

PREPARED REMARKS BY

THE HONORABLE MICHAEL J. MCCORD  
UNDER SECRETARY OF DEFENSE (COMPTROLLER) / CFO

ON THE DEPARTMENT OF DEFENSE FISCAL YEAR 2023 BUDGET

BEFORE THE

HOUSE COMMITTEE ON THE BUDGET

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## **Introduction**

Chairman Yarmuth, Ranking Member Smith, and distinguished Members of the Committee:

Thank you for this opportunity to testify on the President's FY 2023 budget request for the Department of Defense.

Chairman Yarmuth, thank you for your service to the people of Kentucky, to the House, and to our country. I wish you and your family, especially your young grandson, all the best as you prepare to retire at the end of this Congress.

It's a pleasure to appear before you today for the second year in a row. It is now nearly 20 years since I served on the staff of this committee, and as someone who spent nearly all my legislative branch career in the other body, I will always appreciate my time in the people's House. I appreciate the key role this committee plays in exercising the congressional power of the purse to address our nation's priorities.

## **The President's FY 2023 Budget Request for National Defense**

Last month, President Biden released his FY 2023 budget request, which includes \$773.0 billion in discretionary funding for the Department of Defense, representing a 4.1 percent increase over the FY 2022 enacted amount (excluding supplemental funding) and an 8.1 percent increase over last year's request. This represents the largest budget request, in nominal terms, in the history of the Department.

Including the atomic energy defense programs of the Department of Energy and other national defense programs outside the Department of Defense, the Administration's request for the National Defense function for fiscal year 2023 totals \$813.3 billion in discretionary funding and \$827.0 billion when mandatory funding is included.

The Department of Defense has one mandatory spending proposal of note in this budget, which is to expand the accrual-based funding of healthcare for Medicare-eligible retirees (generally those age 65 or older) to include all military retirees. This expansion of the current Medicare-Eligible Retiree Health Care Fund (MERHCF) to a "Military Retiree Health Care Fund" helps the Department on several fronts, including: protecting us from the risk of significant execution year

reprogramming actions due to changes in health care costs, providing funds for the retiree population's mandatory health care costs during possible continuing resolutions and shutdowns, and lastly, from an audit perspective, implementing best practices by recognizing and funding liabilities when they occur – and addressing the roughly \$260 billion unfunded liability for military retiree healthcare by transferring the liability from DoD to the general Treasury, while converting to accrual funding going forward. The Department has submitted a FY 2023 legislative proposal with a FY 2024 start date in support of this request. The remainder of my testimony will describe our discretionary budget request.

### **The President's FY 2023 Budget for the Department of Defense (DoD)**

The FY 2023 budget was submitted to the Congress along with the new classified 2022 National Defense Strategy (NDS) and was designed to align with the interim National Security Strategic Guidance and draft National Security Strategy. The budget supports the NDS priorities, fulfilling Secretary Austin's direction to match resources to strategy, strategy to policy and policy to the will of the American people. This budget fulfills those priorities and invests in U.S. strength through the three primary lines of effort in our strategy: integrated deterrence, campaigning, and building enduring advantages.

While Russia is an acute threat, as their unprovoked further invasion of Ukraine demonstrates, China and its ambitions remain the Department's pacing challenge across the longer term. You will see in this budget that we put our funding where our priorities are. But let me be clear, many of our key investments do not fall neatly into a China or Russia category. We prioritized investments in foundational capabilities that address our challenges from both China and Russia. First and foremost, we invested in our resilience in space and the modernization of our nuclear triad, followed by our cyber capability, our use of artificial intelligence (AI), the health of our force and taking care of the people that make our Department great, and the robustness of our supply chain and industrial base.

This budget supports a strategy that directs DoD to continue modernizing our forces, global posture, and operational concepts to ensure our military is capable of deterring and defending against aggression, particularly in the Indo-Pacific and in Europe, to protect the vital national interests of the U.S. and the security of our Allies and partners.

The budget aligns our capabilities to confront a dynamic landscape imposing new demands on the Department, at home, abroad, and across boundaries. This budget continues to modernize at speed and scale, while advancing key warfighting concepts, and investing strategically for the future.

As with every budget, we made hard choices. Missions, programs, and platforms need to evolve and be re-prioritized to keep up with our competitors and retain U.S. leadership and dominance.

### **Highlights of the FY 2023 Defense Budget**

As mentioned previously, the Department will advance our goals through three primary channels -- integrated deterrence, campaigning, and actions that build enduring advantages. These three approaches are the heart of our strategy and are the organizing framework for this budget.

**Integrated deterrence** entails developing and combining our strengths to maximum effect, by working seamlessly across warfighting domains, geographic theaters, spectrums of conflict, other instruments of U.S. national power, and our network of Alliances and partnerships. Integrated deterrence is enabled by combat-credible forces, backstopped by a safe, secure, and effective nuclear deterrent.

The FY 2023 request for Procurement and Research and Development totals \$276 billion, the largest in the history of the Department. This increase will continue to support mission areas by investing \$56.5 billion to develop and field lethal air forces which includes fielding and procuring new F-35s and F-15EX fighters. It also includes investments totaling \$27.9 billion for shipbuilding, and \$12.6 billion to provide our Soldiers with improved firepower, maneuver, and command and control.

Our investments in multi-domain platforms, resilient communication systems and ground, air, and maritime-delivered fires will increase the lethality of our Joint Force and enhance our ability to deter threats today and tomorrow.

Nuclear weapons provide the foundational strategic deterrent effects that no other element of U.S. military power can replace. This budget builds on previous modernization gains and invests \$34.4 billion to simultaneously upgrade all three

legs of the nuclear triad and vital elements of the Nuclear Command, Control, and Communication system.

Our adversaries are fielding new capabilities and we must act today to counter. This budget invests \$24.7 billion to enhance U.S. missile defense capabilities to defend the homeland, deployed forces, and Allies and partners against increasingly complex adversarial threats.

Our budget includes \$7.2 billion to procure the proper mix of highly-lethal, precision weapons—from subsonic to hypersonic—that will enable U.S. forces to deter our adversaries from operationally relevant ranges. This includes the fielding of hypersonic weapons in land, air, and sea platforms.

Space capabilities are a critical component of U.S. military power. China and Russia continue to field weapons to deny or destroy our space capabilities. Lasers, electronic warfare, grappling systems, and projectiles are a few technologies our adversaries have fielded or are developing to blind, jam, or destroy U.S. space systems. This budget invests \$27.6 billion to accelerate the transition of U.S. space capabilities toward resilient space architectures that can defeat adversary attacks and provide continuous warfighting capabilities supporting key missions.

In the cyber domain, as in space, U.S. prosperity and military success depend on defending our networks from malicious action from adversaries and non-state actors. This budget invests \$11.2 billion to continue modernization of our network defense capabilities, resulting in a more secure and resilient DoD information network and defense industrial base.

**Campaigning** is the second way we advance the strategy – well-planned and sequenced exercises and initiatives to advance our priorities. Campaigning will strengthen deterrence and enable us to gain advantages against the full range of competitors’ coercive actions. The United States will operate forces, synchronize broader Department efforts, and align DoD activities with other instruments of national power, to undermine acute forms of competitor coercion, complicate competitors’ military preparations, and develop our own warfighting capabilities together with Allies and partners. Campaigning reinforces our forward-deployed presence to strengthen our network of security partnerships around the world.

The Department is prioritizing China as its pacing challenge. China represents the most consequential and systemic challenge to U.S. vital interests and to a free and open international system. This budget invests \$6.1 billion in critical DoD requirements in the Indo-Pacific – resilient and distributed capabilities and force posture, as well as advanced long-range strike and robust command and control capabilities. It also funds activities that enhance U.S. force posture, infrastructure, presence, and readiness, including \$892 million for the defense of Guam.

In Europe, DoD continues to recognize Russia as an acute threat. The budget, which was formulated prior to the Russian invasion of Ukraine, provides \$4.2 billion for the European Deterrence Initiative to combat both conventional threats and hybrid activities through enhanced defense integration with European allies and partners including \$300 million for the Ukraine Security Assistance Initiative. We are regularly assessing our ongoing efforts to help Ukraine defend itself and we will work closely with Congress to ensure continued, strong support for Ukraine.

In total, this budget includes nearly \$5 billion to bolster interoperability activities and operations within Europe, to include \$600 million for security cooperation activities in the region that allow the U.S. to maintain access to key geopolitical and strategic points that are critical to conduct military operations in Europe. This budget reflects our commitment to NATO and supports Ukraine and the United States' strong partnerships with NATO Allies and other European partners.

This budget also requests \$134.7 billion to support the strategic readiness and preparedness of the Joint Force to ensure our military remains the best maintained, and our service men and women are the best trained and best equipped in the world. The request funds aviation, ship and combat support readiness activities, modernized training ranges and simulators, and joint exercises that replicate realistic combat scenarios and multi-domain forces. This investment in readiness recognizes that our Joint Force Soldiers, Sailors, Airmen, Marines, and Guardians are the source of our competitive advantage. Altogether, this budget builds and postures a strategically ready, lethal, adaptive, and resilient Joint Force.

The third way we implement our defense strategy is to **build enduring advantages** – that is, investments and policies that make the Joint Force and the systems that support it, including our industrial base partners, more agile and resilient. One of the key elements is how we manage our force and respect each other.

The Department is committed to building a safe environment to serve. This includes fully embracing a diversity of backgrounds, experience, and thought to build unity within DoD. We will build diversity, equity, and inclusion into everything we do. We will also continue our efforts to eliminate sexual assault, sexual harassment, discrimination, and extremism.

Six months ago, the Secretary approved a systematic approach to implement each recommendation by the Independent Review Commission (IRC) on Sexual Assault to create meaningful, enduring change. The FY 2023 budget includes \$479 million to implement the IRC's recommendations and to improve DoD's ongoing work to enhance accountability, prevention, climate and culture, and survivor care and support. We thank Congress for their actions in the fiscal year 2022 defense authorization bill to establish a new framework for sexual assault prevention and response and for the funding we received in the FY 2022 Omnibus to jump-start the IRC implementation. We intend to move out strongly on this issue in FY 2023.

Secretary Austin remains focused on taking care of people. That is why this budget continues the FY 2022 efforts to address concerns regarding the pockets of economic insecurity in the Force by funding the newly enacted Basic Needs Allowance to help the most vulnerable military families.

We are also committed to providing a competitive compensation package for those willing to voluntarily serve their country, including:

- A 4.6 percent pay raise for both military and civilians, and
- Implementation of the \$15 per hour minimum pay rate for Federal employees that President Biden directed.

This budget request includes additional investments to provide affordable childcare for both our military and civilian workforce. For instance, we are funding increased childcare fee assistance and expanding eligibility for both military and civilian members. It also addresses capacity issues, building two new and renovating two existing childcare development centers.

To keep pace with the revolution in technology that is already underway, this budget makes the largest investment ever in RDT&E. The \$130.1 billion RDT&E request represents a 9.5 percent increase over the FY 2022 enacted level and provides funding for mission areas such as Advance Technologies Development (\$50.7 billion), nuclear enterprise systems (\$12.6 billion), and space technology development (\$12.6 billion). It also includes \$16.5 billion in Science and

Technology investments that are innovative and versatile to ensure that our military remains the most capable in the world.

We are in a pivotal moment of accelerating industrial transformation — from decarbonization and digitization to the fourth industrial revolution. DoD is focused on renewing our enduring sources of national strength such as our industrial base. DoD has prioritized key focus areas where critical vulnerabilities pose the most pressing threat to national security, such as \$3.3 billion for the defense portion of the whole-of-government approach in advancing microelectronics, and \$605 million in kinetic capabilities to develop and expand the industrial base for key components of hypersonic munitions—and investing in the domestic capacity to produce critical chemicals for our key munitions.

A subset of the Department’s reform savings are the Department’s re-prioritization initiatives totaling \$2.7 billion. These savings will enable the Services and the Department to improve the efficiency of the force and redirect resources to higher national defense priorities. For instance,

- The **Army** is implementing a re-prioritization agenda to improve performance and affordability, such as investing in more capable, modern weapon systems rather than continuing to modify older technology.
- The **Navy** is strategically retiring less capable ship platforms, reducing costs and realigning funds to source higher priority efforts, while maintaining the strongest balance of overall capabilities.
- The **Air Force** plans to retire over 100 older, less capable, and less survivable aircraft across several platforms to field more capable systems to address emerging threats.

To train, fight, and win in an increasingly complex threat environment, the Department must also consider the effects of climate change at every level of the enterprise and invest accordingly. This budget provides investments totaling \$3.1 billion that enhance operational capability, mission resilience, and readiness while aligning us with where markets and industry are already moving in key areas such as vehicle and battery technology.

Another way in which this budget request builds resilience and readiness relates to the facilities that we provide for our service members, families, and workforce. This budget funds \$12.2 billion in Military Construction and family housing projects supporting the quality-of-life of our service members and their families to include six new barracks, three new schools, and invests \$1.3 billion for shipyard

infrastructure improvements to address critical deficiencies in support of the Navy's Shipyard Infrastructure Optimization Program (SIOP), a once-in-a-century recapitalization of our public nuclear-capable shipyards.

Our facilities investment builds on previous budget requests in environmental cleanup activities and ensures that all executable activities for the remediation of PFAS are fully funded in FY 2023. This budget also includes funding to continue to strengthen privatized housing oversight as well as ramping up housing inspections and assessments.

Further, the Secretary is continuing to take action regarding the Red Hill fuel spill incident to restore safe drinking water, remedy environmental impacts, and care for affected military families and the people of Hawaii. This budget includes \$1 billion to enable DoD to quickly address the health, environmental, and national security needs of the community and DoD, once the Navy's independent third-party assessment is complete and the requirements are well defined. As Secretary Austin announced last month, we will plan to shut down this fuel storage facility and transition to a dispersed fueling posture that better aligns with our strategy.

### **Impact of Inflation on the Department of Defense Budget**

Many members have asked how the Department calculates inflation and how it was considered in this budget request.

We paid just as much attention to the pricing of our budget as we did to the program content of our budget. When we saw prices changing last year, we immediately began to discuss the impact inflation might have on our FY 2023 budget. We took all the information available to us at the time we finalized our request and built that into our budget.

In terms of a general inflation rate, we use the growth in Gross Domestic Product (GDP) chain-weighted price index vice the Consumer Price Index (CPI). We use this GDP index not only because it is required by law, but also because it is more reflective of what we buy. The GDP price index, which measures the change in the value of the final goods and services produced in the U.S., has proven to be the most useful index, because it reflects the type of purchase the Department makes – large end items and contracted services. The CPI is less useful for DoD since it measures changes in prices for a market basket of consumer goods and services that is not reflective of what the Department purchases.

That said, this general inflation measure is not the only price growth factor used in preparing the defense budget. For example, there are several factors used in estimating our personnel and compensation costs including the growth in private sector wages as measured by the Employment Cost Index (ECI), which serves as the statutory basis for both military and civilian pay raises, and food and housing cost factors based on the U.S. Department of Agriculture's Food Cost Index and annual surveys of private sector rental costs in military housing markets.

Based on the increases we saw in the GDP price index and personnel costs over the last year, and in concert with the White House, we added \$20 billion a year to our programming content from fiscal years 2023 through 2027 in this budget. Those are the adjustments we made based on the information we had as we were finalizing our FY 2023 budget.

Projecting inflation remains a difficult task. The Department has no control over the forces that shape the prices and market conditions of the U.S. and global economy. The world kept changing after we finished the budget. We are all aware that the invasion of Ukraine rattled the markets and spiked energy prices. We don't have the effects of those changes in this budget. But neither can any of us know at this point if the conditions, such as fuel prices, that pertain today will persist into FY 2023, which is still many months in the future.

We recognize that these global economic conditions can impact our ability to deliver the capabilities this budget was built to deliver, and we are prepared to work with the Office of Management and Budget and the Congress to find the best solutions to any emerging issues that require action on this front.

## **Financial Management**

The Department's leaders all take very seriously the importance of being good stewards of taxpayer dollars and ensuring transparency for the money provided to us by Congress and the American taxpayer.

While our journey down the path to a clean audit opinion for the entire Department will never be swift enough for us, the Congress, or the American public, the Department is working to address and redress audit findings effectively and permanently. The Department has made considerable progress in recent years, this progress continues. Achieving a clean audit is a priority, not only for Secretary

Austin and Deputy Secretary Hicks, but also for the entire civilian and military leadership of the Department of Defense.

Not only do audit-driven changes help the Department's financial operations, those changes also contribute to forward momentum in DoD business reform. As the Secretary often says, business reform is not just about finding and reapplying savings to higher priorities, it is about improving organizational performance and efficiency.

The Secretary is not satisfied with the progress we made in the past year. To better focus our audit efforts this year, the Secretary directed that we focus on a narrower but foundational set of priorities this year:

- First, reconcile our fund balance with Treasury;
- Second, improve our user access controls by implementing the Identity Credential and Access Management (ICAM) system; and
- Third, produce a supportable Universe of Transactions.

We believe that focusing on these fundamentals is our best strategy to set a firm foundation for the next steps we need to take.

### **Budget Process Reform**

In the National Defense Authorization Act for Fiscal Year 2022 enacted last December, Congress created a new commission on reform of the Planning, Programming, Budgeting and Execution (PPBE) system. The PPBE system is that portion of the federal budget process internal to and specific to the Department of Defense that we use to issue strategic guidance, build plans and programs to implement that guidance, evaluate options to make resource tradeoffs, and then build a budget and five-year plan that reflects those choices.

In my judgment, our PPBE system is an effective and necessary process for an organization of our size and scope. That said, we welcome the opportunity to work with the commission and our oversight committees, on the recommendations the commission ultimately puts forth, to make ourselves better and more agile while preserving accountability to Congress, and through the Congress to the taxpayers.

The impetus for the creation of this commission is primarily a concern that the Department is not as agile as it needs to be on developing and fielding new technology in a timely manner, or on how we budget for technologies such as software development that may not neatly fit the traditional budget structure that draws bright lines between operating expenses, research and development, and the procurement and fielding of new technology.

It may be that some of these issues turn out not to be budget process issues, but the Department shares the desire to look for process improvements in this area. It is my hope that the commission will also examine the interactions between the Department and the Congress that are just as integral to our success as the internal PPBE portion of the budget process.

One example of a larger budget process concern that is not specific to the Department of Defense is the pattern we have fallen into of lengthy continuing resolutions that now leave us treading water for considerable portions of each fiscal year. In the 20-year period from end of the Cold War era through the decade sometimes known as the post-9/11 era, from fiscal years 1991 through 2010, the Department received its annual appropriations less than one month into the fiscal year, on average – about 25 days late.

In the 12 most recent years, however, from fiscal years 2011 through 2022, beginning with the near-default on the public debt that led to the Budget Control Act, our funding bill has been enacted, on average, 120 days into the fiscal year, or five times later than the average of the prior 20-year period. This is a cycle we must break, or no internal DoD process change will ever be able to deliver the agility we all seek.

In the nearly 11 months since I returned to the Department as its CFO, I have seen the Congress move quickly to give us the resources to address urgent needs, from the complicated airlift evacuation and resettlement of tens of thousands of Afghans to our current efforts to support Ukraine in its fight to remain a free and sovereign nation. We need to give our longer-term efforts to compete effectively with China and address our security challenges that same level of prompt attention.

## **Conclusion**

Protecting our national security interests around the globe for 3 percent of our Gross Domestic Product is an affordable and wise use of our resources. We also

recognize that our DoD budget consumes an amount equal to about one third of all individual income tax payments, so we are mindful of the vast commitment of resources the taxpayers make to support our efforts.

The Department of Defense and our three million active duty, Guard and reserve, and civilian employees, along with our private sector partners, underwrite the nation's security every day, working in concert with our partners at the State Department, Treasury, and so many other agencies, as our current whole-of-government response to Russia's aggression clearly demonstrates. At the same time, we have used both our manpower and our contracting capabilities to provide key support to the Department of Health and Human Services to produce and distribute vaccines to combat the COVID-19 pandemic, provided security to this U.S. Capitol complex, and responded to natural disasters.

Our budget is grounded in our strategy, and our primary focus was on increasing our capabilities, on making our force even better, not on making it larger. Given the security challenges we face, I urge the committee to fully support the President's budget request for national defense.

Thank you for the opportunity to speak with you today. I look forward to your questions.