

BUDGET AND PROGRAM

NEWSLETTER

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Artificial intelligence...(AI).

OMB states...it is “one of the most powerful technologies of our time and the President has been clear that we must seize the opportunities AI presents while managing the risks.

What is it exactly?

Congressional Research Service - “Common terms in the field of AI include machine learning (ML), deep learning (DL) and neural networks.”

1) ML examines how to build computer programs “that automatically improve their performance at some task through experience” and not rules-based programming.

2) DL systems “learn from large amounts of data to subsequently recognize and classify related, but previously unobserved data.”

3) Neural networks are often described as being “loosely modeled after the human brain, consisting of thousands of millions of processing nodes.” Used in systems from autonomous vehicles to recognition technology.

A new OMB memorandum...underlays E.O. #14110 (Nov, 2023) whose proposed AI policy went through a public comment period from Nov 2 thru Dec 5.

The detailed finalized version...is now in effect.

It establishes...new agency requirements for “AI governance, innovation and risk management.”

A key link in this chain - is the selection of an agency Chief AI Officer (CAIO) - to fulfill the mandates laid out in this memorandum. To be appointed within 60 days.

Their responsibilities will be extensive...including coordinating agency use of AI, using it to advance departmental missions and adhering to new requirements focused specifically on the “risks of relying on AI to inform or carry out agency decisions and actions.”

Moreover...within 60 days - AI “governing bodies” are to be convened with relevant senior officials who will be “key enablers of AI adoption and risk management.”

Further, “rapid hiring” is to begin. “Agencies should take full advantage of available special hiring and retention authorities to fill in AI talent.”

Beyond highly specific technical roles, gov’t staffers are to also be a part of this - as agencies are to furnish training to develop internal talent, “including opportunities that provide Federal employees, pathways to AI occupations.”

Of note...OMB clarifies that this memorandum does not cover AI when it is used as a component of a nat’l security system - as this is governed thru other policies.

Be aware...this is a high-priority issue. As such, budget requests should reflect increases for the responsibilities put forward - it is expected.

It is OMB memorandum M-24-10. Runs 34 pages - new requirements/deadlines.

Department of Defense...is provided \$825B in new budget authority.

On paper a decline of \$9B - but only because of comparisons to last year containing \$35B in Ukraine supplemental funds vs zero dollars this year.

In fact...each major title moves higher as reflected in the table on the next page. More specifically...Military Personnel (+2%); O&M (+3%); Procurement (+6%); RDT&E (+6%).

The accompanying FY 2024 joint explanatory statement...runs 391 pages.

Issues being emphasized/prioritized...are located at the front of these documents.

Number one - multiyear procurement contracts for critical munitions. There is a real urgency tied to this beyond cost savings...to increase stocks; improve warfighting readiness; stabilize the defense supply base; increase industrial capacity. Reports every six months are to be provided "until all such munitions have been delivered" and include the "impact" on capacity supply chains and how multi-year contracts "have created stability."

Number two...innovation - and expeditiously translating it into "fielded capacities." Called one of the top priorities. The text notes several changes - including the organizational realignment of the Defense Innovation Unit (DIU) and provides +\$842M more and creation of the Defense Innovation Steering Group. First deadline - within 60 days, detail processes used to "pull" innovation from various defense-wide entities and "include an analysis of procedural or budgetary obstacles that inhibit the fielding of relevant and advanced systems to scale."

Within 120 days - details on DUI, to support staffing; hiring speed; physical & digital infrastructure; authorities; budgeting processes; others.

Number three...replicator initiative. Over \$200M provided which aims to field thousands of autonomous systems over the next two years. Within 60 days...briefing on spending profile per service thru 2029. Within 90 days, a report on various elements of projects with technologies consistent with the replicator initiative.

Number four...recruitment. Military services are currently in the midst of one of the "greatest recruiting crises" since creation of the all-volunteer force. In FY 2023...DOD fell 41,000 short of goals. Pay is key, and tens of millions are provided for monthly incentive bonuses; expanded basic needs allowance; enlistment bonuses (+\$80M more). Within 30 days...an interim QDR briefing on junior enlisted basic pay being raised as early as FY 2025.

FY 2024 enacted levels reflect a 32,444 decline in active forces to 1,284,500.

Further priorities...

- Within 60 days, DOD's chief digital & AI officer is to identify "collaborative objectives" for each service, combatant command and defense agencies participating in Alpha-1. The backdrop...is that DOD's AI funding is bumped to nearly \$2B this year to accelerate its adoption.

- Air Force to prepare a report for Space Force programs "that compiles and traces all existing budget lines" for programs/activities into mission areas, such as missile warning satellite communications, among others. To also include a clear statement of mission goals/plans for each mission with a "detailed and compelling justification for the requested budget, personnel requirements" etc. This report is to be fully completed in the immediate.

- Telework vs normal in-person arrangements. How much is it costing, how efficient is it- its impact on the development of employees - effectiveness of personnel in supporting classified programs - impact on organizational cohesion? Within 180 days, a report answering these questions is due. This is to also include the number of DOD employees, by grade and occupational series, who are teleworking or remote working.

Department of Defense Appropriations Act, FY 2024
(Discretionary BA in \$ millions)

	<u>Enacted</u> <u>FY 2023</u>	<u>Request</u> <u>FY 2024</u>	<u>Approved</u> <u>FY 2024</u>
<u>Grand Total</u>	<u>833,888</u>	<u>826,648</u>	<u>824,969</u>
Title I - Military Personnel.....	<u>162,966</u>	<u>168,321</u>	<u>165,689</u>
Military personnel, Army	49,628	50,364	50,041
Military personnel, Navy	36,706	38,020	36,707
Military personnel, Marine Corps	15,050	15,580	15,269
Military personnel, Air Force	35,428	36,767	36,204
Military personnel, Space Force	1,109	1,267	1,257
Reserve personnel, Army	5,213	5,367	5,367
Reserve personnel, Navy	2,401	2,505	2,473
Reserve personnel, Marine Corps	827	904	879
Reserve personnel, Air Force	2,458	2,471	2,429
National Guard personnel, Army	9,233	9,784	9,791
National Guard personnel, Air Force	4,914	5,292	5,272
Tricare funding	9,743	10,555	10,555
Title II - Operations & Maintenance.....	<u>278,075</u>	<u>290,072</u>	<u>287,191</u>
Operation & maintenance, Army	59,016	59,555	58,605
Operation & maintenance, Navy	68,260	72,245	71,972
Operation & maintenance, Marine Corp	9,892	10,282	10,185
Operation & maintenance, Air Force	60,280	62,750	61,471
Operation & maintenance, Space Force	4,087	5,017	4,896
Operation & maintenance, Defense-wide	49,575	52,768	52,599
Counter-ISIS Train & Equip Fund	475	398	398
Operation & maintenance, Army Reserve	3,206	3,631	3,563
Operation & maintenance, Navy Reserve	1,278	1,381	1,371
Operation & maintenance, Marine Corps Reserve	348	329	325
Operation & maintenance, Air Force Reserve	3,701	4,116	4,006
Operation & maintenance, Army National Guard	8,299	8,683	8,612
Operation & maintenance, Air National Guard	7,382	7,254	7,333
U.S. Court of Appeals for the Armed Forces	16	17	17
Environmental Restoration, Army	325	199	242
Environmental Restoration, Navy	400	335	410
Environmental Restoration, Air Force	574	350	385
Environmental Restoration, Defense-wide	11	9	9
Environmental Restoration, formerly used defense sites	318	233	233
Overseas humanitarian, disaster & civic aid	170	115	143
Cooperative Threat Reduction Account	352	351	351
DOD Acquisition Workforce Development Fund	112	55	65
Title III - Procurement.....	<u>162,241</u>	<u>169,057</u>	<u>172,029</u>
Aircraft procurement, Army	3,848	3,012	3,288
Missile procurement, Army	3,849	4,962	4,622
Procurement of weapons & combat vehicles, Army	4,505	3,766	4,244
Procurement of ammunition, Army	2,770	2,968	2,944
Other procurement, Army	8,668	8,673	8,627
Aircraft procurement, Navy	19,032	17,337	19,827
Weapons procurement, Navy	4,823	6,876	5,877
Procurement of ammunition, Navy & Marine Corps	921	1,293	1,161
Shipbuilding & conversion, Navy	31,955	32,849	33,665
Other procurement, Navy	12,139	14,535	14,386
Procurement, Marine Corp	3,670	3,979	3,905
Aircraft procurement, Air Force	22,196	20,135	20,828
Missile procurement, Air Force	2,999	5,530	4,694
Procurement of ammunition, Air Force	858	703	590
Other procurement, Air Force	28,034	30,418	31,327
Procurement, Space Force	4,462	4,714	4,065
Procurement, defense-wide	6,140	6,157	6,393
Defense Production Act purchases	373	969	588
National Guard & Reserve equipment	1,000	0	1,000
Title IV - Research, Development, Test & Evaluation.....	<u>139,761</u>	<u>144,880</u>	<u>148,320</u>
RDT&E, Army	17,150	15,775	17,115
RDT&E, Navy	26,017	26,922	27,965
RDT&E, Air Force	44,947	46,565	47,340
RDT&E, Space Force	16,631	19,199	18,670
RDT&E, Defense-wide	34,565	36,086	36,893
Operational test & evaluation, defense	449	331	337
Title V - Revolving and Management Funds.....	<u>1,655</u>	<u>1,683</u>	<u>1,787</u>
Title VI - Other Department of Defense Programs.....	<u>41,751</u>	<u>40,918</u>	<u>42,696</u>
Title VII - Related Agencies.....	<u>1,076</u>	<u>1,164</u>	<u>1,139</u>
Title VIII - General Provisions.....	<u>941</u>	0	-4,439
<u>Ukraine Supplemental Appropriations Act, 2023</u>	<u>7,810</u>	0	0
<u>Division M - Ukraine Supplemental Appropriations Act, 2023</u>	<u>27,868</u>	0	0

A recent executive order...seeks to “pioneer the next generation of discoveries in women’s health.”

It builds...on the “White House Initiative on Women’s Health Research” - a memorandum released late last year.

Members on it...include the secretaries of Defense; Agriculture; HHS; VA; and the head of EPA and NSF.

A key aspect...is for these member agencies to bolster women’s health research which is defined in the E.O. as “research aimed at expanding knowledge of women’s health across their lifespans, which includes the study and analysis of conditions specific to women, conditions that disproportionately impact women and conditions that affect women differently.”

These agencies - shall consider issuing new guidance including requiring applicants for federal research funding to “explain how their proposed study designs will consider and advance knowledge of women’s health.” Grantmaking should make federal investments regarding this overall issue a priority.

Within 90 days...agency members are to report on the actions taken to strengthen research/data standards to enhance the research study of this field.

HHS and NSF - are to consider the opportunities in the use of AI in this area.
Defense and VA - are to evaluate service members & veterans related to midlife women’s health issues and develop recommendations for treatment.

A number of deadlines are laid out...executive order #14120.

What has been the fastest growing category...in federal hiring since 2016?

Those will disabilities...by a wide margin.

They have more than doubled...from 9.5% of employees to 20.5%.

In that period...the overall ratio of males/females has shifted a bit, from 56.7% to 54.2% for the former with the latter rising from 43.3% to 45.8%, perhaps the highest ever.

Veterans...are still the largest category at 28.5%.

Those 55+...basically level at 28.3%. Under 30 have inched higher to 8.7%.

How many employees are back at their pre-pandemic duty stations? As of Jan, 2024...over 80%.

If you are a manager/supervisor, it may also interest you to know that agencies “are moving towards a posture whereby hybrid teams are working in-person at least half the time.” In this mix...in-person collaboration is clarified as being of “vital importance.”

Ahead, we will take a further look at topics within Analytical Perspectives.

Here are your TSP returns...for the first three months of 2024:

G (gov’t) fund...+1.05%. So far, pacing nearly double its previous 10-year average. How popular? It contains \$295B of investor monies.

C (stock) fund...+10.55% - with the DJIA on the cusp of 40,000 and the S+P hitting 22 record highs so far this year. Contains \$335B, 10-year average return is +12.69%. At that torrid pace...money doubles in a little less than six years.

S (small-cap)...+6.92%, running far ahead of 10/yr annual average of 8.64%. Contains \$100B.

I (internat’l)...+5.95%, already surpassing 10/yr annual average (+4.75%).

F (bond)...down 0.74%, only decliner. 10-year average is just +1.63%. Not too popular, contains only \$33B in assets.

L funds range from L(income) at 2.82% to L(2065) at +8.37%. The further out the higher the gains. Largest holdings are in L(2030) at \$54B, with L(2065) having just \$5B. L(income) holds \$27B w/10-year return of 4.1% - above G (fund) at 2.4%.