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Navigating Budget Uncertainty: FY25 & FY26 Defense Funding

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Introduction

The defense budget environment under President Trump's second term is increasingly complex, characterized by strategic uncertainty and shifting priorities. Understanding these dynamics—and the implications for the Department of Defense (DoD) and defense industry stakeholders—is essential.

Fiscal Year 2025: Continuing Resolution and Potential Funding Realignments

For Fiscal Year (FY) 2025, spanning October 1, 2024, through September 30, 2025, the Department of Defense (DoD) is operating under a Continuing Resolution (CR). This CR, signed into law by the President on March 15, 2025, includes a budget of $892.5 billion for DoD, a modest increase (+0.73%) over the FY2024 level of $886 billion that aligns with the defense spending cap set by the Fiscal Responsibility Act.

Notably, rather than broadly continuing funding for all DoD programs at FY2024 levels, Congress provided detailed funding allocations and programmatic directives in the CR. In response, the Trump administration has signaled its intent to seek substantial realignment of appropriated funds to address pressing operational requirements and emerging priorities. Such realignment typically occurs through formal "reprogramming" requests to the four Congressional defense committees. However, the administration might pursue alternative pathways for more rapid and flexible transfers. How Congress will respond to these potential alternatives remains an open question.

Legislative Dynamics: The "One Big Beautiful" Reconciliation Bill

Recently, the House of Representatives narrowly passed its version of the Reconciliation bill, aiming to provide a one-time, immediate injection of $150 billion in defense funding. This increase specifically targets shipbuilding, munitions manufacturing, the Golden Dome air and missile defense system, and other vital Defense programs and activities.

Though substantial changes to the bill may yet occur, the Senate version of the bill currently aligns with the House on the overall $150 billion defense funding level and maintains the $25 billion allocation for the Golden Dome missile defense system within that amount. Importantly, national security space funding in the bill is structured for multiyear execution, with most allocations available for obligation through FY2029 and expenditure through September 30, 2034—an obligation and expenditure window that has created confusion and uncertainty within industry.

Reconciliation funding is organized into large, mission-oriented categories rather than individual program elements, requiring detailed internal DoD allocation decisions and extensive Congressional engagement. Execution pathways may include reprogramming actions, supplemental or amended budget submissions, or integration into future budgets. Additionally, the bill requires DoD to submit a detailed expenditure plan within 45 days of enactment, followed by annual progress reports.

The Trump administration advocates consolidating these funds into fewer, broader accounts to enhance flexibility. However, Congressional support for such consolidation remains uncertain.

Should the Reconciliation bill fail, the DoD's FY2025 budget would remain flat—an outcome many analysts warn is insufficient to meet escalating security threats and would result in delays for critical modernization programs. The feasibility of this approach remains unclear given Congressional political and budget dynamics.

DOGE Cuts and Sequestration

Secretary of Defense Pete Hegseth directed the military services to identify $50 billion in cuts to lower-priority programs and activities for Fiscal Year 2026, and the administration's Department of Government Efficiency (DOGE) identified approximately $6 billion in budget reductions within the first six weeks of implementation. Pentagon leadership is advocating for significant personnel cuts and structural realignments aimed at redirecting resources to higher-priority initiatives. Yet, substantial ambiguity remains regarding the precise nature of these cuts and subsequent reallocation processes. Questions linger about whether these savings will trigger formal reprogramming requests to the Congressional defense committees.

Further complicating matters, a recent Executive Order announced intentions to rescind or sequester funding across various federal programs, though specifics have not yet been provided. This lack of detail heightens industry and stakeholder uncertainty.

Fiscal Year 2026: Congressional Action and Unusual Budget Processes

On May 2, 2025, the Trump Administration released a "skinny budget," providing initial topline numbers for FY2026 discretionary spending but withholding detailed programmatic justifications until the Reconciliation bill's passage, expected in late June or July. This initial budget request proposes $961.6 billion for the Department of Defense, marking a $69.1 billion or 7.7% increase from the FY2025 enacted level of $892.5 billion. The administration emphasized key space-focused priorities, notably developing the Golden Dome missile defense system, enhancing U.S. space superiority, and maintaining significant investments in space-related defense capabilities.

Subsequently, on May 30, 2025, the Office of Management and Budget (OMB) released a technical supplement detailing significant funding adjustments for USSF investment accounts, including a reduction of approximately $3.2 billion in Research, Development, Test & Evaluation (RDT&E) and a decrease of around $910 million in Procurement, alongside smaller increases of $190 million for Military Personnel (MILPERS) and $600 million for Operations & Maintenance (O&M). Recent reporting suggests these reductions are likely reallocations from the base budget specifically toward the Golden Dome missile defense system. This aligns with the recent announcement that Gen. Michael Guetlein, currently the USSF Vice Chief of Space Operations, will lead the Golden Dome initiative in a role expected to report directly to Deputy Secretary of Defense Stephen Feinberg, reinforcing the potential for direct OSD oversight and centralized management of funds. While specific combined figures are still emerging, early indications suggest that the total DoD base budget plus Reconciliation funding could ultimately represent a significant topline increase once allocations are finalized, underscoring the complex and evolving budget landscape.

The Congressional procedure for developing the annual National Defense Authorization Act (NDAA) and Department of Defense Appropriations Act typically follows a predictable sequence: the Armed Services Committees act first, followed by Appropriations. However, this cycle is notably disrupted for FY2026, adding significant uncertainty.

Despite the incomplete release of detailed budget documents, the House Appropriations Committee's Defense Subcommittee (HAC-D) marked up its version of the DoD Appropriations Act for Fiscal Year 2026 on June 10, followed by full Committee adoption on June 12. The HAC-D recommendations for various appropriations accounts, including RDT&E, Procurement, O&M, and MILPERS, reflect coordinated allocations aligned with Reconciliation efforts. The Committee explicitly noted: "This recommendation was developed to complement the defense investments moving on a parallel legislative track through the Reconciliation process. While these efforts are coordinated, the mandatory spending proposals in the Administration's budget fall outside the jurisdiction of this Committee. Taken together these spending proposals represent the first $1 trillion budget request for Defense." Regarding the Golden Dome initiative specifically, the Committee underscored the need for detailed implementation plans, realistic cost estimates, and regular updates from the Department of Defense, emphasizing transparency on program integration, resource allocation, and involvement of key allies and partners.

Strategic Implications for the Defense Industry

Given this unpredictable budget environment, defense companies must proactively adapt their strategies. Close monitoring of developments at the programmatic and Congressional levels is essential, as is maintaining frequent communication with relevant program officials who possess critical insights. Engaging actively with lawmakers who directly influence Defense authorizations and appropriations is equally crucial. These measures can help enable industry stakeholders to manage risk effectively and capitalize on emerging opportunities.

Navigating defense budgeting demands continuous vigilance, adaptability, and strategic foresight from stakeholders. Although the current budget environment presents complexity and unpredictability, informed and proactive engagement remains the most effective approach to weathering this uncertainty.

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