

FAIRMONT
CONSULTING GROUP



WHAT CONGRESS ADDED TO PRESIDENT TRUMP'S FIRST BUDGET: A REVIEW OF THE FY18 NATIONAL DEFENSE AUTHORIZATION ACT

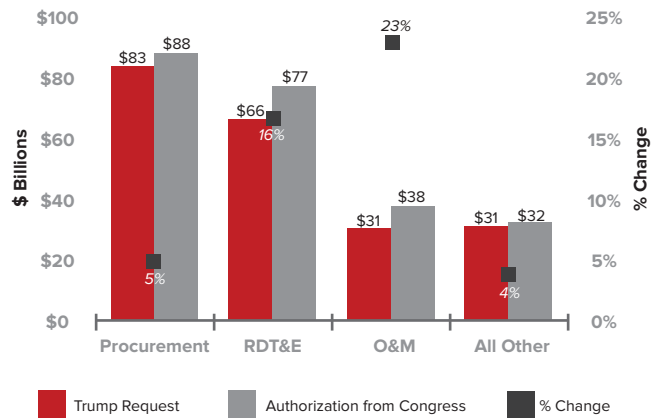
NOVEMBER 2017

On November 8th, the House and Senate Armed Services Committees announced details of the conference report for the FY2018 National Defense Authorization Act (NDAA). The bipartisan conference authorized a total base budget of \$626 billion and a total national defense topline near \$700 billion – a \$26 billion increase to President Trump’s first request.

As the NDAA moves to the President’s desk for signature, it is important to remember this authorization bill specifies the amount of money that appropriators may spend on specific programs. Subsequent appropriation legislation, handled by the House and Senate Appropriation Committees, is still required to provide discretionary funding to agencies and programs.

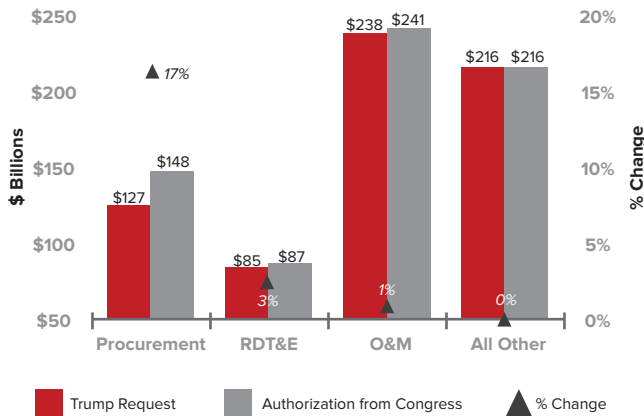
also support jobs – to prime contractors and their supply chains – in many congressional districts.

FY18 NDAA Changes in Investment Account by Service



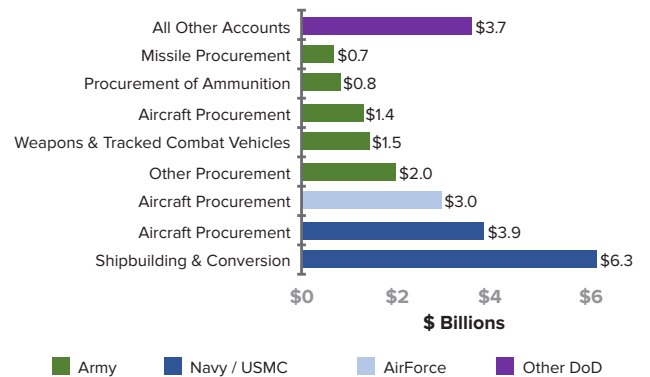
Within the investment account, which represents Procurement and RDT&E funding, the clear beneficiaries of Congress’s \$26 billion plus-up were the Army and Navy. The Navy’s authorized investment account funding increased by \$11 billion, or 16%, from President Trump’s request and the Army’s funding increase by \$7 billion, an increase of 23%.

FY18 NDAA Changes from FY18 Budget Request

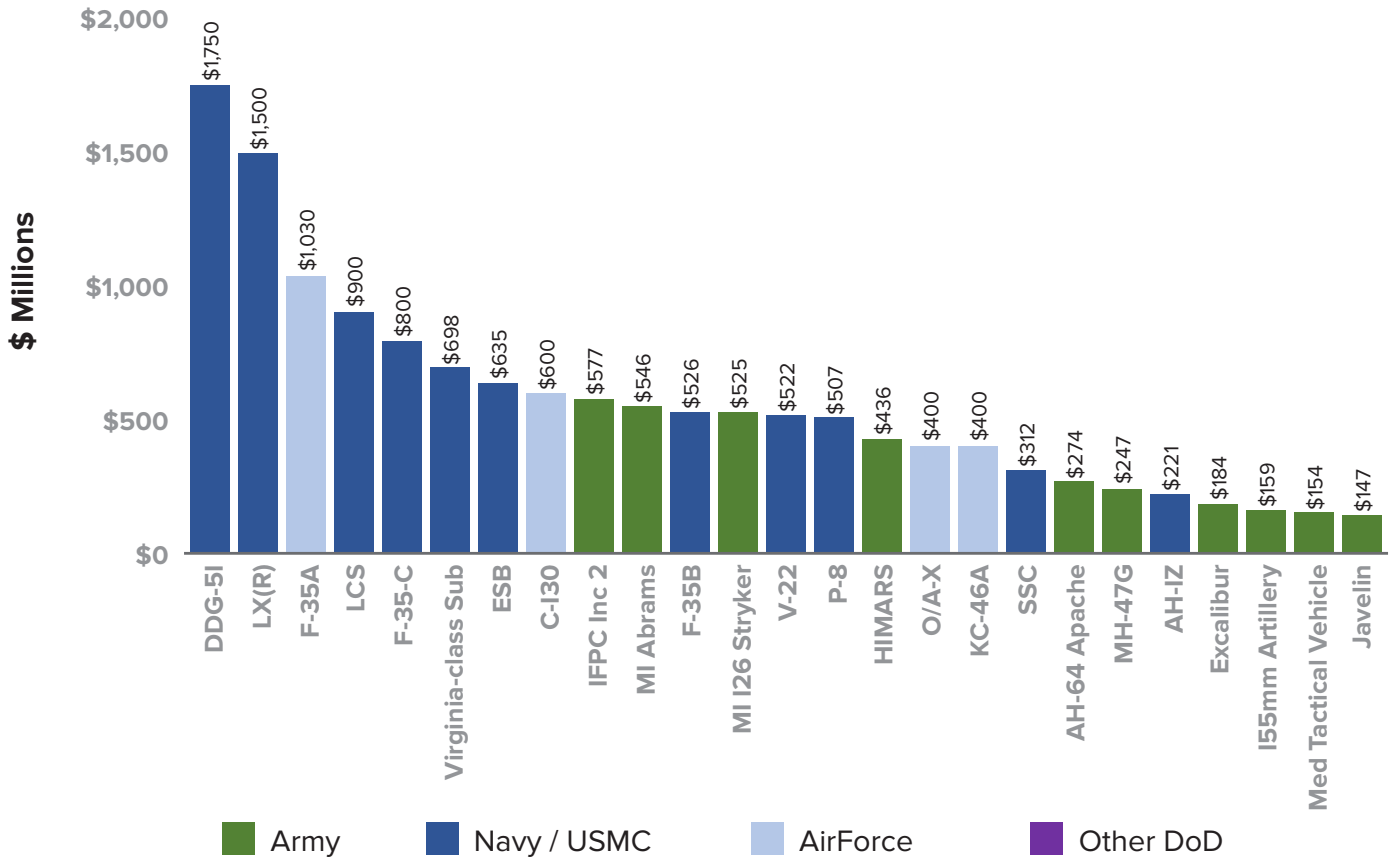


Typical of Congress, this year’s NDAA conference committee added \$21 billion to procurement accounts that will be used to buy additional ‘big-ticket’ defense items. Not only are these platforms generally included on the service’s Unfunded Requirement lists, but they

FY18 NDAA Changes by Account & Service



Top 25 Programmatic Increases in the FY18 NDAA



Those additional funds were used to acquire a mixture of big-ticket platforms, including additional ships, more aircraft, and combat vehicle improvements. Given testimony from the Secretary of the Air Force that munition stockpiles are dwindling, Congress provided a relatively minor increase to weapons accounts (~\$1.1 billion). Similarly, following tragic Naval accidents in the Pacific and a focus on readiness, Congress provided just a 1% increase in the Operations & Maintenance (O&M) account. While increased funding for weapons might have the most near-term military utility and increased O&M would have the largest impact on readiness, neither directly generates as many jobs as the production lines for ships, planes, or vehicles.

While most of the funding increases included in the NDAA will be warmly received by the Pentagon, several may not. Senator McCain has been critical of the Littoral Combat Ship (LCS) program and the Navy has elected to move forward with its Future Frigate Program to increase lethality and survivability; however, the NDAA adds funding for two LCS ships which could slow progress on the Future Frigate. The Air Force has repeatedly attempted to retire the A-10 and has even begun testing light attack aircraft to ensure the service has a platform suitable for cost-effective close air support; however, Senators and Representatives with A-10s in their districts have been successful at staving off retirement through Congressional plus-ups.

Program	NDAAs Change	Increase	Prime(s)	Key Subcontractors
F-35 JSF	F-35A +10, F-35B +4, F-35C +6	\$2,356M	Lockheed Martin	Northrop Grumman, BAE, OrbitalATK
DDG-5 I	1 additional DDG for FY 18-22	\$1,750M	Huntington Ingalls, GD	Lockheed Martin, Raytheon
LX(R)	Additional Ship	\$1,500M	Huntington Ingalls	General Dynamics, Raytheon
LCS	Additional Ship	\$900M	Austal, Lockheed	Fincantieri, GD, Hensoldt, Saab
Virginia-class SSN	3rd FY20 SSN, EOQ, or SIB expansion	\$698M	GD	Huntington Ingalls, Bechtel, Raytheon, Lockheed
C-130	Additional Mc-130s	\$600M	Lockheed Martin	General Electric, Raytheon, L-3 Communications
MI Abrams	Recapitalization and active protection	\$546M	GD	Rafael, IAI, Raytheon, Leonardo-DRS

In addition to funding changes, the NDAAs also includes several policy provisions that will affect industry’s financial outlook and how contractors interact with their DoD customers. These important non-funding issues include:

- President Trump’s request increased active duty end strength by 11,000 and the NDAAs added an additional 7,500 soldiers and 1,000 Marines; growing end strength will require additional soldier-level systems from industry
- The NDAAs authorizes \$4.7 billion for the European Deterrence Initiative and \$350 million for security assistance to Ukraine; comparatively, the counter-ISIS train-and-

equip mission was authorized just \$1.8 billion – this discrepancy indicates that DoD has begun to shift its focus to high-end conflict with near-peer adversaries

- Reemphasizes the use of Best Value as the most-favored evaluation criteria versus Lowest Price Technically Acceptable, including on EMD contracts for any major defense acquisition program
- Demonstrates continued efforts to improve the way DoD procures commercial items, including through the use of non-FAR Other Transaction Authorities

Fairmont provides its clients with best-in-class DoD budget analysis to support market situational awareness, competitive intelligence, IR&D prioritization, and other critical business decisions. All budget analysis includes the delivery of dynamic models and tools that can be used by strategy, proposal, business development professionals and senior leaders. With just three months until the release of the next DoD budget request, we look forward to understanding how our analysis and market insights can be tailored to your company’s questions, markets, and unique needs.