

NATIONAL DEFENSE The FY2023 Budget Request

Prepared by

FAIRMONT
CONSULTING GROUP

May 2022

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Reflections On The DoD's Budget Request

Six months ago, the U.S. completed its withdrawal from Afghanistan, and just one year ago, the Biden Administration advertised the elimination of DoD's Overseas Contingency Operations account. Since those events, Russia invaded Ukraine and President Biden requested \$20 billion in emergency funding for military and security assistance to Ukraine. After falling to the backburner during the 2020 presidential campaign, national security challenges have now once again arisen to the top of today's headlines.



The key strategic takeaways that Fairmont observed in President Biden's request were:

- 1) Focus on the future fight:** The Administration has prioritized China as the "preeminent pacing challenge," acknowledged Russia is pursuing a strategy to fracture NATO, and requested the largest RDT&E budget ever to develop future technologies more quickly. However, the request also makes clear that future solutions will require DoD to divest legacy platforms.
- 2) Power of the purse:** Some divestments have been previously requested but were not authorized. By choosing, for example, to decommission 24 ships and only procure 61 F-35s, it appears the Administration is expecting that Congress will add funding to the \$773 billion topline it proposed.

Three topics that are beginning to unfold and could have transformative effects are:

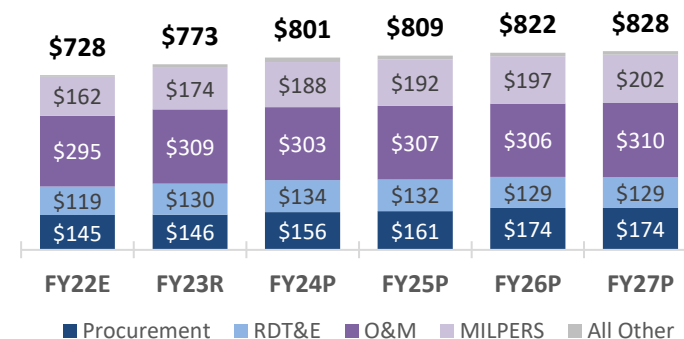
- 1) Organizational change:** Fairmont believes DoD must find ways to augment its forces and build enduring advantages against new threats. The Marine Corps' Force Design 2030 initiative was released two years ago and is promising, but now must overcome pushback from some leadership in military and industry.
- 2) Application of technologies:** Rather than prioritizing the development of "next-gen" solutions, Fairmont believes industry could more proactively find ways to apply existing technologies to solve mission requirements in innovative ways. Such an approach could leverage commercial sector advantages and deliver capability to the warfighter more quickly.
- 3) Platform blend:** The conflict in Ukraine has demonstrated that some missions can be performed by platforms that are not "exquisite." Industry should develop more attributable assets that present asymmetric advantages, and DoD must be willing and able to augment its forces and concepts of operation to employ these new tools.

– Dylan Currie
Senior Manager

A Look at the Numbers

President Biden's FY2023 budget requests funding for a Joint Force that is lethal, resilient, sustainable, survivable, agile, and responsive.

Future Year Defense Program (\$ Billions)



Looking Ahead

What events are currently on our radar that could significantly impact the budget approved by Congress for the U.S. military?

Geopolitical Events & Turmoil:

- The strategy to fracture NATO has failed after Finland and Sweden expressed a desire to join; however, Russia's invasion of Ukraine could continue for years.
- DoD leaders and international observers consider the potential for a Chinese invasion of Taiwan real.

U.S. Economy & Inflation:

- The expected inflation rates in DoD's request were developed in November 2021, but if current inflation rates are applied and do not return to the historic average until FY26, DoD would lose more than \$100B of buying power over the FYDP.

Mission Alignment



The Next Generation Squad Weapon (NGSW) supports the National Defense Strategy's goal of 'Build[ing] a More Lethal Force' by minimizing close combat capability erosion; specifically relative to peer competitors, in complex terrain.



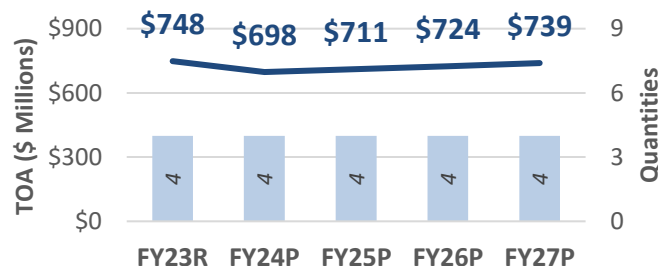
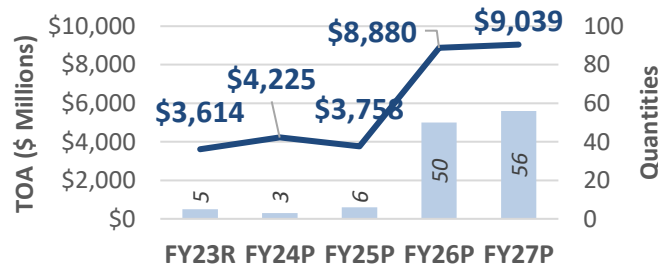
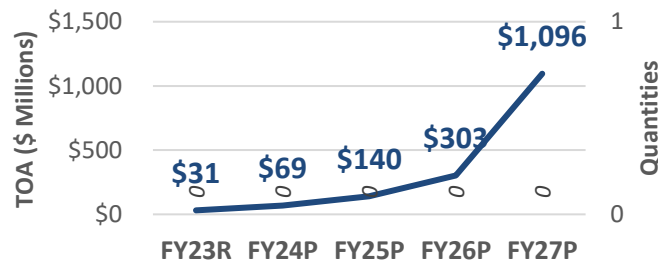
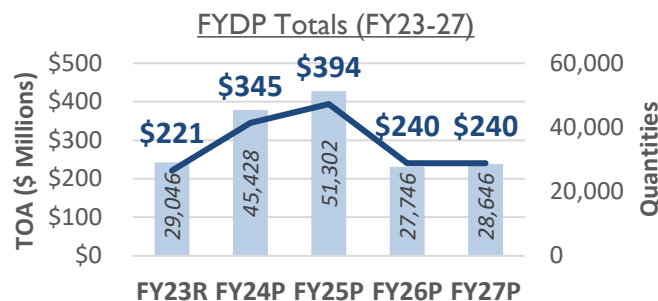
The Long Range Standoff (LRSO) weapon will be integrated onto all Air Force bombers and provide the service with a nuclear strike capability that can penetrate air defense systems from significant stand-off ranges.



In FY23, the Air Force began funding procurement of Sentinel – or, in-development, GBSD. This ICBM will replace the existing Minuteman III and serve as the nation's ground-based nuclear deterrent.



The MQ-25 Carrier-Based Unmanned Air System will perform aerial refueling and ISR missions for the U.S. Navy, extending Carrier Air Wing mission effectiveness range and mitigating current ISR shortfalls.



Justification Provided

Potential Replacement(s)

Will Congress Agree?



After christening the first prototype in February, the Navy eliminated this program from its budget. “Misalignment of... design and procurement efforts with submarine hosting interfaces result in limited availability...to conduct...operations.”

Lionfish

Designed for modularity, this UUV can be reconfigured with multiple sensors and payloads

XLUUV

The FY23 FYDP plans for an Orca production contract to be awarded next year

YES

- Congressional pushback on the quantity of manned ships requested in FY23 make it likely that it will accept any funding reductions to unmanned platforms



2018 NPR¹ identified the nuclear-armed sea-launched cruise missile (SLCM-N) as a way to “strengthen deterrence” but, in FY23, the Navy indicated that this program was “cost prohibitive and the acquisition schedule would have delivered capability late to need.”

Trident II

The only other sea-launched nuclear missile available is Trident II. The Navy requested \$9.3B of funding over the FYDP which, if enacted, would extend service life to ~2080

MAYBE

- SLCM will likely serve as a contentious item in budget negotiations between Republicans & Democrats
- In exchange for a topline increase, Republicans could accept this cut



While not a complete cancellation, the Acquisition Objective was reduced from 144 aircraft (published in FY22 request) to 72 (FY23). Lt. Gen. Nahom acknowledged that “as we look at the budgets moving forward, we’re likely to keep more of the F-15Es.”

F-35A

Despite a low Air Force request, the F-35 remains a Congressional priority

NGAD

Sec. Kendall said he expects NGAD will be an “incredibly effective aircraft”

UNLIKELY

- Until NGAD successfully reaches Milestone B (~FY28), Congress will likely procure the F-15EX at the level requested in FY23 (24 per year)



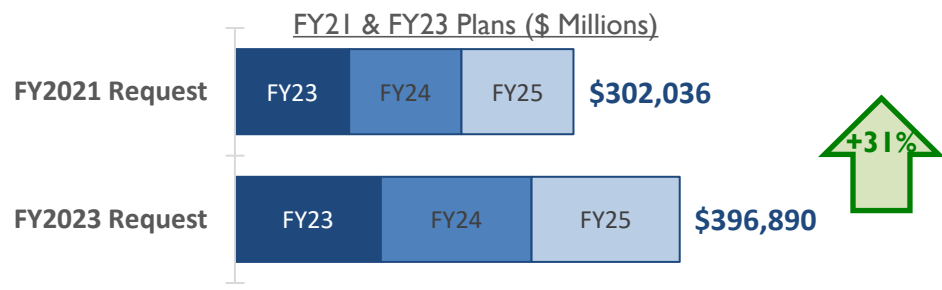
Following test failures, Sec. Kendall said in February that the Air Force would have to “make some decision about [ARRW].” In March, Maj. Gen. Peccia said the service was not walking away from the program but, he added, “an assessment” was still needed.

HACM

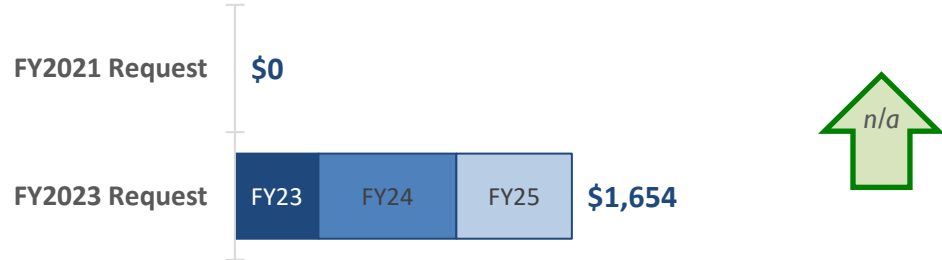
HACM utilizes a more advanced, air-breathing engine technology for propulsion, and Brig. Gen. Collins highlighted it as one of “the two big tickets that [Air Force is] looking at”

YES

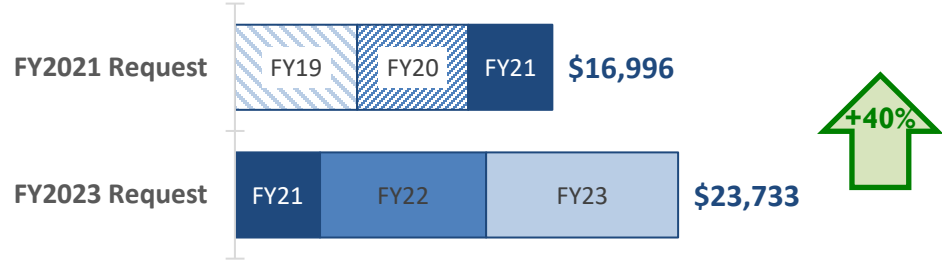
- In FY22, Congress cut DoD’s request in half due to “recent failures and delays in testing”
- The funding that was left was transferred from Procurement to RDT&E



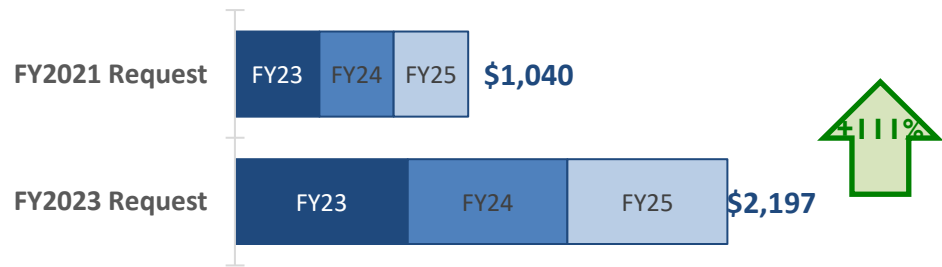
Fairmont Commentary
DoD is increasing investment in artificial intelligence and other technologies that enable rapid acquisition in order to keep pace with more advanced adversaries.



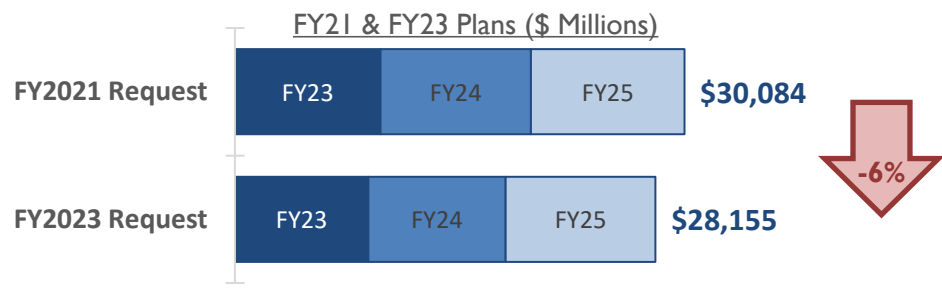
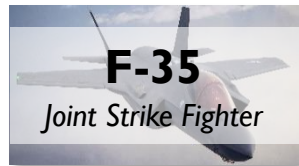
The development of the MRC will create a layered strike capability for the Army that will be utilized with other high-profile systems, such as LRHW¹ and PrSM² to deter near-peer threats.



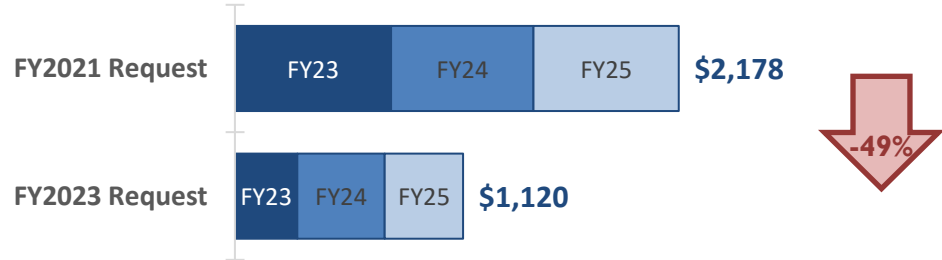
The U.S. is increasing investment in joint and enabling capabilities that support deterrence initiatives against Russia in the European theater and China in the Pacific theater.



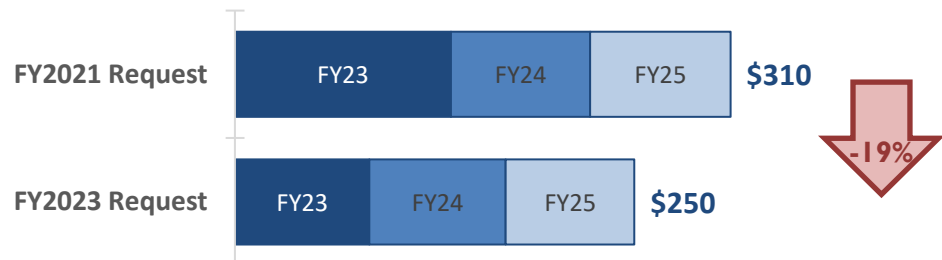
The Navy chose to continue procurement of this legacy weapon over the development of a “next-generation” solution³. The Army and Marine Corps are also testing this weapon.



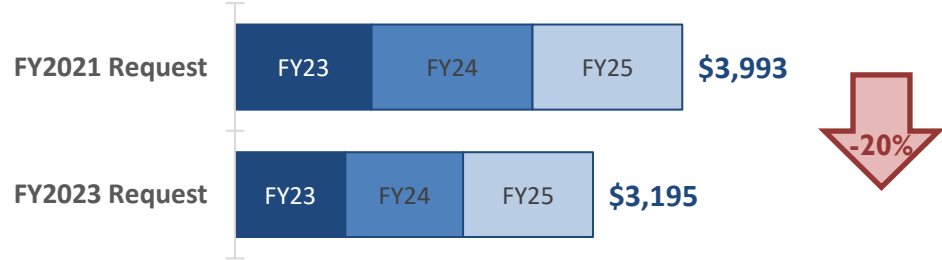
Fairmont Commentary
 From FY18-21, Congress appropriated funding for 20% more aircraft than what had been requested by DoD. Jobs provided by this program will likely result in a FY23 plus-up, too.



LCS was not designed for today's threat environment and is expensive to operate. Additionally, the ASW capability was never effective and can be substituted with the Constellation-class frigate.

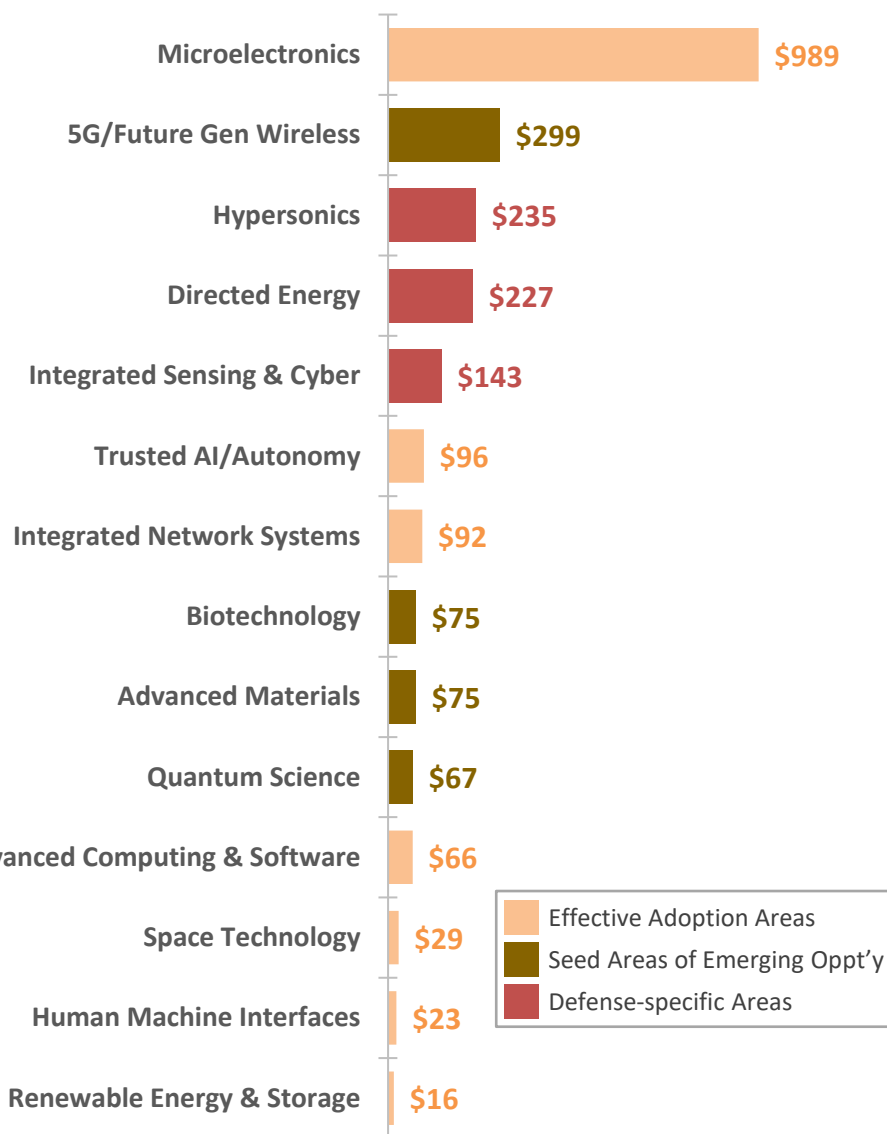


The plan to retire 42 planes in FY22 was disapproved by Congress, but only 21 are requested to be retired in FY23. By having a plan to replace that fleet with F-16s, this request could be approved.



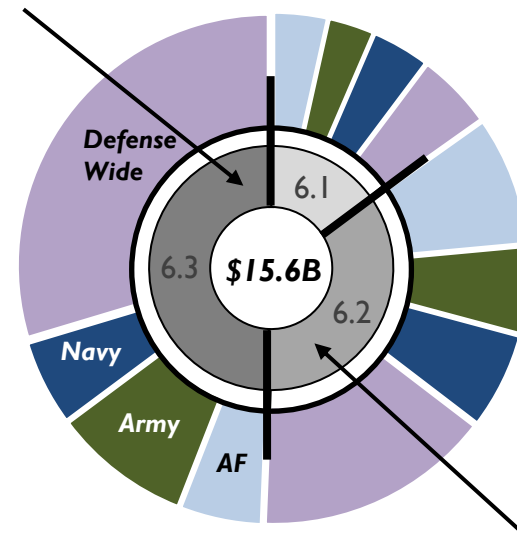
DoD's focus pivoting from counter-terrorism to advanced adversaries also impacts the type of ground vehicles required. Additionally, DoD plans to compete the next production contract.

Top OUSD R&E Investment Areas – FY2023 (\$ Millions)



Science & Technology Funding by Budget Activity – FY2023

More than 50% of S&T funding for Advanced Technology Development [BA 6.3] demonstrates a focus on providing a bridge over the “valley of death” for certain technologies to transition into formal Programs of Record.



Investments in microelectronics remain a top priority and have increased by ~50% year over year (\$655M in FY22, \$989M in FY23). These investments will mitigate U.S. vulnerability to supply chain disruptions and allow the nation to remain in a leadership position.

- ❑ Compared to the FY2022 budget that included no FYDP, this request was able to demonstrate a positive market outlook – many analysts did not expect that today’s Executive and Legislative leaders would grow the defense topline
- ❑ The request is only a starting point – Congress still must enact authorization and appropriation legislation
 - Authorizations provide legal authority for the Government to act, usually by establishing a program, policy, or activity
 - Appropriations provide the legal authority to obligate future payments and the ability to make subsequent payments
- ❑ Even with a positive macro market outlook, every industrial base participant must consider risks and opportunities
 - How could acquisition strategies evolve? Will new suppliers enter the market and be accepted by end-customers? Will new technologies replace legacy platforms and primes? How will the quickly evolving threat environment change requirements?

Opportunities from Biden’s Request and Potential Congressional Plus-ups

- Deputy Sec. Hicks said the Pentagon was committed to removing barriers that small businesses face when attempting to engage with DoD. This, in combination with funding to bridge the ‘valley of death’, could present new opportunities for innovative companies.
- Following the DoD’s contributions to Ukraine’s fight against Russia, Congress has highlighted the need for DoD to recapitalize the National Defense Stockpile.
- The above weapons and other future technologies will be developed to ensure the U.S. can deter aggression and prevail in conflict whenever necessary.

Potential Risks from Biden’s Request and Other Geopolitical Events

- A significant risk is non-kinetic (cyber) attacks against the U.S. economy and/or defense industrial base.
- Federal Acquisition Regulations limit the speed at which technologies can be developed and products delivered. Additionally, the “process is managed by people who often are unconnected to the benefits from [those] goods and services...¹”
- Following the mid-term elections, a potential Republican-led Congress could have a renewed focus on fiscal restraint, limiting continued budget growth.

Fairmont maintains a proprietary federal budget database, allowing the firm to quickly answer critical questions about agencies, platforms, programs, and future opportunities amid today’s quickly evolving threat and technology environment.