligations," February 28, 2004, and Defense Finance and Accounting Service, *Terrorist Response Cost Report, FY2004 Supplemental Appropriation*, October 2003 to February 2004 monthly reports.

**Notes:** Includes only FY2004 obligations for both forecast and reported obligations. May not add to total due to rounding. February 2004 data are the most recent available.

<sup>a</sup> Other includes defense agencies and reserve appropriations.

The Army's current net shortfall in obligations reflects costs that are \$2.0 billion higher than anticipated for Iraq and \$300 million for Afghanistan. At the same time, costs for enhanced security are about \$800 million lower than anticipated (see **Table 3**).

**Table 3. Army FY2004 Costs By Mission Thru February 2004:  
Actual vs. Forecast**  
(in billions of dollars)

Mission	Obligations	Forecast	Obligations Less Forecast
Iraq	15.6	13.6	2.0
Afghanistan	1.2	0.9	0.3
Enhanced Security	1.1	1.9	(0.8)
<b>TOTAL</b>	<b>17.9</b>	<b>16.3</b>	<b>1.6</b>

**Sources:** CRS calculations based on Office of the Comptroller, Department of Defense, "Forecast: FY2004 Incremental Obligations," February 28, 2004, and Defense Finance and Accounting Service, *Terrorist Response Cost Report, FY2004 Supplemental Appropriation*, October 2003 to February 2004 monthly reports.

**Notes:** Includes only FY2004 obligations for both forecast and reported obligations. May not add to total due to rounding.



**Estimating The Army's Potential Shortfall in FY2004.** In recent testimony, General Richard Myers, Chairman of the Joint Chiefs of Staff, told the House Armed Services Committee that the shortfall for FY2004 could be about \$4 billion.<sup>14</sup> The basis for this estimate is unclear but it may be based on the difference between the average monthly “burn rate” for FY2004 obligations to date of \$5.3 billion and the projected monthly burn rate for the year of \$5.1 billion, plus \$700 million to keep 20,000 additional troops for three months.<sup>15</sup> DOD is currently conducting a mid-year review to better determine the size of the likely shortfall and resources available to offset that shortfall.

The discussion below presents several estimates of the size of the Army's potential shortfall in FY2004.<sup>16</sup> The estimates rely on three alternative assumptions about average monthly costs, or “burn rates,” for military personnel and operations and maintenance spending:

- a longer-term average reflecting costs between February 2003 and February 2004 that covers from the beginning of the Iraq buildup through the most recent DFAS data available;
- a shorter average reflecting costs to date in FY2004; and
- a “tailored” estimate based on steady state costs prior to the latest upsurge in violence with an adjustment to reflect DOD plans to keep 20,000 troops in-country and higher operating tempo costs.

In each case, these estimates are compared to DOD's forecast of anticipated obligations based on the FY2004 Emergency Supplemental.

**Military Personnel Cost Shortfall May Be Manageable.** For military personnel, the key factors in determining costs are force levels and the extent of reliance on reserve forces. **Table 4** compares DOD's forecast with three estimates of potential costs for military personnel in Iraq for FY2004 using a longer-term average, an average based on FY2004, and a “tailored” estimate adjusted for recent developments. Based on these three estimates, the Army could face a shortfall in military personnel funding ranging from \$120 million to \$600 million in FY2004. The Army has a total of \$41.1 billion in military personnel funding from the FY2004 regular and FY2004 supplemental appropriations.

Total force levels for Operation Iraqi Freedom — including both support forces and forces in-country — were slated to drop from a highpoint of 252,000 in April 2003 to 220,000 in September 2003 to 157,000 by September 2004. Force levels in-

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<sup>14</sup> House Armed Services Committee, transcript of hearing, *Iraq's Transition to Sovereignty*, April 21, 2004; available from Reuters news service.

<sup>15</sup> CRS calculations based on DFAS monthly obligations reports.

<sup>16</sup> These estimates exclude \$1.2 billion in Army investment funds, a relatively small part of the total of \$36 billion for the Army for operations in Iraq because decisions about use of procurement funds can be delayed because those funds are available for three years.

country were projected to drop from about 165,000 in April 2003 to 147,000 in September 2003 to 99,000 in September 2004.<sup>17</sup> During the spring of 2004, troop levels were to be higher temporarily during the rotation of troops when those initially deployed to Iraq swapped out with newly-arriving troops. The Army provides most of the troops in Iraq.

**Table 4. FY2004 Cost of Army Military Personnel for Iraq:  
Estimated vs. Forecast**  
(in billions of dollars)

Assumptions Underlying Estimate	Monthly Average	Estimated Total	Estimate Less Forecast
DOD forecast	.77	9.26	NA
Longer-term average, based on Feb. 03 -Feb. 04 average <sup>a</sup>	.70	8.66	.60
FY2004 To Date, Oct. 03 - Feb. 04 <sup>b</sup>	.76	9.11	.15
Adjusted Baseline, based on Oct. 2003 average and cost to keep 20,000 personnel for 6 months <sup>c</sup>	.76	9.12	.12

**Sources:** Defense Finance and Accounting Service, monthly obligations reports from October 2003 to February 2004. Reported obligations for FY2003 include adjustments made by the Under Secretary of Defense, Comptroller, to reflect more accurately costs in Iraq vs. costs in Afghanistan. Forecast from Office of the Secretary of Defense, Comptroller, as of February 28, 2004.

**Notes:** Figures rounded to tens of billions. Total for FY2004 includes cumulative obligations through Feb. 2004 plus estimate for the remainder of the year. CRS calculations are based on DOD's obligation reports and assumptions below. Obligations through February 2004 are the most recent available. NA = not applicable.

- <sup>a</sup> Long-term average includes a buildup in forces in the spring of 2003 and a draw down in the fall after major combat operations were completed, followed by higher costs during the winter and spring of FY2004 for the planned rotation of forces, when both incoming and outgoing forces were to be retained temporarily.
- <sup>b</sup> Average during FY2004 includes part of the buildup for the rotation of forces planned for the spring of 2004.
- <sup>c</sup> Adjusted baseline projects the remainder of FY2004 using the cost in October 2003 with an adjustment of \$350 million to cover the cost of keeping an additional 20,000 military personnel in-country for six months.

Costs for Army military personnel were forecast to grow from \$628 million in October 2003 to a high of \$930 million in March 2004 at the height of the swap-out, and then fall by the end of the year to \$750 million per month. The Army's costs do not drop in proportion with force levels perhaps because of DOD's plans to increase

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<sup>17</sup> Figures from OSD/C *Briefing to House Budget Committee*, February 2004. Total forces include transients, forces supporting the mission in the region, and "backfill" for deployed forces.

its reliance on reserves, who cost about six times as much in incremental pay costs.<sup>18</sup> DOD is also using supplemental funding to finance the cost of paying about 30,000 active-duty forces above its planned strength levels.

Because the estimate of a \$600 million shortfall relies on an average that reflects the higher force levels in FY2003 when the Army was conducting major combat operations, that estimate may be less credible. Using an estimate based on FY2004 obligations to date has the advantage of more closely capturing current force levels but the disadvantage of including spikes in costs during the winter of 2003 when incoming troops were being trained, and the spring of 2004 when outgoing forces handed over duties to their replacements.

The “tailored” estimate has the advantage of capturing the Army’s costs before the current buildup for the rotation of forces and also reflecting DOD’s latest plans to keep 20,000 additional forces in-country for a three to six month period. To be conservative, this estimate assumes the additional 20,000 troops will be kept for six months. On the other hand, using an average for October 2003 may not capture the higher costs associated with DOD’s plans to increase its reliance on reserve forces whose incremental costs are considerably higher.<sup>19</sup>

Given the relatively small size of the estimated shortfalls and the uncertainty in these estimates, it appears likely that the Army will have sufficient resources for its military personnel in Iraq. If, however, there is a shortfall, the Army may be able to use resources originally slated for personnel rotations which may be delayed for those troops deployed in Iraq, or curtail current plans to increase reliance on more costly reserve forces.

**O&M Costs For Iraq Likely To Exceed Forecast.** Resources for the Army’s Operation and Maintenance (O&M) activities depend on a wide variety of factors, including

- force levels,
- transportation costs,
- operating tempo, and
- overseas support costs.

The cost of operating and maintaining equipment varies with the size of the forces deployed and the intensity of usage, which, in turn, depend on the types of operations conducted. The cost of supporting troops overseas is also considerably different than peacetime rates because of longer supply lines, higher costs for contracts, high security costs, and the need to build and maintain facilities overseas.

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<sup>18</sup> During OSD/Comptroller briefing to the House Budget Committee, Congressional Budget Office, on *Contingency Operations: Estimating - Funding - Execution*, February 2004, DOD officials stated that the incremental costs for activated reservists was about \$6,000 per month compared to \$1,000 per month for active-duty forces.

<sup>19</sup> For example, increasing the reserve’s share of total force levels by 2% would increase costs by about 3.6% because of the higher incremental cost of activating reservists.

For the three estimates shown in **Table 5** below, all of these factors come into play. The estimates in **Table 5** suggest that the Army could require additional resources to cover O&M costs in 2004 in Iraq ranging from \$5.4 billion to \$7.1 billion. The extent of the potential shortfall varies with the estimating assumption.

**Table 5. Army FY2004 Operation and Maintenance Costs For Iraq: Estimates vs. Forecast**  
(in billions of dollars)

Assumptions Underlying Estimate	Monthly Average	Estimated FY2004 Total	Estimate Less Forecast
DOD Forecast	1.62	19.43	NA
Longer-term average, based on Feb. 03 - Feb. 04 obligations <sup>a</sup>	2.02	25.22	5.78
FY2004 Obligations to Date, Oct. 03-Feb. 04 <sup>b</sup>	2.21	26.56	7.13
Adjusted Baseline, using most recent obligations and funds to keep additional 20,000 personnel for six months and higher operating tempo funding <sup>c</sup>	2.06	24.78	5.35

**Sources:** Defense Finance and Accounting Service, monthly obligations reports from October 2003 to February 2004. Reported obligations for FY2003 include adjustments made by the Under Secretary of Defense, Comptroller, to reflect more accurately costs in Iraq vs. costs in Afghanistan. Forecast from Office of the Secretary of Defense, Comptroller, as of February 28, 2004.

**Notes:** Figures rounded to tens of billions. CRS calculations based on cumulative obligations through Feb. 2004 plus estimate for the remainder of the year based on assumptions below. May not add to total due to rounding. NA = not applicable.

- <sup>a</sup> Long-term average includes substantial one-time costs associated with the initial deployment of forces and equipment (e.g. \$8 billion in transportation costs), major combat operations in the spring of FY2003, and spikes in October 2003 and January 2004, which reflect large LOGCAP contracts to build facilities and support troops.
- <sup>b</sup> Average during FY2004 includes some costs which appear to be one-time or may cover future costs, such as stocking up supplies for higher optempo in October 2003, and large LOGCAP contracts signed in October 2003 and January 2004 to build facilities and support troops over the coming months.
- <sup>c</sup> Adjusted baseline projects the remainder of FY2004 uses a monthly estimate of \$1.6 billion, reflecting reported obligations in February 2004 and adjustments of DOD's estimate of \$1.1 billion to cover the cost of keeping an additional 20,000 military personnel in-country for six months, and \$2.0 billion to replenish spare parts and repair equipment after a period of more intense operations.

Relying on a longer-term average has the advantage of “smoothing out” temporary dips and spikes in obligations data. On the other hand, using that 13-month average to project future costs includes substantial one-time costs that would not be relevant to costs in the remainder of FY2004, for example, \$8 billion to transport military equipment, supplies, and personnel to the Iraqi theater, and high operating tempo costs because of major combat operations conducted during the spring of 2003. These higher costs are offset, to some extent by including February

2003, the initial month of buildup and other months when O&M obligations were low.

Using a shorter average that reflects experience in FY2004 has the advantage of excluding those initial costs. On the other hand, included in the \$11 billion in O&M costs in the first part of FY2004 are spikes of \$1 billion for optempo costs and \$1.6 billion for a large support contract in October 2003 and \$1.2 billion in January for another large support contract. Those support contracts may include one-time costs to build facilities for troops as well as several months of future support costs. Including those expenses could skew the monthly average for the period and therefore overstate costs for the remainder of the year.

To develop an estimate that captures both the most recent costs and higher costs for the rest of the year due to the current upsurge in violence in Iraq, CRS created a third estimate. That estimate assumes monthly O&M costs of about \$1.6 billion based on February obligations and additions of \$1.1 billion to support the additional 20,000 troops for the remainder of the year, and \$2.0 billion to replenish parts and maintain equipment in theater after the current surge in operations.<sup>20</sup> Under those assumptions, the Army could face a shortfall of about \$5.4 billion, similar to the estimate based on a longer-term average.

**Potential Ways To Cover Higher Army O&M Costs For Iraq.** To cover a potential shortfall of from \$5.3 billion to \$7.1 billion for its higher-than-anticipated costs in Iraq, the Army could tap several sources from lower-than-anticipated costs and transfers, including:

- lower costs for enhanced security at Army bases;
- lower transportation costs;
- lower supply costs;
- deferred peacetime training activities;
- transfers of funds from the Iraqi Freedom Fund; and
- transfer of investment funds.

**Table 6** includes estimates for these potential savings totaling \$6.7 billion to \$7.0 billion. The Army could use some of the savings below, such as lower transportation costs, without transferring funds between appropriation accounts. In other cases, such as savings from lower security costs at Air Force installations, DOD would need to request a transfer of funds from the Congress. With about \$2 billion

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<sup>20</sup> In testimony before the House Armed Services Committee on April 21, 2004, General Myers, Chair of the Joint Chiefs of Staff, estimated that it would cost DOD about \$700 million to keep an additional 20,000 troops in Iraq for three months. That total included both military personnel and O&M costs. To be conservative, CRS doubled that figure, assuming that those troops would be kept for six rather than three months. The \$2.0 billion estimate for higher optempo draws on DFAS data showing that in October 2003, the Army obligated \$1.2 billion for higher optempo costs, just before a period of heightened operations, as well as other information; that amount was about six times as much as during the next four months.

remaining in its general transfer authority for FY2004 Supplemental funds, DOD can move monies between accounts with Congressional approval.<sup>21</sup>

**Lower Costs for Security at Defense Installations.** Although the Army is likely to face higher O&M costs in Iraq, DOD may have included higher-than-necessary funds to cover the cost of providing enhanced security for defense installations.<sup>22</sup> If monthly costs in the rest of the year reflect experience through February 2004, enhanced security may cost about \$2.1 billion less than forecast. Obligations to that date are about \$550 million less than forecast for the Army and about \$740 million less than forecast for the Air Force.<sup>23</sup>

**Table 6. Potential Ways To Finance the Army's Higher O&M Costs For Iraq in FY2004**  
(in billions of dollars)

Source of Savings	Potential Savings
Lower costs for enhanced security for Army and Air Force defense installations	\$2.0
Lower than anticipated transportation costs	\$1.8
Lower than anticipated costs for supplies	\$0.5
Deferral of peacetime training slated for troops that are deployed	\$0.7
Transfers from the Iraqi Freedom Fund	\$1.7 to \$2.0
Transfer of investment funds	Unknown
<b>Total</b>	<b>\$6.7 to \$7.0</b>

**Sources:** CRS estimates based on obligations reports from the Defense Finance Accounting Service, notifications to Congress of transfers, and other sources.

These savings may reflect, in part, a decision by DOD use civilian contractors rather than activated reservists to provide security at defense installations. Authority to use civilians was initially provided in the FY2003 DOD Authorization Act.<sup>24</sup> Civilian contract security personnel may cost substantially less than the \$72,000 a year average cost of activating a reservist cited by DOD.

<sup>21</sup> Congress provided DOD with \$3 billion in general transfer authority in the FY2004 Emergency Supplemental (see section 1101 in P.L.108-106).

<sup>22</sup> DOD refers to this mission as Operation Noble Eagle.

<sup>23</sup> To transfer funds from the Air Force to the Army, DOD would need to submit a prior approval reprogramming to Congress. For some time, the Army has been providing security services for many Air Force bases, including providing 8,000 reservists; some of those services may now be provided by civilians.

<sup>24</sup> See Section 332 in P.L. 107-314.

**Lower Transportation and Other Support Costs.** DOD has experienced unanticipated decreases in some support costs because of the higher operating tempo due to the war and occupation of Iraq and Afghanistan. For example, the additional demand for transportation services and spare parts generated by Iraq and Afghanistan has reduced the average cost of providing spare parts and transportation services in part because overhead costs are spread over a higher workload.<sup>25</sup>

DOD recently transferred about \$1 billion to Army O&M accounts to reflect the fact that the prices charged to Army and other commands for transportation costs were higher than necessary to cover costs. The Transportation Command lowered its rates for the current year for the same reason.<sup>26</sup> Together, these decisions reduce costs for both peacetime and war-related operations below the funding that was included in the FY2004 regular and supplemental appropriations acts. For similar reasons, other supplies and services may also be overpriced. Fuel costs may also be less than anticipated because Kuwait has provided U. S. forces with free fuel.<sup>27</sup>

**Deferral of Peacetime Training Exercises.** Because of the large number of Army troops deployed — considerably larger than anticipated when the FY2004 budget was constructed — some planned exercises may not be conducted this year. Savings from those exercises could be applied to finance the Army's operations in Iraq.<sup>28</sup> Although the Army will need to conduct training exercises when those troops return, O&M funds for this year's exercises may be greater than needed.

**Transfers from the Iraqi Freedom Fund.** In FY2003, Congress provided \$15.8 billion in the Iraqi Freedom Fund, a flexible transfer account. DOD is

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<sup>25</sup> Although DOD estimates of supplemental costs are intended to reflect incremental costs, they do not appear to have captured the effect of spreading fixed costs for transportation and other supply services over the much larger base of wartime and peacetime usage. When prices for supplying parts or providing services exceed costs, cash accumulates in the working capital funds which provide those services beyond the amount needed to carry out business. That excess cash can either be transferred to the “customers,” the services, whose O&M accounts finance these costs, or DOD can lower the rates charged to the services.

<sup>26</sup> The recent lowering of rates is in addition to congressional actions in the FY2004 DOD Appropriations Act. As a matter of policy, the organizations that stock supplies or provided services, known as working capital funds, set prices to cover but not exceed the cost of providing goods and services to the various commands. When the prices charged exceed the cost, prices are cut in the following year or customer accounts receive refunds. See, for example, Section 8104 in H.Rept. 107-283; see also, S.Rept. 108-87 for reductions of \$200 million in the Air Force working capital fund to reflect “excess requirements,” and reduction of \$107 million in Army, working capital fund reductions, p. 41 and p. 31. The defense authorizers also reduced working capital funds for the same reason — excess cash balances; see for example, H.Rept. 108-354, p. 648. To reduce cash balances in the working capital funds, Congress directed DOD to transfer cash in the working capital funds to the O&M customer accounts.

<sup>27</sup> DOD generally relies on the most recent cost factors used by the services to estimate the incremental cost of military operations. Those factors would not reflect the effects of the higher workload. Information from services.

<sup>28</sup> The Army could apply savings in operating costs to war-related operating costs without submitting a transfer request.

permitted to transfer those funds to individual appropriation accounts five days after notifying Congress. To date, DOD had transferred about \$1.2 billion of those resources to Army, O&M to fund body armor for troops in Iraq, repair of oil facilities, and administrative support costs of the Coalition Provisional Authority.<sup>29</sup>

DOD's forecast of obligations included only funds from the FY2004 Emergency Supplemental. Transfers of FY2003 monies thus provide additional resources to finance expenses experienced in FY2004, and so could reduce the size of the estimated shortfall outlined above.

DOD also may be holding additional funds in the Iraqi Freedom Fund (IFF) to be transferred to the services at a later date. For example, there appears to be about \$300 million still available from the FY2003 Iraqi Freedom Fund that could be provided to the Army. About \$600 million may also remain available from FY2004 IFF monies that could be transferred to cover higher than anticipated Army costs.

***Transferring Procurement Funds from Emergency Supplementals.***

To re-capitalize or replace stocks damaged or destroyed in wartime, the FY2004 Emergency Supplemental included \$5.9 billion in procurement and Research Development, Test & Evaluation funds, some of which could be transferred to cover higher-than-anticipated operating costs if necessary.<sup>30</sup> DOD has required additional justification from the services for use of these procurement monies because of concern that the funds be used only for the equipment most likely to be needed.

## **Adequacy Of Information To Assess War-Related Costs**

The variation in the estimates above, and in the underlying obligations data, suggests that Congress may need more detailed information on costs in Iraq and Afghanistan, particularly in order to assess the FY2005 Supplemental. Although DOD has provided monthly obligations data by mission, those data are inherently variable. It might be more useful to track outlays, which might better reflect costs incurred.

It might also be useful for DOD to provide Congress with monthly manpower levels by mission since September 2001, planning assumptions, and the cost factors associated with maintaining forces in-country or in the surrounding areas. DOD did not provide this information in its justification materials submitted with the FY2002, FY2003, or FY2004 Supplemental requests. With that information, Congress could

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<sup>29</sup> An additional transfer of \$450 million for Coalition Provisional Authority expenses appears to be pending.

<sup>30</sup> See Table 3 in CRS Report RL32090, *FY2004 Supplemental Appropriations for Iraq, Afghanistan, and the Global War on Terrorism: Military Operation & Reconstruction Assistance* by Stephen Daggett, Larry Nowels, Curt Tarnoff, and Rhoda Margesson. DOD would have to get approval from Congress to transfer funds between appropriations account. Some of this funding may already have been allocated to the services.



better assess DOD's request, taking into account anticipated troop levels during FY2005. In addition, a presentation that segregates one-time from recurring costs could be particularly helpful in assessing future requests for supplemental funds in the years to come since much of the "fixed cost" of deploying equipment and setting up facilities for troops in Iraq has been incurred.

**Table A-1. Monthly Cost of Iraq, Afghanistan and Enhanced Security, October 2003 - February 2004**  
(in billions of dollars)

Month/Mission	Iraq	Afghanistan	Enhanced Security	Total
10/02	0.0	0.7	0.3	1.0
11/02	0.0	0.8	0.2	1.0
12/02	0.0	1.0	0.3	1.3
1/03	0.4	1.3	0.3	2.0
2/03	3.2	1.0	0.5	4.6
3/03	6.8	0.8	0.8	8.4
4/03	6.0	0.9	0.7	7.5
5/03	4.4	0.8	0.2	5.4
6/03	5.1	1.5	1.0	7.6
7/03	5.9	0.6	0.5	6.9
8/03	3.7	1.6	0.6	5.8
9/03	7.1	1.3	1.1	9.4
10/03	6.3	0.7	0.6	7.6
11/03	2.8	0.7	0.4	3.8
12/03	4.3	0.9	0.4	5.5
1/04	7.0	0.7	0.4	8.0
2/04	3.3	0.4	0.2	4.0
<b>Average, 10/03 through 2/04</b>	<b>4.7</b>	<b>0.9</b>	<b>0.5</b>	<b>6.1</b>
<b>Average, 10/03 through 2/04</b>	<b>4.7</b>	<b>0.7</b>	<b>0.4</b>	<b>5.8</b>

**Sources:** CRS calculations from Defense Finance and Accounting Service, *Terrorist Response Cost Reports*, October 2003-February 2004; For FY2003, includes obligations as adjusted by Office of the Secretary of Defense/Comptroller to reflect mis-allocation of costs between Afghanistan (Operation Enduring Freedom) and Iraq (Operation Iraqi Freedom) when forces were initially deployed in the spring of 2003. DOD refers to enhanced security measures taken after the 9/11 terrorist attacks as Operation Noble Eagle.

**Notes:** Includes \$2.3 billion in FY2003 funds that were obligated in FY2004. Includes all costs — Military Personnel, Operation and Maintenance, Procurement and RDT&E. May not add to total due to rounding.

**Table A-2. Army's Monthly Obligations for Iraq,  
Afghanistan and Enhanced Security**  
(in billions of dollars)

<b>Month/Mission</b>	<b>Iraq</b>	<b>Afghanistan</b>	<b>Enhanced Security</b>	<b>Total</b>
10/02	0	2	0.1	0.3
11/02	0	0.4	0.1	0.5
12/02	0	0.5	0.1	0.5
1/03	0.3	0.5	0.1	0.8
2/03	1.2	0.5	0.1	1.7
3/03	3.6	0.5	0.5	4.5
4/03	3.6	0.5	0.2	4.2
5/03	1.7	0.5	0.3	2.5
6/03	2.3	0.5	0.4	3.2
7/03	3.1	0.4	0.2	3.7
8/03	1.9	0.5	0.2	2.6
9/03	3.1	0.4	0.2	3.7
10/03	5.1	0.5	0.5	6.1
11/03	1.8	0.2	0.3	2.3
12/03	3.0	0.3	0.1	3.5
1/04	3.8	0.2	0.2	4.3
2/04	1.9	-0.1*	-0.1*	1.7
<b>Average, 10/02 through 2/04</b>	<b>2.6</b>	<b>0.4</b>	<b>0.3</b>	<b>3.2</b>
<b>Average, 10/03 through 2/04</b>	<b>3.9</b>	<b>0.3</b>	<b>0.3</b>	<b>4.5</b>

**Sources:** CRS calculations from Defense Finance and Accounting Service, *Terrorist Response Cost Reports*, October 2003-February 2004; For FY2003, includes obligations as adjusted by Office of the Secretary of Defense/Comptroller to reflect mis-allocation of costs between Afghanistan (Operation Enduring Freedom) and Iraq (Operation Iraqi Freedom) when forces were initially deployed in the spring of 2003. DOD refers to enhanced security measures taken after the 9/11 terrorist attacks as Operation Noble Eagle.

**Notes:** In order to better capture monthly obligations for that can be compared to forecast, excludes \$2.1 billion in FY2003 funds that were obligated in FY2004; forecast includes only FY2004 Supplemental funds. Includes all costs: Military Personnel, Operation and Maintenance, Procurement and RDT&E. Excludes about \$2.0 billion in primarily procurement funds that were obligated in FY2004 using FY2003 funds. May not add to total due to rounding.

\*Minus indicates that de-obligations exceeded obligations.