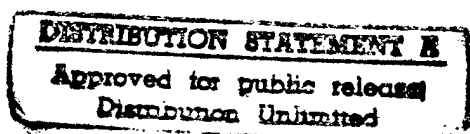


THE UNITED STATES NAVAL WAR COLLEGE

National Security Decision Making Department



DTIC QUALITY INSPECTED 2

THE DEFENSE RESOURCE ALLOCATION PROCESS

by

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19970610 042

REPORT DOCUMENTATION PAGE

1a. REPORT SECURITY CLASSIFICATION UNCLASS			1b. RESTRICTIVE MARKINGS		
2a. SECURITY CLASSIFICATION AUTHORITY			3. DISTRIBUTION/AVAILABILITY OF REPORT		
2b. DECLASSIFICATION/DOWNGRADING SCHEDULE					
4. PERFORMING ORGANIZATION REPORT NUMBER(S) NA			5. MONITORING ORGANIZATION REPORT NUMBER(S)		
6a. NAME OF PERFORMING ORGANIZATION NAVY WAR COLLEGE		6b. OFFICE SYMBOL (If applicable)	7a. NAME OF MONITORING ORGANIZATION		
6c. ADDRESS (City, State, and ZIP Code) 686 Cushing Rm Newport RI 02841-1207			7b. ADDRESS (City, State, and ZIP Code)		
8a. NAME OF FUNDING/SPONSORING ORGANIZATION		8b. OFFICE SYMBOL (If applicable)	9. PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER		
8c. ADDRESS (City, State, and ZIP Code)			10. SOURCE OF FUNDING NUMBERS		
PROGRAM ELEMENT NO.		PROJECT NO.	TASK NO.	WORK UNIT ACCESSION NO.	
11. TITLE (Include Security Classification) The Defense Resource Allocation Process					
12. PERSONAL AUTHOR(S) William C Keller					
13a. TYPE OF REPORT Summary		13b. TIME COVERED FROM TO		14. DATE OF REPORT (Year, Month, Day) 96 12 97 04 01	
15. PAGE COUNT					
16. SUPPLEMENTARY NOTATION TEXT					
17. COSATI CODES			18. SUBJECT TERMS (Continue on reverse if necessary and identify by block number)		
FIELD	GROUP	SUB-GROUP	FEDERAL BUDGET		
			ACQUISITION		
			PLANNING, PROGRAMMING + BUDGETING		
			JOINT STRATEGIC PLANNING		
			NATIONAL SECURITY DECISION MAKING		
19. ABSTRACT (Continue on reverse if necessary and identify by block number) A TEXT USED IN THE SENIOR EXECUTIVE COURSE IN NATIONAL SECURITY DECISION MAKING AT THE NAVY WAR COLLEGE. DESCRIBES THE INTERRELATED SYSTEMS THAT TOGETHER MAKE UP THE PROCESS BY WHICH NATIONAL RESOURCES ARE ALLOCATED FOR DEFENSE. THESE SUB SYSTEMS INCLUDE THE PPPS, JOINT STRATEGIC PLANNING, ACQUISITION AND THE FEDERAL BUDGET					
20. DISTRIBUTION/AVAILABILITY OF ABSTRACT ☒ UNCLASSIFIED/UNLIMITED ☐ SAME AS RPT. ☐ DTIC USERS			21. ABSTRACT SECURITY CLASSIFICATION UNCLASS		
22a. NAME OF RESPONSIBLE INDIVIDUAL DR W.C. KELLER			22b. TELEPHONE (Include Area Code) (401) 841 6452		22c. OFFICE SYMBOL LB 1

FOREWORD

This book provides an overview of the Defense Resource Allocation Process. It was written by CDR William C. Keller and is constantly updated by the National Security Decision Making faculty. While every attempt is made to ensure the accuracy of this document, the Defense Resource Allocation Process is constantly changing. To our knowledge, this is the only text which includes all facets of this process in one volume. It should be read as a guide to understanding how defense resource decisions are made.

The opinions expressed in this paper are those of the author and do not necessarily reflect the views of the Naval War College, the Navy, or the Department of Defense.

Chapters I, II, III, V and VI were edited and Chapter III.5 was written by Col Larry Wood, USMC, while Chapter IV was updated by Capt Ed Hardeman, USN, in July 1996. LtCol Scott Key, USAF, edited the entire text in February 1997. Captain Glenn Powers, USN, was kind enough to proofread the entire text--again!

TABLE OF CONTENTS

THE DEFENSE RESOURCE ALLOCATION PROCESS - FEB 97 REVISION

	PAGE
FOREWORD	i
TABLE OF CONTENTS	iii
LIST OF FIGURES	viii
LIST OF TABLES	ix
CHAPTER I. <u>OVERVIEW</u>	I-1
ALLOCATION IS A DECISION PROCESS	I-1
This Chapter	I-1
Tips on Reading this Work	I-1
The Basic Process in General Terms	I-2
People and Organizations	I-4
Executive Branch	I-4
Legislative Branch	I-5
System Highlights - Two Views	I-6
A Final Note	I-8
NOTES AND REFERENCES	I-9
CHAPTER II. <u>THE JOINT STRATEGIC PLANNING SYSTEM</u>	II-1
INTRODUCTION	II-1
The Linchpin of DoD Planning	II-1
An Evolving System	II-1
Structure of the Chapter	II-1
AN OVERVIEW OF THE PEOPLE AND PROCESS	II-2
People	II-2
A Cyclical Process	II-2
THE SPECIFICS	II-3
JSR	II-4
CG	II-5
NMS	II-6
JPD	II-7
CPA	II-8
JSCP	II-8
Document Summary	II-9

	PAGE
INTEGRATION	II-12
JOPEs	II-12
Putting It All Together	II-12
HIGHLIGHTS	II-12
NOTES AND REFERENCES	II-14
CHAPTER III. <u>THE PPBS</u>	III-1
INTRODUCTION	III-1
Structure of the Chapter	III-1
Purpose	III-1
History and Characteristics of PPBS	III-2
THE PPBS PROCESS	III-4
The Objective	III-4
A Three-Phased Process	III-6
Basic Documents	III-7
NMS and JPD	III-7
DPG	III-8
POM	III-8
PDM	III-12
FYDP	III-12
Basic Cycle Summary	III-14
Fleshing Out The Process	III-14
Planning	III-14
Draft DPG	III-14
Programming	III-16
CINCs' IPLs	III-17
Summer Review Process	III-17
CPA	III-17
Issue Books	III-17
DRB	III-17
Budgeting	III-19
BESSs	III-19
PBDs	III-19
Complete PPBS Cycle Review	III-21
Timing - The PPBS Schedule	III-22
COMPLICATIONS	III-23
PPBS HIGHLIGHTS	III-23
NOTES AND REFERENCES	III-25

	PAGE
CHAPTER III.5. <u>THE JROC AND THE JWCA</u>	III.5-1
INTRODUCTION	III.5-1
BACKGROUND	III.5-1
MISSION AND FUNCTIONS OF THE JROC	III.5-2
THE JWCAS	III.5-3
THE FORM OF THE JWCAS	III.5-4
NEW DOCUMENTS	III.5-6
QUESTIONS ABOUT JROC AND THE JWCA	III.5-6
NOTES AND REFERENCES	III.5-8
CHAPTER IV. <u>THE FEDERAL BUDGET SYSTEM</u>	IV-1
INTRODUCTION	IV-1
What is the Federal Budget Process?	IV-1
Organization of the Chapter	IV-1
CONCEPTS AND DEFINITIONS	IV-2
Authorization vs. Appropriation	IV-3
Entitlements	IV-4
Deficit and Debt	IV-4
Budget Authority vs. Outlays	IV-5
The Concept	IV-5
Impact	IV-9
Defense Uses of Obligation Authority .	IV-9
Controllable vs. Uncontrollable	
Spending	IV-10
On-Budget vs. Off-Budget	IV-11
Economic Assumptions	IV-12
Continuing Resolution	IV-13
Legal Terms	IV-13
The Budget Itself	IV-15
The President's Budget Document	IV-15
Congress' Budget is the Law	IV-16
HISTORICAL EVOLUTION	IV-17
The Executive Budget, OMB and GAO	IV-17
Systematic Congressional Process, CBO . .	IV-18
Attacking the Deficit	IV-21
The Players	IV-24
FOUR PHASED PROCESS	IV-26
Formulation-Preparation and Submission . .	IV-27
Enactment-The Congressional Budget	
Process	IV-30
Execution-Implementation and Control . . .	IV-31
Review and Audit	IV-33

	PAGE
HIGHLIGHTS	IV-34
SUMMARY OF THE FEDERAL BUDGET PROCESS . . .	IV-34
PROBLEMS	IV-36
Is It Just Too Hard?	IV-36
Congressmen or Program Managers?	IV-37
The Committee System	IV-38
Partisan Politics and Pork Barrel Projects	IV-38
The Debt and Continuing Deficits	IV-38
A CLOSING THOUGHT	IV-39
NOTES AND REFERENCES	IV-41
CHAPTER V. <u>THE ACQUISITION SYSTEM</u>	V-1
INTRODUCTION	V-1
Structure of the Chapter	V-1
It's Much More Than "Acquisition"	V-2
EVOLUTION	V-3
Need for Change	V-3
Economic Analysis and Program Evaluation	V-4
Packard Memos	V-5
Weinberger-Carlucci Initiatives	V-5
Packard Commission Report	V-6
Additional Innovations - New Milestones.	V-9
National Performance Review	V-9
DoD 5000 Series Update (1996)	V-10
Major Objectives	V-10
KEY DEFINITIONS, OFFICIALS, FORUMS, AND CONCEPTS	V-11
Definitions	V-11
Officials	V-12
Forums	V-14
Concepts	V-15
REQUIREMENTS GENERATION SYSTEM AND THE JOINT REQUIREMENTS OVERSIGHT COUNCIL . . .	V-17
ACQUISITION PROCESS - AS DESIGNED	V-19
The Basic Acquisition Cycle	V-19
Milestones and Phases	V-19
Integrated Product Teams	V-24
Acquisition Program Baseline (APB)	V-24
Exit Criteria	V-25
Milestone Review Documentation	V-25
Repetitive Activity	V-26
Process Summary	V-27
PROBLEMS AND GAMES	V-27
Reality	V-27
Congress' Contribution	V-31

	PAGE
Costs in Perspective	V-32
Rapid Prototyping Slow in Coming	V-32
Vicious Cycle	V-33
INTERFACES	V-33
Planning and Programming	V-33
Budgeting	V-35
HIGHLIGHTS	V-36
NOTES AND REFERENCES	V-37
CHAPTER VI. <u>INTEGRATION AND CONCLUSION</u>	VI-1
PUTTING IT ALL TOGETHER	VI-1
Reviewing the Process	VI-1
Integrating the Pieces	VI-1
CAN IT BE MADE TO WORK BETTER?	VI-3
How to Fix It?	VI-3
NOTES	VI-14
Appendix A - Glossary of Terms, Abbreviations, and Acronyms	A-1
GLOSSARY	A-1
GLOSSARY ENDNOTES	A-21
ABBREVIATIONS AND ACRONYMS	A-22

LIST OF FIGURES

FIGURES	PAGE
I-1 The Defense Resource Allocation Process: Strategy to Reality	I-2
I-2 Defense Planning Systems Interrelationships . . .	I-7
I-3 DoD Planning Systems Relationships	I-8
II-1 Joint Strategic Planning System	II-4
II-2 JSCP Annexes	II-10
II-3 JSPS Documents	II-11
III-1 The PPBS - A Basic System	III-5
III-2 The Phases of P, P and B	III-6
III-3 The Six Key Documents of the Basic PPBS Cycle . .	III-7
III-4 Joint Mission/Support Area Assessments	III-9
III-5 Navy POM Budget Formulation	III-11
III-6 Crosswalking DoD Programs and Congressional Appropriations	III-13
III-7 Fleshed Out Planning Phase	III-16
III-8 Fleshed Out Planning and Programming Phases . .	III-18
III-9 Complete PPBS Cycle	III-21
III-10 PPBS Schedule	III-22
III-11 Hypothetical Program Element Summary Data Sheet .	III-35
III-12 Generic Biennial PPBS - The Bouncing Ball	III-37
III.5-1 Joint Warfighting Capability Assessment	III.5-3
III.5-2 The JWCA Cycle	III.5-4
III.5-3 Notional JWCA Stoplight Chart	III.5-5
IV-1 Structure of Chapter IV	IV-2
IV-2 Relation of Budget Authority to Outlays	IV-8
IV-3 Deficit Background	IV-21
IV-4 Deficit Limits	IV-22
IV-5 The Four Phases of the Federal Budget Process . .	IV-26
IV-6 Formulation Phase of Budgeting	IV-29
IV-7 Enactment Phase of Budgeting	IV-32
IV-8 Complete Federal Budget Process	IV-35
IV-9 Comprehensive View of Congressional Budget Process	IV-59
V-1 Acquisition Organization	V-15
V-2 Acquisition Categories	V-16
V-3 Requirements Generation System Process Flow	V-18
V-4 Acquisition Milestones and Phases	V-20
V-5 Milestone Documentation Concept	V-26
V-6 Total Annual Costs	V-36
V-7 DAB Acquisition Committees	V-39
V-8 Cost Growth in Major Projects (RAND)	V-40
V-9 Cost Growth in Major Projects (TASCO)	V-40
VI-1 Conceptualization of Defense Resource Allocation System	VI-2
VI-2 Packard Commission Proposed Defense Resource Allocation Process	VI-4

LIST OF TABLES

TABLES	PAGE
I-1 DRB Membership	I-9
I-2 DAB Membership	I-10
II-1 CG	II-6
II-2 NMS	II-6
II-3 CPA	II-8
II-4 JSCP	II-9
IV-1 Purchase of Automobile Example	IV-6
IV-2 Purchase of Two Automobiles Example	IV-7
IV-3 Budget Functions and Subfunctions of National Defense	IV-16
IV-4 Budget Formulation Timetable	IV-28
IV-5 Budget Accounting Codes	IV-43
IV-6 Sample Program and Financing Schedule	IV-45, 46
IV-7 National Defense Budget Function	IV-47
IV-8 Appropriation Bills	IV-48
IV-9 Subcommittees of Armed Services Committees	IV-51
IV-10 Dates of Enactment	IV-54
V-1 DRB	V-35
VI-1 Summary of Defense Resource Allocation Process	VI-7

CHAPTER I

OVERVIEW

ALLOCATION IS A DECISION PROCESS

Above all, this book is about DECISION MAKING. In particular, it attempts to describe the formalized process by which we in the United States make and implement decisions about resources for our national security. The purpose of this "defense resource allocation" process is to most efficiently buy, operate, and support effective military forces to protect our national security interests.

This Chapter

This brief opening chapter is designed to orient the reader to the overall process that will be described later in greater detail. First, we will describe the basic resource allocation process in very general terms. Next, we will discuss the organization and players. Finally we will introduce the systems that will be developed in later chapters.

Tips on Reading this Work

This book was written for readers with varying levels of experience. The author hopes it will serve the novice as well as those who have participated in resource decisions in Congress, on the staff of the Joint Chiefs of Staff (JCS), in the Office of the Secretary of Defense (OSD), with the services, and in the field. In order for this work to be useful to all readers, the author has tried to make the basic text a simple primer, while providing more details in the endnotes. A suggestion for the novice is to read only the basic text the first time through. Save the endnotes for later . . . or a time after the basic processes are understood.

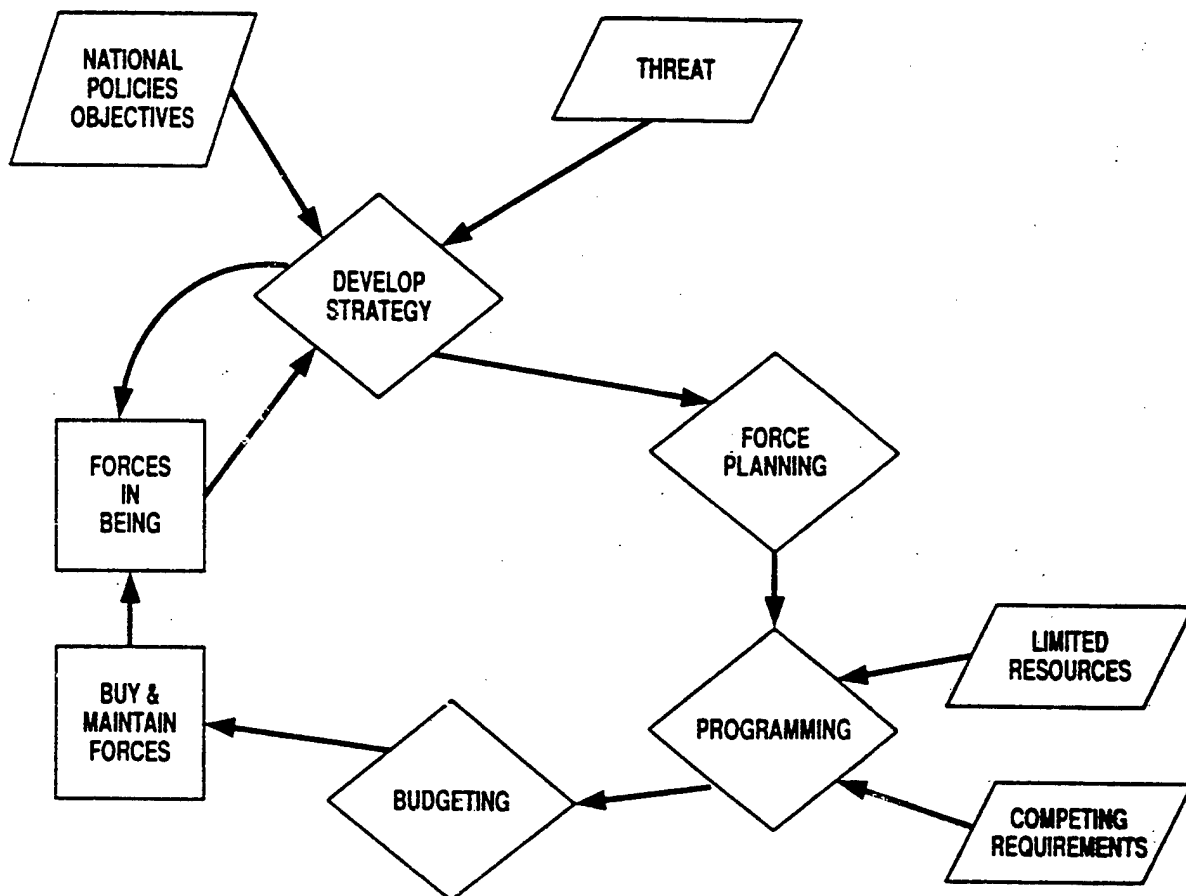
This book is written so that each chapter stands by itself. The idea is that this whole process is very complex, and one way to come to understand it all is by dealing with the parts. It is suggested that the book be taken in small doses . . . pick a chapter at a time. When you have digested them all, read Chapter VI for an integration of all the parts that make up the whole defense resource allocation system.

If you need to refresh your memory for the meaning of a term or acronym, refer to the appendix.

The Basic Process in General Terms

Figure I-1 depicts and the following discussion describes, in very general terms, how the existing defense resource allocation process is supposed to work. The activity is cyclical, so in theory one might think that it does not matter where one starts in the loop. However, we'll take the "top-down" approach and start at the twelve o'clock position with objectives.

Figure I-1 - The Defense Resource Allocation Process: Strategy to Reality



We could briefly summarize the initial step of the rational process as: first, identifying our national interests and objectives, and threats to achieving those interests and objectives; then designing a national security strategy (with subordinate political, economic and military strategies) to achieve our national objectives. While the defense resource allocation process looks primarily at acquiring and maintaining resources needed for effective execution of the military strategy, the process also supports various elements of the national political

and economic strategies that are closely integrated with the military strategy.¹

Strategy decisions drive the resource process: they dictate what kind and numbers of forces we should have to be able to execute our strategy. This part of the decision process is called force planning, which asks questions like, "How many and what kind of army divisions, tactical fighter wings, and carrier battle groups does the nation need to have reasonable assurance of achieving our national objectives?"

Resources are limited. There are other competing requirements for our national resources. Hence, our preferred force is not likely to be a feasible choice. A programming effort becomes necessary to determine the best forces to buy, given the facts of life. Programming is that part of the process where objectives are reconciled with available means.

Defense programs are not automatically executed. They must be approved. Approval of the defense program ultimately provides the budget authority to buy the ships, tanks, rifles, etc.; to pay personnel; and to purchase the fuel, paper, bullets, etc., necessary for their support.

Finally, after all the big decisions have been made, the budgeted force must be realized. The allocated resources must be put to work, the budget executed, and the forces bought and maintained.

As we can see in Figure I-1, this process is cyclical. The development of subsequent strategy considers the existing force capability along with the evolving threat and interests.

There is a tendency, especially within DoD, to equate the resource allocation process to the Planning, Programming, and Budgeting System (PPBS). While indeed the PPBS constitutes the major portion of the defense resource allocation process, there really is more to it than just PPBS. This book prescribes a broader view by describing the process in terms of four systems.

- the Joint Strategic Planning System (JSPS).

Chapter II has to do with developing military strategy, defining resource needs, and articulating the missions of the operating forces.

- the Planning, Programming, and Budgeting System (PPBS).

Chapter III offers a view of how the PPBS works. As one might guess from the name, this involves force planning, programming, and formulating the defense portion of the President's budget, which Congress will consider.

- the whole of the Federal Budget System.

Chapter IV describes the process of budget formulation by the executive branch, Congressional action to modify and approve the President's budget, and how the money actually gets spent in budget execution.

- the Systems Acquisition Process.

Chapter V describes the process of identifying future requirements, then choosing, buying, and supporting our major defense weapons systems.

People and Organizations

This work is process-oriented. However, throughout this paper, it will be necessary to describe the roles of the various players and organizations that participate in the process. Before tackling the subsequent chapters, it may be helpful to review the general functions and relationships of some of the key participants.

Executive Branch

Some of the more important players include the President, the National Security Council (NSC), the Office of Management and Budget (OMB), the Secretary of Defense (SECDEF), the Chairman of the Joint Chiefs of Staff (CJCS), the Commanders-in-Chief (CINCs), the Service Chiefs, the Office of the SECDEF (OSD), the Defense Resources Board (DRB), the Defense Acquisition Board (DAB), and the Joint Requirements Oversight Council (JROC).

The NSC is the principal forum where international security issues requiring a Presidential decision are considered. The NSC is made up of the President, Vice President, Secretary of State, and SECDEF, with the Director of the CIA and CJCS as official advisors to the council. The Assistant for National Security Affairs is usually invited to serve as chief staff officer for the council. The Treasury Secretary, Attorney General, UN Ambassador, and White House Chief of Staff are often invited to attend.² The NSC's basic role in the defense resource process involves strategy and policy guidance.

The Office of Management and Budget (OMB), originally called the Bureau of the Budget, is the President's principal staff arm in fiscal matters. OMB helps the President put together his budget request and keeps an eye on executive department spending activities. OMB's primary role in the allocation process is developing fiscal constraints on provisional budget levels, collating data for the President's Budget, and monitoring execution of the budget.³

The Chairman of the JCS (CJCS) is the principal military advisor to the President, SECDEF, and the NSC. Other members of the JCS have the right to present dissenting views. The CJCS contributes to the allocation process in various ways including strategy, force planning, mission definition, and assessing programming decisions.

The Commanders-in Chief (CINCS) are the warfighters, operationally in charge of all our armed forces.⁴ They develop the warplans to execute our military strategy. In the resource allocation process, the CINCS provide their input for what is needed in the near term, and they, of course, expend the budgeted resources in the field.

The Service Chiefs, in the context of resource allocation, build programs and prepare their forces for war. They provide trained and equipped forces to the CINCS.

The Defense Resources Board (DRB) is made up of SECDEF, the Deputy SECDEF, the Service Secretaries, the Chairman and Vice-Chairman of the JCS, and several Under and Assistant Secretaries of Defense.⁵ The DRB serves as DoD's BOARD OF DIRECTORS FOR RESOURCE ALLOCATION. The DRB's role is multifaceted. It oversees the whole resource allocation process and plays an especially key role in developing force planning guidance, debating resource issues, and reviewing the total program. In short, the DRB advises SECDEF on major resource issues and proposed decisions.

The Defense Acquisition Board (DAB) is a separate, but not mutually exclusive, body of advisers to SECDEF. In fact, many DAB members are also DRB members.⁶ The DAB is the primary forum for DoD components to get together and resolve issues, provide guidance, and make recommendations to SECDEF on buying and supporting weapon systems.

The Joint Requirements Oversight Council (JROC) helps the CJCS fulfill the statutory requirements to oversee the requirements generations process and mission need determination to include mission need review, validation, and approval prior to start of the acquisition process. The JROC is also responsible to the CJCS for overseeing the Joint Warfighting Capabilities Assessment (JWCA) process. The JROC directs assessments of specific joint military capability areas of examine key relationships and interactions between joint warfighting capabilities, and identifies opportunities for improving warfighting, ensuring alternatives to any major defense acquisition programs have been adequately considered. The VCJCS chairs the JROC and the permanent members are Vice CSA, Vice CSAF, Vice CNO, and Assistant Commandant, USMC.

Legislative Branch

Representatives and Senators, and a complex committee/subcommittee organization, make the laws that ultimately decide how much money goes to defense programs. Organizations that help Congress decide and oversee budget matters are the General Accounting Office (GAO) and Congressional Budget Office (CBO).

The General Accounting Office (GAO) is basically a nonpartisan auditing arm of Congress. It checks to see that public funds are spent as intended, and has offices in the U.S. as well as overseas.

The Congressional Budget Office (CBO) is the "Watchdog of Congress." Like the GAO, the CBO is intended to be a nonpolitical, nonpartisan agency. CBO gather information and provides Congress with analyses of alternatives for achieving national objectives. Their independent economic analyses in particular are thought to be an important counterweight to the executive branch's OMB. The CBO contribution is most significant in the Congressional budget process.

Much more information on the Legislative branch is provided in Chapter IV - The Federal Budget Process.

System Highlights - Two Views

Figure I-2 conveys a lot of information! Don't be overwhelmed by it now or commit it to memory! Just observe for the moment the flow of the individual processes and how/where they interrelate. (Viewing this diagram as a three dimensional presentation, with some rings intersecting and others passing over each other, will aid in understanding the relationships.) We'll fill in the details in subsequent chapters. Of note, we won't address the left-most ring, JOPES (Joint Operational Planning and Execution System) in this course, as the Joint Military Operations Course addresses it in detail. Once again, JSPS is covered in detail in Chapter II, PPBS in Chapter III and acquisition in Chapter V; Chapter IV covers the federal budget system which is logically placed between PPBS (DoD's process which culminates in its budget request) and acquisition, which can't be done until money has been appropriated by Congress.

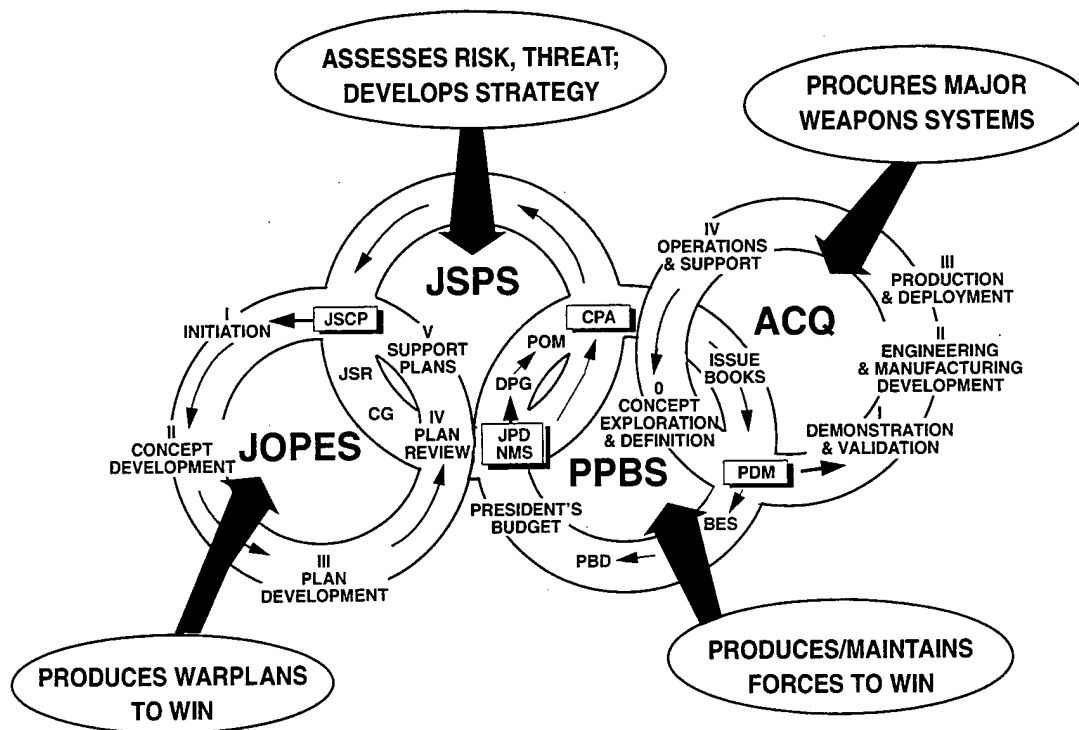


Figure I-2 - Defense Planning Systems Interrelationships

An alternate view of the same process, this time presented as part of a generic calendar, is shown in Figure I-3.⁷

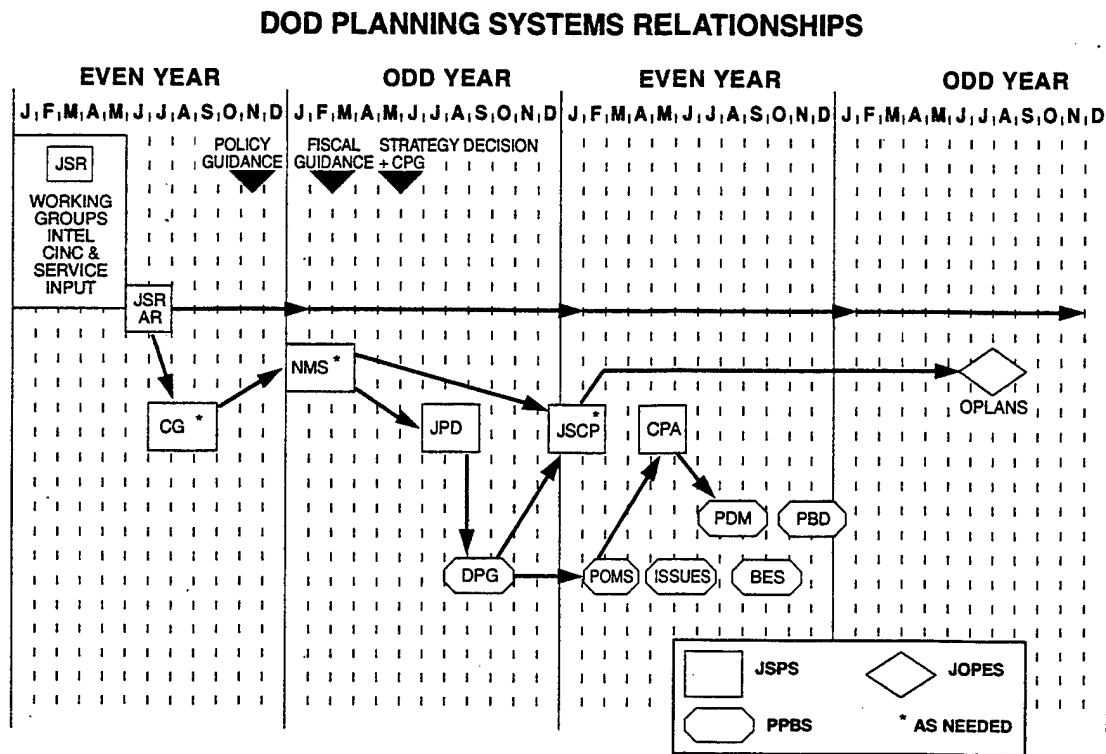


Figure I-3 - DoD Planning Systems Relationships

A Final Note

This book was written with a systems approach. The author conceives the whole process as one which is designed to produce the forces needed for our national defense. Each of the sub-systems plays a part in this grand scheme. Each chapter should provide a clear idea of the purpose of a subsystem. In the end, the reader should come away with ideas about how we make those decisions which yield ARMED FORCES READY TO FIGHT . . . AND WIN.

NOTES

1. See Collins. Grand Strategy: Principles and Practices, 1973, U.S. Naval Institute, Annapolis, Maryland.

2. Hall. Private and Public Participants in the National Security Process, Naval War College, March 1983.

3. Details of OMB Functions are available in Endnote 28 to Chapter IV.

4. Chairman, Joint Chiefs of Staff, Unified Command Plan, issued 6 October 1993, SECRET. All material referenced is UNCLASSIFIED.

The unified commands (commands with broad continuing missions under a single commander and composed of forces from two or more military departments) are:

U.S. Atlantic Command (USACOM) is responsible for the land defense of CONUS, defense of the eastern approaches to the U.S. and the lines of communication in the Atlantic area. Additionally, USACOM has responsibility for the joint training and readiness of most forces based in CONUS and facilitating their deployment for contingency operations. USCINACOM is also Supreme Allied Commander, Atlantic (SACLANT), a major NATO commander.

U.S. Southern Command (USSOUTHCOM) is responsible for the defense of the Panama Canal and fulfills our military responsibilities throughout most Latin American areas.

U.S. European Command (USEUCOM) is responsible for the U.S. contribution to NATO and for commanding our forces assigned to Europe. Its area of responsibility also includes portions of the Middle East and most of the African states. USCINCEUR is also Supreme Allied Commander, Europe (SACEUR), a major NATO commander, and as such is responsible for the defense of Allied Command Europe.

U.S. Pacific Command (USPACOM) is responsible for defense of the U.S. from attacks through the Pacific Ocean and for U.S. defense interests in the Pacific, Far East, South Asia, South East Asia, and Indian Ocean.

U.S. Central Command (USCENTCOM) is responsible for Southwest Asia (SWA), the Arabian Peninsula, and the Horn of Africa.

U.S. Space Command (USSPACECOM) is responsible for integrated tactical warning and space operations. USCINCSpace, as CINCNORAD, is responsible for binational aerospace surveillance and warning, and atmospheric defense of North America.

U.S. Special Operations Command (USSOCOM) consists of all special operations forces stationed in the United States. The principle function of the USSOCOM is to prepare special operations forces to carry out assigned missions.

U.S. Transportation Command (USTRANSCOM) is responsible for transportation world-wide. Its component commands are the Air Mobility Command (AMC), the Military Sealift Command (MSC), and the Military Traffic Management Command (MTMC). USTRANSCOM assets in a geographic CINC's AOR remain assigned to USCINCTRANS unless otherwise directed by SECDEF.

U.S. Strategic Command (USSTRATCOM) has primary responsibility for strategic nuclear forces in support of strategic deterrence and strategic reconnaissance. STRATCOM forces deployed to a geographic CINC's AOR remain assigned to USCINSTRAT unless otherwise directed by SECDEF.

5. Changed in October 1993, the membership of the Defense Resources Board (DRB) is shown in Table I-1.

Table I-1

Defense Resources Board (DRB) Membership

Chairman	Secretary of Defense
Vice-Chairman	Deputy Secretary of Defense
Members:	Chairman JCS Vice-Chairman JCS Under SECDEF/Acquisition & Technology Secretaries of Military Departments Under SECDEF/Policy Director/Program Analysis & Evaluation DoD Comptroller
Participants as required:	Service Chiefs CINCs OSD Representatives OMB Representative Asst. to President for National Security Affairs Representative

6. Permanent membership of the Defense Acquisition Board (DAB) is shown in Table I-2.

Table I-2

Defense Acquisition Board (DAB) Membership

Chairman	Under SECDEF/Acquisition & Technology
Vice Chairman	Vice Chairman, JCS
Other Participants:	Director/Research and Engineering Army Service Acquisition Executive Navy Service Acquisition Executive Air Force Service Acquisition Executive Director/Program Analysis and Evaluation DoD/Comptroller Director/Operational Test and Evaluation

Note: Others may participate at the request of the Chairman.

7. AFSC Pub 1, 1993 edition, p. 5-5.

CHAPTER II

THE JOINT STRATEGIC PLANNING SYSTEM (JSPS)

INTRODUCTION

The Linchpin of DoD Planning

The Joint Strategic Planning System (JSPS) is the focal point of all DoD military planning. As such, it provides the strategic and planning foundation on which all subsequent US military planning is based. It is a rational process which begins with a definition of the military threat to our interests and objectives, analyzes the various forces through assessments, devises a national military strategy to meet the threat, apportions existing forces to the CINCs to carry out the strategy, and provides the planning required to properly program forces for the future. The four major products of the JSPS are the National Military Strategy (NMS), the Joint Planning Document (JPD), the Chairman's Program Assessment (CPA), and the Joint Strategic Capabilities Plan (JSCP). JSPS is truly the linchpin of DoD planning, as it serves as the basis for integrating the nation's military strategy, resource needs, and operational plans.

An Evolving System

Since the Joint Chiefs of Staff (JCS) established the JSPS in 1952, the system has evolved considerably. Through numerous revisions to the governing directive, the JCS have attempted to refine their ability to discharge their strategic planning responsibilities and make a substantive contribution to the defense budgeting and war plan generating processes.¹ The present revision, dated 17 March 1993, brings the JSPS further into line with the provisions of the Goldwater-Nichols Act of 1986.² It makes the JSPS more responsive to the needs of the Chairman, other members of the JCS, the CINCs, and the National Command Authority in a dynamic national security environment.³

Structure of the Chapter

To describe how the JSPS is designed to work, this chapter examines the people and the documents that comprise the JSPS. We will begin with a quick review of the JCS and the joint planning process in general. Next, the major documents that comprise the JSPS will be discussed briefly. Details, if desired, can be found in the endnotes of this chapter, and in CJCS Memorandum of Policy (MOP) 7.

AN OVERVIEW OF THE PEOPLE AND PROCESS

People

The JCS are charged by the National Security Act of 1947 with preparing strategic plans and providing strategic direction for the armed forces. The JSPS provides the framework for these essential activities. Joint strategic planning begins the process which creates the forces whose structure and capabilities form the basis for theater operation plans.

Within the JCS, planning is primarily the responsibility of the Strategic Plans and Policy Directorate (J-5), and the Force Structure, Resources and Assessment Directorate (J-8). Using inputs from the OJCS, OSD, other DoD and federal agencies, unified commands, and the military departments, these two directorates provide policy, strategy, and force planning guidance. Primary responsibility for review of operation plans resides with the Operational Plans and Interoperability Directorate (J-7).⁴

A Cyclical Process

The JSPS follows a biennial cycle, as does the entire PPBS process. However, the most recent revision provides for event driven changes to JSPS documents in addition to calendar driven changes. While most of the planning documents are produced every two years, all are now reviewed continuously.

The cycle begins with the Joint Strategy Review (JSR) process. This process gathers information, raises issues, and facilitates the integration of the strategy, operational planning, and program assessments. The JSR produces several specific documents and forms the basis for the Chairman's Guidance (CG). The CG provides guidance to the Joint Staff and information to SECDEF, the CINCs, and the other members of the JCS regarding the framework for building the National Military Strategy (NMS). The NMS provides the advice of the Chairman, in consultation with the JCS and CINCs, to the National Command Authority (NCA) and NSC on the recommended national military strategy and fiscally constrained force structure required to attain the national military security objectives. The NMS provides the national military strategy that will be part of the Defense Planning Guidance (DPG) and becomes the strategic underpinning for the development of the Future Years Defense Plan (FYDP). (The DPG and FYDP will be discussed in more detail in Chapter III.) The Joint Planning Document (JPD) provides concise programming priorities, requirements, and advice to SECDEF for consideration during preparation of the DPG and is published as seven stand-alone documents addressing specific functional areas, such as personnel, intelligence, logistics, etc. Later in the decision process, the Chairman's Program Assessment (CPA) will provide the Chairman's advice to SECDEF on the adequacy of each of the service's

programs to attain U.S. national security objectives. Guidance to CINCs and Service Chiefs to accomplish tasks and missions based on existing forces is provided through the Joint Strategic Capabilities Plan (JSCP).⁵

THE SPECIFICS

Before describing the JSPS documents, it is important to understand that there are a number of JSPS related assessments and guidance which support the JSPS documents: the Joint Military Net Assessment (JMNA), the Logistics Sustainability Analysis (LSA), The Defense Planning Guidance (DPG), and Contingency Planning Guidance (CPG). A summary of the assessments follows:

a. The Joint Military Net Assessment (JMNA) is prepared by the Chairman in consultation with the other members of the JCS and the CINCs, and submitted annually to SECDEF for his approval. It is then forwarded to Congress in conjunction with submission of the defense budget. This document contains a net assessment of the defense capabilities and programs of the US armed forces and its allies as compared with those of their potential adversaries. The SECDEF historically used the JMNA to fulfill the statutory requirement to submit an annual comprehensive net assessment to Congress. New emphasis on assessment in all aspects of JSPS have made the JMNA redundant and SECDEF has not submitted one since 1995. However, the CJCS Instructions reflecting the changes are under revision and were not available for review at press time.

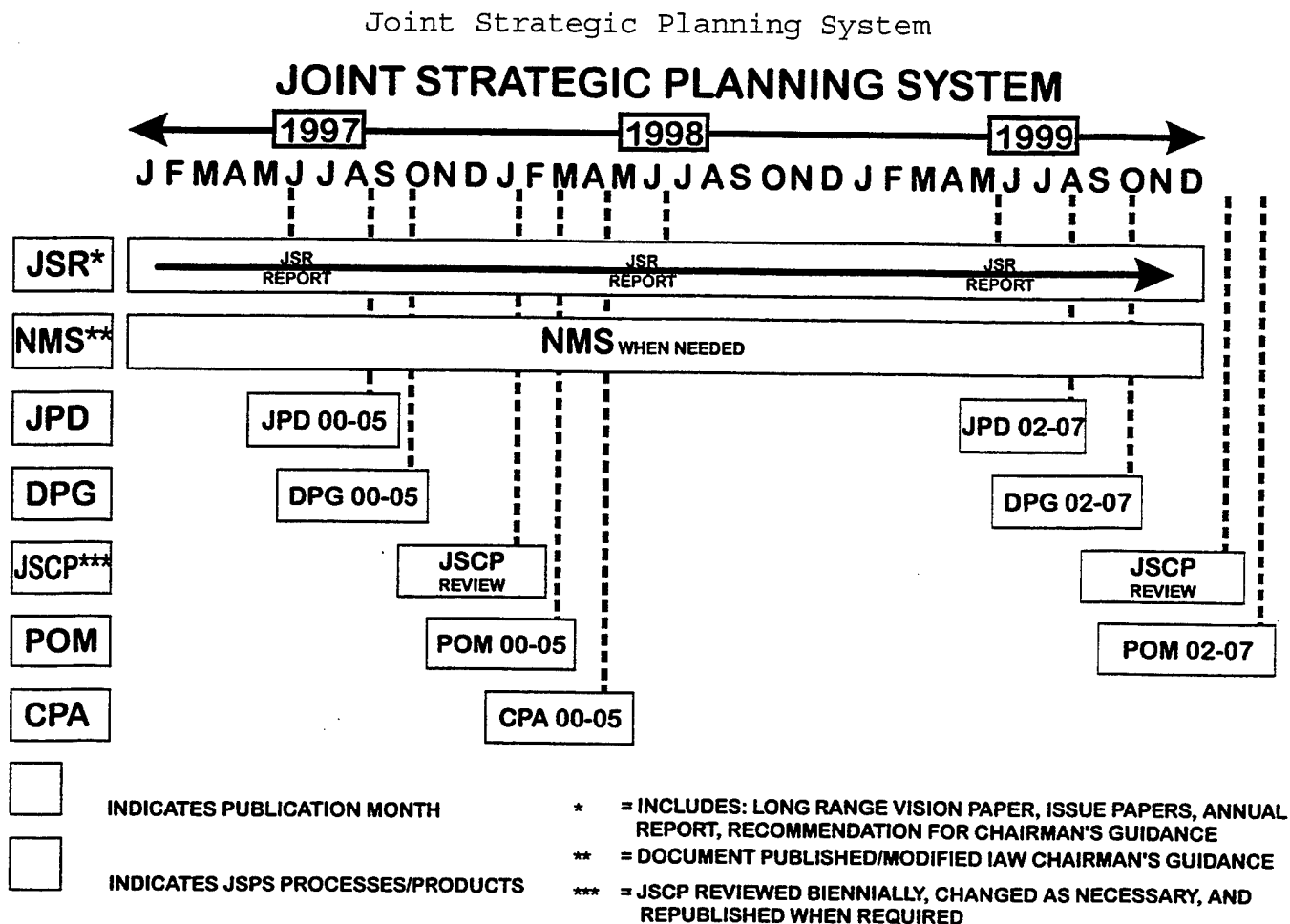
b. The Logistics Sustainability Analysis (LSA) is a quantitative assessment of the CINC's overall sustainment posture based on the logistics capabilities and specific limiting factors associated with the CINC's OPLANs. It is completed during the development or maintenance of the CINC's OPLANs and validated at least biennially. The supported CINC will consider LSA results during risk assessments, when preparing the Integrated Priority List (IPL), and in conjunction with preparedness assessments.

c. Defense Planning Guidance (DPG) furnishes the SECDEF's programming and fiscal guidance to the military departments for the development of department POMs for the defense planning period. The SECDEF considers the planning inputs from the National Military Strategy (NMS) and the CJCS programming priorities from the Joint Planning Document (JPD) in drafting the DPG. The NMS and JPD link the JSPS to PPBS, and the resultant DPG links planning and programming within the PPBS.

d. The Contingency Planning Guidance (CPG) fulfills SECDEF's statutory duty to provide annually to the Chairman written policy guidance for contingency planning. The CPG focuses the guidance provided in the NMS and DPG, and directly impacts on the JSCP.

Figure II-1 displays the JSPS planning sequence and may prove helpful in understanding the relationships between the various documents and the normal timeframes in which they are produced.

Figure II-1



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The following are synopses of the JSPS documents as described in CJCS MOP 7:

The Joint Strategy Review

The cycle begins with the Joint Strategy Review (JSR). The JSR process assesses the strategic environment for issues and factors that affect the NMS in the near-term or long-range. It continuously gathers information; examines current, emerging and future issues, threats, technologies, organizations, doctrinal concepts, force structures and military missions; and reviews and assesses current strategy, forces, and national policy objectives. The JSR facilitates the integration of strategy, opera-

tional planning, and program assessment. The products of the JSR process follow:

a. JSR Issue Papers (published as appropriate) report changes in the strategic environment that are significant enough to warrant senior leadership review.

b. The JSR Annual Report (published each July) summarizes issues studied over the previous year and recommends any changes to the NMS. It also includes recommended Chairman's Guidance.

c. The Long Range Vision Paper (published when needed) examines plausible environments 20 years into the future; recommends defense missions to deal with those environments; helps determine future national security needs for the long term; and provides a means to study the implications of those future environments on the NMS, joint doctrine, force structure, and requirements.

The JSR provides a process that gathers inputs from the CINCs, Services, Joint Staff and other appropriate parties and considers trends, projections, issues, and situations that can affect national security planning. The JSR process provides the Chairman with information which he may use to provide guidance regarding the NMS.

The Chairman's Guidance

The Chairman's Guidance (CG) takes two forms. Both provide guidance to the Joint Staff and information to SECDEF, the CINCs, and the other members of the JCS regarding the framework for building the NMS and for delineating priorities in the Joint Planning Document (JPD). Recall that the JSR Annual Report includes recommended Chairman's Guidance, offering the Chairman courses of action regarding the NMS which, when approved by the Chairman, will constitute his initial guidance. The Chairman's Guidance may also be promulgated at anytime during the JSR process and not just as a result of the JSR Annual Report. The guidance also serves as a bridge between initial assessments and views developed during the JSR process and the specific process that builds the NMS. The main aspects of the CG are summarized in Table II-1.

Table II-1

Chairman's Guidance (CG)

- Provides the Chairman's views regarding his recommended framework for building the NMS and for delineating priorities in the JPD.
- Serves as a bridge between the JSR process and the NMS drafting process.

The National Military Strategy

The National Military Strategy (NMS) provides the advice of the Chairman, in consultation with the other members of the JCS and the CINCs, to the President, the NSC, and the SECDEF as to the recommended national military strategy and fiscally constrained force structure required to support the attainment of the national security objectives. The NMS is designed to assist SECDEF in the preparation of the DPG and to guide the development of the JSCP. The NMS also provides supporting documentation, through the DPG, to the Services for consideration during the development of their Program Objective Memorandum (POM). (POMs are discussed in more detail as part of the Planning, Programming, and Budgeting System in Chapter III.)

The NMS provides SECDEF with a contextual setting, derived from the Joint Strategy Review, which includes an appraisal of US defense policy, as stated in the current DPG, and the Chairman's recommendations for change. It provides an updated intelligence appraisal which describes the range of threats to US national security and descriptions of ways to achieve national security objectives. The Chairman also assesses the strategic landscape and the foundations and principles on which the current national military strategy is based. Importantly, the NMS provides proposed force levels, developed from recommendations solicited from the CINCs, Services, and Joint Staff, which meet requirements to achieve the strategic objectives with acceptable risk. Following SECDEF review, the NMS is forwarded to the President. The main points of the NMS are summarized in Table II-2.

Table II-2

National Military Strategy (NMS)

- Provides SECDEF a contextual setting, derived from the JSR, including an appraisal of current U.S. defense policy and recommendations for change.
- Provides an updated intelligence assessment describing the range of threats to U.S. national objectives.
- Recommends fiscally constrained force levels that conform to the fiscal guidance provided by SECDEF, and which meet

the requirements to achieve the strategic objectives with acceptable risk.

- Evaluates the risks associated with the recommended strategy, forces, and military options.

The Joint Planning Document

The Joint Planning Document (JPD) supports the NMS by providing concise programming priorities, requirements, or advice to SECDEF for consideration during preparation of the DPG. The seven volumes of the JPD are published as stand-alone documents addressing specific functional areas and are coordinated with the Service Chiefs and CINCs. The seven volumes are:

a. Volume 1--Intelligence. The Defense Intelligence Agency has the lead in producing this volume, which outlines the Chairman's intelligence planning policy and priorities, identifies major intelligence deficiencies by mission area, and establishes a prioritized set of major goals to overcome these deficiencies.

b. Volume 2--Nuclear. J-5 (Strategic Plans and Policy) has the lead in producing this volume, which addresses the nuclear capabilities required by the CINCs, determines the number of warheads required to support the NMS, assesses the capability of the nuclear weapons complex to support the nuclear stockpile, and provides recommendations on future nuclear modernization.

c. Volume 3--C4 Systems. J-6 (Command, Control, Communication and Computer Systems) has the lead in producing this volume, which provides the Chairman's advice on C4 capabilities and summarizes major C4 capability objectives and programming priorities.

d. Volume 4--Future Capabilities. J-8 (Force Structure, Resources, and Assessments) has the lead in producing this volume, which addresses present and future operational capability deficiencies and potential technological exploitation opportunities, as well as establishing a prioritized set of major R&D, and Science and Technology (S&T) objectives.

e. Volume 5--Mapping, Charting, and Geodesy. The Defense Mapping Agency has the lead in producing this volume, which discusses major mapping, charting, and geodesy (MC&G) resource requirements to support the NMS; and identifies shortfalls and the resulting risks associated with them.

f. Volume 6--Manpower and Personnel. J-1 (Manpower and Personnel) has the lead in producing this volume, which identifies and examines broad issues and programs common to all services that relate to meeting current and programmed forces and provides the Chairman's position regarding military and civilian personnel management programs and policies.

g. Volume 7--Logistics. J-4 (Logistics) has the lead in producing this volume, which states joint logistic policy in support of the NMS and describes those joint logistic policies and programs that affect the capability of programmed forces to meet their present and future requirements.

The Chairman's Program Assessment

The Chairman's Program Assessment (CPA) provides the views of the Chairman to SECDEF on the adequacy and capabilities of the military departments' and other defense components' composite programmed force, as defined in their most recent Program Objective Memoranda (POMs). The Chairman comments, in the CPA, on the ability of the total force to execute US military strategy and on the allocation of scarce resources. The CPA also assesses the risks associated with the programmed force levels. It includes an analysis of the extent to which the POM recommendations conform with the priorities established in strategic plans and the CINCs' requirements. The CPA also serves as a key input to the Joint Strategy Review (JSR) to begin the subsequent strategic planning cycle. Table II-3 outlines the major features of the CPA.

Table II-3

Chairman's Program Assessment (CPA)

- Prepared biennially by Chairman in time for submission to SECDEF no later than 45 days after publication of the POMs.
- Assesses the overall balance of the composite POM force.
- Assesses conformance of POMs with CINCs' priorities.
- Makes recommendations to SECDEF on alternative programs and budget proposals to achieve greater conformance with strategic plans and CINCs' requirements, while staying within projected resource levels and other SECDEF guidance.
- Recommends changes to service or defense agency POMs to ensure greater conformance with strategic or CINCs' priorities for consideration during the Summer Review Process.

The Joint Strategic Capabilities Plan

The Joint Strategic Capabilities Plan (JSCP) rivals the NMS for impact on national security decision making. Classified Top Secret, the JSCP provides guidance to the CINCs and the Service Chiefs to accomplish tasks and missions based on current military capabilities. It is based on national security objectives and policy, intelligence estimates, projected forces available, and subsequent guidance from SECDEF. The JSCP is reviewed continuously and published only when needed as a result of a

change in the strategic environment or due to external requirements. It is critical to the CINCs and to the services, because the JSCP apportions forces and resources to the CINCs for planning purposes; tasks the CINCs to develop operation plans (OPLANs), concept plans (CONPLANs), and concept summaries for global and regional contingencies; and gives planning guidance to the services for support of the CINCs in the execution of assigned tasks. It is a single volume that covers planning guidance, objectives, tasks and forces, and is supported by 15 annexes published separately, each covering a specific functional area. Table II-4 summarizes the main points of the JSCP and Figure II-2 provides a summary of the JSCP annexes.

Table II-4

Joint Strategic Capabilities Plan (JSCP)

- Gives strategy and missions, as well as apports both active and reserve forces, to CINCs.
- Reviewed continuously, revised as necessary.
- Tasks CINCs to develop OPLANs, CONPLANs and concept summaries for global and regional contingencies, which are subsequently submitted to the Chairman for approval.
- Serves as a coherent framework for military advice to the NCA.
- Provides an intelligence estimate that addresses the threat environment likely to impact on US operational planning and force apportionment considerations during the planning period.
- Fifteen separately published annexes provide further planning guidance, capabilities, and amplification of taskings for planning in specific functional areas.

Document Summary

Figure II-3 provides a useful matrix to summarize the JSPS documents.

Figure II-2

JSCP ANNEXES

JOINT STRATEGIC PLANNING SYSTEM

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
	INTEL	LOG	NUC	PSYOP	SPEC	CW, NBC DEF	MC&G	COUNTER	C4SYS	MOBILITY	M. DECEP	CIV AFF	EW	MOBIL- IZATION	FWD PRES
					OPS	RC, HERB		C3							
REVIEW	B	B	B	B	B	B	B	B	B	B	B	B	B	B	B
PUB FREQ	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
PUB DATE	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
J-1	CD											CD		CL	CD
J-2 (2)	PS	CD	CL	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD
J-3	CD	CD	CL	PS	PS	CD	S	PS	CD	CD	PS	S	PS	CD	CD
J-4	CD	PS	CD	CD	CD	CD	CD	CD	CD	PS	CD	CD	CD	PS	CD
J-5	CL	CL	PS	CD	CL	PS	CD	CD	CD	CL	CL	CL	CD	CL	PS
J-6	CD	CD	CD	CD	CD	CD	CD	CD	PS	CD	CD	CD	CD	CD	CD
J-7	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD
J-8	CL	CD	CD	CD	CL	CL	CD	CD	CD	CD	CD	CL	CD	CD	CD
DISA	CL		CD	CD				CD	CD				CD		
DLA						CD								CD	
DMA	CL	CD	CD		CD		P		CD					CD	
DNA		CD	CD			CD			CD						
NSA	CL	CD	CD		CD		CD	CD	CD		CD		CD	CD	
ARMY (3)	CL	CL	CL	CL	CL	CL	CL	CL	CL	CL	CL	P	CL	CL	CL
NAV AFMC	CL	CL	CL	CL	CL	CL	CL	CL	CL	CL	CL	CL	CL	CL	CL
CGRD														CD	
CINCS	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD

P - RESPONSIBILITY FOR PREPARATION
 S - RESPONSIBILITY FOR STAFFING
 CL - COLLABORATION (SEE PART VIII)
 CD - COORDINATION (SEE PART VIII)
 A - ANNUALLY
 B - BIENNIALY
 N - WHEN NEEDED

NOTES:

- (1) PUBLISHED CONCURRENTLY (EXCEPT WHERE NOTED); ANNEX C MUST BE COMPLETE 18 MONTHS IN ADVANCE OF EFFECTIVE FISCAL YEAR; ANNEXES B, J, & N 15 DAYS AFTER JSCP PUBLICATION.
 (2) DIA FUNCTIONS AS J-2 OF THE JOINT STAFF
 (3) ARMY PREPARES CIVIL AFFAIRS ANNEX AS JCS EXECUTIVE AGENT FOR CIVIL AFFAIRS
 *ANNEX X LIMITED DISTRIBUTION. NOT LISTED.

JSCP ANNEX* PREPARATION AND STAFFING RESPONSIBILITIES

Figure II-3

JSPS DOCUMENTS

JOINT STRATEGIC PLANNING SYSTEM

	JSR RPT	NMS	JPD	JPD	JPD	JPD	JPD	JPD	JPD	JPD	
			VOL 1	VOL 2	VOL 3	VOL 4	VOL 5	VOL 6	VOL 7	JSCP (1)	CPA
			INTEL	NUC	C4SYS	FUTCAP	MC&G	M & P	LOG		
FREQ OF PUB	A	N	B	B	B	B	B	B	B	N & RB	B
PUB DATE	(5)		1 SEP	1 SEP	1 SEP	1 SEP	1 SEP	1 SEP	1 SEP	(6)	(2)
J-1	CD	CL						PS		CD	CD
J-2	CL	CL	PS	CD	CD	CD	CD	CD	CL	CL	CL
J-3	CD	CL	CD	CD	CD	CD	S	CD	CD	CL	CL
J-4	CL	CL	CD	CD	CD	CD	CD	CD	PS	CL	CL
J-5	PS	PS (3)	CD	PS	CD	CD	CD	CD	CD	PS (4)	CL
J-6	CL	CL	CD	CD	PS	CD	CD	CD	CD	CL	CL
J-7	CL	CL	CD	CD	CD	CL	CD	CD	CD	CL	CL
J-8	CL	P (3)	CD	CD	CD	PS	CD	CD	CD	P (4)	PS
DISA			CL		CL	CD			CD		CD
DLA					CD				CD		CD
DMA		CD	CL		CD		P		CD	CD	CD
DNA		CD	CL	CL	CD	CD			CD		CD
NSA	CD	CD	CL	CD	CD				CD	CD	CD
SERVICES	CL	CL	CL	CL	CL	CL	CL	CL	CL	CL	CL
CINCS	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD	CD

NOTES:

- (1) SEE FIG. 4 FOR JSCP ANNEX PREPARATION AND STAFFING RESPONSIBILITIES.
- (2) TO BE PUBLISHED WITHIN 45 DAYS OF ACTUAL POM SUBMISSIONS.
- (3) J-5 HAS PRIMARY RESPONSIBILITY FOR NMS; J-8 HAS PRIMARY RESPONSIBILITY FOR FORCE CAPABILITIES, NET ASSESSMENT.
- (4) J-5 HAS PRIMARY RESPONSIBILITY FOR JSCP; J-8 HAS PRIMARY RESPONSIBILITY FOR FORCE APPORTIONMENT.
- (5) JSR ISSUE PAPERS PUBLISHED AS WARRANTED BY CHANGES IN THE STRATEGIC ENVIRONMENT. THE JSR REPORT STAFFED AND PUBLISHED BY 1 JULY ANNUALLY.
- (6) REVISED AND PUBLISHED AS NEEDED - FORMAL REVIEW EVEN NUMBERED YEARS.

- RESPONSIBILITY FOR PREPARATION
- S - RESPONSIBILITY FOR STAFFING
- CL - COLLABORATION (SEE PART VIII)
- CD - COORDINATION (SEE PART VIII)
- A - ANNUAL
- B - BIENNIALY
- N - WHEN NEEDED
- RB - REVIEWED BIENNIALY

INTEGRATION

The strategy, force structure, and missions created by the Joint Strategic Planning System are essential to resource planning and warplan development. The way these important elements are included in the grand scheme of things is through two other defense planning systems: the JOPES and the PPBS.

The Joint Operation Planning & Execution System (JOPES)

To appreciate fully what the JSPS does, a general understanding of PPBS and JOPES is required. PPBS is discussed in detail in the next chapter. Briefly, in the words from the JOPES instruction, "JOPES is the integrated joint conventional command and control system used to support military operation monitoring, planning, and execution (including theater-level nuclear and chemical plans) activities." JOPES transforms strategy, mission, and forces into OPERATION PLANS. JOPES provides both "on the shelf" war plans (OPLANs and CONPLANs) through a "deliberate planning" process and operation orders through a "crisis action" planning process.

In short, JOPES provides executable plans to use forces in support of national security. Clearly, the JOPES needs the strategy, mission, and resource information provided by the JSPS.⁶

Putting It All Together

JSPS is mutually supporting and synchronized with PPBS and provides the starting point for JOPES. Figure I-2 showed how JSPS fits into the big picture of defense planning. Note how JSPS, using the JSR, assesses risk using forces in being against projected threats; devises a strategy (NMS) and gives program advice (JPD) which PPBS uses as its major input. Similarly, JSPS uses the CPA to assess programmed forces projected through part of the PPBS, and uses that assessment in developing the JSCP, which in turn is the starting point for JOPES. The JSCP assigns missions to the CINCs, who develop concept and operation plans to fulfill the missions. THE JSPS IS THE LINCHPIN OF DEFENSE PLANNING--SUPPORTING ON ONE HAND LONG-TERM RESOURCE DECISION MAKING, AND ON THE OTHER, OPERATIONAL DECISION MAKING.

HIGHLIGHTS

Joint planning involves a myriad of activities including those often associated with three decision making systems: JSPS, PPBS, and JOPES.

The Chairman and the other members of the JCS play key roles by developing the primary documents of the JSPS. Above all, the Chairman, through the JSPS, provides an assessment of the threat

to our national security objectives; the strategy and mission guidance needed for the CINCs to pursue war planning to counter those threats; advice on the forces needed to achieve the strategy; and an assessment of the risk involved in executing our national military strategy with existing means.

NOTES AND REFERENCES

1. Army War College Core Curriculum for Course 3. "Joint Forces, Doctrine and Planning", AY 1988, p. 33.

2. According to the Senate Armed Services Committee, the major provisions of the Goldwater-Nichols DoD Reorganization Act of 1986 were intended to:

(1) enhance the value of joint military advice by designating the JCS Chairman (instead of the corporate JCS) as the principal military advisor to the President, the National Security Council, and the Secretary of Defense;

(2) create a Vice Chairman of the JCS to assist the Chairman, to improve continuity in the performance of joint duties, and to better represent the joint military perspective;

(3) make the Joint Staff more efficient and effective by authorizing only the JCS Chairman to manage it;

(4) strengthen the joint war-fighting capabilities of U.S. military forces by enhancing the command and personal authority of unified commanders;

(5) improve supervision and control of the Defense Agencies (for example, the Defense Logistics Agency, the Defense Contract Audit Agency, etc.);

(6) improve the performance of officers in joint duty positions by establishing management procedures for their selection, education, assignment, and promotion;

(7) consolidate responsibility for certain functions of the military departments in their secretariat staffs;

(8) decrease the size of headquarters staffs and Defense Agencies by about 16,500 personnel in order to streamline the administrative and operational chains of command; and

(9) reduce the burden of Congressional micro-management by "sunsetting" about two-thirds of the more than 400 defense reports required by the Congress from the President and the Defense Department.

A summary of the major provisions of the Law can be found in the U.S. Senate, Committee on Armed Services, press release of 11 Sep 1986. Details are available in the Public Law 99-433.

3. Chairman, Joint Chiefs of Staff. Memorandum of Policy No. 7, issued 30 January 1990, revised 17 March 1993. Many phrases and descriptions in this chapter were borrowed from this source document.

4. This discussion on people in the JSPS is extracted from Army Command and Management, Theory and Practice 1989-1990, U.S. Army War College, Carlisle Barracks, PA, 18 Aug 89, p. 10-1.

5. CJCS, MOP 7.

6. For a more detailed description of JOPES, see Joint Pub 5-03.11, JOPES.

References

1. Armed Forces Staff College Pub 1: The Joint Staff Officer's Guide 1993. Norfolk, VA: National Defense University.

2. CJCS MOP 7. The Joint Strategic Planning System (JSPS). Washington, 30 Jan 1990, revised 17 March 1993.

3. Joint Pub 5-03.11, Joint Operation Planning and Execution System, initial draft March 1993. Chairman of the Joint Chiefs of Staff, Washington, D.C.

4. U.S. Army War College. Army Command and Management: Theory and Practice, 1989-90. Carlisle Barracks, PA, 18 Aug 1989.

5. U.S. Army War College. Warfighting, Its Planning, and Conduct. Vol. 1, Carlisle Barracks, PA, 1 Oct 1987.

CHAPTER III

THE PPBS

INTRODUCTION

Structure of the Chapter

The challenge, when trying to describe the PPBS, is to be comprehensive yet basic. The PPBS is a complex process. Yet enumerating every detail would certainly make this chapter unreadable. On the other hand, being anything but thorough could detract from the objective of having the reader understand the process.

To solve this dilemma, the PPBS process will be described in several stages. First the objective of the system will be articulated. Then, the three phases (P, P, & B) will be described in very general terms. The discussion will then turn to the most basic of the PPBS documents as the PPBS cycle is developed. Then more complex parts of the process will be introduced and the PPBS schedule will be explained.

PPBS should be taken in small doses. If you have no experience with PPBS, read only the basic text. Remember, the endnotes are intended to be used by those readers with prior knowledge/experience in PPBS. Delve into the details of the notes at your own discretion. You should be able to come away with a general understanding of PPBS without looking at the notes.

Purpose

The role of defense decision makers in developing national security policy involves strategy and resource allocation decisions. Strategy decisions pertain to the use of forces, the size and readiness of forces, the strategic positioning of forces, and their operational command and control. These decisions are largely executive ones, involving the President in close consultation with the National Security Council. Resource allocation decisions, on the other hand, pertain to the more precise determination of requirements for resources and their allocations to permit the forces to carry out their responsibilities. The decision making system which DoD uses to determine its requirements and then program, budget, and allocate resources over time to satisfy these requirements is the Planning, Programming, and Budgeting System (PPBS).¹

Since PPBS was instituted in the early 1960s, its purpose has been "to produce a plan, a program, and, finally, a budget for the Department of Defense."²

While this purpose of PPBS has been constant over the years, the process itself has evolved. The PPBS continues to be a dynamic and changing decision system.

History and Characteristics of PPBS³

President John Kennedy's Secretary of Defense, Robert McNamara, introduced PPBS to DoD. The notion of a "program budget", which was developed at the Rand Corporation during the previous decade, was at that time a foreign concept to the military services. Budgeting previously had focused on such things as salaries, overhead, and capital expenditures rather than on the objectives or results to be achieved with those resources. PPBS was introduced in DoD so that resources for national defense could be allocated in a more rational, systematic way that related more directly to the mission and role of the department. Before Secretary McNamara, each service had prepared its budget following its own interests with very little guidance from the Office of the SECDEF (OSD). Previous SECDEF involvement had for the most part been limited to dividing the DoD's budget ceiling among the services. If the services exceeded their share of the pie, SECDEF would reduce their budget, usually by a percentage cut across the appropriations. Before PPBS, OSD rarely attempted to review the programmatic aspects of the services' budget submissions.

One of the most dramatic and enduring aspects of PPBS was McNamara's creation of the "Five Year Defense Plan" or "Five Year Defense Program," now a six year plan and called the "Future Years Defense Program" (FYDP). The FYDP was created to provide a programmatic and multiyear focus, which is the heart of PPBS. The FYDP remains the central data base underlying PPBS. Later in this chapter, we will get more involved with the FYDP.

President Jimmy Carter and his Secretary of Defense, Harold Brown, added several initiatives to PPBS. In 1976, President Carter introduced Zero Based Budgeting (ZBB) to the Federal Budget Process. In 1979 as a result of the Rice Study by Rand Corporation, Secretary Brown formed the Defense Resources Board (DRB) to better manage the PPBS process. The DRB consisted of various Under and Assistant Secretaries of Defense and the Chairman of the JCS. The DRB, changed to the Defense Planning and Resources Board (DPRB) in 1989 and back to DRB in 1993, is an active and influential decision making body in PPBS. They are often referred to as the SECDEF's board of directors for resource allocation.

During the Reagan era, PPBS underwent numerous changes. His administration pledged to revitalize American military strength in the most effective and economical manner. This objective led to significant changes to PPBS known as the "Weinberger-Carlucci initiatives" (Frank Carlucci was then DEPSECDEF and Chairman of

the DRB). In addition to eliminating most ZBB paperwork, greater emphasis was placed on long-range planning, more authority was decentralized and returned to the services, and there was closer attention to cost savings and efficiencies. Additionally, the DRB was restructured. Membership was changed to include the service secretaries as full members. DRB review was changed to include only major issues. The DRB would also review and approve policy and strategy in the planning phase, adding more power to the first "P" (planning) in PPBS. Finally, the CINCs were invited to participate in DRB deliberations in the planning and programming phases. In general, Weinberger and Carlucci moved to streamline PPBS.⁴

In 1984, based on recommendations from the DRB and the CINCs, the DEPSECDEF directed an enhancement of the CINCs' role in PPBS. The CINCs were to submit clearly identified requirements for new or changed programs through their service components. In addition, higher priority needs ("war stoppers") in the areas of readiness and sustainability were to be submitted directly to DEPSECDEF and to the CJCS.⁵

Defense resource allocation and the acquisition system were changed dramatically in 1986. The DoD Reorganization Act of 1986 (the GOLDWATER-NICHOLS Bill) directed a major overhaul of the DoD acquisition structure and strengthened the joint elements of DoD. The greatest impact on PPBS was the strengthening of the position of the CJCS as the principal military advisor to the President, the NSC and SECDEF. By Goldwater-Nichols, the CJCS:

- advises SECDEF on the priorities of the requirements identified by CINCs.
- advises SECDEF on the extent to which departmental program and budget proposals meet the requirements of the CINCs.
- submits alternative program and budget proposals to achieve greater conformance with CINC priorities.
- recommends budget proposals for the activities of the CINCs.⁶

The PACKARD COMMISSION REPORT was published in 1986 and several changes to PPBS followed in its wake. Virtually all of the recommendations of this blue ribbon panel that are under executive branch control have been implemented. The biggest impact on PPBS has been biennial programming and budgeting.⁷ Congress, on the other hand has not responded to the Packard Commission report. In addition to the recommended two year defense budget, Congress was urged among other things to streamline the defense budget committees, stabilize defense budget forecasts in the budget resolution process, and adhere to

deadlines in the budget enactment process. Congress has not made any of these changes.⁸

In 1989, Secretary of Defense Cheney conducted a Defense Management Review in response to Congressional dissatisfaction with DoD implementation of the DoD Reorganization Act of 1986. The management initiatives resulting from this review streamlined the planning process, made the planning process more responsive to policy guidance, and emphasized long-range planning, especially beyond the FYDP.

The initiatives to streamline and improve DoD acquisition planning were: a reduction in the size of the DRB and DAB; a change of the name of the DRB to DPRB (Defense Planning and Resources Board); a change in the name and scope of the Defense Guidance to Defense Planning Guidance (DPG); the initiation of a study to reduce the size of the DoD acquisition work force; and the implementation of Total Quality Management throughout DoD.

In the spring of 1993, Secretary Aspin saw a need to condense the normal two-year PPBS cycle into a nine-month period in order to develop a defense budget that reflected the priorities of the new Clinton Administration. He directed the completion of major studies of numerous key defense issues, with the goal of developing a new Defense Planning Guidance by the early summer of 1993 and a new defense budget by late fall 1993.

The notion of a two-year budget is not new. It has seemed like a good idea to some for many years. A more deliberate planning schedule, increased attention to major issues, more stable resource allocation and conservation of planning resources are all possible benefits of the two-year idea. In the FY86 DoD Authorization Act Congress directed that beginning with fiscal years '88 and '89, the defense budget submission would cover a two-year period. DoD of course complied, however Congress continues to appropriate funds on an annual basis. Biennial budgeting for defense is practiced at present only by the executive branch.

PPBS is not strictly a DoD phenomenon. The program-budget has become institutionalized throughout the executive branch of the federal government. PPBS is used as well in many local and state governments and can also be found in other democratic countries.⁹

THE PPBS PROCESS

The Objective

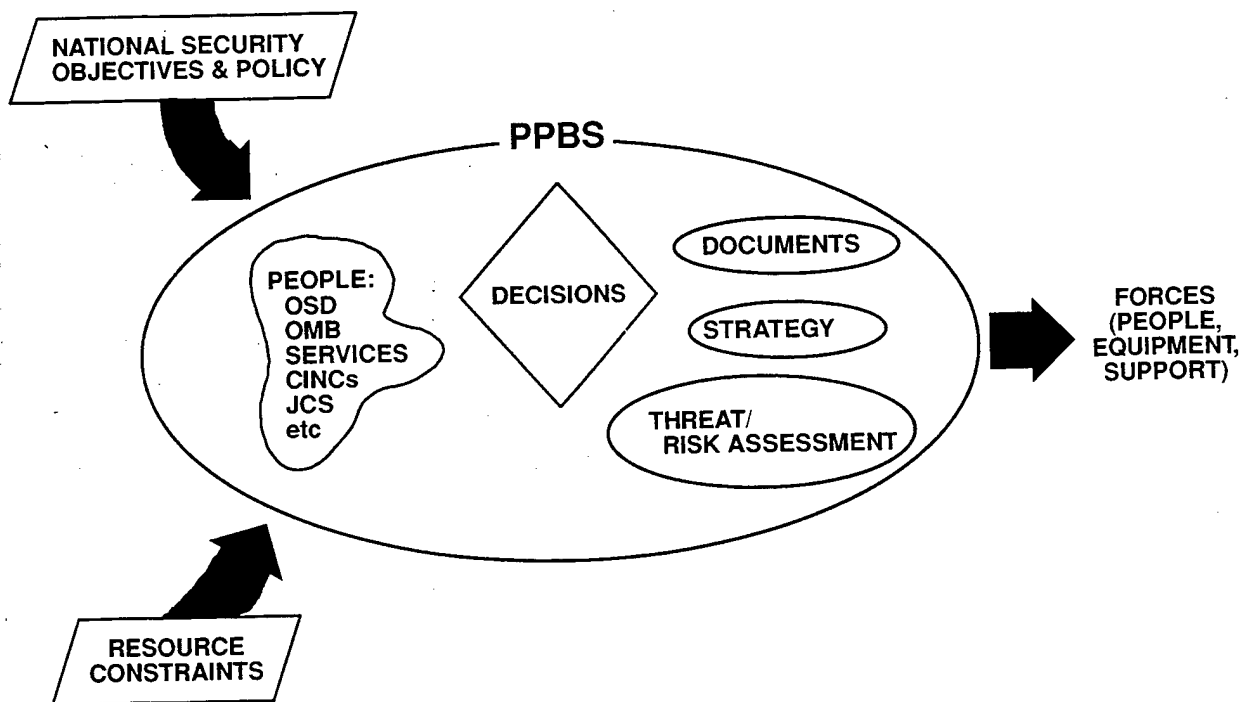
As is the case with all rational and systematic processes, PPBS can be described conceptually in terms of inputs, purpose, activity, objective, and output. As was stated earlier:

The purpose of the PPBS is to produce a plan, a program, and finally, a budget for the Department of Defense. The budget is forwarded to the President for his approval. The President's budget is then submitted to Congress for authorization and appropriation.¹⁰

Budgets, however, don't win wars; military forces win wars. A more practical statement is then . . . the objective of the planning, programming and budgeting system is to provide the CINCS the best mix of forces, equipment, and support attainable within resource constraints.¹¹ So while many think of the defense budget as the output of PPBS, the budget is just a means to the end. THE PURPOSE OF PPBS IS TO MAKE A PROPOSAL THAT WILL FIELD FORCES. This notion is depicted in Figure III-1.

Figure III-1

The PPBS - A Basic System



If you get bogged down in the ensuing discussion, come back to look at Figure III-1. PPBS is nothing more than a rational decision process. PPBS takes national security objectives and, using available resources (\$), produces forces. The activities in the process include strategy development, risk and threat assessment and a lot of paperwork. There are many players.

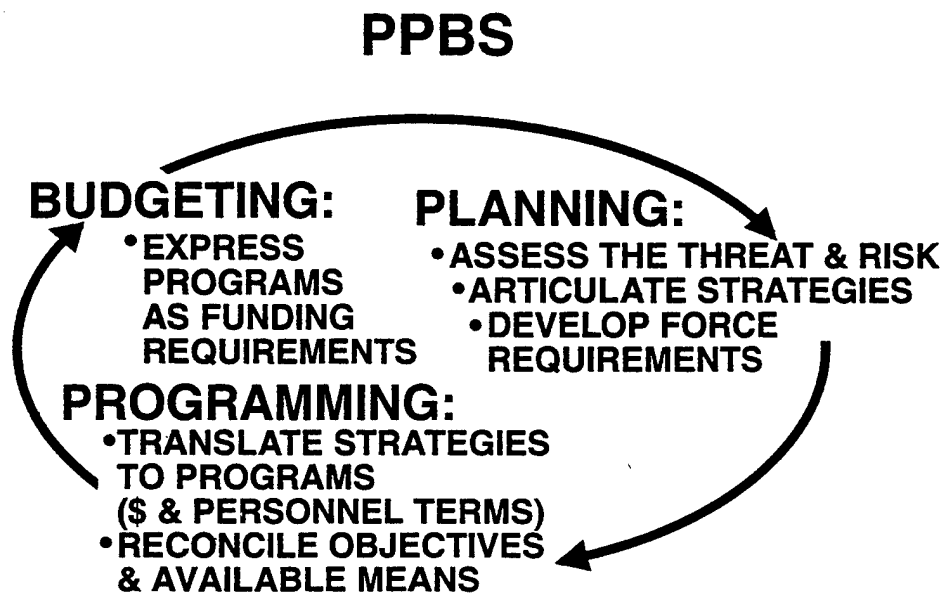
A Three-Phased Process

The three phases of PPBS have been concisely described by two Air Force majors:

Each of the three phases contributes to our ultimate objective - providing operational commanders with the best mix of forces and support attainable within fiscal constraints. Each phase overlaps the next. During the Planning Phase, DoD identifies the threat facing our nation during the next 5-20 years, assesses our capability to counter it, and recommends the forces necessary to defeat it. Planning highlights critical needs and examines risks in order to guide resource decisions if recommended goals are not attained. In the Programming Phase, the Services match available dollars against the most critical needs and develop a 6-year resource proposal. This proposal becomes the basis for budgeting action. The Budgeting Phase refines the detailed costs and develops the Service estimates required to accomplish the approved program. Following review and approval, the proposal serves as the input to the President's budget.¹²

Figure III-2 is offered to emphasize the main activities of each phase of the process. This picture also shows the cyclical nature of PPBS with subsequent planning being based on a view of the threat, given budgeted forces.

Figure III-2 - The Phases of Planning,
Programming and Budgeting

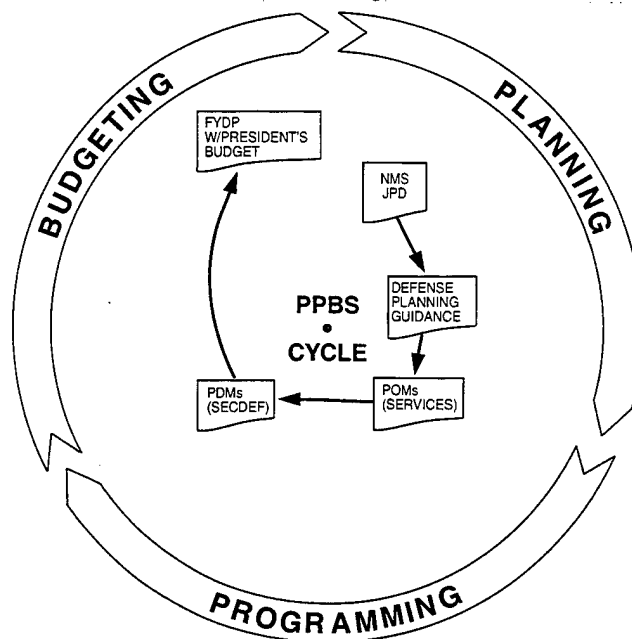


Basic Documents

The intent of this chapter is to develop an understanding of PPBS slowly. At first, we will cover only the most basic of the PPBS documents. A PPBS cycle is driven by or generates six basic documents: The JSPS-generated National Military Strategy (NMS) and Joint Planning Document (JPD) and SECDEF's Defense Planning Guidance (DPG) during the Planning Phase; Service Program Objective Memoranda (POMs) and SECDEF's Program Decision Memoranda (PDMs) during programming; and the Future Years Defense Program (FYDP), which is DoD's part of the President's Budget submission to Congress. It may be helpful to refer to the basic cycle shown in Figure III-3 as these documents are discussed.

Figure III-3

The Six Key Documents of the
Basic PPBS Cycle



The National Military Strategy (NMS)
and Joint Planning Document (JPD)

Recall the NMS and JPD discussed as part of JSPS in Chapter II. They serve as the first interface with PPBS, with the NMS providing planning input, and the JPD providing concise CJCS programming priorities, requirements and advice to SECDEF. The Secretary considers both inputs in drafting the Defense Planning Guidance (DPG).

Defense Planning Guidance (DPG)

The DPG issues guidance from the Secretary of Defense to the military departments for development of the military departments' POMs for the defense planning period. The DPG includes major planning issues and decisions, strategy and policy, strategic elements, the Secretary's program planning objectives, the Defense Planning Estimate, the Illustrative Planning Scenarios, and a series of studies.¹³

From a programming perspective it may be helpful to think of the DPG as the output of the planning phase that represents a package of all the planning pieces. The DPG includes national security policy, priorities and areas to be emphasized in the services' programs, and resource constraints. The PURPOSE OF THE DPG is to GUIDE RESOURCE ALLOCATION DECISIONS: it serves to guide the services in program development, and the JCS and OSD in their program reviews.

Program Objective Memoranda

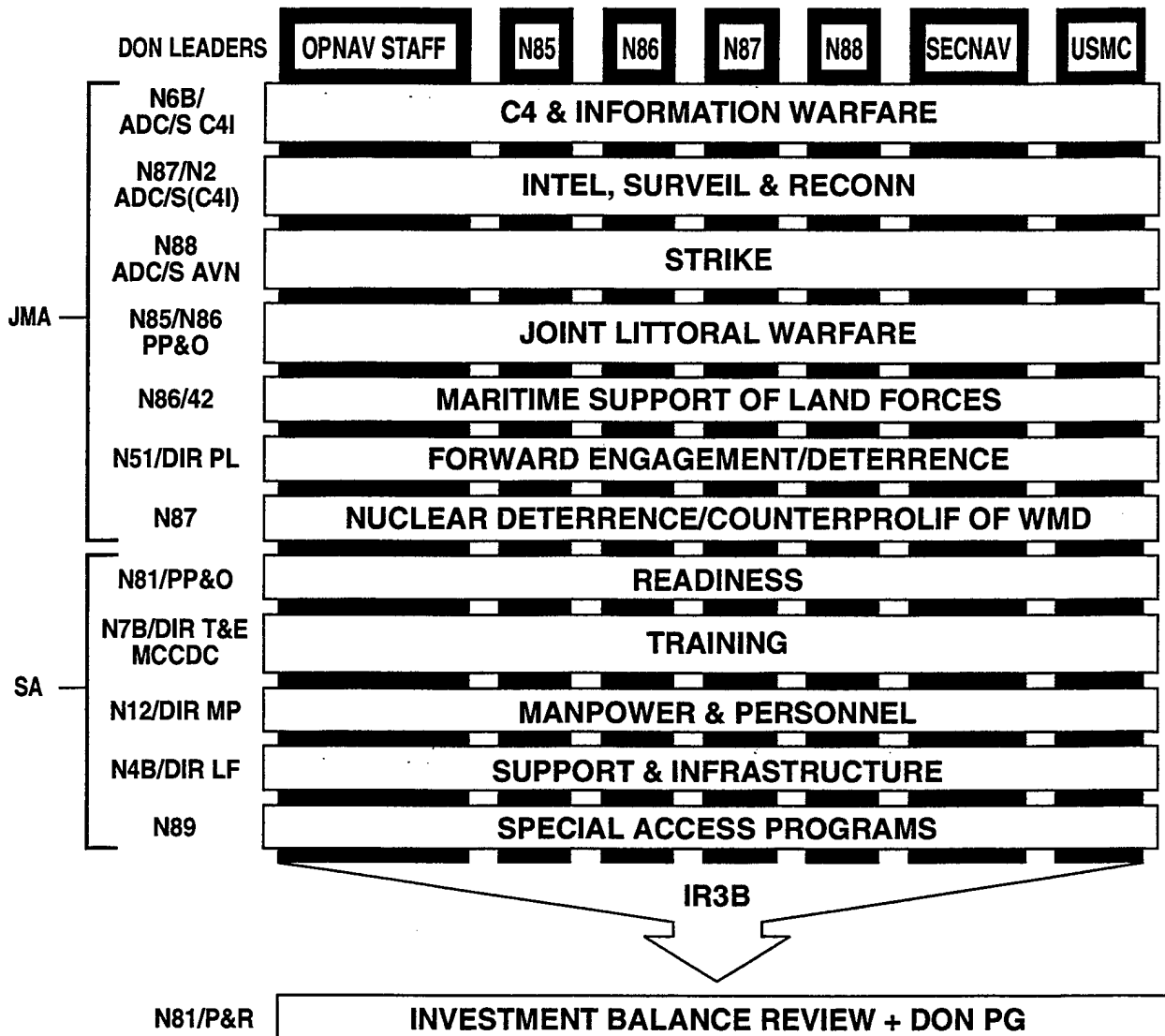
Please glance at Figure III-3 again - we're now in the programming phase. Each Service develops a Program Objective Memorandum (POM) in the spring of even numbered years which lists its objectives for forces, weapon systems, and logistic support within the fiscal limits set by the Defense Planning Guidance. POMs depict the matching of money and personnel to programs over the FYDP.

USSOCOM is the only CINC that has an independent POM. All CINCs give their highest priority needs to SECDEF and CJCS in the CINCs' Integrated Priority Lists (IPLs), and send the Services their requirements via their components. Each Service is required to address CINC needs as they develop their POMs, either by funding the need or discussing alternative proposals.

Each Service has developed its own method of deciding which programs get fully funded, which are partially funded, and which are delayed or cancelled. As part of the RA curriculum, each service will send briefers intimately involved with the details of its current POM cycle to NWC this trimester. Students will receive their own Service's brief, which will cover both service-specific process items and the content of the current POM.

The NWC plays a key role in the Navy POM process through Joint Mission/Support Area Assessments. In a process represented in Figure III-4, Navy staff elements and representatives from sister Services and CINC staffs conduct assessments of joint warfare and support mission areas to identify issues that have POM funding implications. Each assessment is based on IPLs and

Figure III-4
Joint Mission/Support Area Assessments



the draft DPG. Some of the assessments are conducted as war games at NWC. Issues raised by the assessments/games are addressed in the unfolding POM, which itself is then wargamed by SECNAV in a large game at NWC. Results from the game then form the major input to the Investment Balance Review (IBR), which prioritizes funding needs in arriving at a final, rational decision on funding levels for competing programs, reflected in the Navy POM. Figure III-5 shows an overview of the complete process.

On those occasions when assessments identify a mission need not covered by current or planned programs, the need is addressed using the Requirements Generation System, discussed in Chapter V.

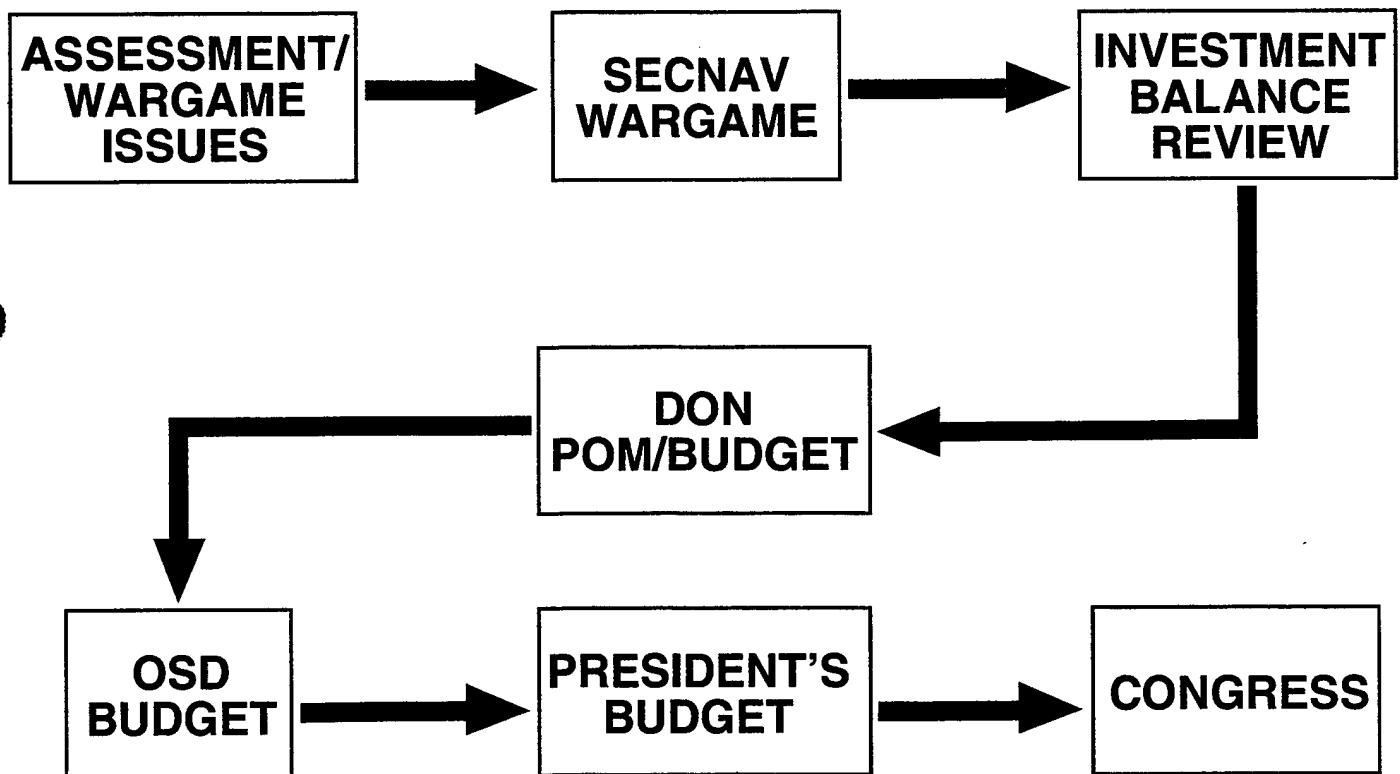
The POMs represent the result of the Services' analyses of alternative ways to meet their needs. Hence, the POMs articulate the decisions that the Services make in the resource allocation process. POMs also show the impact of reduced resources, propose new initiatives, and provide additional options "over guidance" (i.e., alternative uses of additional funds should any be available).

What are these "Programs"? The term "program" is beat about and used in several different ways. In PPBS terms, programs are designed to express the accomplishment of a definitive objective. Recall that at the heart of PPBS is the concept of a "program budget". Each program is time-phased as to what is to be done and the means proposed for its accomplishment. DoD deals with eleven major force programs or "MFPs":

1-Strategic Forces, 2-General Purpose Forces, 3-Intelligence and Communications, 4-Airlift and Sealift, 5-Guard and Reserve Forces, 6-Research and Development, 7-Central Supply/Maintenance, 8-Training, Medical, Other General Personnel Activities, 9-Administration and Associated Activities, 10-Support of Other Nations, 11-Special Operations.

Figure III-5
Navy POM
Budget Formulation

NAVY POM BUDGET FORMULATION



These MFPs are mission oriented aggregates of program elements (PEs). PEs are the building blocks of programs and of the whole defense plan. For example, the MFP of Strategic Forces would comprise the PEs of USAF B-2s (PE #11113F), Navy Trident (11228N), etc.

Program Decision Memoranda (PDMs)

Think of each Service submitting requests for what they want to do (i.e., the POMs) and SECDEF approving or, perhaps, modifying part of their proposals via PDMs. PDMs mark the end of the programming phase as the SECDEF analyzes and responds to the service POMs. A PDM is transmitted to each Service and approves the POM as modified therein.

Future Years Defense Program (FYDP)¹⁴

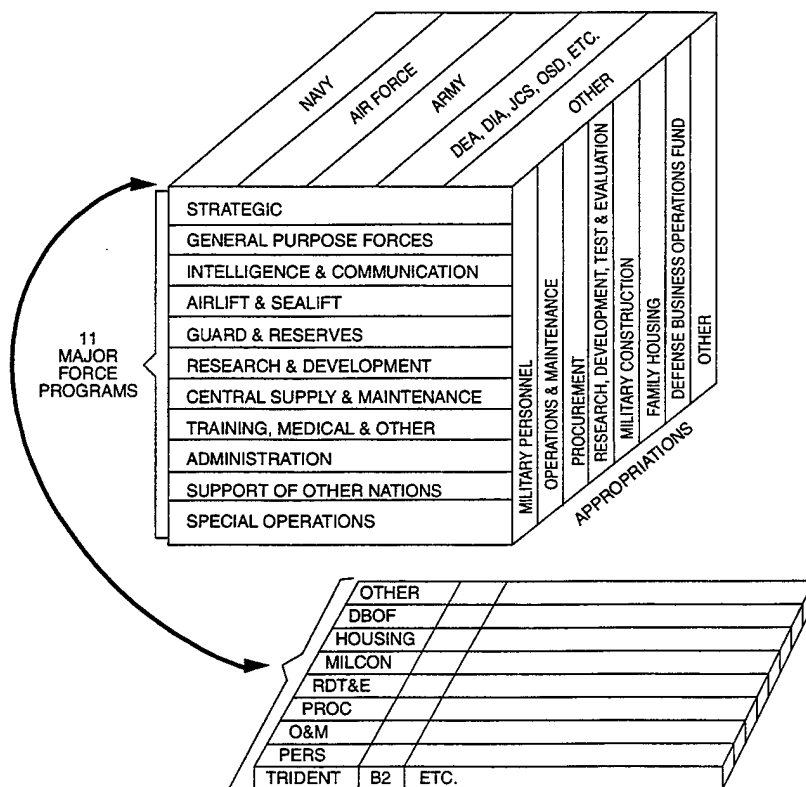
Because the FYDP is the final result of programming and budgeting, it is thought of as the output of the PPBS. More formally, the FYDP is the official document which summarizes SECDEF's approved programs for DoD. The FYDP is a huge data base that serves as a detailed compilation of the total resources (forces, personnel, and dollars) for procurement, construction, research and development, etc. There are some important characteristics of the FYDP that you need to know if you're really going to understand PPBS:

- The FYDP is structured to display data in two different languages - programs and appropriations. This may seem like an unnecessary detail. However, Congress authorizes defense payments from the treasury in eight general categories:
 - Military Construction (MILCON)
 - Family Housing
 - Research, Development, Test & Evaluation (RDT&E)
 - Procurement
 - Operations and Maintenance (O&M)
 - Military Personnel
 - Defense Business Operations Fund (DBOF)
 - Other

Meanwhile, the program budget concept at the heart of PPBS is based on the eleven MFPs and the thousands of program elements that make up the programs. The FYDP, of necessity, must be able to identify resources using either language. Figure III-6 depicts the dual structure of the FYDP that allows for this bilingual characteristic.

Figure III-6

CROSSWALKING DOD PROGRAMS AND CONGRESSIONAL APPROPRIATIONS



The FYDP is structured this way to keep both DoD and Congress happy. DoD needs output oriented expressions to satisfy the rational and systematic PPBS process. Congress uses an input oriented format.¹⁵

- A final characteristic of the FYDP that needs to be explained is that this dynamic document is formally updated three times each cycle. When you think about it, it makes sense to take a picture of the total defense program after each key decision point in the process. These decision points are:
 - When the Services submit their POMs (referred to as the "POM FYDP" or "May FYDP")
 - After the Services revise their programs in the wake of the PDMs (called the "September FYDP" or "Budget Estimate FYDP")

- Coincident to the submission of the President's Budget (the "January FYDP")

Basic Cycle Summary

We have briefly described the skeleton PPBS cycle. It is illustrated in Figure III-3, from its formal beginning with the NMS to its culmination with publication of the January FYDP attendant to the President's budget.

In brief review, the JCS review the programmed force, the threat and the policy. Then in the NMS and JPD, they recommend the force to plan for while addressing the risk associated with the existing structure. In the DPG, SECDEF summarizes planning considerations and applies fiscal constraints with priorities and areas to emphasize. In their POMs, the Services articulate their decisions and propose matching dollars to programs. SECDEF assesses the POMs and publishes his final decision on programs in the PDMs. Services modify their POMs accordingly and go through a budgeting drill, which results in the FYDP--which in turn is reflected in the President's budget to Congress.

Fleshing Out the Process

If you think that you understand the basic PPBS cycle, you should now feel comfortable with the documents called the NMS, JPD, DPG, POM, PDM, and FYDP as well as the concepts of Planning, Programming and Budgeting. If these terms don't make any sense, reread the Overview (Chapter I) and the first part of this Chapter on PPBS before continuing further.

Our next step is to describe the PPBS process in more detail. As you shall see in the following pages, this involves more people (the CINCs, the Defense Resources Board, and OMB in particular) and more documents (acronyms such as CPA, IPL, BES and PBD will soon enter or revisit your vocabulary). We will describe these additional inputs, processes, and documents by the phase of the PPBS that they generally fall into.

Planning

We will take the planning portion of the PPBS cycle and provide some details regarding the manner in which each of the documents is developed. If you recall from Chapter II, the NMS and JPD provide the input to the DPG. The following discussion provides the relevant details of how the DPG is constructed. As you read the following pages, concentrate on how the various documents are coordinated and the process of decision making that takes place.

Draft DPG. Let us turn our attention to the development of the Defense Planning Guidance. Recall from the earlier

discussion that the DPG, as the book with all the planning pieces, is a monumental document. The DPG is the link between planning and programming; it gives the official planning guidance to the military departments for developing their POMs. It is important to know that the DPG is not written overnight or in a vacuum. Rather, the DPG is developed over time, with participation of virtually every organization within DoD. Additionally the Department of State, the NSC staff and OMB are provided with draft copies for comment.

In OSD, the Under Secretary of Defense for Policy (USD(P)) takes the lead in drafting the DPG. The previous DPG, PDMs, and budget are considered along with the NMS and JPD. The net assessments, another input, are a compilation of threat and capability assessments from the Joint Chiefs of Staff and the Services. The DPG Steering Group, chaired by the Deputy USD(P), helps develop and coordinate the DPG. The development of the DPG relies on extensive dialogue between OSD, the JCS, CINCs and the Services.

As drafts of chapters of the DPG are completed, they are circulated to the military departments and others for review and comment. The services use the draft DPG as guidance to begin development of their programs. The JCS, the combatant commanders and the DRB review the draft DPG until the final version is issued.¹⁶

Figure III-7 summarizes the complete Planning Phase. We have augmented our basic PPBS cycle with more details. The NMS and JPD are conceived with inputs on the threat (JSR), national policy and objectives (from the NSC) and force capabilities (net assessments). In addition to the information summarized in the NMS and JPD, OSD takes many other factors and sources of advice into account as the Defense Planning Guidance is developed. The drafting of the DPG is itself a dynamic and iterative process involving dialogue with the CINCs, the Services, and the DRB as well as the other executive agencies and departments.

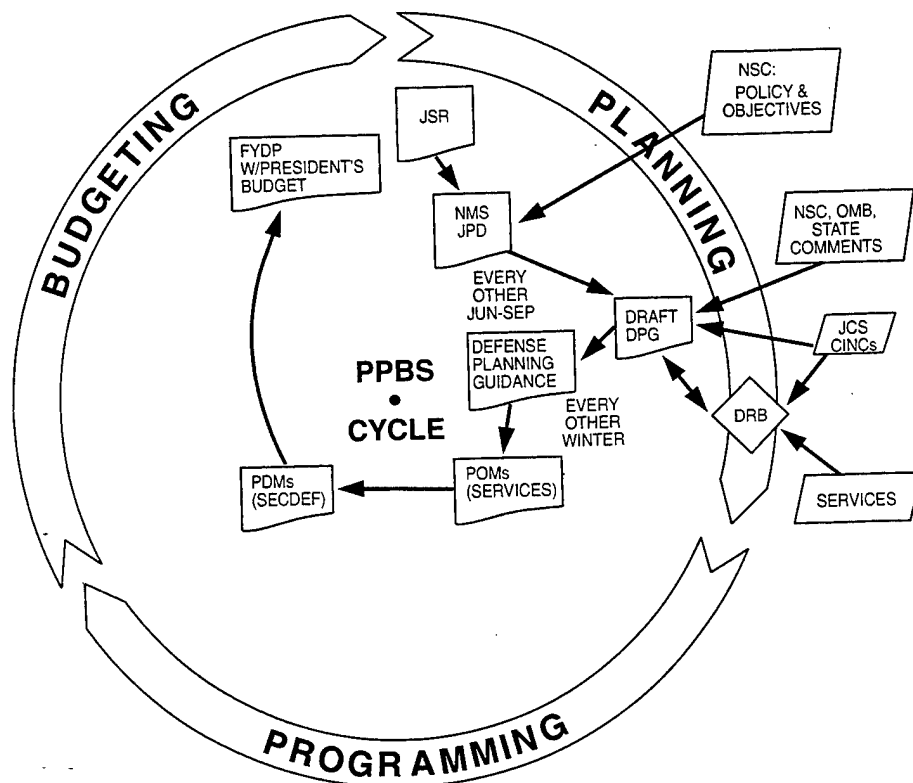


Figure III-7

Fleshed out Planning Phase

Programming

In our basic PPBS discussion, we briefly described the POM and PDM documents used in the programming phase of PPBS. Now let's examine the rest of what happens in programming. To review, with words from the Staff Officer's Guide,

POMs are based on the strategic concepts and guidance stated in the DPG and include an assessment of the risks associated with current and proposed force and support programs. POMs express total program requirements for the years covered in the DPG. They also describe the rationale for proposed changes to the force approved by the Secretary of Defense as reflected in the Future Years Defense Program (FYDP).¹⁷

Dollar totals must be within the fiscal guidance issued by SECDEF. Major issues, e.g., a difference of opinion between CJCS and a Service Secretary on the need for a particular item, are identified. Supporting information for the POMs is published per the annual POM preparation instructions. The Services are

required to include annexes that describe how their POMs respond to the needs of the CINCs.

CINCs' Integrated Priority Lists. The CINCs' long-term resource needs are to be supported by the Services. To get their requirements considered in the programming phase, CINCs first submit Integrated Priority Lists (IPLs) to the Services. POMs, including these CINC inputs, are (by the normal schedule) submitted every even numbered year in April.

Summer Review Process. Once the POMs have been submitted, SECDEF must determine how well the Services "answered the mail." Three vehicles help SECDEF determine compliance with the DPG and surface alternatives to proposed programs. They are, the Chairman's Program Assessment (CPA), Issue Books, and the deliberations of the Defense Resources Board (DRB). They are all part of what is referred to as the "program review" or "summer review" process.

1. The CPA: This document, also discussed in Chapter 2, provides CJCS views on the Services' composite POM force and the risks associated with that force. It addresses the overall POM force balance and capabilities, and support levels required to execute the national military strategy. The CINCs provide comment to CJCS for development of the CPA. CJCS uses the CPA to recommend alternatives to achieve improvements in overall warfighting capability within the POM funding levels.

2. Issue Books: The OSD staff prepares a set of potential issues. These can be areas where the services did not comply with the DPG, or more commonly, alternatives to various programs included in the POMs. Issues are also prepared by the CINCs, OMB, and defense agencies. A committee of the DRB, the Program Review Group, decides which issues will become candidates for DRB review. The DRB selects those issues they wish to review from this list of candidates. The OSD staff then prepares individual issue papers summarizing each selected issue. The Services and OMB assist in the formulation of the issue papers, and the CINCs and CJCS also provide inputs. Each issue paper consists of a discussion section followed by a list of alternatives. Individual issues are then combined into issue books (sometimes called program review books), which become the subject of DRB deliberation. Prior to DRB deliberation, the issue books are circulated to other OSD staffs, the JCS, CINCs, and the Services for review and comment. All comments are attached to the issue book "package" for DRB consideration.

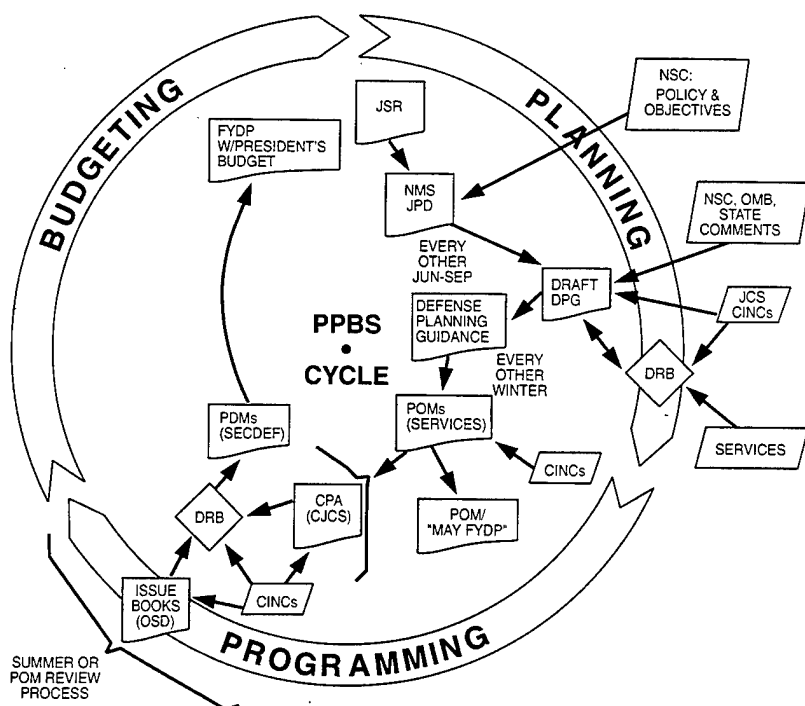
3. The DRB: This body acts as the DoD "Board of Directors" for resources and meets in the summer, every other

year, to deliberate the alternatives in the issue books. In addition to the input provided in the CPA and the Issue Books, the DRB gets advice directly from the CINCs. The CINCs meet with SECDEF and the DRB to provide their views on the strategy and the adequacy of the POMs to meet that strategy. The issues are resolved through a series of meetings during the summer period. The CINCs are invited to attend those meetings which address their issues. After hearing arguments from all parties concerned, and after consulting with SECDEF, the Deputy SECDEF makes decisions on each of the issues.

As noted in our basic process discussion, SECDEF's final "Summer Review" decisions are announced in PDMs, which are the final document of the programming phase.

Figure III-8

Fleshed out Planning and Programming Phases



Let's pause again to catch our breath. Look at Figure III-8. It summarizes the complete PPBS process through the programming phase. Note that the CINCs participate in POM, Issue Book and CPA development, as well as in the DRB deliberations. During the Summer Review Process, the DRB is the key decision body. It reviews the aggregate of the service POMs with the help of the CPA, Issue Book alternatives, the CINCs' views, and the CJCS risk assessment. The end of the programming phase is marked by the

PDMs which approve the POMs or direct the services exactly how to change their POMs.

Budgeting

Budgeting is the final phase to be described as we flesh out the whole PPBS process. What basically happens in the budgeting phase is that the PDMs of the programming phase are transformed into the DoD portion of the President's budget. The two main vehicles used to do this are Budget Estimate Submissions (BESs) and Program Budget Decisions (PBDs.) Using the words of the Staff Officer's Guide,

Budget Estimate Submissions (BESs). Each of the military departments and defense agencies forwards its BES to the Office of the DoD Comptroller. The BES is traditionally due in September. It includes the prior year, current year, budget year, and budget year plus one (more for authorized programs) data Budget Estimates are prepared and submitted based on the approved program as well as current economic assumptions contained either in the POMs or in detailed budget guidance issued each year. On receipt of the submission, the Comptroller's program and budget office begins the joint OSD and OMB hearings to review the submission. The military departments make presentations concerning their submissions and respond to questions. The DRB meets when appropriate.

Program Budget Decisions (PBDs). Budget submission hearings are held to obtain additional information needed to draft PBDs. The entire budget is reviewed to ensure that the requests are properly priced, program schedules are appropriate, and estimates are consistent with the objectives of the Secretary of Defense. PBDs document approval of the estimates for inclusion in the President's Budget. These decisions evaluate, adjust, and approve all resources in the budget request. Although the responsible budget analyst has the lead in developing the PBD, other OSD staff personnel furnish appropriate recommendations and support. When each individual PBD is written, it is coordinated with OMB and the Under Secretaries and Assistant Secretaries of Defense. Each PBD consists of a discussion of the area, issues, and a series of alternatives. PBDs are sent with a covering memorandum that identifies any unresolved issues to the Deputy Secretary of Defense, who then chooses one of the alternatives or directs a new one, and the signed PBD goes to the appropriate military department and CINCs.

If a military department appeals a PBD, the reclama is processed through the same channels as was the PBD, and the Deputy Secretary of Defense makes the final decision. The military department secretaries and Service chiefs have an

opportunity as near the end of the review cycle as possible to discuss with the Secretary of Defense the major budget issues that merit his personal review. During this final phase of PPBS, the Joint Chiefs of Staff and CINCs assess the impact of PBDs on warfighting capabilities of the combatant commands. They present their concerns to the Chairman of the Joint Chiefs of Staff, who discusses them with the Secretary of Defense as appropriate.

Since the mid-1980s, the role of the CINCs in resource management has increased significantly. PPBS has become much more responsive to the needs of the CINCs. The Commander in Chief, U.S. Special Operations Command, is the only combatant commander who actually submits a budget.

If, at the end of the PPBS process, OMB or DoD feels that unresolved differences remain, the Secretary of Defense and Director, OMB, raise these issues when they meet with the President. Once the final budget decisions are made, the DoD budget becomes a part of the President's budget that is submitted to the Congress in January.¹⁸

It may seem that decisions made in the Programming Phase are being revisited in budgeting. This is not so in a "pure" PPBS cycle where program decisions (those finalized in the PDMs) are not normally reversed. Budgeting phase decisions usually concern expressing programs as funding requirements. However, consider the case of the "off years"--those years when there is no POM, but there is to be a President's Budget before Congress the following January. (Recall that DoD does a biennial PPBS; Congress budgets annually.) During these off years, big decisions involving programs may have to be made. The budget the President sent to Congress early in 1993 cut about \$86 billion from the FYDP that was "approved" just the year before. In "off years" like this, budgeting decisions will almost certainly affect, if not radically modify, some previous programming decisions.

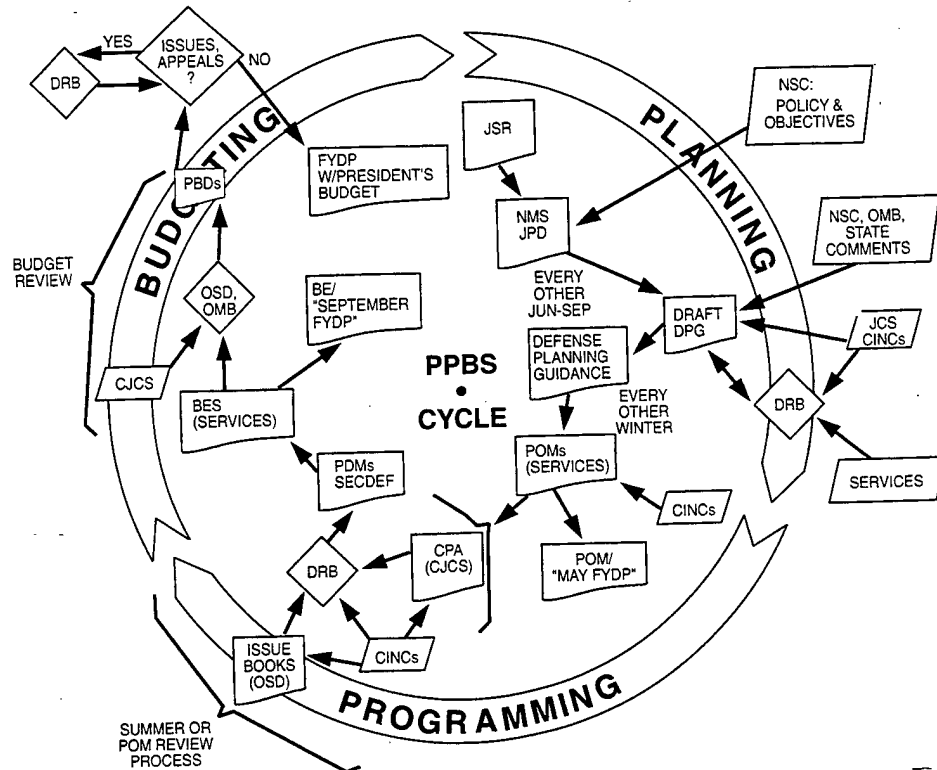
To review what happens in the budget phase, refer to Figure III-9. The main points in PPBS budgeting can be seen in the upper left hand corner.

- The BESs represent the individual Service estimates of the cost of the approved program (the cost of the POM as adjusted by the PDM).
- The budget review process is conducted by the DoD Comptroller with OMB. Its purpose is to review service estimates of program costs and record final decisions through a series of Program Budget Decisions (PBDs)
- The DRB resolves budget issues.

- The completion of this activity is the DoD input to the President's Budget.¹⁹

Figure III-9

Complete PPBS Cycle



Complete PPBS Cycle Review.

Let us now review the whole PPBS cycle. Figure III-9 portrays a more complete (albeit complex) view of the PPBS Cycle. Refer to it as we go over how PPBS is supposed to work.

- The CJCS reviews the threat, considering national objectives and policy in light of existing and programmed forces. In the NMS and JPD, strategy and a force structure required to meet the threat are articulated. The risk of employing the programmed forces is also addressed.
- After considering the last President's Budget, the NMS and JPD, and inputs from the services, CINCs and DRB, SECDEF publishes the DPG. This resource allocation guidance includes all the planning pieces, plus fiscal constraints, priorities and areas for the services to emphasize.
- Using the DPG and the needs of the CINCs, the Services make their resource allocation decisions, then prepare and submit their POMs.

- After considering the CPA, Issue Books, and CINC inputs via the DRB deliberations, SECDEF reviews the POMs and issues his final programming decisions in the PDMs.
- The Services develop BESSs that aggregate, after OMB/OSD review (and perhaps, appeal), to the FYDP--the DoD portion of the President's Budget.
- The FYDP is updated to reflect the POMs, BESSs, and the President's Budget.

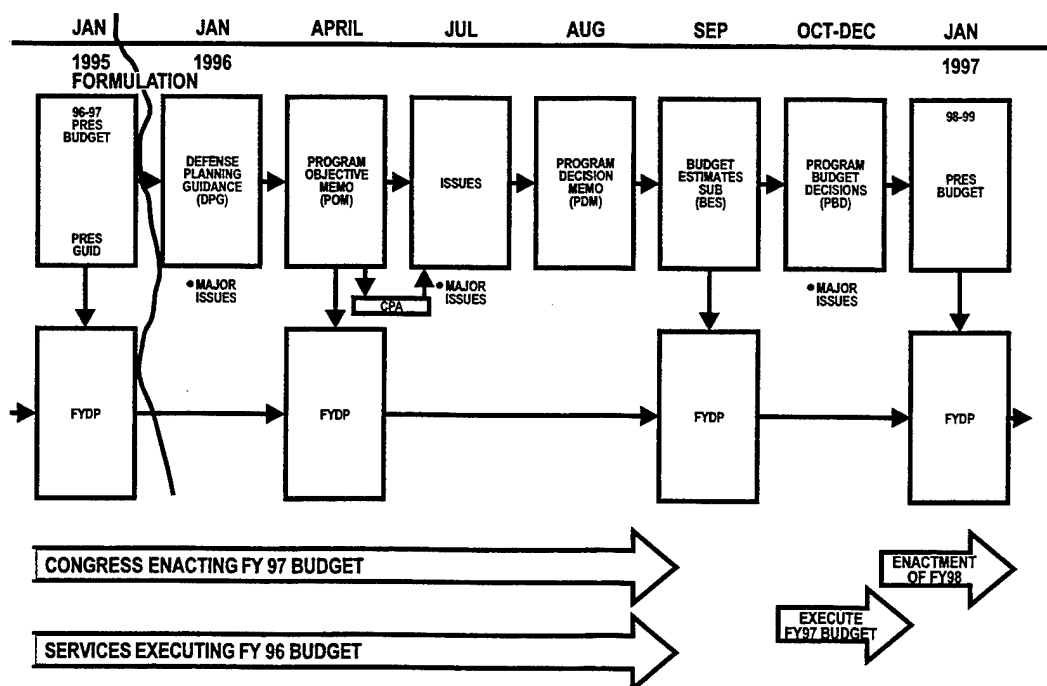
Timing - The PPBS Schedule.

Timing is of concern because each part of the process depends on another for input, then itself becomes an input to a subsequent part of the process. So the schedule of PPBS events should be discussed.

The executive secretary of the DRB schedules significant PPBS events and document submission due dates.²⁰ Key events for the FY98 cycle are shown in Figure III-10. The DPG was due early in calendar year 96, the POMs in April, etc., culminating with the President's Budget in January 1997.²¹

Figure III-10

The PPBS Schedule



(Adapted from an Army War College Viewgraph)

COMPLICATIONS

We already briefly discussed the problem that comes up in the "off year" if the budget is reduced. In those instances the budgeting phase of PPBS must happen without the benefit (or "hassle," depending on one's view) of a full planning and programming effort.

To explore some of the other complications inherent in our PPBS, look again at Figure III-10. At the bottom of the picture, the enactment and execution phases of the Federal Budget System are shown. In addition to the activity associated with the FY96/97 cycle, the PPBS process is affected "externally" by events related to other fiscal years. Note what is happening in April 1996, and how this could impact the PPBS cycle.

- The Services are executing the FY96 budget. Any program stretchouts or reprogramming actions during the year will necessitate FY97 and beyond program adjustments.
- Congress has completed action on the FY96 budget, and is enacting the FY97 budget. These both could cause changes in the FYDP funding levels for not only FY97 but for the rest of the other years of the FYDP.

Fiscal Years '96, '97, and '98/'99 and beyond are all being dealt with at the same time. If you also consider that long-range planning is going on, WE ARE SIMULTANEOUSLY INVOLVED WITH FOUR INTERDEPENDENT FISCAL CYCLES.

PPBS HIGHLIGHTS

The resource allocation process used by the Department of Defense is unique, complex, and very sensitive to external factors. PPBS relies upon a structured program budget. The chief feature of this budget is its output orientation. It focuses on mission objectives. The program budget allows the activities of several agencies to be assembled in terms of specific packages, i.e., programs and program elements of various convenient levels of aggregation. For example, one of the objectives of DoD is to maintain counterforce capability against the nuclear weapons of the nations of the former Soviet Union: i.e., destroy their military targets, especially their ICBM silos. To achieve this broad goal, allocation decisions must be made. Counterforce can be achieved through ICBMs, SLBMs, SLCMs, ALCMs, bombers, or some combination thereof. These program elements compete with each other for defense funds in the strategic program. Each of these in turn is made up of alternative sub-programs, which compete with each other for resources, as inputs for achieving the counterforce capability. Thus, MX, Trident, and B-2 can be viewed as alternative counterforce systems and are more

competitive with each other than they are with general purpose weapons, such as the Navy's DDG-51 or a Patriot battery.

Another important aspect of PPBS is its extended time horizon. This facilitates rational choices because the decision maker must know something about the future expenditure implications of decisions made today. In DoD, the FYDP provides this extended time horizon. It is a series of tables giving six year projections of forces, dollar costs, and personnel, all displayed in terms of both the mission oriented programs and Congressional budget appropriations.

The lack of synchronization between PPBS and the Federal Budget process is a very real problem. The output oriented PPBS cycle is completed every 2 years; yet funding authorization comes in annual, input oriented, increments from Congress. No matter how well DoD executes PPBS, it remains an unstable process because of the influences of the federal budget process.

NOTES

1. Credit for this comprehensive yet concise view of PPBS goes to the faculty in the Department of Military Strategy, Planning and Operations at the Army War College who have used these words in their course directive.

2. This definition of purpose is from the horse's mouth, DODINST 7045.14, The PPBS, 22 May 1984 and DODINST 7045.7, Implementation of the PPBS, 23 May 1984.

3. Credit for this historical view of PPBS goes to the Army War College faculty, Department of Military Strategy, Planning and Operations. Their faculty guide was the source of structure for this portion of the paper.

4. "Streamlining PPBS", Vince Puritano, Defense 81, August 1981.

5. DRB Memorandum 84-50.

6. These bullets on the 1986 Reorganization Act are from the Army War College Faculty Guide for the PPBS seminar. See footnote 3 in the Guide's Chapter III for details on other provisions of Goldwater-Nichols.

7. See National Security Directive 219 of April 1986; A Quest for Excellence, A Report to the President by the Blue Ribbon Commission on Defense Management. June 1986; and Center for Strategic and International Studies, U.S. Defense Acquisition, A Process in Trouble, 1987. The Packard Report recommended a defense resource allocation process in which:

(1) The National Security Council develops and directs a national security planning process for the President that revises current national security decision directives and that provides Presidential guidance to SECDEF that includes:

- Statements of prioritized security objectives and major defense policies
- Provisional six-year defense budget levels, with the advice and assistance of the Office of Management and Budget, to give focus to the development of a fiscally constrained national military strategy. Such budget levels were to reflect competing demands on the federal budget as well as projections of gross national product revenues; and
- Direction to construct a proposed national military strategy and strategy options for Presidential decision.

(2) SECDEF, following receipt of the Presidential guidance, directs the CJCS, with the advice of other members of the JCS and CINCs to:

- Appraise the worldwide military threats to U.S. interests and objectives;
- Provide SECDEF a recommended national military strategy that:

Best attains national security objectives provided by the President, in accordance with his policies and priorities;

Identifies the forces and capabilities necessary to execute the strategy during the six-year planning period; and

Meets fiscal and other resource constraints directed by the President during the six-year planning period.

(3) The CJCS also develops strategy options to achieve the national security objectives. Such strategy options would:

- Address trade-offs among the Services;
- Reflect major defense policies and different operational concepts, in terms of different mixes of forces or different degrees of emphasis on modernization, readiness, or sustainability;
- Respond to each provisional budget level provided by the President;
- Explore variations within a particular provisional budget level; and
- Highlight differences in capability between the recommended national military strategy on the one hand, and feasible alternatives on the other.

(4) The CJCS, with the assistance of the other members of the JCS and the CINCs, and in consultation with the Director of Central Intelligence, also prepares a military net assessment that would:

- Provide comparisons of the capabilities and effectiveness of U.S. military forces with those of potential adversaries for the Chairman's recommended national military strategy and other strategy options;

- Reflect the military contributions of allied forces where appropriate;
- Evaluate the risks of the Chairman's recommended national military strategy and any strategy options that he develops for SECDEF and the President; and
- Cover the entire six-year period.

(5) SECDEF provides the President:

- Recommended national military strategy and its corresponding six-year defense budget level;
- Appropriate strategy options and corresponding six-year defense budget levels sufficient to provide the President a wide range of alternatives in choosing a national defense program; and
- A military net assessment of the recommended national military strategy and strategy options.

(6) The President approves a particular national defense program and its associated budget level. This budget level would then be provided to SECDEF as six-year fiscal guidance for the development of biennial defense budgets such that:

- The six-year defense budget level would be binding on all elements of the Executive Branch;
- The new national security planning process would be fully implemented to determine the course of the defense budget for future fiscal years.

(7) SECDEF:

- Institutes a biennial programming process to complement the new biennial planning and two-year budgeting processes.
- Develops the FY88-89 and subsequent DoD budgets in a new, operationally oriented structure on a biennial basis. He should work with the appropriate committees of Congress to jointly establish the necessary mechanisms and procedures to ensure that the biennial process works smoothly and that Congress authorizes and appropriates DoD funds every two years beginning in fiscal years 1988-89.
- Develops a formal program review process with the Services to ensure that, where appropriate, major

programs receive a complete evaluation during the off-year of the biennial budget process.

(8) (While this last step never happened, and arguably won't, it is included here for your information.) Congress institutes biennial budgeting for defense beginning with the Presidential budget proposal for fiscal years 1988-89 by authorizing and appropriating defense funding for those two years.

- Congressional review of the defense budget should be based on operational concepts and major defense issues rather than on line-item detail, and should include an in-depth review of national security objectives, priorities, strategy, and force capabilities.
- Congress should adopt milestone authorization for major weapon systems. In addition, using major system baseline techniques, Congress should extend multi-year funding for such approved major programs as much as possible.
- The appropriate defense budget review committees should work jointly with Defense Department staffs on the details and procedures for instituting the above.

(Source: pp 27-30, National Security Planning and Budgeting, A Report to the President, June 86.)

8. The enactment of the biennial budget for DoD has been described by its proponents as an essential element in the reform of the U.S. acquisition process. This claim has merit, but it is important to consider the practical disadvantages and limitations of biennial budgeting.

First, a two-year defense budget would give DoD a special status in comparison with other federal departments. That may be difficult to justify. In case of sudden fiscal urgency or need elsewhere, the DoD budget could not be quickly cut or increased. This objection may be especially important at a time when efforts to reduce the federal budget deficit are taken. One possible solution, converting the entire federal budget to a two-year cycle, would be an enormous undertaking and does not appear politically possible (or desirable in some quarters).

A second difficulty is that while a two-year DoD budget would reduce the opportunities for Congressional micro-management, it would also limit the DoD's flexibility in planning for unforeseen military or fiscal contingencies. DoD would also have to plan force levels, budget requirements, and inflation factors further

ahead than it does now. One partial solution to these limitations would be a provision for a supplemental DoD appropriation during the second year. It must be recognized that this provision would allow additional Congressional review (and micro-management) of the defense budget, especially of controversial weapons programs. Another solution to the problem of DoD inflexibility during the second year would be to ease restrictions on DoD reprogramming and transfer authority.

A third potential disadvantage is that the biennial budget would require Congress to surrender much of the leverage it currently exercises over the executive branch through its annual review of the provision for supplemental authorization described above. During the second-year review, Congress would be free to add those programs and restrictions it desired.

The last set of problems relates to the timing of a biennial budget. If the two-year DoD authorization and appropriation bills are passed in an even year (say 1996 for FY 1997-1998), a new President taking office in January 1997 would be saddled with the previous President's defense budget (with which the new President may disagree) and would have to wait 20 months (the beginning of the next two-year cycle) to reshape it. On the other hand, if the budget cycle begins in an odd year, Congress (the entire House, and selected senators) would be running for reelection on a defense budget passed 14 months before, which may not reflect current needs and conditions. Since it is unlikely that Congress would willingly place itself in this position, it may be necessary to begin the cycle in an even year. In those even years when a new President is elected, the new President could rely on use of a supplemental DoD appropriation bill the following year to influence the direction and pace of defense spending during initial years of office.

Finally one additional way to streamline the Congressional budget process during the transition to a biennial budget would be for Congress to abandon the dual authorization and appropriation process and adopt a one-step appropriation process for defense. (Source: Center for Strategic and International Studies. U.S. Defense Acquisition: A Process in Trouble, 1984) pp. 83-84.

9. Some literature discussing the use of PPBS in Federal agencies other than the DoD, as well as application in local, state and foreign governments:

- Babunakis. Budget Reform for Government. Greenwood Press, Westport 1982.
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- "PPBS in Academic Libraries." Library Quarterly, April 1978.
- Ashford. "Pennsylvania: a Summary of Budget Procedures." School Library Journal, October 1981.
- Wittman. "DAS Planning-Programming-Budgeting System (PPBS)." Wirtwiss Stadium, April 1975 (in German)
- Reid. "The Failure of PPBS (in Canadian Government): Real Incentives for the 1980s." Optimum 10:23-35, November 4, 1979.

10. DODINST 7045.7

11. DODINST 7045.7

12. Wilson and Lewis. "PPBS and MAC." Airlift, Winter 1986. A more specific tally of the procedures in each phase is quoted below from DODINST 7045.14:

Planning. In the Planning Phase, the military role and posture of the United States and the Department of Defense in the world environment shall be examined, considering enduring national security objectives and the need for efficient management of resources. The focus shall be on the following major objectives: defining the national military strategy necessary to help maintain national security and support U.S. foreign policy 2 to 7 years in the future; planning the integrated and balanced military forces necessary to accomplish that strategy; ensuring the necessary framework (including priorities) to manage DoD resources effectively for successful mission accomplishment consistent with national resource limitations; and providing decision options to the Secretary of Defense to help him assess the role of national defense in the formulation of national security policy and related decisions. This review shall culminate in the issuance of the Defense Planning Guidance.

Programming. In the Programming Phase, the DoD Components shall develop proposed programs consistent with the Defense Planning Guidance. These programs shall reflect systematic analysis of missions and objectives to be achieved, alternative methods of accomplishing them, and the effective allocation of the resources. The JCS shall analyze the programs and provide a risk assessment based on the capability of the composite force level and support program for the U.S. Armed Forces to execute the strategy approved during the Planning Phase. A program review is conducted; the results are issued in Program Decision Memoranda (PDMs).

Budgeting. In the Budgeting Phase, the DoD Components shall develop detailed budget estimates for the budget years of the programs approved during the Programming Phase. A joint Office of Management and Budget (OMB)/DoD budget review is conducted; the results are issued in Program Budget Decisions (PBDs).

Future Years Defense Program (FYDP). The decisions associated with the three phases of the PPBS shall be reflected in the FYDP. Since the FYDP outyear programs reflect internal planning assumptions, FYDP data beyond the budget year may not be released outside the executive branch of the government without the express written consent of the DoD Comptroller.

13. AFSC Pub 1, Joint Staff Officers Guide 1993. Armed Forces Staff College, 1993, p. 5-9.

14. Source for this FYDP material is DODINST 7045.14. (See enclosure (5) of that instruction for even more details on the FYDP concept and structure.)

15. The activity of cross referencing resources between appropriation/program formats is called "crosswalking." Figure III-6 illustrates not only that we have two ways of looking at defense resources (output-oriented defense programs and input-oriented Congressional appropriations), it also shows how the "crosswalk" is done to interface these two perspectives.

A. General

(1) The FYDP is the official document which summarizes forces and resources associated with the programs approved by SECDEF (prescribed in PDMs, PBDs, and other SECDEF decision documents for the Department of Defense.) The FYDP contains prior year (PY), current year (CY), budget year (BY) and BY + 1 through BY + 5 data. It is published three times a year and reflects the total resources programmed by DoD, by fiscal year. An historical FYDP is published annually, following the POM update of the FYDP, and contains prior year resource data consistent with the official accounting records for fiscal years 1962 through the prior year.

(2) In its first dimension, the FYDP is composed of eleven major force programs used as a basis for internal DoD program review, and in its second dimension, by the input-oriented appropriations structure used by the Congress in reviewing budget requests and enacting appropriations. Hence, it serves a purpose of crosswalking the internal review structure with the Congressional review structure. A third dimension in Figure III-6 shows the Service/Agency divisions of the appropriated funds in each appropriation and major force program.

This three-dimensional structure and attendant review methodology provide a comprehensive approach to accounting for, estimating, identifying, and allocating resources to individual or logical groups of organizational entities, and major force programs referred to as program elements.

(3) These program elements are designed and quantified in such a way as to be both comprehensive and mutually exclusive, and are continually scrutinized to maintain proper visibility of defense programs. This scrutiny includes vigilance over the resources necessary to equip, operate, maintain, manage, and provide personnel for a class of combat unit or type of support activity. The elements are frequently rearranged and reaggregated in ways to provide summary categories and FYDP dimensions different from the eleven major force programs. Since there are varying criteria for mission categories, DoD has not restricted such analytical schemes to a single display format, favoring instead a more dynamic approach to analytical tools.

(4) The approval of the DoD Comptroller, or his designee, must be obtained prior to making any changes to the FYDP structure.

B. Programs

(1) A program is an aggregation of program elements that reflects a force mission or a support function of DoD, and contains the resources allocated to achieve an objective or plan. It reflects fiscal year time-phasing of mission objectives to be accomplished, and the means proposed for their accomplishment.

(2) The FYDP is comprised of eleven major force programs (MFPs) as follows:

- Program 1 - Strategic Forces
- Program 2 - General Purpose Forces
- Program 3 - Intelligence and Communications
- Program 4 - Airlift and Sealift Forces
- Program 5 - Guard and Reserve Forces
- Program 6 - Research and Development
- Program 7 - Central Supply and Maintenance
- Program 8 - Training, Medical, and Other General
Personnel Activities
- Program 9 - Administration and Associated
Activities
- Program 10 - Support of Other Nations
- Program 11 - Special Operations

C. Program Elements

(1) A program element is a primary data element in the FYDP and generally represents aggregations of organizational entities and resources related to them. Program elements represent descriptions of the various missions of DoD. They are the building blocks of PPBS and may be aggregated and reaggregated in a variety of ways:

- (a) To display total resources assigned to a specific program;
- (b) To display weapon systems and support systems within a program;
- (c) To select specified resources;
- (d) To display logical groupings for analytical purposes;
- (e) To identify selected functional groupings of resources.

(2) The program element concept allows the operating manager to participate in the programming decision process since both the inputs and outputs are quantified in program element terms. Each program element may contain forces, personnel, or dollars, or any combination thereof, depending on the definition of the element.

D. Resource Identification Codes (RICs)

(1) RICs are used to identify the types of resources assigned to each program element. An explanation of the types of RICs follows:

(a) Force Codes. The force resource identification code is a four-digit code used to identify specific hardware items or weapon systems, by type and model, such as aircraft, missiles, ships, and specific force organizations such as divisions, brigades, battalions and wings.

(b) Personnel Codes. The personnel resource identification code is a four-digit code used to identify officer, enlisted, and civilian personnel in the active, Guard and Reserve establishments. Separate codes permit the recognition of students, trainees, cadets and ROTC enrollees, and identify civilians as either U.S. direct hire, foreign direct hire or foreign indirect hire.

(c) Appropriation Codes. The appropriation resource identification code is a four-digit code used to identify all appropriation accounts contained in the President's budget as well as those of a historical nature applicable to the FYDP prior-years period. These codes in most cases relate to Treasury-assigned appropriation symbols.

(2) Each DoD Component submitting data to the FYDP has been assigned codes for use in reporting such data in response to guidance for updating the FYDP. The visibility of these resource identification codes by program element allows selection of specific data for analysis and management summary purposes.

E. Practical Application

Figure III-11 is a hypothetical Program Element Summary Data Sheet. It is one of two sheets in the Program Book of the FYDP (the other being a description narrative) for each PE. This Data Sheet illustrates many of the features of the FYDP.

Notice that forces (total number of Starships) are projected for 8 years, while dollars (in TOA terms) and personnel are projected for 6 years. The PE number reflects the program format (i.e., 2 = general purpose forces, etc., M = Marine Corps). On the left side of the sheet is the appropriation format (i.e. Procurement and O&M categories), showing how the FYDP displays resources in both languages. The Data Sheets are updated regularly with the POM, the Budget Estimate Submissions, and the President's budget.

Hypothetical FYDP
Program Element (PE) Summary Data Sheet

PROGRAM ELEMENT SUMMARY DATA				DEPT. OF THE NAVY				15 JAN 96			
PROGRAM ELEMENT				PPSS (PHOTON POWERED STAR SHIP) (hypothetical) CODE 24114M							
APPROVED PROGRAM - BY FISCAL YEAR											
FORCES	PFY96	CFY97	BFY98	FY99	FY00	FY01	FY02	FY03	FY04	FY05	
UNITS CUMULATIVE				1	2	4	6	6	6	6	
← SECDEF FYDF (COSTS) → ← 3 YRS (FORCES) →											
TOTAL OBLIGATIONAL AUTHORITY (IN MILLIONS OF DOLLARS)											
RESEARCH AND DEV.											
RDT&E		200	100	50							
MILITARY CONSTRUCTION		20									
TOTAL RES & DEV		220	120	50							
INVESTMENT											
PROC	AIRCRAFT PROC	200	500	750	900	800	300	100			
	MISSILE PROC	15	20	25	25	25	10	5			
	OTHER PROC	5	10	10	15	15	10	5			
MILITARY CONSTRUCTION		30	30	35							
TOTAL INVESTMENTS		250	560	870	940	840	320	110			
OPERATING											
O & M		*	*	10	20	45	90	100			
PROC											
MILITARY PERSONNEL		*	*	5	15	25	50	50			
TOTAL OPERATING		*	*	15	35	70	140	150			
TOTAL OBLIGATIONAL AUTHORITY		470	660	885	975	910	460	260			
*LESS THAN 1 MANPOWER											
MILITARY											
OFFICER		10	25	100	300	600	1200	1200			
ENLISTED		5	10	400	600	3200	6400	6400			
TOTAL MILITARY		15	35	500	900	3800	7600	7600			
CIVILIAN											
DIRECT HIRE US		10	40	50	150	300	600	600			
DIRECT HIRE FOR NAT.						500	1000	1000			
CONTRACT FOR NAT.											
TOTAL CIVILIANS		10	40	50	150	800	1600	1600			

(Source: AFSC Defense Resource Management Faculty.)

16. AFSC Pub 1, p. 5-10. In the words of the DoD directive:

After consideration of the military advice of CJCS, as expressed in the NMS and JPD, a draft of the DPG is issued to solicit comments of all DoD Components, including the CINCs, on the major issues, problems, and resource constraints in developing and programming forces to execute the policy, strategy, and management direction. The draft DPG is also provided to the Department of State, the Staff of the National Security Council, and OMB for comment. The final version of the DPG, which is an output of the planning phase, serves as an authoritative statement directing defense policy, strategy, force and resource planning, and fiscal guidance for development of the POMs. (Enclosure 2, DODINST 7045.7)

The CINCs shall be invited to provide, at the beginning of the DPG drafting process, their personal recommendations to SECDEF for major changes to the existing DPG. These comments, along with those of DRB members, shall be considered during the drafting process. Successive drafts of the DPG shall be forwarded to the CINCs for comment. The DRB shall meet with the CINCs before the final draft is provided for the Secretary's signature in order to consider their views on the adequacy of the DPG's treatment of policy, strategy, forces, and resource planning guidance. (Enclosure 8, DODINST 7045.7)

17. AFSC Pub 1. p. 5-10.

18. AFSC Pub 1. pp. 5-14 through 5-16.

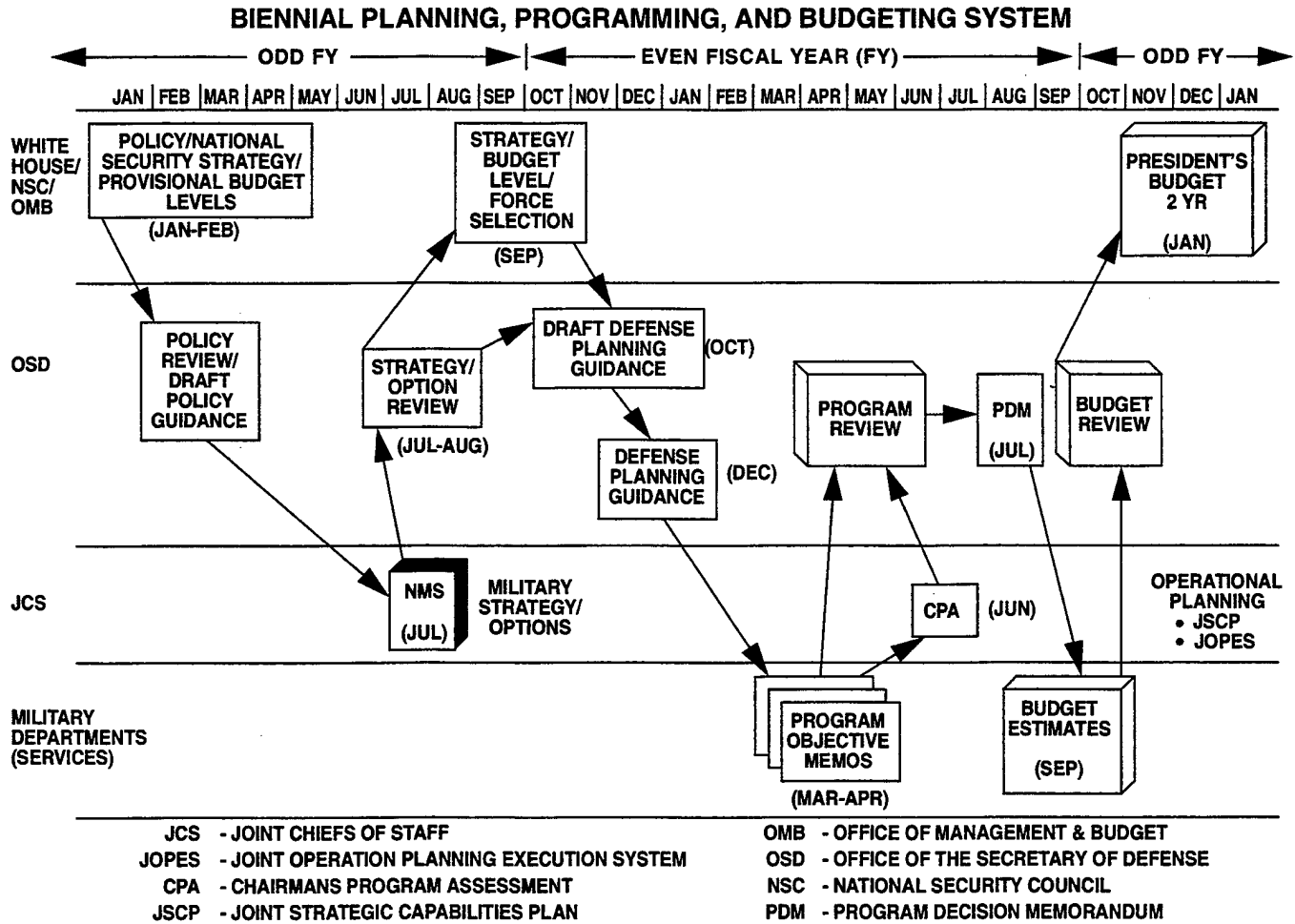
19. Credit is due to the USAF Directorate of Programs and Evaluation for this concise view of budgeting as found on P. 38 of A Primer (Interim Edition) on PPBS, January 1987.

20. DEPSECDEF Memo. 3 September 1993. The DRB Executive Secretary job is assigned to the Director for Program Analysis and Evaluation.

21. Another way to look pictorially at the PPBS schedule is by time, organization and activities. Often referred to as the bouncing ball pictures, they are helpful to some. Figure III-12 shows a recent generic bouncing ball PPBS picture that assumes the practice of biennial PPBS will continue.

Figure III-12

Generic Biennial PPBS
The Bouncing Ball



(SOURCE: ARMY COMMAND AND MANAGEMENT: THEORY AND PRACTICE)

(Source: Army Command and Management: Theory and Practice)

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10. DoD Instruction 7045.8, 23 May 1984. "Procedures for Updating Five Year Defense Program Data."
11. DoD Instruction 5000.2, 1 September 1987. "Major System Acquisition Procedures."
12. DoD Directive 5000.1, 1 September 1987. "Major System Acquisition." Secretary of Defense Memorandum of 7 April 1979. "Establishment of Defense Resources Board."
13. Deputy Secretary of Defense Memorandum, 27 March 1981. "Management of the DoD Planning, Programming and Budgeting System."
14. Deputy Secretary of Defense Memorandum, 3 September 1993. "Fiscal Year 1995-99 Program/Budget Development."
15. DoN Programming Manual, OPNAV 90P-1E.

16. OP80 - Navy PPBS Course.
17. Public Law 93-344. "The Congressional Budget and Impoundment Control Act." 12 July 1974.
18. Public Law 99-145, DoD FY86 Authorization Bill.
19. Public Law 99-433, Goldwater-Nichols Department of Defense Reorganization Act of 1986. 1 October 1986.
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21. Puritano. "The Weinberger-Carlucci Initiatives...How are we doing?" Defense 82, June 1982.
22. Quest of Excellence. A final report to the President by the President's Blue Ribbon Commission on Defense Management. 30 June 1986.
23. SECNAVINST 5000.16E. Department of the Navy Planning, Programming and Budgeting System (PPBS). 31 March 1986.
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25. Cheney. "A Plan To Improve the Defense Acquisition Process and Management of the Pentagon." Defense 89.
26. Department of Defense. "Accompanying Report of the National Performance Office of the Vice President". From Red Tape to Results: Creating a Government that Works Better and Costs Less. Washington, D.C., September 1993.

CHAPTER III.5

THE JROC AND THE JWCA

INTRODUCTION

You're probably wondering why we put a Chapter III.5 into this text, since few books have a Chapter III.5. We want to tell you about a "new" process of the Defense Resource Allocation Process that doesn't fit into any of the other chapters of this book, and is not a "complete" process such as JSPS or PPBS. This new process revolves around the Joint Requirements Oversight Council (JROC) and the Joint Warfighting Capabilities Assessments (JWCA) as developed during Admiral Bill Owens' tenure as Vice Chairman of the Joint Chiefs of Staff (VCJCS). The JROC and the JWCA overlap all of the DoD processes; JSPS, PPBS, and Systems Acquisition; but they don't completely belong in any of the existing processes. In fact, so far, the JCS doesn't seem to know exactly where they do fit. When JCS formalizes the process, we'll either incorporate it in to one of the other chapters of this book or give it a "real chapter" all its own. For now, here it is.

BACKGROUND¹

As you may recall from earlier discussions (especially if you've been reading the notes), the Goldwater-Nichols DoD Reorganization Act created the position of Vice Chairman of the Joint Chiefs of Staff (VCJCS) and required (among other things) the Chairman of the Joint Chiefs of Staff (CJCS) to:²

1. "Advise the SECDEF on prioritization of requirements... identified by the CINCs". The VCJCS was designated permanent chairman of the JROC, and the JROC's charter was rewritten to include the Chairman's requirement to advise the SECDEF.
2. "Prepare net assessments to determine the capabilities of Armed Forces of the United States..."
3. "Assess military requirements for defense acquisition programs"
4. "Submit to SECDEF alternative program recommendations and budget proposals...to achieve greater conformance with the priorities established..."

In addition, Goldwater-Nichols charged the Military Departments with responsibility for: "...effective cooperation and coordination between the Department...and the military departments and agencies of the Department of Defense to provide for more effective, efficient, and economical administration and to eliminate duplication."³

As a reminder, the members of the JROC are:

JROC Chairman: Vice Chairman, Joint Chiefs of Staff
Vice Chief of Staff, US Army
Vice Chief of Staff, US Air Force
Vice Chief of Naval Operations
Asst Commandant of the Marine Corps
JROC Secretary: Director, J8, Joint Staff

The JROC or Joint Requirements Oversight Council was originally established as the Joint Requirements and Management Board (JRMB) as a result of a recommendation by the Defense Science Board Summer Study in 1983. The name was changed by the Packard Commission to the JROC on 3 June 1986. The original purpose of the JRMB/JROC was to review proposals produced through the requirements generation system that would result in major acquisition programs to determine the "joint" potential of these major programs. The Goldwater-Nichols Act of 1986 resulted in the functions of the JROC being expanded to play an even more substantial role in the requirements generation system, systems acquisition, and the defense resource allocation process.

In 1992 the DoD Inspector General found that the JROC was not managing the requirements generation system (the RGS will be discussed in detail in Chapter V of this text) and that the Services and the CINCs were not complying with the rather obscure provisions of the Goldwater-Nichols act in regard to mission needs statements and the joint potential of acquisition programs. This resulted in a change to the charter of the JROC. When Admiral Owens became Vice Chairman in 1994, major changes to the JROC process were made, culminating in yet another change to the JROC Charter in February 1995.⁴

General Joseph Ralston, USAF, assumed the duties of VCJCS in 1996, and changed the structure of the review process by establishing the JROC Review Board (JRB). The JRB is comprised of flag officers from each of the Services as designated by the JROC Principal Service member and assists the JROC in carrying out its duties and responsibilities. Their primary function is to review JWCA insights, findings, and recommendations, and provide appropriate guidance, suggestions, and direction prior to JROC review. (For more information see Ch-1 to Charter of the JROC MCM-14-95, 6 June 1996.)

MISSION AND FUNCTIONS OF THE JROC

So what does the JROC do? The 1995 JROC Charter⁵ states that the major responsibilities of the JROC are to oversee the requirements generation system (RGS), validate systems acquisition milestones before they are sent to the DAB (the Defense Acquisition Board)⁶, oversee the Joint Warfighting Capabilities Assessment (JWCA) process, and advise the CJCS

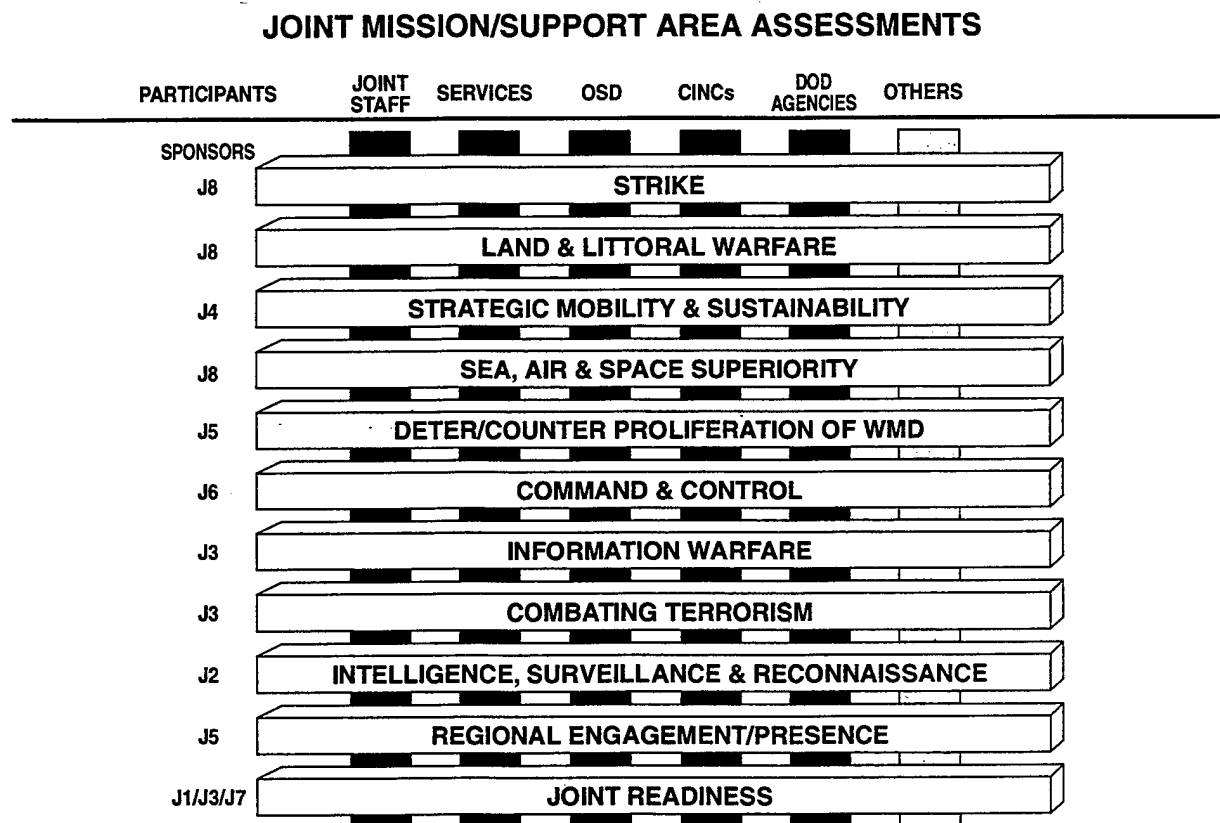
regarding warfighting capabilities, requirements, and priorities. Since you'll have an opportunity to study the RGS and the systems acquisition system later in Chapter V, Systems Acquisition; we'll only discuss the JWCA oversight and CJCS advice functions here.

THE JWCA's

The Joint Warfighting Capabilities Assessments (JWCAs) are a series of mission area assessments which investigate the capabilities of the armed forces in 11 mission areas. These "mission areas" look amazingly like those mission areas established by Admiral Owens when he was N-8 on the OPNAV staff (see Figure III-4, page III-9). The latest version of this "cosmic radiator" (as it is known in J-8) is shown below:

Figure III.5-1

JWCA RIBBONS⁷



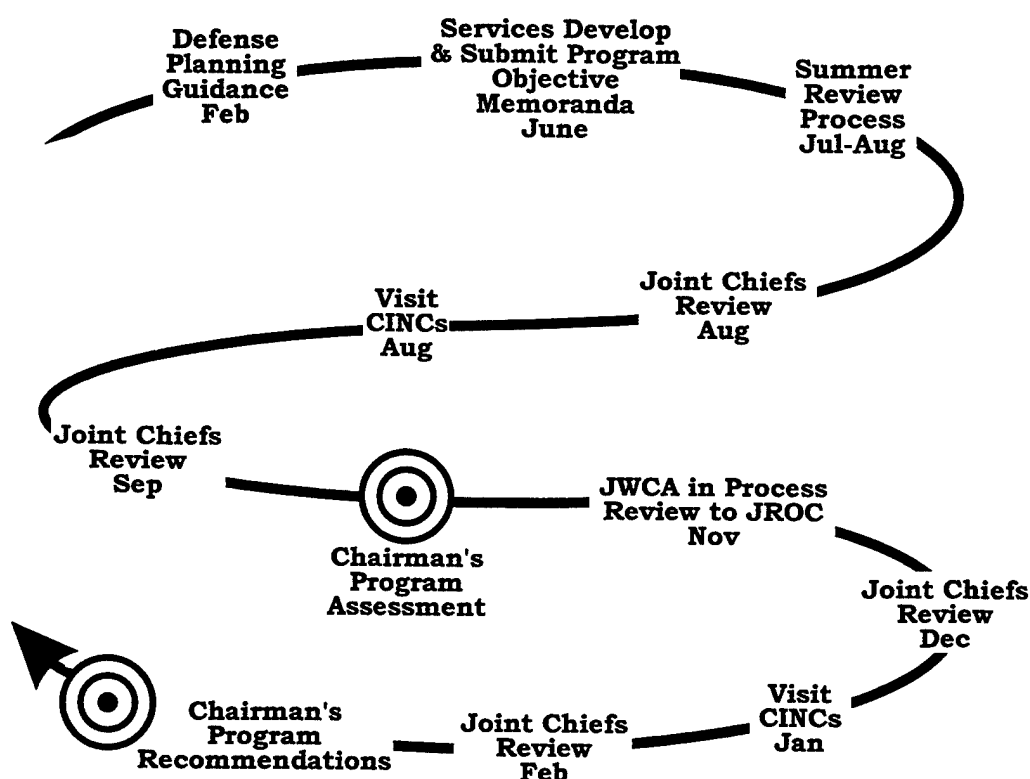
Each of the Joint Warfighting Areas (mission areas) is evaluated continuously by a team headed by the "Sponsor" (listed on the left side of the "radiator") and includes participants from each of the agencies listed across the top. The JWCA's are

used by the JROC to evaluate the potential of new acquisition initiatives and to advise the CJCS regarding requirements and programs. As is the case with all PPBS "working documents and panels" CBO and Congressional staff members are excluded from participation.

In addition, the JWCA's are briefed to the CINCs by the DJ-8 (Deputy Director of the Joint Staff for Force Structure, Resources and Assessment) twice a year as well as at the CINC conference each summer. The JWCA Cycle is shown in the following figure:

Figure III.5-2

The JWCA Cycle⁸



THE FORM OF THE JWCA's

According to the J-8 staff, the JWCA Construct:⁹

1. focuses on future force planning.
2. is comprehensive in scope.
3. emphasizes capabilities, not platforms or systems.
4. uses today's force as the point of departure for the path to tomorrow.
5. has a context and layout for each JWCA.

6. uses an assessment framework that is more rigorous in some than others (consider how much easier it is to measure effectiveness in some mission areas than others.)
7. brings knowledge to a Four Star Forum.

Each JWCA incorporates a "stop-light" briefing. Mission areas that are deficient are labeled "R" (red), those that are adequate are "Y" (yellow), and those which meet "acceptable levels of risk" are "G" (green). Each of these "stop light" charts addresses an essential component of a warfighting mission, has the present capability labeled with a "stop-light" colored the appropriate color and incorporates a recommendation for future PPBS actions.

Figure III.5-3

Notional JWCA Stoplight Chart¹⁰

Air Superiority Capabilities -- Notional

Mission Area Tasks	Essential Capabilities							
	Deploy	Plan	Detect	Identify	Track	Engage	Kill	Assess
Air-to-Air	Y	Y	G	R	G	Y	G	G
Combat ID	Y	Y	G	R	G	Y	G	Y
Cruise Missile Defense	Y	Y	Y	R	Y	Y	G	Y
Ballistic Missile Defense	Y	Y	Y	G	Y	Y	Y	Y

These "stop-light" charts and "deliverables" (particular capabilities the JWCA members and the J-8 want to discuss in detail with the CINCs) are the basis of the issues that J-8 briefs to the CINCs during the twice a year "JWCA Contact Briefings". Guidance from the JROC and the CINCs then determines what issues need detailed analysis and further study. An example of a deliverable might be the F-4G, "Wild Weasel" aircraft, recently deleted as a separate capability by the Air Force. The exact nature of these issues is very closely held by J-8 and the JWCA study team members.

NEW DOCUMENTS

The JWCA process and the CINCs' inputs provide the key advice to the CJCS for the development of two CJCS documents: the CPA and the CPR. The Chairman's Program Assessment (CPA) was discussed earlier in the chapter on JSPS (see page II-8)¹¹ and evaluates the Service POMs (Program Objective Memorandum) with regard to meeting the CINCs', the Chairman's and the Defense Planning Guidance requirements. It is, in essence, CJCS's report card to the services on the adequacy of their POMs.

The CPR, or the Chairman's Program Recommendation, is a new document and is input from CJCS and VCJCS directly to the Secretary of Defense for incorporation into the Defense Planning Guidance. As you'll recall from Chapter III, the DPG is the end product of the planning phase of PPBS and gives guidance to the services regarding what they should incorporate in their POM. The CPR is a very closely held document and is prepared by CJCS and VCJCS with little assistance from the Joint Staff. Since VCJCS is very heavily involved in the workings of the JROC and the JWCA process, we think it is safe to say that these assessments provide important background for the preparation of the CPR. (The first CPR was produced in December of 1994. All of the CJCS' CPR recommendations were included in the DPG. This is a very important and powerful document.)

QUESTIONS ABOUT THE JROC AND THE JWCA

Why the JROC and the JWCA? They represent a further direction from the Goldwater-Nichols law to impose cross-service collaboration through the CJCS. Since the services didn't always act in the best interests of jointness and as a result of reduced budgets and more missions to perform, DoD needed better management. This is the Chairman's and the Vice Chairman's attempt to provide that better management.

Does the JROC and the JWCA process alter the importance of the documents and process described in Chapter II, the JSPS? No, these documents and that process continue as before. The Chairman's Program Assessment remains part of JSPS and the other documents continue to be fundamental to force planning in DoD. The CPR might be considered part of the JSPS, but it is not prepared by the Joint Staff, only by the Chairman and the Vice Chairman. The CPR and the CPA certainly highlight the Chairman's position to SECDEF and the Services.

Does the JROC and the JWCA process interfere with the requirement of the Services to "train and equip" the armed force for the CINCs? We don't think so, but it certainly (as Goldwater Nichols directed) puts CJCS into a more important and influential position with regards to the PPBS system used by the Services to determine how to "train and equip" forces. The JROC and the JWCA

add another avenue for the CINCs' inputs to be heard by the Joint Staff and the Services. The CPR and the increased "power" of the CPA certainly increases the size of the "Purple Lens" in the PPBS. We don't, however, see these changes as attempts to take Programming and Budgeting away from the Services (the Joint Staff is certainly not large enough to handle that task). Remember, the objective of all these processes is to provide the Best Defense for the Resources Available. The JROC and the JWCA Process place the focus of the "20 Stars of the JROC" on that goal.

NOTES

1. Reiter, Cmdr, SC USN, Donald J., "Joint Requirements Oversight Council Then and Now...", an unpublished SFP paper submitted as part of the requirements for the NSDM Course, 13 March 1995.

2. The following quotes are taken from a slide used by the members of the J-8/JROC Staff to brief the NSDM Faculty 6 December 1995 and cite the Goldwater-Nichols Act itself.

3. Ibid.

4. Reiter, page 5.

5. JROC Mission. The Joint Requirements Oversight Council (JROC) is an instrument of the Chairman of the Joint Chiefs of Staff and the Secretary of Defense. The JROC shall:

a. Assist the Chairman of the Joint Chiefs of Staff in carrying out his responsibility to assess military requirements for defense acquisition programs.

b. Assist the Chairman of the Joint Chiefs of Staff in carrying out his duties as spokesman for the commanders of the combatant commands on operational requirements.

c. Assist the Chairman of the Joint Chiefs of Staff in carrying out his responsibilities to assess warfighting capabilities.

d. Assist the Chairman of the Joint Chiefs of Staff in carrying out his responsibilities to assign a joint priority among major programs meeting valid requirements identified by the CINCs, Services, and others.

e. Assist the Chairman of the Joint Chiefs of Staff in carrying out his responsibilities to assess the extent program recommendations and budget proposals of Military Departments and DOD components conform with established priorities.

f. Assist the Vice Chairman of the Joint Chiefs of Staff in carrying out his responsibilities as Vice Chairman of the Defense Acquisition Board (DAB).

g. Review all warfighting deficiencies that may necessitate major defense acquisition programs and validate that such deficiencies cannot be satisfied by nonmateriel means (changes in doctrine, tactics, training, or organization).

h. Review and approve the military need for all potential major defense acquisition programs and validate performance objectives

and thresholds in the acquisition program baseline for all such programs prior to any milestone consideration by the DAB.

- i. Identify, evaluate, and designate potential candidates for joint acquisition programs.
- j. Resolve cross-Service requirements issues.
- k. In each of its reviews of military needs and acquisition programs, place emphasis on ensuring interoperability, pursuing opportunities for joint or multi-Service applications, eliminating unnecessary duplication in programs, and promoting economies of scale.

Functions of the JROC:

a. Oversees Joint Warfighting Capabilities Assessment (JWCA) process. Directs assessments of specific joint military capability areas to examine key relationships and interactions between joint warfighting capabilities. Identifies opportunities for improving warfighting effectiveness. This continuous process will provide insight into issues involving Joint warfighting requirements, readiness, plans for recapitalization and support for Joint requirements and resource recommendations.

b. Oversees the requirements generation [system] and mission need determination. Performs mission need review, validation and approval prior to start of the acquisition process. Ensures that emerging performance objectives and thresholds adequately address the mission need. Additionally, the JROC ensures, in its review process, military requirements are linked to the national military strategy. Emphasis is placed on fulfilling the needs and eliminating deficiencies of the combatant commands, while ensuring interoperability, reducing parallel and duplicate development efforts, and promoting economies of scale.

(1) Reviews any deficiencies that may necessitate new major defense acquisition programs. The JROC reviews the identified mission need (as distinct from any potential system or program), validates that a nonmateriel solution is not feasible, assigns a joint priority for meeting these needs and forwards the mission need statement (MNS), with amplifying recommendations to the Under Secretary of Defense for Acquisition and Technology (USD(A&T)).

(2) Validates key parameters in the performance section of the Acquisition Program Baseline (APB) prior to DAB reviews of major defense acquisition programs (including, unless otherwise directed by the Secretary of Defense, highly sensitive classified programs).

c. Reviews results of concept exploration and definition studies and provides appropriate recommendation on alternatives and cost-performance trades to Under Secretary of Defense for Acquisition and Technology (USD(A&T)) prior to the Milestone I (New Start) review.

d. Directs the review and designation of all MNS and resulting operational requirements for joint potential.

e. Conducts program reviews between formal Milestone decisions as required to ensure system performance meets original mission needs and evolving requirements.

f. Assists the Chairman of the Joint Chiefs of Staff in ensuring alternatives to any major defense acquisition programs have been adequately considered.

g. Charters and tasks study groups to address operational concept definitions, joint potential, and joint requirements issues.

Reference: Office of the Chairman, Joint Chiefs of Staff.
"Charter of the Joint Requirements Oversight Council" MCM-14-95,
February 1995, CH-1 (6 June 1996).

6. For further discussion of the DAB and the JROC functions in acquisition see pages I-10 and V-10 to V-25.

7. J-8/JROC briefing.

8. Ibid.

9. Ibid.

10. Ibid.

11. The changes in the power of the JROC and the JWCA process have certainly put more "teeth" into this document as well. This is another example where the CJCS has become much more powerful under the provisions of Goldwater-Nichols.

CHAPTER IV

THE FEDERAL BUDGET PROCESS

INTRODUCTION

What is the Federal Budget Process?

The federal budget process is a political decision-making process. Since funds are always limited, choices must be made among alternative expenditures and different ways of financing them. The federal budget then becomes a description of national goals and priorities.

The federal budget is a plan for managing funds for a period of time, usually 12 months. It deals with how much the government will spend and how those expenditures will be financed. When passed by Congress and signed by the President, the budget becomes law, and is legally binding on all federal agencies.¹

The Constitution gives Congress responsibility for budget decisions. However, by law the executive branch is charged with preparing and submitting the budget. So in practice, the budget is an instrument of national policy, submitted by the President and approved or modified by the Congress.

The federal budget can be described in one word - huge! This process produces a budget read in 13 figures. Yet, as one legislator put it, the "budget" is not just a set of cold numbers. It embodies the hopes and dreams of our nation.²

Organization of the Chapter

The federal budget process is complex and lengthy. To understand how this process works, it must be described first in broad terms. Here, of course, the focus will be on defense resources . . . the approximately \$260 billion of the budget that goes to national security. How defense needs fare among all competing claims for resources is a result of the interaction of executive branch agencies, the President, and Congress with its system of committees and subcommittees.³ This chapter is broken down into four parts in order to explain how the budget process works.

- Concepts and Definitions necessary to understand the federal budget process are explained in the next section of this chapter.
- The Historical Evolution of our budgeting process is then explored briefly. The purpose of this section is to explain why this seemingly unnecessarily complex process is

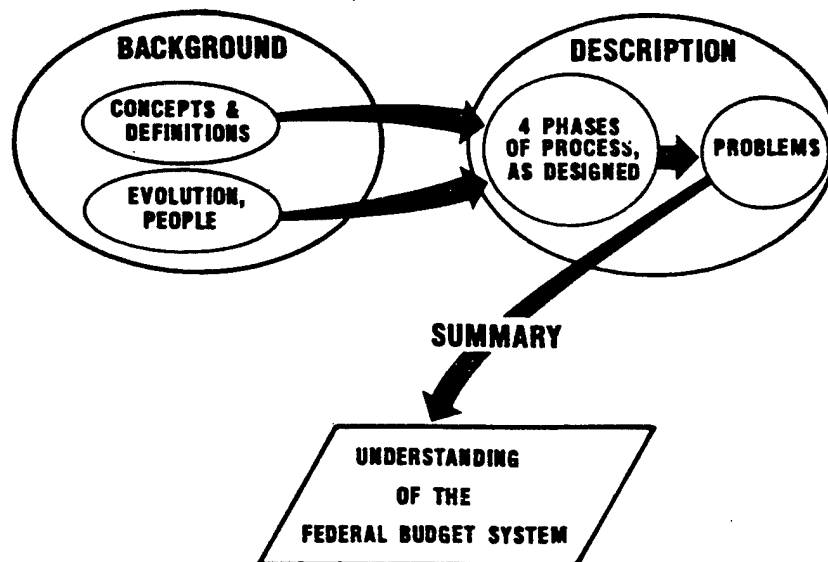
like it is. At the end of the evolution section, there is a review of the major players in the budget process.

- The next section is titled A Four Phased Process, which shows how the process is supposed to work. Although federal budgeting is a continuous process, it can be understood and studied in terms of four phases: (1) executive preparation and submission, or formulation, (2) Congressional enactment or the Congressional budget process, (3) implementation and control or execution of the enacted budget, and (4) review and audit.⁴
- Finally, in the section called Problems, we will deal with why the process doesn't always work ideally and efficiently.

Figure IV-1 depicts the structure and purpose of this chapter.

Figure IV-1

Structure of Chapter IV



The novice reader is reminded to stay out of the endnotes. The details provided in the notes, intended to satisfy the curious, are not necessary for a general understanding of the budget process.

CONCEPTS AND DEFINITIONS

Federal budget language has been justifiably referred to as a "second language."⁵ Indeed, terms used in the federal budget

process are the topic of a whole text published by the General Accounting Office.⁶ In keeping with one of the principles of this paper, we shall only explain here the key terms and concepts -- those that should be understood before exploring the budget process. A more complete glossary can be found at Appendix A and in several of the references listed at the end of this chapter.

Authorization vs. Appropriation

As explained in the The Guide to the Federal Budget,

Strictly speaking, two steps must occur before the federal government can spend money on an activity. First, Congress must pass an "authorization" (bill), allowing a program to exist. The authorization is the substantive legislation that establishes the purpose and guidelines for a given activity and usually sets a limit on the amount that can be spent. The authorization does not, however, provide the actual dollars for a program nor does it enable an agency or department to make commitments to spend funds in the future. Second, an "appropriation" must be passed. The appropriation enables an agency or department to make spending commitments and spend money.

Except in the case of entitlements (explained below), an appropriation is the key determinant of how much will be spent on a program. In almost all cases, however, an appropriation for a given activity cannot be made unless and until the authorization is passed. No money can be spent on a program unless it first has been allowed (authorized) to exist. Conversely, if a program is authorized but no money is provided (appropriated) for its implementation, that activity cannot be carried out. Therefore, both an authorization and an appropriation are technically necessary for an activity to be included in the budget.⁷

A particularly confusing aspect of these two legislative requirements is that both authorizations and appropriations describe an activity in dollar terms. For example, the portion of the FY96 Defense Authorization Bill addressing RDT&E reads (in part) as follows:

Sec. 201. AUTHORIZATION FOR APPROPRIATIONS.

Funds are hereby authorized to be appropriated for fiscal year 1996 for the use of the Department of Defense for research, development, test, and evaluation as follows:

- (1) For the Army, \$4,737,581,000.

While the fiscal 1996 Appropriation Bill for the same issue reads (in part):

Research, Development, Test and Evaluation, Army

For expenses necessary for basic and applied scientific research, development, test and evaluation, including maintenance, rehabilitation, lease, and operation of facilities and equipment, as authorized by law; \$4,870,684,000, to remain available for obligation until September 30, 1997.

Despite the fact that both seem to be providing funds, only the appropriation actually is doing so. THE DOLLAR FIGURES IN THE AUTHORIZATION SERVE ONLY AS AN UPPER LIMIT ON WHAT CAN BE APPROPRIATED. An appropriation is not *supposed* to exceed the authorization for the same program, though, as you can see in this example, that restriction is not always observed by the appropriators. In fact 1996 defense appropriations were passed before the authorizations.

Entitlements

Entitlements are a particular type of authorization. Entitlement legislation requires the federal government to pay benefits to any person or unit of government that meets the eligibility requirements it establishes. Although an entitlement requires an appropriation before funds can be spent, it differs from other authorizations because it constitutes a legally binding commitment on the federal government. In fact, eligible recipients may sue for their benefits if such benefits are denied because money is not appropriated. The authorization is the key legislation in deciding how much will be spent on an entitlement and relegates the appropriation to little more than a formality. Examples of entitlement programs are Medicaid, Medicare, and Social Security.⁸

The spending level of any federal program is generally determined by the passing of two laws. In defense, this dual requirement is almost universal. For example, while military pay remains outside the scope of the recurring authorization process, the authorization of military end strength still indirectly influences pay.⁹

Deficit and Debt

The two main variables in any budget are receipts and outlays. A balanced budget is one in which receipts are equal to outlays. A budget surplus is the amount by which the government's budget receipts exceed its budget outlays for a given budget or fiscal year. A budget deficit is likewise the amount by which the government's budget outlays exceed its budget receipts for a given fiscal year.

The federal debt is the cumulative amount of deficits offset by any surpluses.

Budget Authority vs. Outlays

The Concept

The federal budget passed in a given year deals with expenditures for many projects and programs, some of which will take several years to accomplish - to construct and equip a single aircraft carrier, for example. In that same "budget year", money will be spent on some long-term projects approved in previous budgets, and some monies planned for expenditure in that year will not be spent due to projects canceled, deferred or otherwise altered. Therefore, it is unlikely that the money "authorized" in the budget of any particular year will ever equate to the actual "outlay" of monies in that same year.

As described in The Guide to the Federal Budget,

The dollar amounts listed in both authorization and appropriation bills are stated in terms of "budget authority."

Budget authority is the permission granted to an agency or department to make commitments to spend money. This includes hiring workers (committing funds for salaries) and signing contracts to procure some items (committing funds for payment upon completion of the contract). In most cases, budget authority is not the level at which a program will function but is merely the level of new spending commitments that will be or have been made. It is important to remember that although budget authority will lead to the spending of money, it is not the actual exchange of cash.

Outlays, on the other hand, are the actual dollars that either have been or will be spent on a particular activity. Outlays are the direct result of budget authority, that is, of commitments to spend money made either this year or in previous years. The level of outlays is the key number to use in determining how much has been or will be spent on a program. It is the overall level of outlays compared to the overall level of revenues that determine whether the budget is in surplus or deficit.

Figures for both budget authority and outlays are needed because many government activities cannot be completed within a single fiscal year, and it is important to know both the total cost (budget authority) and what actually will have to be spent this year (outlays). By looking beyond this year's spending requirements to the overall cost of the activity, the President and Congress can know the future spending commitments they are making as well as the cash required immediately.

This is particularly important for activities that take several years to complete, for example, the procurement of an aircraft carrier. In this case, outlays in the first year will be relatively small because it takes a long time to start construction. The budget authority in the first year, however, will be large since it will reflect the full cost of the ship. In the second year there will be no new budget authority because the full cost was granted previously. Outlays for this ship, however, will begin to increase in the second year as construction continues and accelerates. This pattern of no new budget authority but increasing outlays will continue each year until the procurement is completed.

A useful analogy is the purchase of an automobile with a three-year loan. When the purchase of the car (at a total cost of \$20,000) first is arranged, a contract is signed for the full amount and the "budget authority" is \$20,000. But the actual amount to be spent ("outlays") in the first year is equal only to the down payment plus the monthly payments (\$10,000). In the second year no new budget authority is needed because the loan already has been arranged and the outlays are equal to the monthly payments (\$5,000 in this case). In the third and final year again there would be no new budget authority, but the outlays again would equal \$5,000, at which point the loan would be repaid. Table IV-1 shows how the federal budget typically depicts this situation.

TABLE IV-1
Purchase of Automobile (in thousands of dollars)

	Fiscal Year		
	1997	1998	1999
Budget Authority	20	0	0
Outlays	10	5	5

It should be clear from Table IV-1 that neither budget authority nor outlays is sufficient by itself to tell the full budgetary consequences of purchasing this car. By looking only at budget authority in fiscal 1997, the program might seem too expensive to undertake since the full cost of the car appears to be needed in that year. Yet by looking only at the budget authority in fiscal years 1998 or 1999, the car looks too good to pass up since it appears to cost nothing even though substantial spending is, in fact, required. If you look only at the outlays in a particular year, you would not easily know the full cost of the car since only the yearly spending requirements are obvious.

Some governmental activities, notably the payment of salaries and entitlements, usually "spend out" within the fiscal year in which the budget authority first is provided. In other cases, however, the level of outlays appears to be greater than the level of budget authority. This is the result of budget authority provided in previous years that only now is being spent. The level of outlays for a single year is, therefore, the combination of budget authority provided this year and in previous years.

It is difficult, however, to determine simply by looking at the tables in the budget whether outlays are the result of budget authority provided this year or in previous years; usually some knowledge of the program is necessary. Take the previous example of an automobile purchased with a three-year loan. If another car is purchased in a similar manner at the same cost in fiscal 1998, the budget typically would depict the situation as shown in Table IV-2.

TABLE IV-2
Purchase of Two Automobiles (in thousands of dollars)

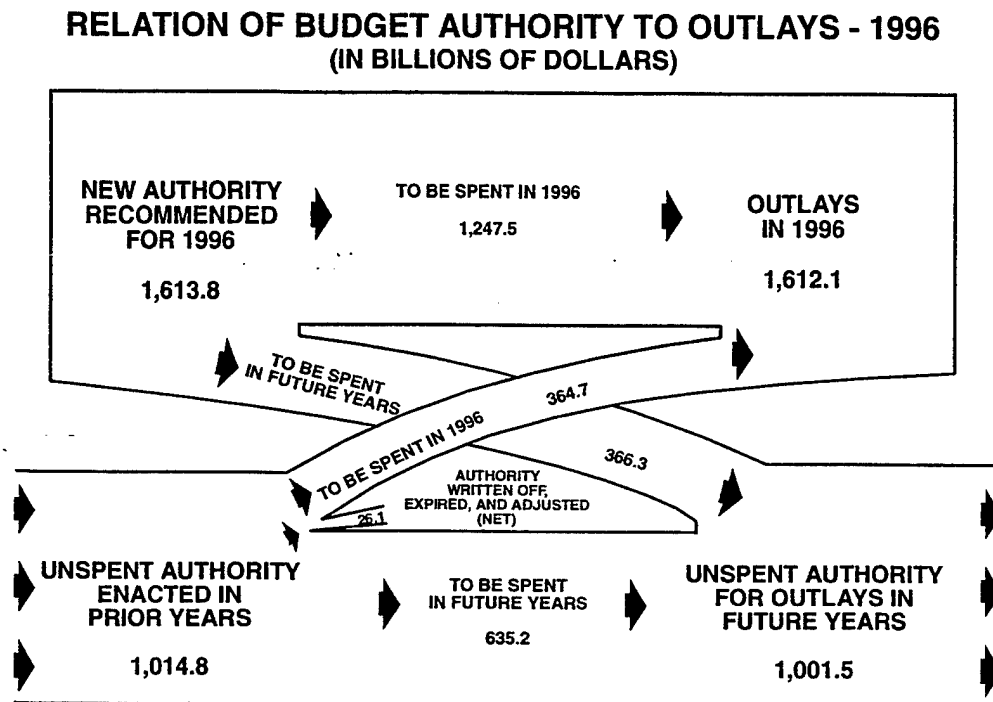
	Fiscal Year		
	1997	1998	1999
Budget Authority	20	20	0
Outlays	10	15	10

It would be wrong to assume that the \$15,000 in outlays in fiscal 1998 is the result of the \$20,000 in budget authority provided in fiscal 1998. In fact, only \$10,000 comes from this new budget authority. The remaining \$5,000 comes from budget authority provided in fiscal 1997 that is now coming due (the monthly payments from the automobile purchased in that year). Even if the entire \$20,000 in budget authority were cut from the 1998 budget, \$5,000 still would be spent in fiscal 1998, since that is the result of previous spending decisions. Fiscal 1999 spending, however, would drop to \$5,000.

Figure IV-2 depicts the relationship between planned budget authority and outlays in the Fiscal 1996 budget as a whole. The President proposed a budget with outlays of \$1,612.1 billion (upper right-hand corner). However only 77 percent of that amount or \$1247.5 billion resulted from the Fiscal 1996 budget authority of \$1,613.8 billion (upper left-hand corner). The remaining 23 percent or \$364.7 billion resulted from unspent budget authority granted in previous years (lower left-hand corner). The \$366.3 billion in budget authority provided in Fiscal 1996 that did not

result in Fiscal 1996 outlays will be added to the \$635.2 billion in budget authority provided in prior years that will continue to remain unspent. The \$1,001.5 billion is the total amount of unspent budget authority that will result in outlays in FY97 and later (bottom right-hand corner).¹⁰

Figure IV-2



(Source: The Guide to the Federal Budget, FY 1997)

Not all new budget authority will be obligated or spent in the year. For example:

- Budget authority for most trust funds comes from the authority of these funds to spend their receipts and is used over time as needed for purposes specified by law.
- Budget authority for many major construction and procurement programs covers the estimated full cost of projects at the time they are started.
- Budget authority for most long-term contracts covers the estimated maximum obligation of the Government.

As a result of these factors, a large amount of budget authority carries over from one year to the next. Most is earmarked for specific uses and is not available for other programs.

Impact

Let's talk about the outlays versus authority concept in a practical sense. You may recall that the DoD deferred all non-essential discretionary spending in May 1988. As explained in the New York Times:

Government accounting practices and the drive to reduce the federal budget deficit prompted the Pentagon today to stop buying office supplies, ban overtime and limit civilian hiring for at least the next six weeks.

All new contracts for research and development work also have been put on hold temporarily, as have purchases of everything from magazine and newspaper subscriptions to television sets, recreation equipment, lawn mowers and furniture.

The new restrictions, ordered by Deputy Defense Secretary William H. Taft 4th, will remain in place at least through June 30. They were prompted by the terms of a deficit-reducing compromise reached by President Reagan and Congress last November.

Spending reports received in March and April show that the Defense Department is paying out dollars at a rate that, by the end of the fiscal year, would put actual spending \$2.5 billion above the \$277.3 billion total, Mr. Taft said.

While the spending totals for those two months might be "an aberration," meaning that spending will even out in future months, the Pentagon cannot take any chances, he said.

"So," said the Deputy Secretary "we are trying to get at discretionary spending that can be deferred for six weeks."¹¹

This is a case of altering the planned enactment of a budget. However, outlay intensive programs are also the first to be scrutinized when budgets are being formulated. It is important to realize that high outlay rate programs are typically early targets whenever budgets are cut. Outlays represent checks actually drawn on the treasury as opposed to authority which only makes funds available for obligation. OUTLAYS, NOT AUTHORITY, ARE A VARIABLE IN THE DEFICIT FORMULA.

Defense Uses of Obligational Authority

Defense agencies often use these authorization terms with a slightly different meaning. "New obligational authority" (NOA) can mean the additional amount Congress appropriates an agency over and above earlier appropriations and other funds the agency has available or expects to receive from separate sources. In

the same sense, new obligational authority (NOA) contrasts with "total obligational authority" (TOA). Defense agencies often use the term TOA to mean the amount authorized a certain approved program, whether the obligational authority stems from the budget of the current or previous years.

Controllable vs. Uncontrollable Spending

Again, using words from The Guide to the Federal Budget,

"Uncontrollable" spending. The \$1,001.5 billion in unspent budget authority in the FY96 budget (Figure IV-2) is a significant part of what is classified as "relatively uncontrollable" spending. Such spending is not out of control in the literal sense. It is the outlays resulting from previous commitments by the federal government. This includes already granted budget authority; entitlements; open-ended programs on which no limit has been placed, which increase automatically as the economy changes; and budget authority provided through permanent appropriations (interest on the national debt, for example), which require no further action by Congress.

"Controllable" spending is spending that will occur only if Congress passes an appropriation for it.

"Uncontrollable" is a misnomer, however, since Congress can change any and all existing laws to alter the amount expected to be spent or to stop it entirely, if it chooses to do so. In other words, controllable spending will occur only if Congress takes some action to cause it. Uncontrollable spending will occur only if Congress takes no action to stop it.¹²

The consequences of having so much of the budget in the "uncontrollable" category are enormous. Congress could adjourn the day it convened and three quarters of federal government spending would happen anyway. Since many federal programs are indexed to the cost of living, spending would not only continue, but would increase. Finally, although "uncontrollables" can be changed to "controllables" if Congress changes their basic authorization law, this has seldom happened. In the past there was a feeling that there would be serious political risks for Congressmen subjecting uncontrollables to annual budget scrutiny. As a result, entitlement programs (such as Social Security, Medicare, welfare spending and federal civil and military retirement), spending required by contracts made in past years, borrowing authority, guaranteed loans, and other obligations were basically outside the immediate control of Congress. . . and accounted for about 75% of all federal spending!

That is not the situation for the current Congress. They are attempting to address many of the entitlement programs (such as farm subsidies, welfare spending and Medicare) and, until the Senate stated they would not support their efforts, were even looking at the military retirement programs. As this new act of the Budget Play is unfolded before us, we will be able to see if there will really be a change in the touchableness of the entitlement programs and other "uncontrollables."

On-Budget vs. Off-Budget

Not everything the federal government spends money on is reflected in the budget totals. Certain federal entities, programs, and some parts of programs have been specifically excluded from the budget. The Budget Enforcement Act, for example, excluded the receipts and disbursements of Social Security (the Old-Age and Survivors Insurance Fund and the Disability Insurance Fund) from the President's budget, and the congressional budget resolution. Programs that have been excluded like this are called "off-budget." Because the spending on these programs is not included in the budget totals, the deficit is not affected by it.

There is no standard list of reasons as to why some program is not included in the budget totals; the decision is almost always political and can be changed depending on the year and situation. For example, until 1981 the purchase of oil for the strategic petroleum reserve was "on-budget," that is, any spending was included in the budget and the deficit was affected accordingly. In 1981, the Reagan Administration proposed, and Congress agreed, to take this spending off-budget. There was no specific reason for this other than the fact that the price of oil had increased and the White House did not want the deficit growing by as much as would have occurred. Rather than propose to spend less or increase revenues or cut other programs to control the deficit, President Reagan proposed to take the spending off-budget. In 1985, however, this program was put back into the budget when Gramm-Rudman-Hollings was enacted.

The whole issue of on-budget versus off-budget spending became a somewhat more popular issue in 1989 because of the savings and loan bailout legislation. The Bush Administration wanted the expected \$50 billion in spending between fiscal 1989 and 1991 to be off-budget, while Congress wanted it to be on-budget but to exempt it from the GRH deficit calculations. The compromise was that the first \$20 billion would be on-budget and the next \$30 billion would be off-budget.¹³

The impact of on/off-budget items explains why the debt increases each year by more than that year's deficit, which reflects only on-budget spending. The debt reflects all spending.

Economic Assumptions

As Collender points out in The Guide to the Federal Budget,

The federal budget is very sensitive to changes in the economy. The levels of many spending programs change as interest rates, inflation, and unemployment increase or decrease. Similarly, the amount of revenues collected by the government changes as the economy, usually measured by the gross domestic product (GDP), declines or grows because businesses and individuals pay taxes according to their earnings. Whenever the President and Congress formulate the budget, therefore, they must make certain assumptions about how well or how poorly the economy is likely to do in the future.

According to the Congressional Budget Office (CBO), the federal budget changes in the following ways as the economy changes:¹⁴

- A reduction in real economic growth or an increase in the unemployment rate will lead to a decrease in revenues, an increase in outlays, and an increase in the deficit.
- An increase in inflation will lead to an increase in both revenues and outlays, but the effect on revenues will be greater than on outlays so that, on balance, an increase in inflation will lead to a smaller deficit.
- An increase in interest rates will lead to increases in revenues and outlays. In this case, however, the revenue effect is small, and the overall effect is to increase the deficit.

Economic assumptions have been a source of constant confusion and controversy over the past few years. Because the President, the House and Senate Budget Committees, and the Congressional Budget Office (CBO) often use different economic projections, the budgets are not always comparable. In addition, the same budgets with different economic assumptions produce different results. For example, the Bush fiscal 1990 budget projected a deficit of \$92.5 billion using economic assumptions that many believed were optimistic. Using its own forecast, which differed substantially from the President's, CBO reestimated the Bush deficit to be \$120 billion, \$27.5 billion higher. Both of these estimates were for the same budget and included the same spending and tax proposals.¹⁵

Continuing Resolution

A Continuing Resolution is legislation enacted by Congress to provide budget authority for federal agencies and/or specific activities to continue in operation until the regular appropriations are enacted. Continuing resolutions are enacted when action on appropriations is not completed by the beginning of a fiscal year. The continuing resolution usually specifies a maximum rate at which obligations may be incurred, based on the rate of the prior year, the President's budget request, or an appropriation bill passed by either or both houses of the Congress.¹⁶

The increased use of the continuing resolution is attributed, in part, to Congress' inability to meet the budget process timetable and to the sharp legislative/executive branch conflicts over budget priorities.

Members believe the process is too complex and consumes too much of Congress' attention and energy. Substantive issues often are sidetracked in the interest of passing budget resolutions, appropriations and tax bills, omnibus reconciliation legislation, supplemental appropriations, and legislation raising the national debt ceiling. With such an agenda, it is not surprising that Congress often cannot enact all these measures in a timely fashion.

This development has led in recent years to "government by continuing resolution." Whenever Congress cannot complete action on one or more of the 13 regular appropriations bills by the start of the fiscal year, it provides temporary emergency funding for the affected federal agencies through a continuing resolution (a joint resolution).

Traditionally, continuing resolutions were employed to keep a few government agencies in operation for short periods, typically one to three months. Continuing resolutions today are major policy-making instruments of massive size and scope. THEY AUTHORIZE AND APPROPRIATE money each year for much of the federal government and make national policy in areas as diverse as defense, employment, public works, school busing, and prayer in the schools.¹⁷

Legal Terms

Because they are often confused, an understanding of the following terms will be helpful:

Apportionment is the distribution by OMB of amounts available for obligation, including regulation of the rate at which appropriated funds can be spent. The apportionment process is

intended to spread out spending so that additional appropriation will not be required.

A commitment is a firm administrative reservation of funds. The act of entering into a commitment is usually the first step in the process of spending available funds. A commitment is subject to cancellation provided it has not been obligated.

An obligation represents the amount of an order placed, contract awarded, service rendered, or other transaction which legally encumbers a specified amount of an appropriation or fund for expenditure.

Expenditures (or disbursements) result in actual payments from available funds. They are evidenced by vouchers, claims, or other documents. Expenditures result in outlays and impact directly on the deficit as discussed earlier.¹⁸

An impoundment is any action or inaction (by an officer or other government employee) that precludes the obligation or expenditure of budget authority provided by Congress.¹⁹ According to Collender,

Typically, impoundment procedures are implemented when the President proposes either to not spend at all or to delay the spending of funds that previously were approved. In both cases, Congress must be notified of the proposal and has the power to force the President to spend the money.

A "rescission" is a Presidential proposal not to spend an appropriation that has been provided by Congress. The reason for such a proposal can either be specific (when the objectives of the program can be achieved without spending the full amount appropriated, for example) or general (fiscal policy considerations, for example). Regardless of the reason, the President must submit a message to Congress requesting the rescission and explaining the reasons for the request. If both houses of Congress do not pass a bill approving the proposed rescission within forty-five legislative days, the President must spend the money as originally intended.

A "deferral" is a Presidential proposal to delay spending a Congressionally approved appropriation. The delay can be for any length of time but cannot last through the end of the fiscal year. Regardless of the length of time involved, the President must submit a deferral message to Congress. Unlike a rescission, however, which requires specific approval by both houses of Congress, a deferral is automatically assumed to be approved unless, at any time after the President's message has been received, either the House or Senate passes legislation specifically disapproving it.²⁰

The Budget Itself

When we think about the budget itself, it may be helpful to be able to conceptualize what it looks like on paper. To do this, one has to realize that there are (at least) two kinds of budgets - the ones the President proposes and the ones that actually become law.

The President's Budget Document

The President's budget -- which is actually his proposed national budget -- is a partisan document.²¹ It is designed to sell the President's fiscal policy by presenting his ideas in a favorable light.

The President's "budget" is published by OMB in four documents full of tables, data, and analyses, which anyone can buy from the Government Printing office.²²

- The Budget of the United States Government
- The United States Budget in Brief
- The Budget of the United States Government, Appendix
- Special Analyses, Budget of the United States Government

Format: By Function. By law, the budget displays all programs according to the principal national need that they are intended to serve. As explained in The Guide to the Federal Budget,

These needs comprise general areas of federal activity (agriculture, defense, health, etc.) and are referred to as "functions." Every program is placed in the one function of the budget that best describes its most important purpose, regardless of the agency or department that administers the program.

A number of misconceptions about budget functions need to be cleared up. First, a function is not the same as the budget of a particular department. The National Defense function, for example, is different from the Department of Defense, because the function also includes some atomic energy programs administered by the Department of Energy. Second, a department's budget usually is part of a number of different functions. The Treasury Department, for instance, administers programs in eight different functions, including Commerce and Housing Credit, General Government, and International Affairs. Finally, a function does not correspond precisely to an authorization or appropriation bill, which usually deals with parts of several different functions at the same time.

Each function is separated into subfunctions, which divide the programs according to the "major mission" they fulfill. The first two digits of a subfunction are the same as the main function; only the last digit is different. For example, function 400 (Transportation), contains the following four subfunctions; 401: Ground Transportation; 402: Air Transportation; 403: Water Transportation; and 407: Other Transportation.²³

Recently used budget functions are shown in Table IV-3. Included also are the subfunctions of National Defense.

One can see from Table IV-3 that the intent is to group national needs into broad areas to provide a coherent and comprehensive basis for analyzing and understanding the budget. Three additional categories -- Net Interest, Allowances, and Undistributed Offsetting Receipts -- do not address specific national needs but are included to cover the entire budget.²⁴

Table IV-3
Budget Functions and Sub Functions
of National Defense²⁵

<u>Function</u>	<u>Sub Function</u>
Number Title	
050 National Defense	051 Department of Defense-Military
	053 Department of Energy Defense Activities
	054 Defense Related Activities
150 International Affairs	
250 General Science, Space, and Technology	
270 Energy	
300 Natural Resources and Environment	
350 Agriculture	
370 Commerce and Housing Credit	
400 Transportation	
450 Community and Regional Development	
500 Education, Training, Employment and Social Services	
550 Health	
570 Medicare	
600 Income Security	
650 Social Security	
700 Veterans Benefits and Services	
750 Administration of Justice	
800 General Government	
900 Net Interest	
920 Allowances	
950 Undistributed Offsetting Receipts	

Congress' Budget is the Law

By contrast, the budget approved by Congress, when signed by the President, is in the form of public law. The wording is typically as was that in the authorization vs. appropriation discussion on pages IV-3 and IV-4. There are supposed to be 13

appropriations bills,²⁶ of which one is Defense and another Military Construction (MILCON). There is no direct, one-for-one, relationship between these appropriations bills (law -- spending authority) and (the President's) budget functions. The defense appropriations bills organize their spending authority under the general categories of:

- MILCON (Military Construction)
- Family Housing
- RDT&E (Research, Development, Test and Evaluation)
- Procurement
- O&M (Operations and Maintenance)
- Military Personnel
- DBOF (Defense Business Operations Funds)
- Other²⁷

Differences in budget format become more significant when the concept of another type of budget -- the "program budget" from the previous chapter on PPBS -- is considered.

HISTORICAL EVOLUTION

The Congress shall have Power to lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States. . . (U.S. Constitution, art. I, sec. 8)

This part of the Constitution has not been amended. However, the process by which the federal budget is developed has changed dramatically. In the ensuing paragraphs, the evolution of the budget process will be described from the time Congress held virtually all power over the dollar, through the initiation of the executive budget, to the "systematizing" of the congressional budget process, and finally to the measures enacted to control the growing federal deficit.

The Executive Budget, OMB and GAO

Using the words of the Navy Programming Manual,

For more than a century, real federal budgetary power resided almost exclusively in Congress Before 1921, the President held little sway over federal budget preparation. Each fall the Secretary of the Treasury would gather appropriations estimates developed independently by executive branch departments and agencies. Then, without review or further coordination, the Secretary would merely transfer the separate estimates to Congress for action. The process took place remote from Presidential direction and control However, rising Federal spending and inefficiency and waste, heightened by the pressures of World War I, caused increasing dissatisfaction with established arrangements. Finally,

after years of political unrest and change, the Budget and Accounting Act of 1921 broke with tradition by legislating the concept of the Executive Budget. Under this concept, the President presents an explicit administrative and fiscal program to be acted on by Congress, and Congress returns a definite enactment to be signed and executed by the President. To strengthen the President's capability for budget formulation, the act created a Bureau of the Budget, the forerunner of today's Office of Management and Budget. At the same time, to facilitate Congressional budget oversight, the act created a General Accounting Office as an auditing arm of Congress. In the years since its passage, the act has proven to be a durable reform, and subsequent changes in the Federal budget process have generally built on its foundations. These changes, however, have tended to concentrate even more budgetary power in the Chief Executive, while fragmenting it in Congress.²⁸

A Systematic Congressional Process and Schedule; CBO and The Congressional Budget Act of 1974

The process by which Congress now considers the budget each year is based on Public Law 93-344, or the "Congressional Budget and Impoundment Control Act of 1974." According to Collender, this law was passed because Congress was having six main problems with spending and tax legislation.

1. Congress did not have enough time to complete work on all budget bills before the start of the fiscal year. Congress generally convened in January; the President submitted his budget several weeks later; and the fiscal year began on July 1. Congress had only five months, therefore, to do the needed work on spending and tax legislation; and most of these bills were not passed in final form before the start of the fiscal year. This caused continual confusion in the departments and agencies whose budgets were awaiting final consideration.

2. Congress had no ability to set spending priorities. No single committee in either the House or Senate was empowered to review the entire budget, to weigh competing spending demands, or to propose an overall fiscal policy. Instead, Congress debated and voted on each authorization and appropriations bill separately, without any idea of what the other spending proposals might be. The independence of the authorizing committees and appropriations subcommittees enabled each to conduct its business with little regard for the spending intentions of the others. Since each committee and subcommittee viewed its own importance as directly related to the budget increases it achieved for programs under its jurisdiction, committees had even less incentive to work cooperatively.

3. Congress had no ability to set economic policy. Closely related to its inability to establish spending priorities was Congress' inability to determine or adopt an appropriate economic policy. The independence of the authorizing committees and appropriations committees was minimal compared to that of the revenue-raising committees (Ways and Means in the House, Finance in the Senate), which generally conducted their work concurrently with the authorization and appropriation process and, therefore, without considering the overall level of spending being proposed. Consequently, fiscal policies could not be planned. The deficit or surplus could not even be projected until all appropriations, all other spending bills, and tax legislation were passed in final form. Because of the short time Congress had to consider these bills, this generally came well after the fiscal year was under way.

4. Objective data on budget matters were not available to Congress. OMB served as the source of detailed information for the President. Congress lacked such a resource, however, and so was at a serious disadvantage when it came to budget matters. Congress had no staff to match OMB's technical expertise, question its spending estimates, or devise budget alternatives. Without adequate information, Congress could do little more than accept the President's assumptions about the economy, and the cost and spending rates of individual programs.

5. Congress had no way to impose spending discipline on its committees. For a number of reasons it was difficult for Representatives or Senators to successfully oppose or change a spending bill. First, there was no way for Congress to judge if a bill was too high because Congress had nothing with which to compare those bills except the President's budget. Few Representatives could make such a comparison, furthermore, because the President's budget and Congressional spending legislation were in radically different forms and based upon different assumptions about the economy. Second, the committee proposing legislation usually claimed specialized knowledge in its own area of expertise, thus imposing a particularly severe burden on other Representatives and Senators who wanted to prove that the committee's actions were somehow inappropriate. In addition, amendments by non-committee members often were not looked upon favorably and sometimes were prohibited entirely. Third, astute committees could hide the real cost of a program either through the judicious use of supplemental appropriations later in the year or through other budget gimmicks. Finally, after a spending bill passed in its final form, there was no way for Congress to change it later (if the economy differed from original projections, for example) if the committee with jurisdiction over that bill refused. Consequently, the only

means of imposing fiscal restraint was defeating a bill entirely -- an extreme action seldom considered, let alone successful.

6. Congress had no procedures for overcoming Presidential impoundments. The refusal of a President to spend Congressionally approved appropriations for technical reasons was a standard practice and was accepted as a proper use of Presidential power. Impoundments became increasingly controversial during the Nixon administration, however, because they were used to an unprecedented extent and because they were used by the President to carry out policy preferences different from the ones expressed by Congress in authorization and appropriations bills. Congress found that it had no process for dealing with this situation other than to go to court to force the money to be spent, an alternative most Representatives and Senators found cumbersome, time-consuming and unacceptable.

The budget process Congress created in 1974 dealt directly with each of these six problems as follows:

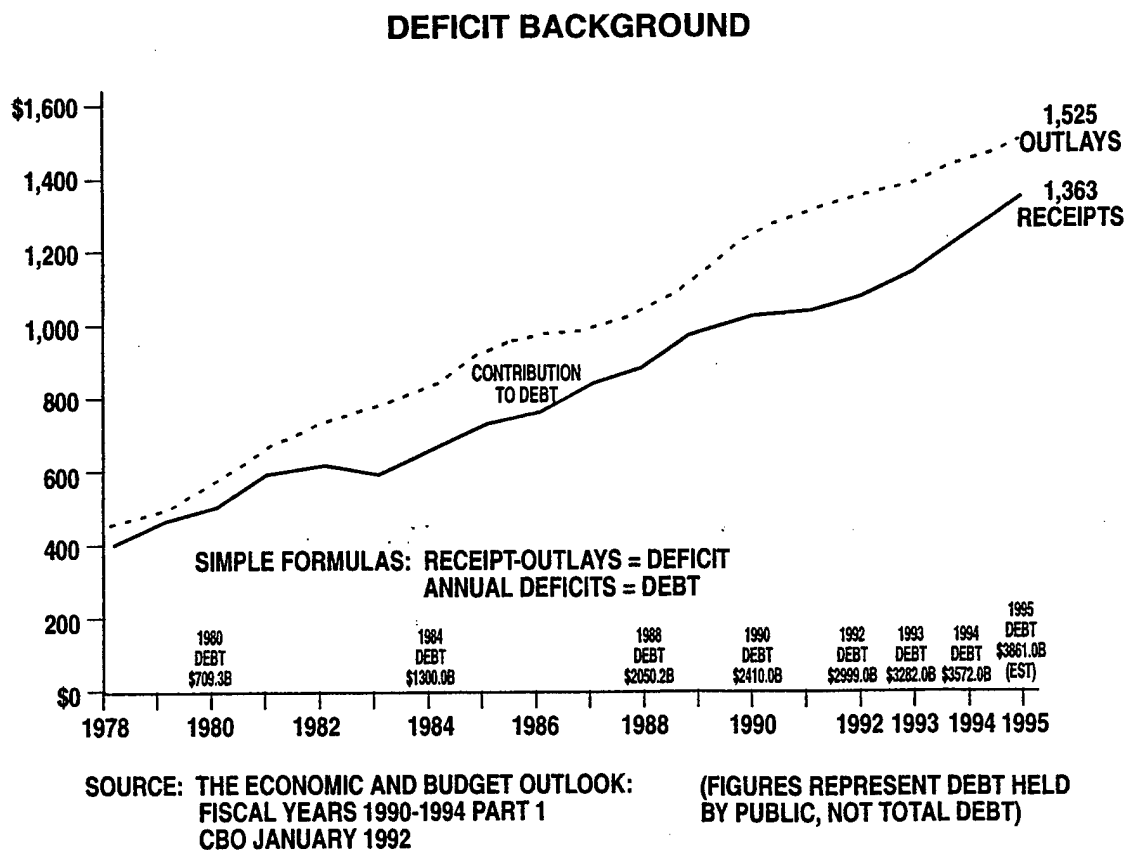
- The start of the fiscal year was changed from July 1 to October 1 to provide three additional months for the passage of all necessary legislation, and a timetable was established to force all participants in the budget process to produce their work on deadlines.
- Budget Committees were created in both the House and Senate to recommend spending priorities and economic policy and to review the activities of all other committees to ensure that their bills complied with Congressional budget goals.²⁹
- The Congressional Budget Office was created to provide in-house technical expertise and to advise spending, taxing, and economic policy alternatives.³⁰
- A "reconciliation" process was established to impose discipline on committees that exceeded desired spending levels.
- A strict procedure was created not simply enabling Congress to review and approve proposed Presidential impoundments, but requiring it to do so.³¹

The remedial efforts of the 1974 Act were far reaching. They established a systematic process as well as an organization and schedule for Congressional budgeting. However, the bill "did not decree lower spending, nor did it alter political incentives one whit."³²

Attacking the Deficit: The Gramm-Rudman-Hollings Amendment

Simple math tells us that the federal deficit should be a source of national concern. According to OMB, the national debt will rise to \$5.5 trillion in 1997. Those who want to cause alarm about the deficit point out the cost of servicing a debt of that magnitude. At 6% simple interest, the annual interest payment would be \$300 billion. However, these figures do not reflect the changes in the value of the dollar caused by inflation. The deficit isn't as bad in constant dollar terms. Also, an analysis of the size of the debt should be viewed in relative terms. Our federal deficit remains about the same in relation to the Gross Domestic Product (2.5-3.5% of GDP). Nevertheless, regardless of how one measures the significance of the debt, the consensus is that it is too large,³³ and incurs significant opportunity cost. Figure IV-3 shows some recent deficit/debt data and trends.

Figure IV-3



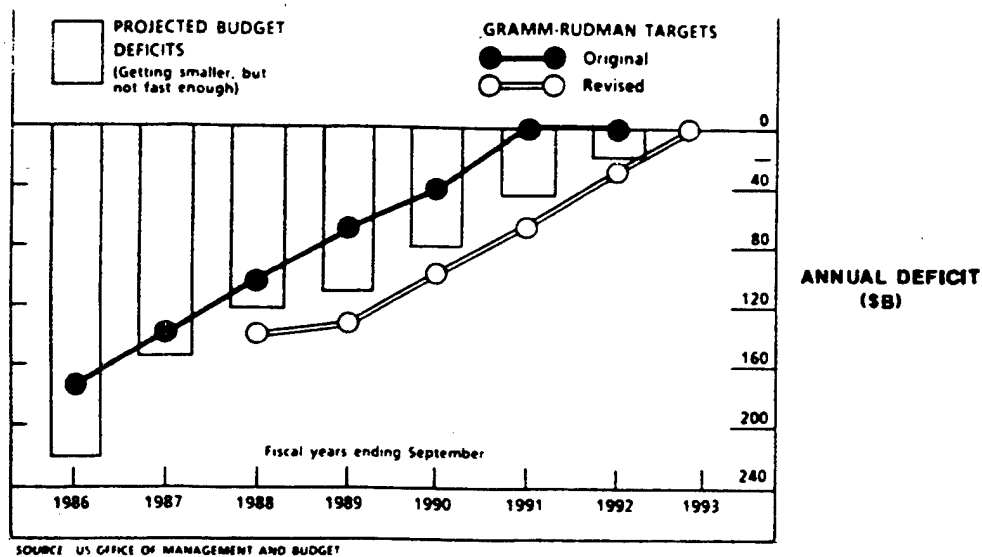
(ESTIMATES BASED ON CBO PROJECTIONS 8/94)

Public Law 99-177, otherwise known as the Gramm-Rudman-Hollings (G-R-H) Amendment to the Budget Act of 1974, includes several important provisions. Three major initiatives were especially relevant for defense resource allocation:

- Concrete Deficit Limits Were Set. Figure IV-4 shows the limits imposed on the annual deficit by G-R-H. The original plan was for a \$36 billion reduction per year through 1991 when there would be zero deficit (but not zero debt). Note that the dark targets are from the original bill. Congress later revised the targets.

Figure IV-4

Deficit Limits



- The Congressional Budget Process was revised. G-R-H changed the enactment process. Most notably:

- The budget and appropriation process was accelerated and compressed.
- New rules for budget debate include "out of order" rulings for introducing legislation that increases budget authority or the deficit, or proposing bills without new taxation or spending cuts.
- The House cannot recess more than 3 days in July unless all regular appropriation bills are passed.

- "Tag along" spending bills and pork barrel appropriations were prohibited.

- Required automatic spending cuts whenever projected spending exceeds projected revenues to such a degree that established deficit limits are exceeded. This provision of G-R-H is referred to as a "sequester order", a mechanism used to trigger automatic spending cuts. Three major points about the sequester are worthy of attention:

- Automatic spending cuts are triggered when either appropriations cause exceeding of the deficit target, or projected revenues are reduced by economic decline.
- The idea is that the President and the Congress should get together to reduce the deficit to preclude such automatic cuts. However, failing this, the amount of the cut is to be based on a joint CBO/OMB report that is to be audited by the GAO. Cuts are to be divided equally between defense and non-defense programs. The amount of cuts are to be measured in outlays. Any prior year unobligated budget authority is subject to cuts.
- Certain entitlement programs are protected from sequester. These include Social Security, Medicare, Federal Retirement (but not cost of living increases which are vulnerable to cuts), VA Benefits, Food Stamps, Child Nutrition, and Aid to Families With Dependent Children. Congress has subsequently added closing/cutting military bases to the list of exceptions.

- Amending the Gramm-Rudman-Hollings Act - The Budget Enforcement Act of 1990. G-R-H proved ineffective in bringing the deficit under control. In 1990 Congress passed the Budget Enforcement Act (BEA), which amended G-R-H in a further attempt to control the deficit. The BEA was also the result of a year long struggle between the White House and Congress to produce a budget that both could live with. The BEA's major points regarding the deficit are as follows:

- The budget was divided into two categories: (1) discretionary programs and (2) direct spending and receipts. For fiscal years 91-95, the BEA set spending caps for these two broad categories, with the stipulation that all discretionary spending remain within the set targets and that direct spending be paid for by either cuts within that category or an increase in receipts. The enforcement mechanism used to maintain the discipline in this law was the same sequester used in the original G-R-H law. The new

twist was in how the sequester was used. Under the BEA provisions, a sequester was targeted only at the category which violates the budget cap.

- The discretionary programs were further broken down into three subcategories for fiscal years 91-93. Defense, international, and domestic programs were each given specific spending caps for three years. Any violation of the BEA limits forced a sequester only in that subcategory during this three year time frame. For FY 1994-95, only the two broad categories were considered in the sequestration formula.

- Amendment to the Amendment to the Amendment. . . .

Additional changes to the process enacted in 1993 removed the subcategories of discretionary spending (defense cuts can now be used to offset other discretionary increases), essentially froze total discretionary spending for five years at FY93 levels, and does not allow for inflation adjustments.

The underlying problem of course, is that perceived needs are greater than available funds, and discipline is needed to balance the two. The process can facilitate that discipline, but it will not replace it as long as participants--executive, legislative or citizen--want to circumvent that process. One might expect further process changes in the future.

The Players

Together with the people discussed in Chapter I, our development of the history of the federal budget process has mentioned most of the key players in the process.

- The President and his main staff support for budgeting, OMB.
- Congressional key participants: the Budget Committees, Authorization Committees (for defense, House Committee on National Security and Senate Armed Services Committee), Appropriation Committees (HAC, SAC) and CBO.

Absent from our discussion so far are two important groups. These are the executive branch's economic policy group and the Congressional staffs that support the legislative branch.

Economic policy group. The Treasury Secretary, the Chairman of the Council of Economic Advisers, and Director of OMB join with officials of the Departments of Commerce, State, and Labor to form an economic policy group. Periodically the group meets to consider the economic situation in relation to the budget and government fiscal policies. When the discussions include monetary policies the

group calls in a representative of the Federal Reserve Board. Supported by the staffs of the first three officials, and primarily by that of the Chairman of the Council of Economic Advisers, the economic policy group exerts an important centralizing influence on budget and fiscal decision making. For example, it develops memoranda for the President, reviews the economic situation and recent budget trends, and, when necessary, revises budget totals. Moreover, meeting with the President from time to time, its discussions and memoranda weigh heavily on his decisions on taxation and spending.³⁴

Congressional Staffs. Equally important is the expertise found on the professional staffs of Congressional committees and on the personal staffs of Senators and Representatives. Since the early 1970s, these staff positions have been increasingly filled by retiring military, CIA and foreign service officers who have chosen to become politically identified with a particular party or a particular politician. A well-known example is LTCOL Robert McFarlane, USMC (Ret.), who left the Marines in 1977 to join the Senate Armed Services Committee Staff, and subsequently rose to be the National Security Adviser for the Reagan administration. Another example is Jim McGovern, the Staff Director for the Senate Armed Services Committee between 1981-1986 (prior to his appointment as Under Secretary of the Air Force). McGovern was an Annapolis graduate, a naval aviator, and a Lieutenant Colonel in the Marine Corps Reserves.

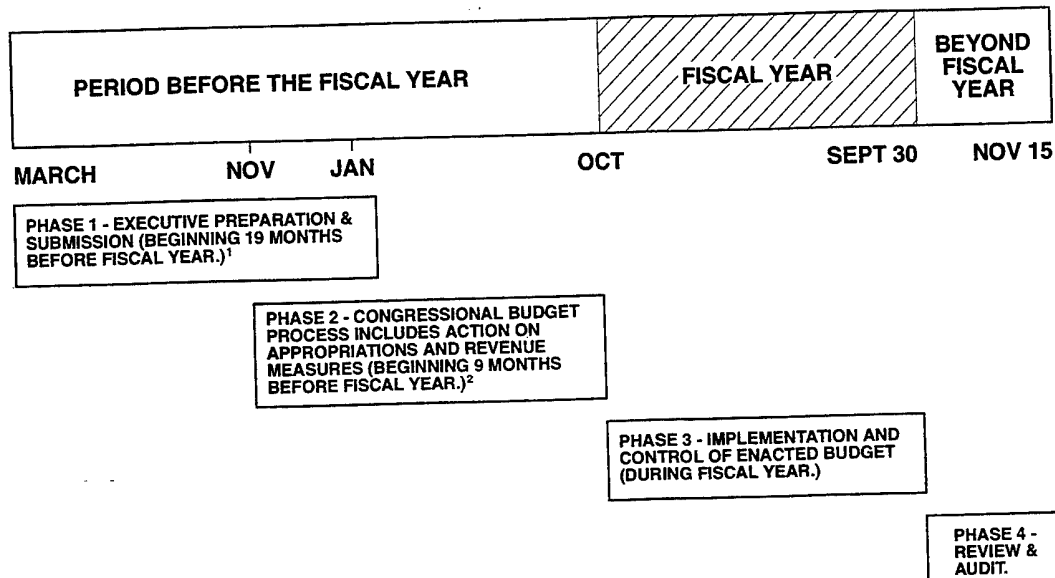
The staff expertise available to Congress has increased not just because of the flow of experienced officers toward the legislative branch, however. Of equal importance has been Congress' rapid expansion of the size of its staff, as it has increased its legislative output and constituent services, and intensified its oversight of the executive branch. During the past 25 years, the number of professional staffers working for Congressional committees has increased 240%. The average committee now has about 75 employees, half of them professional analysts. In addition, the typical Representative has 26 employees on his/her personal staff, with some Senators having as many as 49 staffers. Just the personal and committee staffs alone total 14,700 employees, but this figure ignores the 5,500 employees of the General Accounting Office. . . . All of these staffs provide professional analyses and evaluations to Senators/Representatives and committees upon request, and spend roughly half of their time on national security issues.³⁵

Just tallying the players in the federal budget process - and we didn't yet mention the uniformed and civilian people who spend the money - gives us an idea of the complexity of the process. In the next section we will describe that process.

THE FOUR PHASED PROCESS

Figure IV-5

The Four Phases of the Federal Budget Process



¹ THE PRESIDENT'S BUDGET IS TRANSMITTED TO CONGRESS WITHIN 15 DAYS AFTER CONGRESS CONVENES

² IF APPROPRIATION ACTION IS NOT COMPLETED BY SEPTEMBER 30, CONGRESS ENACTS TEMPORARY APPROPRIATION (I.E. CONTINUING RESOLUTION).

(Source: GAO, A Glossary of Terms Used in the Federal Budget Process)

In order to describe the process by which the Federal Budget is supposed to work, it will be broken down into four phases. These phases are depicted in Figure IV-5 and are defined as follows:

- Phase 1: Formulation. This involves building a budget proposal. It includes "preparations and submission" (the terms also used by the GAO to describe this phase) of the budget by the President to Congress.
- Phase 2: Enactment. The Congressional process of modifying and/or approving the President's budget proposal. We'll also refer to this phase as "The Congressional Budget Process."

- Phase 3: Execution. This is the process of spending funds to carry out programs approved in the budget; the execution of the budget related laws by the federal departments and agencies. (The GAO terminology for this phase is "Implementation and Control.")
- Phase 4: This phase involves audits of agency spending and will be referred to as Review and Audit.

The following pages will provide sufficient details to allow an understanding of what happens in each of these phases. As will become apparent, the first and third phases are controlled primarily by the executive branch; the 2nd phase, conducted by Congress, will receive most of our attention; and the fourth phase is conducted largely by the GAO.

Phase 1 - Budget Formulation - Executive Preparations & Submission

This phase is clearly described in A Glossary of Terms Used in the Federal Budget Process as follows:

Preparing the President's budget starts many months before it is submitted to Congress in late January. Formulation begins at the agency level, where individual organizational units review current operations, program objectives, and future plans in relation to the upcoming budget. Throughout this preparation period, there is a continuous exchange of information among the various federal agencies, OMB, and the President. Agency officials receive help in the form of revenue estimates and economic outlook projections from the Treasury Department, the Council of Economic Advisers, the Departments of Commerce and Labor, and OMB. The budget timetable in Table IV-4 highlights the key steps involved in preparing the President's budget and transmitting it to Congress. The months in parentheses indicate when agencies are expected to submit review materials to OMB.³⁶

As outlined above, non-defense agencies conduct internal reviews and present their budget estimates for further OMB review before the Presidential decision. For the defense budget, which accounts for almost one sixth of all federal budget outlays, the procedure differs. As discussed in the last chapter, Department of Defense agencies and military departments submit their estimates to OSD for joint OMB-OSD review. The simultaneous review by the two staffs, working together, avoids duplication of effort and allows more time for agency estimate preparation than would otherwise be the case.³⁷

TABLE IV-4
Budget Formulation Timetable

<u>Timing</u>	<u>Action to be completed:</u>
April-June (March) (16-17 months prior to FY commencement)	Conduct spring planning review to establish Presidential policy for the upcoming budget. ³⁸
June	OMB sends policy letters to the agencies. ³⁹
September 1	Smaller agencies submit initial budget request materials.
September 15	Cabinet departments and major agencies submit initial budget request materials.
October 15	Legislative branch, judiciary, and certain agencies submit initial budget request materials.
September-January	OMB and the President review agency budget requests and prepare the budget docu- ments. ⁴⁰
January	The President transmits the budget during the first 15 days of each regular session of Congress.
April 10 (February)	The President transmits an update of the budget estimates. (Note: transmittal is often requested to be made earlier than the required date.)
July 15 (June)	The President transmits an update of the budget estimates. (Note: transmittal is often requested to be made earlier than the required date.)

(Source: OMB Circular No. A-11)

Figure IV-6 shows what happens in the formulation phase of budgeting. It pictures activities as a function of both time and organization. Rather than showing all executive departments and agencies, we depict only DoD. Note that DoD provides its input to the President's budget which, after review, is submitted to Congress in January.

LEGISLATIVE
BRANCH

EXECUTIVE
BRANCH

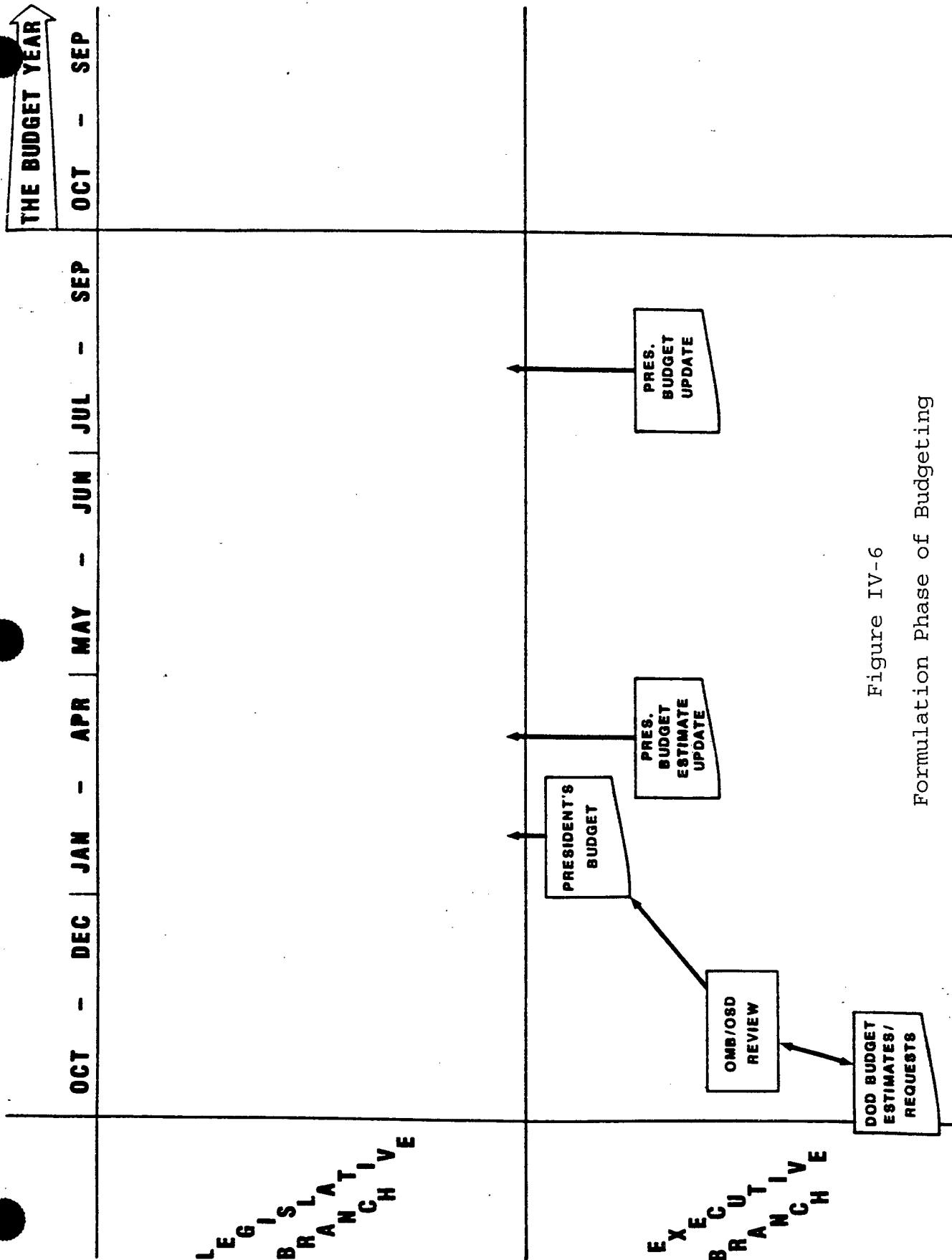


Figure IV-6
Formulation Phase of Budgeting

Phase 2 - Enactment - The Congressional Budget Process

"It is impossible to tell how many persons, opinions and influences have entered into its (budget legislation) composition.

- Woodrow Wilson,
Congressional Government, 1885

Congressional decisions on the budget affect the taxpaying electorate and the economy, as well as all federal programs and activities. These decisions should reflect key choices among competing national priorities. It's not surprising that Congress devotes a large percentage of its time to spending and tax issues.⁴¹

With respect to the defense portion of the federal budget, we could say that Congress takes three main steps in the Enactment Phase.⁴²

- "First, the combined Senate and House Budget Committees hammer out the "Concurrent Budget Resolution." This establishes the total amount of funds which will be spent on defense, as well as every other function of government for a given fiscal year.
- Next, the Senate Armed Services Committee and House Committee on National Security manage the creation, and passage before the full Senate and House, of the Defense Authorization Act. As we discussed earlier, Congress must "authorize" spending for specific military programs.
- Finally, the Defense and Military Construction Subcommittees of each chamber's Appropriations Committee (HAC and SAC) recommend a specific level of appropriations for each item in the Defense Appropriations Act, subsequently approved by the full committees and both houses.

Once the President signs the Authorization and Appropriation Acts they became law and the Enactment Phase, or the Congressional Budget Process, is completed.

For a complete description of the Congressional budget process, we must add a few "frills" to the 3 basic steps. These frills include reconciliation, conference versions and sequestering.

"Reconciliation" is the controversial process that enables Congress to enforce the spending and tax priorities, and totals of the budget resolution.⁴³ Notice in figure IV-7 that work on the appropriations bills by the HAC and SAC is designed to proceed from the budget resolution and in the wake of the development of the authorization bills. The budget process schedule

requires that the appropriation should be brought in line (i.e., reconciled) with the Budget Resolution by 30 June. If not, a no recess period is imposed until the "must pass" date of 31 July. In any event, if the total funding in the appropriation bill exceeds the limit established in the budget resolution, it is to be ruled "out of order" and must be "reconciled" by either cutting that (or another) appropriation, or increasing tax receipts.

If Senate bills differ from the House versions, bills are sent to conference. Conference committees consider items of disagreement between the two houses, and make recommendations for resolving differences in conference reports, which are submitted to each body for action.⁴⁴

What happens when the appropriation bills do not achieve the target deficit reduction? Before this question is answered, the question should be answered "how do we know we have a deficit problem?" The answer to the latter is that CBO and OMB file a joint report, audited by GAO, which evaluates the appropriation bills in aggregate. If either of the variables in the deficit equation are found to be unfavorable (i.e., appropriations too high, projected revenues too low), the SEQUESTER ORDER mechanism goes into the automatic mode. If the Congress and the President cannot reconcile the problem, automatic cuts are ordered.

By glancing at the right side of Figure IV-7 we can see that the direction the enactment process takes depends on whether or not a sequester order is required. Without the sequester "trigger," the appropriation bill is sent to the President for signature. If sequester is required, budget adjustments must be made to satisfy Budget Enforcement Act requirements before the spending bill can be sent to the President for signature . . . and the beginning of the execution phase.⁴⁵

Phase 3 - Budget Execution - Implementation and Control

If we conceive of budget formulation as preparing a plan for a budget year, and enactment as adjusting and approving that plan, then budget execution is the accomplishment of the plan. Execution of a particular budget begins on 1 October, the first day of the fiscal year covered by the budget, although preliminary administrative actions begin much earlier. It ends when record is made of payment of the last dollar properly chargeable to the funds appropriated for the budget in question. The fact that some payments have been recorded against funds appropriated 10 years earlier is evidence that budget execution usually covers a long time span.⁴⁶

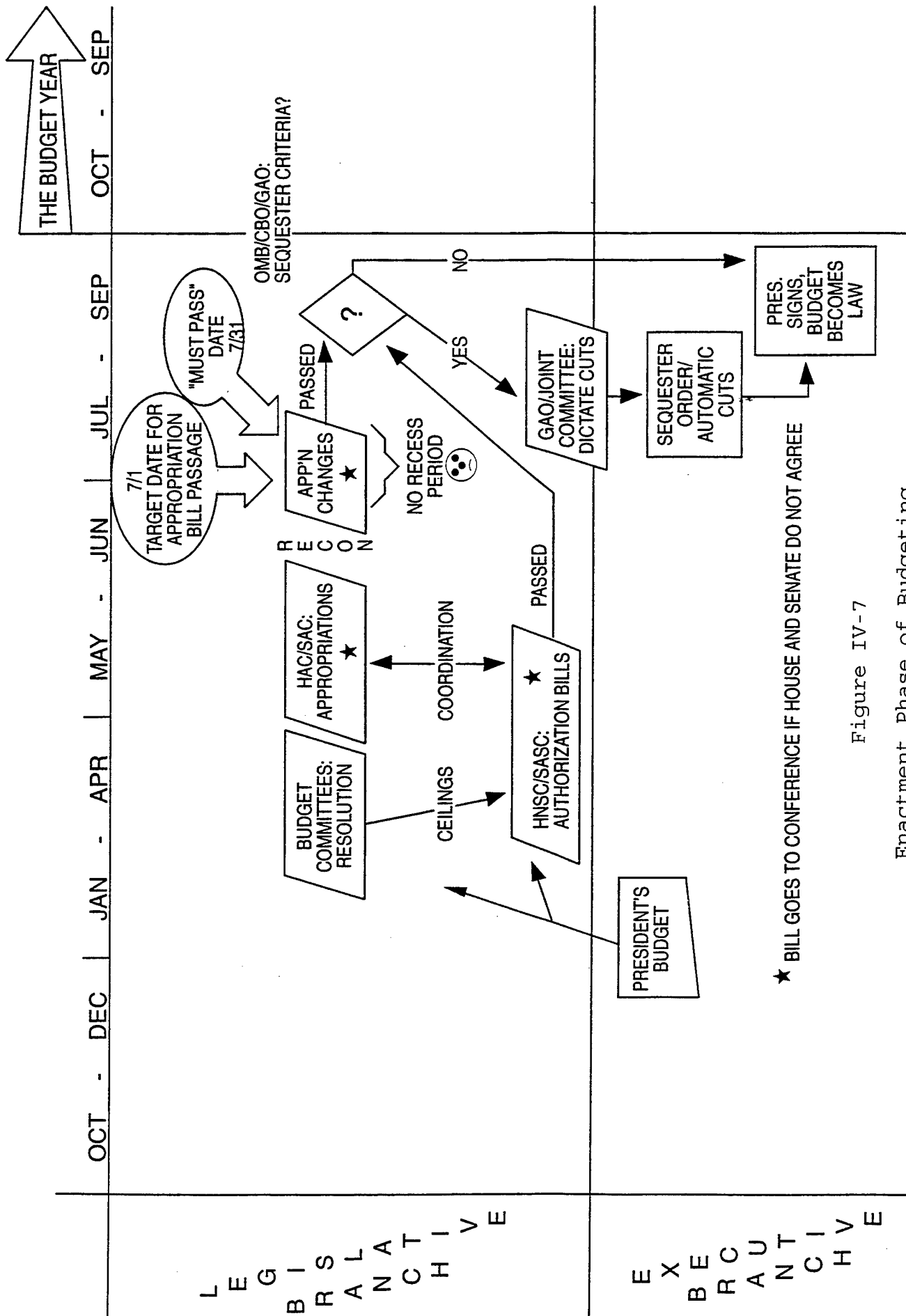


Figure IV-7

Enactment Phase of Budgeting

As explained in A Glossary of Terms Used in the Federal Budget,

After the budget is approved by Congress, the President is responsible for executing it. Under law, most of the budget authority granted to the agencies of the executive branch is converted into outlays through an apportionment process regulated by OMB. The Director of OMB apportions (distributes) budget authority to each agency by time periods (usually quarters) or by activities over the duration of the appropriation. This ensures economical and effective use of funds and obviates the need for agencies having to ask for supplemental authority. However, changes in law or economic conditions during the fiscal year may necessitate the enactment of additional budget authority. When this happens, supplemental requests are sent to Congress for its consideration. On the other hand, the executive branch may establish reserves to fund contingencies or to save money by more efficient operations or by changes in requirements.

Rescissions and deferrals, already discussed, are also tools of budget execution.

Phase 4 - Review and Audit

As described in A Glossary of Terms Used in the Federal Budget,

Individual agencies are responsible -- through their own review and control systems -- for making sure that the obligations they incur and the resulting outlays adhere to the provisions in the authorizing and appropriations legislation, as well as to other laws and regulations governing the obligation and expenditure of funds.

OMB exercises its review responsibility by appraising program and financial reports and by keeping abreast of agencies' efforts to attain program objectives.

In addition, GAO, as an agency responsible to Congress, regularly audits, examines, and evaluates government programs. Its findings and recommendations for corrective action are made to Congress, OMB, and the agencies concerned. GAO also monitors the executive branch's reporting of messages on proposed rescissions and deferrals. It reports to Congress any differences it may have with the classifications (i.e., rescissions or deferrals) of the President's requests for withholding funds. Should the President fail to make budget authority available in accordance with the 1974 Budget Act, GAO may bring civil action to obtain compliance.⁴⁷

HIGHLIGHTS

What should the defense executive, or any concerned American for that matter, know about the federal budget process? To begin with it's incredibly important because the hopes and future of the nation depend on how well we construct the budget. While it's not critical to know all the minute details, it is relevant to know that the process is very complex. Understanding the historical evolution of the budget laws and rules can give one insight on "why" the process is as it is today, and the roles of the many players.

It is convenient, though not necessary, to think of the budget process in terms of four phases.

- Formulation is the phase in which the President builds and submits his budget proposal to Congress. (You should have a good feel for exactly how the defense budget is put together. That was the topic of the chapter on "PPBS".)
- In Enactment, Congress is supposed to modify and approve the budget. Major steps in this phase include Resolution, Authorization, and Appropriation. Often Reconciliation is necessary. Sequester may be in order.
- Execution is the spending of the money. This phase may include impoundment by rescissions or deferrals.
- Review and Audit is the green eyeshade drill to check that all the money spenders have behaved properly.

There are several concepts and terms that an informed participant in the defense resource allocation process should understand. In addition to those just mentioned: deficit and debt, budget authority versus outlays, controllable and uncontrollable spending, and the economic assumptions that are key to budget decisions.

SUMMARY OF THE FEDERAL BUDGET PROCESS

Figure IV-8 depicts the whole budget process from the building of the President's budget to final auditing of budget performance. One can trace the different activities of the legislative and executive bodies through the four phases of budgeting.

The federal budget process consists of formulation, enactment, execution, and auditing activities. The Defense Department, along with all other governmental agencies, submits a budget to the President, who with help from the OMB, makes a proposal to Congress each January. In a very involved process, the legislature reviews and modifies the President's submission,

COMPLETE FEDERAL BUDGET PROCESS

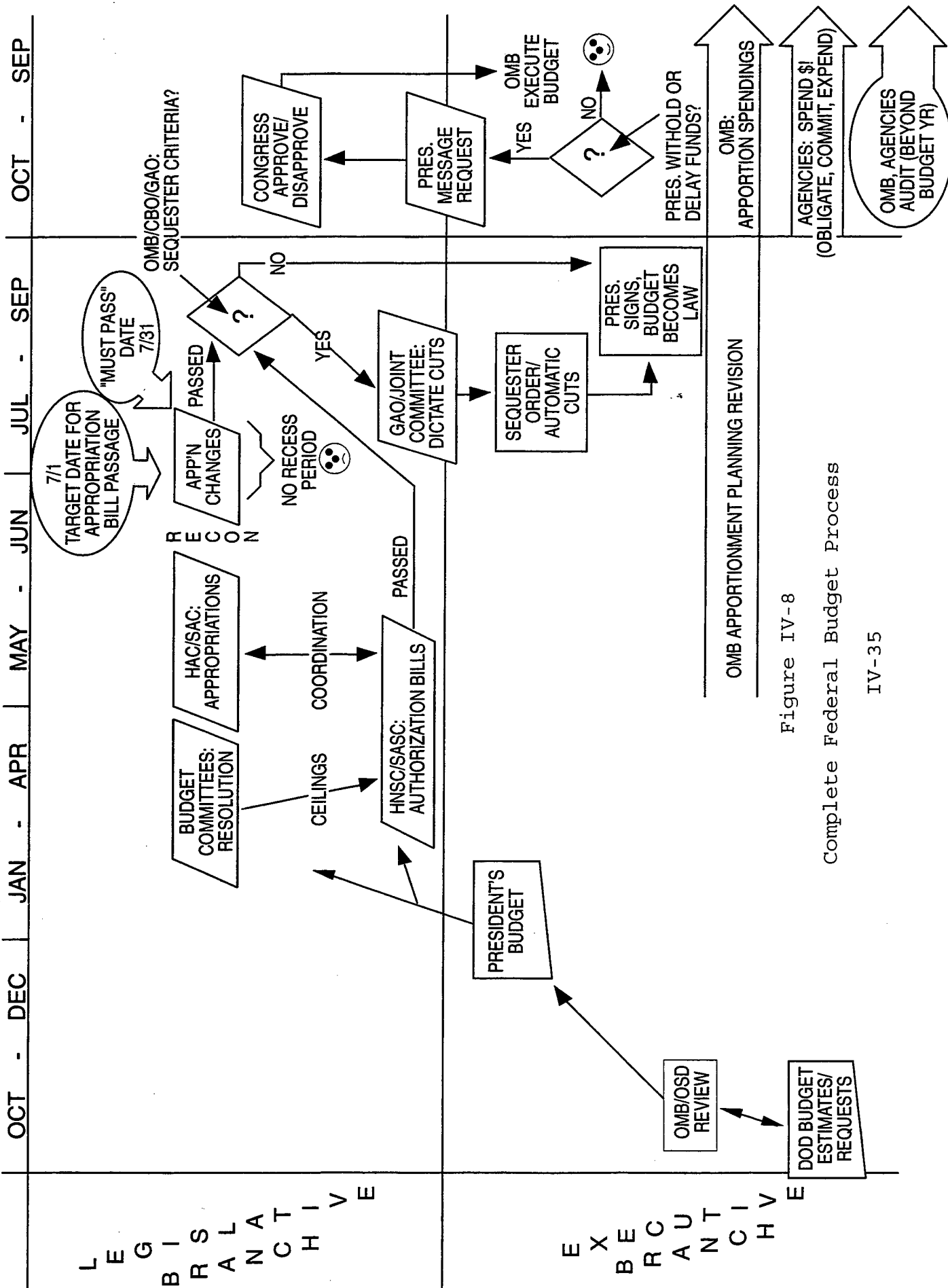


Figure IV-8
Complete Federal Budget Process

IV-35

and enacts the authorization and appropriation bills which the President signs into law. These laws allow us to obligate the funds and incur the expenses that enable us to field our military forces.

As designed, the federal budget process is a systematic and rational interplay of legislative and executive players.

PROBLEMS

The main problem with the federal budget process is that it doesn't seem to work smoothly. This evaluation is based on the premise that the purpose of this process is to provide a timely budget that reflects national priorities and needs. A budget process which has not reconciled available resources with perceived needs (as attested to by continuing deficits and the growing national debt), and is virtually never enacted on time (only three times in the past eighteen years has the defense appropriation act been completed before the new fiscal year started) just doesn't meet its intended objectives.⁴⁸ It would seem that the prognosis for ever having a well thought-out appropriation bill on time, may be grim.

This is not to say the fault is all within the enactment phase of the process and/or with Congress. When was the last time the President, in the formulation phase, submitted a balanced budget? Almost every executive department and agency consistently wants more money than it is given.

Is it just too hard?

There are many ways to explain why the budget process doesn't work well. Most focus on the Congressional process. Perhaps the answer is simply that we've created a process that's too complex and too difficult to make work. As explained by one who analyzes government behavior,

It is almost impossible to legislate a coherent security policy given the diversity of views and the diffusion of power within Congress. Who can speak for the whole institution? How can party leaders exert control over individually-elected members of Congress? The most common pattern of legislative outcomes is a patchwork of bills emerging from many distinct "iron triangles" of highly specialized committees, concerned lobbyists and relevant government agencies. Second, Congress is often slow or unable to act because of the many hurdles to be overcome in passing a bill in the House, in the Senate, and in the Conference Committee which must resolve differences between the House and Senate versions. At every step in the legislative process -- in the House and Senate subcommittee, the House and Senate committee, the

House Rules Committee, on the House and Senate floor, and in conference -- a bill can be delayed or defeated by a simple majority. When action requires both authorization and appropriation, the potential for delay and defeat is multiplied by two.⁴⁹

At the same time, citizens must realize that one objective of the nation's founders was to establish a government of checks and balances. Highly centralized, efficient, governments were suspect, so ours was intentionally formed with the checks and balances that inevitably result in inefficiencies. One could argue that our current process, while frustratingly complex, inefficient and slow, is ultimately effective at meeting the voters' desires. It seems most every proposed cut is opposed by the majority, yet most still say they want a balanced budget! That being said, however, there are clearly many suggestions on ways of making the process more efficient and less prone to persistent deficit spending. The issues become tradeoffs between efficiency, effectiveness, and equity, and who defines those terms.

Congressmen or Program Managers?

A factor often mentioned as contributing to an ineffective defense budget is micro-management by Congress. In 1977, a former Chairman of the Senate Armed Services Committee, described the oversight problem:

In this year's defense authorization bills, the Senate adjusted almost 700 line items in the defense budget while the House of Representatives changed over 1,200 line items. Changes of this magnitude wreck havoc on the resource allocation process, especially since these changes are usually made without adequate consideration of their long-term consequences. The Congress focuses only on the immediate budget year; what happens in the next several years receives little, if any, attention. . . .

In essence, the Congress is completely consumed by an excessively detailed scrubbing of the defense budget, conducted line item by line item. Lost in this maze of financial pluses and minuses is any opportunity for real oversight. The constitution did not envision 535 members of Congress serving as program managers, each with a green eyeshade and a sharp pencil. The Congress was expected to focus on the major policy and program issues of national defense and to leave the details to experienced professionals in the executive branch. But, preoccupied by the yearlong budget process and submersed in budget trivia, the Congress has no time for the pivotal issues.⁵⁰

The Committee System

The problem of the misdirected Congressional focus is exacerbated by the weakening of the committee system, which is and should be the central element of the legislative process. The orderly process of deliberation within committees has been eroded by unending floor amendments. Just 20 years ago, only 16 amendments to the defense authorization bill were considered on the Senate floor. Today, the Senate is forced to address scores of amendments. Even the conference committee process, by which differences between the Senate and House of Representatives are resolved, has bogged down in recent years. For example, the House frequently appoints many members of Congress to the defense authorization conference who are not members of the House National Security Committee. The result can be chaos, potentially bringing the conference to a complete stalemate.

In a larger context, the overall Congressional budget process is flawed by extensive duplication of activity among committees. Each of the three steps in the legislative cycle -- budgeting, authorization, and appropriating -- is conducted by a separate committee. The work of these committees is supposed to be complementary, but, in fact, is both highly redundant and conflicting. Each house now reviews the defense budget three times a year, debating the same issues again and again and changing earlier decisions.⁵¹ The effect the new Congress will have on this process remains to be seen.

Partisan Politics and Pork Barrel Projects

There are currently two other costly features of Congressional decision-making. One is partisan politics; the other is "pork barrel" politics. . . . Defense has moved to center stage in the competition between Republicans and Democrats. In the pursuit of party interests, the national interest has suffered Equally troubling is the diversion of defense resources away from genuine security requirements to fund "pork barrel" projects. More members are now playing this game, and their patronage appetites continue to grow. Past practitioners of this art were content with \$10-million here and \$10-million there. But not today. Local political interests are pushing for unrequested and unneeded programs involving billions of dollars ⁵²

The Debt and Continuing Deficits

In recent years, the most discussed budget issue has been the deficit. A thorough discussion would take volumes and is beyond the scope of both this course and this text. Three of the most

common suggestions--a Balanced Budget Amendment, the Line Item Veto, and caps on 'mandatory' spending--each had fairly thorough and balanced overview discussions in a recent CBO publication, and are reproduced in the endnotes.⁵³ Congress attempted to address one of these issues in 1996 with the enactment of public law giving the President line item veto authority. The law takes effect in 1997 and, as currently written, expires in 2005.

What was passed, however, wasn't a true line item veto. The legislation does not give to President authority to strike out sections of the bill. Instead, the President signs the entire bill into law, and uses the newly enacted legislation to block spending on certain items. Within 5 days of signing a qualifying bill into law, the President can announce cancellation of funding for specific *discretionary* spending items in any appropriation or supplemental spending bill, or block items that expand entitlements or provide special tax breaks for a limited group. *Mandatory* spending items such as Social Security or retired pay COLAs would not be subject to the Presidential block as the legislation is currently written.

To implement a veto, the President sends a message to Congress detailing the blocked provisions and the reasons for his action. The veto is an "all or nothing" proposition. For example, if the bill appropriated funds for 10 bombers, he can't just limit the funding to half that number; it's 10 or zero. The House and Senate then have 30 days to pass a resolution (by simple majority) restoring all or part of the blocked funding. The President can then veto that resolution. Overriding this final veto requires a two-thirds majority in both the House and Senate.

How the President uses this new authority and how the Congress reacts to his proposed blocks will provide for interesting analysis in 1997. The legislation could become a key tool in the administration's deficit-cutting agenda, or a "big stick" in the negotiations between the President and Congress. In either case, there are those in Congress who still believe the line item veto is unconstitutional as written, and they will certainly challenge it in the courts when it's actually used.⁵⁴

A CLOSING THOUGHT

This chapter ends with some of the same words as it opened with: The federal budget process is a political decision making process. Since funds are always limited, the budget process is frequently contentious and most parties feel dissatisfied as each year's budget is signed into law. That dissatisfaction leads many to advocate reforming the process, but, of course, those very recommendations are disparate, depending as they do on each advocates' philosophy, politics or other motivations. The nation's founders intentionally built a system of checks and

balances that has, for the most part, succeeded rather well for over two centuries. The challenge for contemporary citizens looking to improve the process is to do so without sowing seeds that might grow into even larger problems in the future.

NOTES

1. Jones, James, Chairman, Committee on the Budget, U.S. House of Representatives in the "Forward" to Collender's, The Guide to the Federal Budget. 1984 Edition.
2. A Glossary of Terms Used in The Federal Budget Process. General Accounting Office, 1981, p. 3.
3. Navy Programming Manual, OP90P-1E p. ii-15.
4. A Glossary.
5. The Guide. p. 1.
6. A Glossary.
7. The reason for this dual requirement stems from the apparent desire to separate policy decisions (authorizations) from fiscal decision making (appropriations). Note, however, that while it is not common, money is sometimes appropriated for various activities that were not specifically authorized. Conversely, another anomaly called "backdoor spending" refers to spending without the passage of an appropriation. While both of these anomalies occur, the fundamental process is as discussed in the basic text: authorizations must be passed first, then appropriations bills passed which give specific spending requirements.
8. The Guide. pp. 1, 2.
9. Pitsvada, Bernard. "The Authorization Process and Congressional Control." Resource Management Journal, Winter 1982. The author also points out that retired pay remains outside the scope of the authorization process.
10. The description of the difference between budget authority and outlays, with the helpful automobile example, is adapted from The Guide, FY 97 edition. pp. 2-6.
11. "Military Puts Brakes on Routine Expenses." New York Times, 20 May 1988.
12. The Guide. pp. 6, 7.
13. The Guide, FY 94 edition. pp. 12, 13.
14. CBO. The Economic and Budget Outlook. Washington, DC, 1982, p. 88.
15. The Guide, FY 94 edition. p. 7.

16. A Glossary. p. 44.
17. Congressional Procedures. pp. 67, 68.
18. These definitions were derived from A Glossary and Financial Management Guidebook for Commanding Officers (NAVSO P3582) Dept. of the Navy, Office of the Comptroller, November 1985.
19. A Glossary. p. 63.
20. The Guide. pp. 19-21.
21. The Guide. p. 63.
22. A Glossary. pp. 107-108. The contents of the 4 volumes of the President's budget are as follows:
 - The Budget of the United States Government contains the President's budget message and an overview of the President's budget proposals. It explains spending programs in terms of national needs, agency missions, and basic programs; it analyzes estimated receipts, and discusses the President's tax program. This document also describes the budget process and presents summary tables on the budget as a whole.
 - The United States Budget in Brief is designed for the general public. It provides a more concise, less technical overview of the budget than the full Budget. Summary and historical tables on the Federal budget and debt are provided, together with graphic displays.
 - The Budget of the United States Government, Appendix contains information on the various appropriations and funds that compose the budget. For each agency, the Appendix includes the proposed text of appropriation language, budget schedules for each account, new legislative proposals, explanations of the work to be performed and the funds needed, proposed general provisions applicable to the appropriations of entire agencies or groups of agencies, and schedules of permanent positions. Supplementals and rescission proposals for the current year are presented separately. Information is also provided on certain activities whose outlays are not part of the budget total.
 - Special Analyses, Budget of the United States Government highlights specific program areas and other significant presentations of federal budget data. It presents alternative views of the budget, that is, current services and national income accounts; economic and financial analysis of the budget covering government finances and operations as a whole; and government-wide program and financial information for federal civil rights and research development programs.

23. The Guide. p. 819. Details of the budget functions and all programs according to department or agency can be found in the budget itself. (Parts 5 and 8 respectively in The Budget of the U.S. Government).

24. A Glossary. pp. 109, 131-134. Linking of the need based function code concept with accounting is done by having the functional codes also make up the last three digits of the ACCOUNT IDENTIFICATION CODE. Each account, or group of accounts, in the Federal budget is assigned an 11-digit identification code, as shown in Table IV-5.

TABLE IV-5

Budget Accounting Codes

XX-xxxx-x-x-xxx	The first two digits designate the agency code assigned by the Department of the Treasury.
xx-XXXX-x-x-xxx	The third through sixth digits designate the appropriation or fund account symbol assigned by the Treasury Department.
xx-xxxx-X-x-xxx	The seventh digit identifies the timing of estimates: 0-Regular budget schedule 1-Supplemental under existing legislation 2-Proposed for later transmittal under proposed legislation 3-Proposed for later transmittal under existing legislation 4-Supplemental or additional authorizing legislation required 5-Rescission proposal 6-Supplemental request pending
xx-xxxx-x-X-xxx	The eighth digit identifies the type of fund: 1-General 2-Special 3-Public enterprise 4-Intra-governmental 7-Trust (non-revolving) 8-Trust revolving
xx-xxxx-x-x-XXX	The last three digits designate functional classification as used in the latest budget documents, unless noted otherwise by OMB. In cases where an account is split between two or more subfunctions: (a) if all subfunctions are in the same major function the digits indicate the major function or, (b) if two or more major functions are involved, "999" is used.

The identification code appears at the head of THE PROGRAM AND FINANCING SCHEDULE in the Appendix to the Budget of the United States Government.

Most of the details of budget data are presented in the Program and Financing Schedule in the Appendix to the Budget of the United States Government. This schedule depicts program data by activities, financing, and relation of obligations to outlays.

In the program by activities section, costs, or obligations, are classified by purpose, program, type of activity, or project. This classification is developed for each appropriation or fund, and is not uniform on a government-wide basis. Where it is of significance, capital investment is shown by activity. Otherwise, the total for each year is disclosed by footnote.

The financing section shows the sources of funds, budget authority, and other means of financing the activities covered by the account and the disposition of unobligated amounts not used during the year.

The section on relation of obligations to outlays shows obligations net of offsetting collections, obligated balances at the start and end of the year, and other items that affect the relation of obligations to outlays. All program and financing schedules carry an 11-digit identification code, generally placed at the head of the schedule.

The program and financing schedule is preceded by the appropriation language of the appropriation acts (FY 1995 in the sample shown in Table IV-6), and is printed following the account title, that is, salaries and expenses. The language of the previous year's appropriation acts, printed in roman type, is used as a base. Brackets enclose material proposed for deletion; italic type indicates proposed new language. When an appropriation has not been enacted at the time the budget is submitted, the language relates only to the fiscal year in question and is italicized, with no brackets shown. In a few cases, the language from un-enacted appropriation bills, printed in roman type, is used as a base. In such cases, the language is followed by an explanatory note.

An example, this one for CBO funding, follows:

Congressional Budget Office

Federal Funds

General and special funds:

Salaries and Expenses

For salaries and expenses necessary to carry out the provisions of the Congressional Budget Act of 1974 (Public Law 93-344), [22,317,000] \$23,261,000: Provided, That none of these funds shall be available for the purchase or hire of a

passenger motor vehicle: *Provided further*, That none of the funds in this Act shall be available for salaries or expenses of any employee of the Congressional Budget Office in excess of 226 staff employees: *Provided further*, That any sale or lease of property, supplies, or services to the Congressional Budget Office shall be deemed to be a sale or lease of such property, supplies, or services to the Congress subject to section 903 of Public Law 98-63.... (2 U.S.C. 601 et seq.; Congressional Operations Appropriations Act, 1994.)

TABLE IV-6

Sample Program and Financing Schedule

Program and Financing (in thousands of dollars)			
Identification code 08-0100-0-1-801	1993 actual	1994 est.	1995 est.
Program by activities:			
10.00 Total obligations	21,994	22,317	23,261
Financing:			
25.00 Unobligated balance lapsing	548		
40.00 Budget authority	22,542	22,317	23,261
Relation of obligations to outlays:			
71.00 Obligations incurred, net	21,994	22,317	23,261
72.40 Obligated balance, start of year	2,737	2,383	2,589
74.40 Obligated balance, end of year	-2,383	-2,589	-2,661
77.00 Adjustments in expired accounts	-145		
90.00 Outlays	22,204	22,111	23,189

The Congressional Budget Office was created by Title II of the Congressional Budget and Impoundment Control Act of 1974 (2 U.S.C. 601 et seq.) to provide assistance to the Congress in fulfilling its responsibilities to ensure effective Congressional control over the budgetary process; to determine each year the appropriate level of Federal revenues and expenditures; and to establish national budget priorities.

TABLE IV-6 (Cont.)

Object Classification (in thousands of dollars)

Identification code 08-0100-0-1-801	1993 actual	1994 est.	1995 est.
Personnel compensation:			
11.1 Full-time permanent	13,896	14,104	14,826
11.3 Other than full-time permanent	285	150	75
11.5 Other Personnel compensation	2	10	10
11.9 Total personnel compensation	14,183	14,264	14,911
12.1 Civilian personnel benefits	3,681	3,859	4,052
13.0 Benefits for former personnel	10	10	20
21.0 Travel and Transportation of persons	72	90	90
22.0 Transportation of things		1	1
23.3 Communications, utilities, and miscellaneous charges	389	444	485
24.0 Printing and reproduction	372	381	392
25.1 Consulting services	159	160	160
25.2 Other services	760	750	750
25.3 Purchases of Goods & Services from Gov't Accounts	1,479	1,494	1,525
26.0 Supplies and materials	356	402	406
31.0 Equipment	533	462	469
99.9 Total obligations	21,994	22,317	23,261

PERSONNEL SUMMARY

Identification code 08-0100-0-1-801	1993 actual	1994 est.	1995 est.
1001 Total compensable workyears:			
Full-time equivalent employment	230	223	221

(Source: The Budget of the United States Government, Appendix, Fiscal Year, 1995.

At the end of the final appropriation language paragraph, and printed in italics within parentheses, are citations to any relevant authorizing legislation and to the appropriation act from which the basic text of the language is taken. Refer to Table IV-6.

25. Budget of the United States Government; Fiscal Year 1994. Appendix One pp. 5, 6. A more detailed breakdown of national defense functions is shown in Table IV-7.

TABLE IV-7

NATIONAL DEFENSE BUDGET FUNCTION

Pertains to programs directly related to the common defense and security of the United States. It encompasses the:

- raising, equipping, and maintaining of armed forces (including civilian supporting activities), development and utilization of weapons systems (including nuclear weapons), and related programs;
- direct compensation and benefits paid to active military and civilian personnel; contributions to their retirement, health, and life insurance funds; and cash benefits for military retirement pay;
- the conduct of defense research, development, testing, and evaluation; and
- procurement, construction, stockpiling, and other activities undertaken to directly foster national security.

Excluded from national defense are

- benefits or compensation to veterans and their dependents. (Veterans benefits are generally available to personnel who served the country in national emergencies; benefits for career military personnel are generally charged as a cost to the national defense function);
- the peaceful conduct of foreign relations;
- foreign military, economic, and humanitarian assistance;
- subsidies to business by civilian agencies (such as maritime subsidies) that may be partially justified as promoting national security; and
- research and operations of agencies (such as space research) whose program missions are not directly designed to promote national defense but which could result in some significant benefits to our national security.

Sub Functions:

Code No. 051 - DEPARTMENT OF DEFENSE--MILITARY

The entire agency is included in this subfunction.

Code No. 053 - DEPARTMENT OF ENERGY, DEFENSE ACTIVITIES

Programs of the Department of Energy devoted to national defense, such as naval ship reactors and nuclear weapons.

Code No. 054 - DEFENSE-RELATED ACTIVITIES

Miscellaneous defense activities, such as the expenses connected with selective service and with defense stockpiles outside of the Departments of Defense and Energy.

26. The Thirteen Appropriation Bills are shown in Table IV-8.

TABLE IV-8

Appropriation Bills

- | | |
|--|--|
| • Defense | • District of Columbia |
| • Military Construction | • HUD |
| • Commerce, Justice, State
and Judiciary | • Interior |
| • Legislation | • Labor, HHS and Education |
| • Transportation | • Rural Development, Agriculture
and Related Agencies |
| • Treasury, Postal Service
and General Government | • Energy and Water Development |
| | • Foreign Operations, Export Fin-
ancing and Related Programs |
-

(Source: Congressional Phone Book.)

27. These general appropriations categories are broken down further for each service. For example, in the Navy (less the Marine Corps):

SCN	- Shipbuilding & Conversion, Navy
APN	- Aircraft Procurement, Navy
OPN	- Other Procurement, Navy
WPN	- Weapons Procurement, Navy
RDT&E	- Research, Development, Test & Evaluation
MILCON	- Military Construction, Navy
O&MN	- Operations & Maintenance, Navy
MPN	- Military Pay, Navy
O&MNR	- Operations & Maintenance, Navy Reserve
MCNR	- Military Construction, Naval Reserve
RPN	- Reserve Pay Navy
FHN	- Family Housing Navy

28. Navy Programming Manual OP90P-1E. p. ii-1. For those not familiar with the functions of the Office of Management and Budget (OMB):

OMB acts as the principal staff arm of the President.

(a) The Budget and Accounting Act of 1921 specified originally that the Bureau of the Budget would assist the President in preparing the annual request for appropriations.

It empowered the Bureau "to assemble, correlate, revise, reduce, or increase the estimates of the several departments or establishments." Further, the act authorized the Bureau to evaluate department activities, operations, and methods of business with the aim of recommending changes to "achieve greater economy and efficiency."

(b) In the years subsequent to 1921, the Bureau became one of the President's most powerful tools. Ten years after the Bureau's establishment, the Hoover Commission, having first noted that Bureau procedures improved management and efficiency beyond strictly budget operations, reported that it had developed into the President's most important staff agency.

(c) In a significant development, Reorganization Plan No. 2 of 1970 expanded the Bureau's role in program evaluation and changed its name to the Office of Management and Budget (OMB). Today OMB, like its predecessor, serves as a principal staff arm of the President.

(d) OMB today exercises executive branch cognizance over the federal budget process. It assists the President in preparing the annual budget and in formulation of the government's fiscal program, and it supervises and controls budget execution. In its economic policy formulation and forecasting role, OMB prepares fiscal, economic, and financial analyses. It also helps develop budget, tax, credit, and fiscal policies. In an administrative or agency-interaction role, OMB communicates Presidential guidance to executive-branch departments and agencies. It examines their budget requests, programs, operating methods, and legislative proposals.

Oversight Organization.

There is a division of labor in OMB for interaction with other executive departments and agencies. The Associate Director (of OMB) for National Security and International Affairs has management oversight responsibility for defense programs. He also has oversight responsibility for the full range of programs in the foreign policy area: State, AID, MAP, Food for Peace, and Intelligence. The sub-organization concerned with the Department of Defense and its programs is the National Security Division.

National Security Division. The National Security Division has responsibility within OMB for matters encompassing the mission and functional responsibilities of DoD. Oversight extends to the activities of the Office of SECDEF and individual services. The National Security Division divides its efforts between four principal sub-elements. One

exercises cognizance over personnel, pay and policy. Each of the remaining three exercise cognizance over the program of a particular military service. In discharging its responsibility, the National Security Division examines agency programs and operating methods, and reviews budget requests and legislative proposals. Oversight includes analysis of long-range programs from which OMB makes fiscal projections and entails special analyses of selected problems. Emphasizing areas of interest common to two or more agencies, these analyses seek to improve program management and interagency coordination.

29. More details on the CONGRESSIONAL BUDGET ORGANIZATION.
(Source Navy Programming Manual, pp. ii-4, 5.)

A. Congressional Committee System.

(1) Types of Committees. Congress parcels out its work to three types of committees: select and special committees, joint committees, and standing committees. Yet another classification is the subcommittee, a functional subdivision of the other three. The system not only permits division of labor but also affords Congress a measure of expertise in policy review and oversight.

(2) Relevant joint committees. None of the select and special committees and only two of the joint committees bear directly on the federal budget process. One, the Joint Committee on Internal Revenue Taxation recommends revenue policy to the House Ways and Means Committee and the Senate Finance Committee. The other, the Joint Economic Committee, whose prime duty is evaluation of the President's economic policy, provides the House and Senate Budget Committees with a economic evaluation of proposed budget authority and outlays.

(3) Relevant standing committees. The standing committees have, by far, the greatest relevance to the federal budget process. The standing committees of the House derive their current structure from the Legislative Reorganization Act of 1946. The standing committees of the Senate number 15 and, in the first major reorganization since 1946, derive their structure from the Committee System Reorganization Amendments of 1977. The discussion that immediately follows outlines budget duties of the standing committees but does not include the House Ways and Means Committee and the Senate Finance Committee, which consider all revenue measures. Emphasis is on specific measures for handling the defense budget.

B. Budget Committees. The budget committees of the House and Senate function in the areas of fiscal policy and

priorities. They maintain surveillance of the effect of existing and proposed legislation on budget outlays. They make continuing studies of tax expenditures (that is, revenue losses attributed to tax relief provided by federal statutes) and they coordinate tax expenditures with direct budget outlays. Most importantly, the budget committees guide Congress in the task of setting levels for total spending, revenues, and the national debt. In this capacity, the committees play a central role in developing concurrent resolutions on the budget, which set forth or revise the Congressional budget for the United States Government for a fiscal year. In other words, the budget committees provide overall management to synthesize a Congressional budget policy distinct from executive branch initiatives.

C. Authorizing Committees. In its appropriations procedure, instead of approving funding authority directly, Congress first enacts specific authorizing legislation. This task falls to the legislative (or authorizing) committees in both houses. These committees provide substantive review of executive-branch proposals and recommend legislation that authorize agencies to pursue particular programs and activities. The legislative committees that exercise primary cognizance of defense authorizations are the House Committee on National Security and Senate Armed Services Committee. Their respective subcommittees are shown in Table IV-9.

TABLE IV-9

SUBCOMMITTEES OF THE ARMED SERVICES
COMMITTEES, 104th CONGRESS

<u>House Committee</u> <u>on National Security</u>	<u>Senate Armed Services</u> <u>Committee</u>
- Readiness - Acquisition - Research and Technology - Military Installations and Facilities - Military Forces and Personnel	• Coalition Defense & Reinforcing Forces • Defense Technology, Acquisition, and Industrial Base • Force Requirements and Personnel • Military Readiness and Defense Infrastructure • Nuclear Deterrence, Arms Control and Defense Intelligence • Regional Defense and Contingency Forces

D. Appropriations Committees. Once programs are authorized, they receive their required funds through separate appropriations legislation. This process entails

further review of agency proposals and performance. Each chamber of Congress has a Defense Subcommittee and a Military Construction Subcommittee of its respective Appropriations Committee (HAC or SAC). Those subcommittees review all defense issues as part of the appropriations process. (Source: Navy Programming Manual, pp. ii-2, 3.)

30. Details on the Congressional Budget Office (CBO).

(1) Duties. The CBO provides Congress with information on the budget and on proposed taxing and spending legislation. As a primary responsibility, the office furnishes the two budget committees with information, data, and analyses they need to discharge committee functions. The office develops comparable information on request for the appropriations committee of either house, and for the House Ways and Means Committee and Senate Finance Committee. In addition, again on request, the office provides any committee or member with information already compiled and available. In yet another function, the office tracks the spending decisions of Congress and relates them to established budget authority and outlay targets.

(2) CBO-agency relationship. One feature of the Congressional Budget Act of 1974 that concerns the Director of the CBO also holds special interest for the Navy and Marine Corps staff. The act requires executive departments and agencies to furnish the director any available information, data, estimates, and statistics he determines necessary in performing his duties (unless disclosure would be in violation of the law). (Source: Navy Programming Manual, pp. ii-2,3).

31. The whole discussion of the problems and "SOLUTIONS" that led to the 1974 Law are from The Guide, pp. 13-15.

32. The Guide. p. xvi.

33. Also see Roberts, "The Administration's Achilles Heel," Wall Street Journal, 12 January 1988. A full discussion of the pros and cons of deficit spending goes well beyond the scope of this book. It's just too simplistic to say deficit spending is bad. Many economists argue that some deficit can be good, given that the economy grows in response. I am indebted to Dr. Mac Owens, my colleague at the Naval War College who has helped me express the debt concepts. Also, credit is due to the Defense Resource Management faculty at the Armed Forces Staff College, whose Study and Faculty Guides provided a most helpful background for my discussion of the Gramm-Rudman-Hollings Amendment.

34. These first three officials, themselves, form an economic policy group sometimes called "Troika", which when joined by the Chairman of the Federal Reserve Board has been referred to as the "Quadriad." (Source: OP-90-1E.)

35. Hall. Private and Public Participants in the National Security Process. Naval War College, March 1987. As this book is going to press, it appears the 104th Congress will significantly reduce the size of the Congressional staff.

36. A Glossary. p. 5.

37. Navy Programming Manual p. ii-6.

38. Each year OMB inaugurates the federal budget process with a formal spring review. From the fiscal policy aspect, the spring review examines the national economic and fiscal situation. From the departmental budget aspect, it examines proposed agency programs and ongoing activities. An agency-by-agency undertaking, the review examines program emphasis and overall funding levels. For each agency, usually as a product of negotiation at the highest levels, the review identifies a select number of potential issues, which in turn often lead to special analytic studies by the agency. (Source: Navy Programming Manual, p. ii-5.)

39. After completing the spring review, the Director of OMB, as the Budget Director, meets with the President and his advisers. On that occasion, they discuss the size of the budget for the next fiscal year, together with its program priorities and agency funding levels. The policy decisions and funding levels resulting from these deliberations are communicated to the departments and agencies by OMB. There they govern program and budget preparation, and form a major basis for subsequent discussions, including those during the fall review of agency budget requests. (Source: Navy Programming Manual, p. ii-5.)

40. In the fall budget review, which begins 15 October, the OMB Director is provided with an update of the national economic and fiscal situation, and the OMB staff initiates formal hearings to consider the details of agency requests and to identify issues that need to be resolved. The Director considers the issues and total outlay levels that emerge, and discusses them with the President. Based on these discussions, the President makes tentative decisions, which he reviews with the heads of the independent agencies and cabinet officers before reaching the final decisions that will be reflected in the budget submission. (Source: Navy Programming Manual, pp. ii-6.)

41. Congressional Procedures. p. 44.

42. I am indebted to my colleague at the Naval War College, Dr. David Hall, for this concise description of the budget process in Congress.

43. The Guide. p. 53.

44. A Glossary. p. 13.

45. For a more complete picture of the Congressional Budget Process, see Figure IV-9, page IV-58.

46. Financial Management in the Navy. p. 124.

47. A Glossary. p. 17, 18.

48. Table IV-10 shows Defense Appropriation Act enactment dates for recent years.

TABLE IV-10

Dates of Enactment
Defense Appropriation Acts
FY 1978-1996

<u>Fiscal Year</u>	<u>Enactment Date</u>
FY 1978	21 Sep 1977
FY 1979	13 Oct 1978
FY 1980	21 Dec 1979
FY 1981	15 Dec 1980
FY 1982	29 Dec 1981
FY 1983	21 Dec 1982
FY 1984	8 Dec 1983
FY 1985	12 Oct 1984
FY 1986	*19 Dec 1985
FY 1987	* 5 Oct 1986
FY 1988	**22 Dec 1987
FY 1989	***30 Sep 1988
FY 1990	2 Nov 1989
FY 1991	5 Nov 1990
FY 1992	26 Nov 1991
FY 1993	23 Oct 1992
FY 1994	11 Nov 1993
FY 1995	30 Sep 1994
FY 1996	1 DEC 1995

* Full Year Continuing Resolutions

** Part of Omnibus Bill funding the entire Government

*** Enacted minutes before the end of FY88 and signed by the President on 1 Oct 1988. The result of an agreement between the legislature and the executive not to repeat the previous year's fiasco, the single Omnibus Bill. All thirteen separate appropriations bills were passed and signed by the President.

49. Hall. Public and Private Participants.

50. Goldwater. "Overdose of Oversight and Lawless Legislation." Armed Forces Journal International, February 1987. Senator Barry Goldwater retired from the Senate at the end of the 99th Congress. In his last two years in the Senate he served as Chairman of the Senate Armed Service Committee, where his principal efforts were directed toward gaining passage of legislation signed into law by President Reagan to reorganize the Pentagon and streamline national security functions.

51. Ibid.

52. Ibid.

53. The Economic and Budget Outlook: Fiscal Years 1994-1998. Congressional Budget Office, 1993, pp. 87, 91, 92.

Would a Balanced Budget Amendment
Reduce the Deficit?

The limitations of fixed deficit targets represent one of the biggest problems inherent in adopting one of the most popular proposed changes in the budget process--an amendment to the Constitution that would require a balanced budget. A balanced budget amendment sets a target for the size of the deficit, but does not specify either the policy actions that are necessary to reach the target or a process for enforcing those actions. As was so clearly demonstrated under Gramm-Rudman-Hollings, it is impossible to build a process around the achievement of an annual deficit target without creating incentives to engage in short-term fixes and gimmicks in response.

A balanced budget amendment would lead to several problems. First, there is no consensus on what the budget to be balanced under such a strict rule should include, or on how to measure conformity with the balanced budget rule. Further, a balanced budget amendment lacks credibility because it interferes with the ability of the federal government to combat recessions through automatic stabilizers or discretionary fiscal policy. Most important, a balanced budget rule offers too many opportunities to evade its requirements. The President and the Congress could get around an apparently rigid balanced budget constraint by

using timing mechanisms and other budgetary gimmicks to achieve short-run budget targets; basing the budget on overly optimistic economic assumptions; creating off-budget agencies that would have authority to borrow and to spend but whose transactions would not be directly recorded in the budget; and passing costly spending on to states and local governments (through mandates) or private businesses (through regulations).

A balanced budget amendment, if it were to work, would need to be accompanied by legislation that specified particular actions to reduce the deficit and how they would be enforced. The deficit cannot be brought down without making these painful decisions to cut specific programs and raise particular taxes. The balanced budget amendment is not a substitute for such a balanced budget plan. Even if the amendment were passed and ratified by the necessary three-fourths of the states, therefore, the hard work would remain to be done.

What Is the Likely Effect of the Item Veto?

Many Presidents have sought the authority to reduce or eliminate specific items in appropriation bills, a power possessed by 43 of the 50 state governors. These Presidents have argued that an item veto would empower them, as a representative of the general interest, to reduce low-priority or locally oriented--so-called pork-barrel--projects, thus leading to a reduction in the deficit.

Various statutory alternatives that are designed to have largely the same effect as the item veto have also been proposed. The most popular of these would expand the current powers of the President to propose rescinding appropriated funds under the Congressional Budget and Impoundment Control Act of 1974. Expedited rescission proposals (such as H.R. 2164, which passed the House in the closing days of the 102nd Congress) are the most limited in their grant of authority to the President. They would require the Congress to vote on proposed rescissions, with a simple majority prevailing on the vote. At present, the Congress can kill the proposed rescissions simply by failing to act on the proposal.

Giving the President item veto or similar power would certainly represent a shift in the constitutional balance of powers, but it is unlikely to have any significant effect on deficits. Because the item veto and its statutory substitutes would apply only to discretionary spending, which represents only about 40 percent of total outlays and is growing much more slowly than mandatory spending, the item veto's potential to reduce the deficit or control spending is necessarily limited.

The item veto has limited potential to reduce even the discretionary portion of the budget. Because the Budget Enforce-

ment Act's spending caps represent a statutory agreement between the President and the Congress on the level of discretionary spending, the item veto is unlikely to spur additional reductions. Any reductions in appropriations from line-item vetoes are likely to be replaced by other spending, so the only result would be a shift in the composition of spending.

Even if discretionary spending limits were not in place, Presidents are likely to use the threat of vetoes to gain increases in spending overall. Only Presidents who value reduced spending over pursuing their own spending priorities are likely to even try to use the item veto for deficit reduction.

Because an item veto would shift the balance of power between the President and the Congress, it probably would affect the distribution of spending by substituting some Presidential budget priorities for congressional ones. Evidence from studies of the states' use of the item veto supports this claim; state governors have used it to shift state spending priorities rather than to decrease spending. Some analysts would argue that shifting spending priorities is sufficient reason to adopt the item veto if the President is less likely to engage in pork-barrel spending. An item veto, they claim, would make the President more responsible for spending choices and would lessen the tendency for the two branches to blame each other for the proliferations "wasteful" spending.

Will Caps on Mandatory Spending Work?

Approximately half of all federal spending is for entitlements and other mandatory spending (excluding net interest payments). Payments for these programs are governed by formulas that are set in law, and spending is not constrained in the annual appropriation process. The Budget Enforcement Act's pay-as-you-go procedures were designed to prevent enactment of legislation that would erode the mandatory spending cuts and revenue increases that were enacted as a result of the 1990 budget agreement. They were not designed to prevent growth in mandatory spending that results from increases in beneficiary populations, inflation, increased use of services, or any other factors not directly under the control of the Congress and the President.

During the 102nd congress, the Bush Administration and various Members supported the concept of placing an enforceable cap on mandatory spending. This proposal would tie the growth of spending for individual programs to the increase in the eligible population and inflation, plus a transitional percentage that would allow the change to be phased in. It would also establish a sequestration procedure to enforce a breach of that cap. Savings would be achieved if spending were held to the cap level, because the costs of some programs notably Medicare and Medicaid,

are estimated to grow much faster than their beneficiary populations and general inflation. This rapid growth in Medicare and Medicaid is primarily the result of increases in the use of hospital and physician services, changes in the quality of care, and inflation in the cost of medical care that exceeds inflation in the rest of the economy. In the absence of a fundamental restructuring of Medicare and Medicaid, holding the growth of their costs to the cap level would require real cuts in the health care services that would be available to the elderly and the poor.

Many advocates of this approach do not accompany the call for a mandatory cap with policy proposals to achieve the reductions in individual programs that are needed to avoid sequestration. Because even most advocates of a mandatory cap agree that an across-the-board sequestration is not an acceptable way to achieve the desired reduction in mandatory spending, however, the cap is likely to be met only if such specific policy changes are enacted. The most important of these would be policies that would control the long-term growth in health care costs, which represent the fastest growing part of the budget. These cuts will be hard to achieve, however, because many people will want to use any Medicare and Medicaid savings to provide greater and more affordable access to medical care for citizens who currently are not covered by government health care programs and do not have access to, or cannot afford, private health insurance.

A sequestration of mandatory programs could not be carried out easily. Government benefit checks and other mandatory spending cannot simply stop flowing after the cap is reached without disrupting, and possibly endangering, the lives of millions of citizens. Agencies in the executive branch could estimate the likely shortfall resulting from the cap and adjust all future payments to account for the effect of the limit, but that would involve an enormous amount of bureaucratic discretion and uncertainty about the benefits that will actually be provided. In any case, the courts may be asked to respond to the conflict between the legislation that authorized the mandatory spending and a requirement to sequester that spending.

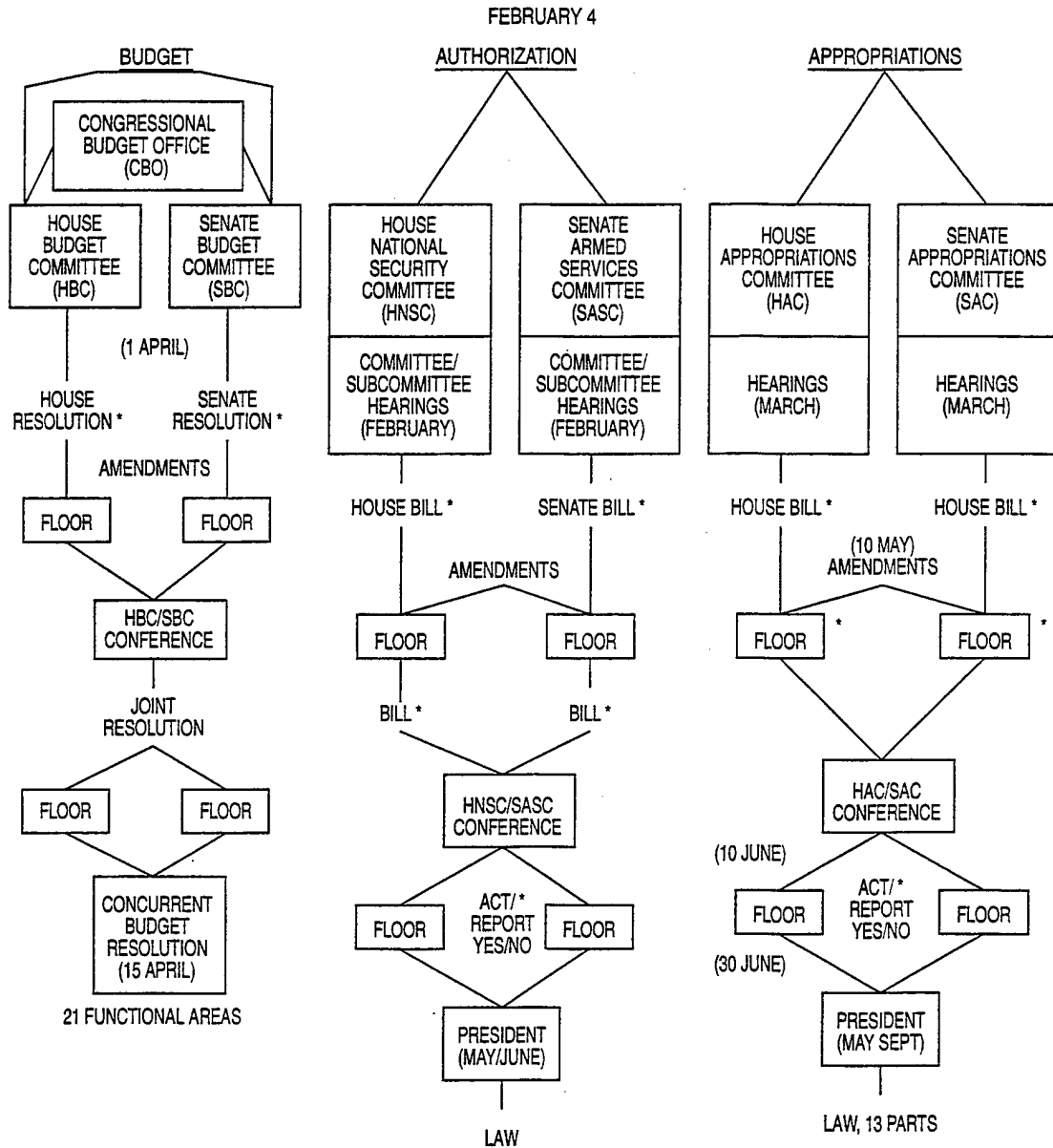
By their very nature, entitlement programs are not subject to specific annual spending limits. Simply placing a limit on an entitlement program is no substitute for changing the policies controlling it. If policymakers believe that a program such as Medicare should not exceed a particular level of spending in a year, they should revamp the program and turn it into a discretionary program.

54. TROA's Legislative Update, 26 Dec 96.

Figure IV-9

Comprehensive View of Congressional Budget Process

PRESIDENT'S BUDGET SUBMISSION



- 30 JUNE - HOUSE COMPLETES ACTION ON APPROPRIATION BILLS
- 15 AUGUST - SNAPSHOT OF PROJECTED DEFICIT
- 1 SEPTEMBER - SEQUESTRATION ORDER ISSUED BY PRESIDENT. (ALTERNATIVES?)
- 1 OCTOBER - FY STARTS. SEQUESTRATION TAKES EFFECT.

* - INDICATES A PUBLISHED DOCUMENT

(Source: Navy Congressional Liaison Office)

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CHAPTER V

THE ACQUISITION SYSTEM

INTRODUCTION

Structure of the Chapter

The process DoD uses to identify future force requirements then acquire systems to meet those requirements is complex. Yet it is very logically structured. It begins with identifying the needs via the Requirements Generation System (RGS), validating them before the Joint Requirements Oversight Council (JROC), then using the formal acquisition process to manage the design, production, purchase, operation and ultimate disposal of defense systems. This chapter will take a similarly logical flow: some of the history of the evolution of the acquisition process, RGS/JROC, the acquisition process as it currently exists, and finally, some discussion of problems with the current system.

When reading this chapter keep three things firmly in mind. First, as with the entire book, work to understand the highpoints --how they fit into the process and how they relate to each other. If you want the details, see the endnotes and references. Second, realize that what is described here is the complete process, from start to finish, as it is formally structured. Very few systems go through every step exactly as described; some skip much of the process altogether, while others go through every wicket and then some (V-22/MLR/MVX "Milestone II plus" in November 1993).

The third point to keep in mind is that there are fundamental, real-world differences between the calendar driven federal budget process on the one hand, and the much more unpredictable timing of emerging military needs and technological breakthroughs, which are hard to schedule to say the least! Dr. Steve Fought makes the point that new technology goes through several general steps: First, someone must have the idea. Next the physics must be proved (many a great idea is beyond our knowledge of physics). If the physics looks solid, the next question is one of engineering--can we actually engineer the widget? If it can be engineered, can it be manufactured in numbers that are at all meaningful? Lastly--and critically--can it be operated by the average intended operator and is it supportable in a realistic way? Whatever label you would put on those steps, the process usually takes considerable time and often a lot of money. These time and money demands, that often come in fits and starts during development, can make a system a prime candidate for delay or cancellation during budget development. That constant tension manifests itself many times during a typical system's acquisition.

With those comments and cautions, let's wade in.

It's Much More Than "Acquisition!"

DoD's view of "acquisition" is much grander than that found in the dictionary. We use the term to include the entire process used to identify mission needs as well as the process "whereby all equipment, facilities and services are planned and designed within the Department of Defense. The system entails acquisitions, determining and prioritizing resource requirements, directing and controlling the process, contracting, and reporting to Congress."¹

In broad terms, this chapter describes a process that includes the means by which our government determines needs; justifies its military hardware and funds for weapons, forces, and services; and maintains management and oversight on behalf of the U.S. public.²

This is a very big system! As noted by the Center for Strategic and International Studies in 1987:

DoD employs more than 165,000 people, both civilian and military, to manage this vast array of R&D, procurement, and logistics programs. Nearly all of these people work for the Services, which directly manage these programs subject to the oversight of a relatively small staff in the Office of the Secretary of Defense (OSD). Further oversight is provided by the Executive Office of the President, including the Office of Management and Budget, particularly in connection with the President's defense budget. And the Congress, in exercising its constitutional responsibility to provide for our Armed Forces, authorizes and appropriates funds for each of more than 2,600 specified procurement and R&D line items, and plays a major role in overseeing acquisition programs, (Defense activities are monitored totally by 55 subcommittees of 29 Congressional committees assisted by more than 20,000 staff and supporting agency members.)³

Defense acquisition is the largest business enterprise in the world. Annual purchases by the Department of Defense (DoD) total almost \$170 Billion -- more than the combined purchases of General Motors, EXXON, and IBM. DoD's research and development (R&D) expenditures are more than fifteen times those of Japan. Defense acquisition involves almost 15 million separate contract actions per year -- or an average of 56,000 contract actions every working day.⁴

This combination of vastness and complexity tends to limit and distort understanding of how the acquisition process should

and actually does work.⁵ Nevertheless, a defense executive cannot hope to contribute to resource allocation decisions without a general understanding of this process which we call "acquisition." From now on, when the term "ACQUISITION" is used, it means to plan, design, develop, acquire, maintain and dispose of.

EVOLUTION OF THE ACQUISITION PROCESS

The first acquisition of a major weapon system for the U.S. Government started with the authorization for the procurement of six large frigates by the U.S. War Department in 1794. Seventeen months later six keels were laid but only three of the frigates were built due to schedule slippage and cost overruns.⁶

The acquisition system has been the topic of dissatisfaction for decades. The Rockefeller Report of 1953, the Symington Plan of 1961, the Blue Ribbon Report of 1970, the Commission of Government Procurement of 1973, and the Packard Commission Report all indicate that we've exhaustively studied our acquisition process. Another review, this time subsumed into the National Performance Review, made more changes in 1994. No matter who makes the report, however, the results always express dissatisfaction with the management effectiveness and economy of the weapon system acquisition process.⁷ To help us determine the causes of this apparent malaise, let us reflect on the changes that have been made over the last few decades.

During the 1950s, the Service Secretaries exercised most of the control over the acquisition process. SECDEF's involvement was basically limited to a single go/no-go decision as authority for the commencement of a major program. Thus, OSD controlled the START of new programs, but was not involved significantly with building and fielding weaponry.

Need for Change

Several things contributed to the call to change the system. The 1960s brought an increasing public hostility toward the military. While there was growing opposition to the Vietnam war, there was increased support for social programs. There was a growing public perception of Pentagon mismanagement. The F-111 engines cost \$750,000 instead of the originally estimated \$300,000. Navy ship and Army tank costs were likewise "sky-rocketing". The Kennedy administration's "whiz kids" had some revolutionary ideas about government decision making and resource management. Two of their ideas, program evaluation and economic analysis, were anathemas to career military officers of the era, especially when delivered by whiz kids without any military experience.

Economic Analysis and Program Evaluation

The concepts of, and requirements to use, economic analysis and program evaluation evolved in the McNamara Era during the Kennedy Administration. As pointed out in the DoD directive on these concepts:

Economic analysis and program evaluation have different purposes. The former concept is designed to assist . . . in identifying the best new programs and projects to be adopted. The latter focuses on approved programs and projects to ensure that established goals and objectives are being attained in the most cost-effective manner.

Economic analysis is a systematic approach to the problem of choosing how to employ scarce resources and an investigation of the full implication of achieving a given objective in the most efficient and effective manner. The determination of efficiency and effectiveness is implicit in the assessment of the cost-effectiveness of alternative approaches and is accomplished by:

- Systematically identifying the benefits and other outputs and costs associated with alternative programs, missions, and functions and/or of alternative ways for accomplishing a given program (usually referred to as projects and activities).
- Highlighting the sensitivity of a decision to the values of the key variables and assumptions on which decisions are based, including technical, operational, schedule and other performance considerations.
- Evaluating alternative methods of financing investments, such as lease or buy; and
- Using benefits and costs to compare the relative merits of alternatives as an aid in:
 - Making trade-offs between alternatives;
 - Recommending the most cost-effective alternative; and
 - Establishing or changing priorities.

Program Evaluation is an analysis of on-going actions to determine how best to improve an approved program/project based on actual performance. Program evaluation studies entail a comparison of actual performance of the approved program/project.

Economic analysis and program evaluation studies are supposed to be initiated as early in the acquisition process as practical. Both should be updated as significant developments occur which could invalidate or significantly alter the cost-benefit relationships upon which previous decisions were made.⁸

Packard Memos

During the period 1969-1971, Deputy SECDEF Packard initiated changes to the acquisition process with three memoranda:

- The first memo established what we today call the DAB (it was then referred to as the DSARC or Defense Systems Acquisition Review Council). The DSARC's function was to review the progress of programs at three decision points over the life of a weapon system, not just at the go/no-go milestone.
- Memo #2 stressed the need to address the risks involved in program development. This was to be achieved by demonstrating performance before committing to production. The rationale was that spending relatively more money on development and prototypes (i.e., "fly before buy") would reap benefits by reducing subsequent, and more costly, production cycle changes.
- Packard's third memo addressed the need for giving Program Managers more authority and keeping them on the job long enough to establish accountability.⁹

Early 1980s--The Weinberger and Carlucci Initiatives

The new Reagan administration knew right off that "the way we build and buy new weapons takes too long, costs too much, and is not very efficient. . . ."

"... if Weinberger and I do nothing else in these next four years except to straighten out the weapons acquisition system, we will have had a successful tour." (Then Deputy SECDEF Frank Carlucci in early 1981.)

The new Reagan administration had chosen Carlucci and SECDEF Caspar Weinberger with the intent, among other things, of improving the problem-riddled DoD process whereby major systems are acquired. . . .¹⁰

Within three months after taking over the Defense Department, Secretary Weinberger had conducted a participative review of the acquisition process. In April 1981, he announced a charter of acquisition management principles and made decisions on 31 recommendations and issues. As summarized by one DoD official:

One major thrust of the recommendations was to stress long-range planning so that the Services, the Congress, and contractors can know as far in advance as possible the full scope of each program. Another was the placing of emphasis on delegating greater responsibility and accountability to program managers in an effort to reverse the tendency towards micro-management by central staffs. The recommendations also focused on the efforts required to achieve more program stability and economical production rates. A fourth theme was the need to make doing business with the Defense Department more predictable and attractive. (If we discourage innovative and efficient contractors from bidding for and participating in defense business, we will not restore a healthy, strong industrial base for military orders.) A fifth group of proposed actions encouraged the use of realistic cost, budget, and funding figures so that both we and the Congress understand early what the total cost of full programs will be.¹¹

The Packard Commission Report

The Presidential Blue Ribbon Panel completed an almost universally applauded report in early 1986. To summarize their conclusions:

All of our analysis leads us unequivocally to the conclusion that the defense acquisition system has basic problems that must be corrected. These problems are deeply entrenched and have developed over several decades from an increasingly bureaucratic and overregulated process. As a result, all too many of our weapon systems cost too much, take too long to develop, and by the time they are fielded, incorporate obsolete technology.¹²

The positive outcome of the commission's work was the statement that it is possible to make major improvements in defense acquisition by evaluating the model of the most successful industrial companies. In fact, the commission felt it possible to cut the 10-12 year acquisition cycle in half . . . but radical reform of the existing organization and procedures was required.

The "Formula for Action" proposed by the Packard Commission recommended seven general changes:

- Streamline acquisition organization and procedures
- Use technology to reduce cost
- Balance cost and performance
- Stabilize programs
- Expand the use of commercial products
- Increase the use of competition
- Enhance the quality of acquisition personnel¹³

Virtually all the specifically recommended actions that are controlled by the executive branch, have been implemented. These include:

- Create the new position of Under Secretary of Defense (Acquisition) [now called Under Secretary of Defense for Acquisition and Technology, or USD(A&T)]; designate this Under Secretary as the Defense Acquisition Executive (DAE); and invest him with full authority over all offices and agencies within the Office of the Secretary of Defense necessary for that purpose.
- Designate Service Acquisition Executives (now called Component Acquisition Executives) within each Military Department; and retain within the Services the traditional responsibility for managing acquisition programs.
- Assign to the Defense Advanced Research Projects Agency (DARPA, but now called ARPA) a specific mission in the conduct of prototype programs; and direct the Services to increase their emphasis on prototyping.
- Restructure the Joint Requirements and Management Board (JRMB -- now called the DAB or Defense Acquisition Board) by directing that it be co-chaired by the USD(A) [now A&T] and the Vice Chairman of the Joint Chiefs of Staff; delegate to this restructured JRMB the responsibility for authorizing full-scale development and high-rate production on all joint programs and major Service programs; and direct the JRMB to:
 1. require the testing of prototype systems and subsystems before the authorization of full-scale development;
 2. require the use of baselining on all new major programs;
 3. require operational test data be available before the authorization of full-rate production; and
 4. significantly increase the use of nondevelopmental items as an alternative to new development programs.
- Instruct the DAE to take steps necessary to amend the DoD Supplement to the Federal Acquisition regulation so as to:
 1. affect a major increase in the acquisition of available commercial components and systems by requiring program managers to obtain waivers for use of products made to military specifications when commercial alternatives are available; and

2. establish commercial-style competitive procurement practices to the full extent permitted by law.

On the other hand, the changes recommended by the commission, that require Congressional action, have not been enacted to date. They include:

- Recodify federal laws governing acquisition in a single, consistent, and greatly simplified procurement statute; remove those features of current law and regulation that are at variance with the expanded acquisition of commercial products; and the establishment of effective commercial-style procurement competition.
- Simplify and clarify financial disclosure reporting forms; amend tax laws to permit Presidential appointees to delay the impact of capital gains taxes they incur in divesting assets to comply with conflict of interest laws; and take other legislative actions necessary to implement fully the recommendations of the National Academy of Public Administration's Presidential Appointee Project.
- Amend civil service laws to permit flexible personnel management policies for acquisition professionals and to expand opportunities for the education and training of all acquisition personnel.
- Implement and expand milestone authorization, baselining and multi-year procurement. This recommendation was intended to complement the biennial budget that the commission so strongly recommended. In the words of the Commission:

Milestone authorization would allow the Armed Services Committees to focus their review of major acquisition programs on two key program milestones, the beginning of full-scale engineering development and the start of high-rate production. Programs advancing through these milestones in either the first or second year of a particular biennial authorization request would be identified to Congress by DoD. DoD would provide Congress a program baseline for each identified program. A program baseline would describe the cost, schedule, and operational performance of the systems to be acquired during the production lifetime of the program, would be certified at the highest level of responsible officials within DoD; and would establish a contract between the executive and legislative branches based on mutual expectations for the program.

If such a process were in place, the Armed Services Committees would not need to subject defense programs

performing well, relative to an approved baseline previously established at a key milestone, to the same level of scrutiny as programs arriving at key milestones. In fact, to the maximum possible extent, programs that proceed successfully through Congressional authorization at the high-rate production milestone should be executed through multi-year procurement. Once multi-year procurement is initiated, changes to a program baseline, either through DoD action or through later Congressional authorization and appropriation action, should be avoided because of the financial penalties involved. In the Commission's view, milestone authorization, baselining, and multi-year procurement would promote the kind of stability and proven cost savings in budgeting for national defense that are central objectives of our recommendations.¹⁴

Additional Innovations -- New Milestones

The 1987 DoD directives on acquisition not only fully implemented the Packard Commission Formula, they reflected an additional initiative. The changes to the DoD acquisition directives added two more decision points to the acquisition process. The impact was that program decisions would be made by the DAB not only at:

- Program Initiation
- Demonstration and Validation
- Full scale engineering development
- Production and deployment

but also after:

- Two years of system deployment to check "logistics readiness and support."
- Five to ten years of service to identify needs for upgrade, replacement, or scrapping.¹⁵

These additions to the acquisition procedure were in line with the good management theory concept of verification, i.e., let's not field'em and forget'em.

In 1989, Secretary of Defense Cheney eliminated the logistics readiness and support milestone, thus reducing the number of milestone decision points from six to five.

National Performance Review

In 1993 Vice President Gore headed a review of many government programs/processes, looking for efficiencies and cost savings. As with most prior reviews, many debate the specific

numbers, question political will to change, and point out that most of this has been proposed before with little action taken. Increased efficiency, of course, must be evaluated in the context of other fundamental objectives of military effectiveness, and equity. Among many other issues that come in play are congressional oversight, congressional district contract distribution (which is often initiated as subcontracts by large contractors and DoD, as well as Congress itself) minority set asides, etc., and lobbyists for all the above. While many 'purists' argue against such issues being included, the reality is that they are part of our governmental system, adding inefficiencies to the acquisition process, slowing it down, adding cost and ultimately impacting military effectiveness itself. The post cold war environment finds pure military effectiveness against a single large threat deemphasized, while cost-effectiveness gains greater emphasis. OSD continues to work on acquisition process improvement as Congress reopens debate with various legislative proposals.

DoD 5000 Series Update (1996)

Reform of the acquisition process continued to be a driving force in DoD while Dr. Perry served as SECDEF. For nearly 25 years, DoD Directive 5000.1 and Instruction 5000.2 have been the centerpieces for defense acquisition policies and procedures. Under the aggressive direction of Under SECDEF (Acquisition and Technology) Paul Kaminski, DoD completed an integrated revision of the DoD 5000 series in Mar 96. According to Kaminski, "the intent of the revision is to define an acquisition environment that make DoD the smartest, most responsive buyer of the best goods and services, that meet our warfighters' needs, at the best dollar value over the life of the product." The following information is taken from Kasminski's Memorandum to the Defense Acquisition Community, "Update of the DoD Documents," 15 Mar 96.

Major Objectives

1. Incorporates new laws and policies including the Federal Acquisition Streamlining Act (FASA of 1994, and institutionalization of Integrated Process Teams (IPTs).
2. Separates mandatory policies from discretionary practices. DoD Directive 5000.1 establishes guiding principles for all defense acquisition, from advanced fighter aircraft to the simplest combat helmet. DoD Regulation 5000.2-R specifies mandatory policies and procedures for Major Defense Acquisition Programs (MDAPs) and Major Automated Information System (MAIS) acquisition programs. The new Defense Acquisition Deskbook describes the discretionary information to which Program Managers (PMs) and other participants in the defense acquisition process can turn for assistance in implementing guiding principles and mandatory procedures. The goal is to minimize the volume of

mandatory guidance and thereby free managers to exercise sound judgement when structuring and executing defense acquisition programs.

3. Responds to the criticism that the acquisition policy document have grown unwieldy and too complex. The change provides much more flexibility with regard to the document structure and enhances compatibility with electronic media.

4. Integrates, for the first time, acquisition policies and procedures for the both weapon systems and automated information systems.

KEY DEFINITIONS, OFFICIALS, FORUMS AND CONCEPTS¹⁶

In order to understand the process of weapon system acquisition, general knowledge of key definitions, officials, and forums is important. You should have at least a working knowledge of the following terms before continuing into the chapter. Don't get bogged down in the detail; just read through them and refer to them as necessary.

Definitions

1. Acquisition Executive. The individual within the Department and Components, charged with overall acquisition management responsibilities within his or her respective organization. The Under Secretary of Defense (Acquisition and Technology (A&T)) is the Defense Acquisition Executive (DAE) responsible for all acquisition matters within DoD. The Component Acquisition Executives (CAEs) for each of the Components are Secretaries of the Military Departments or Heads of Agencies with power of redelegation. The CAEs, or designee, are responsible for all acquisition matters within their respective Components.

2. Acquisition Phase. All the tasks and activities needed to bring a program to the next major milestone occur during an acquisition phase. Phases provide a logical means of progressively translating broadly stated mission needs into well-defined system-specific requirements and ultimately into operationally effective, suitable, and survivable systems. An example of an acquisition phase is Program Definition and Risk Reduction.

3. Acquisition Program. A directed, funded effort that is designed to provide a new, improved, or continuing weapons system or automated information system (AIS) capability in response to a validated operational need. Acquisition programs are divided into categories, which are established to facilitate decentralized decision-making and execution and compliance with statutory requirements.

4. Automated Information System (AIS). A combination of computer hardware and software, data, or telecommunications, that performs functions such as collecting, processing, transmitting, and displaying information. Excluded are computer resources, both hardware and software, that are: physically part of, dedicated to, or essential in real time to the mission performance of weapons systems.

5. Major Automated Information System (MAIS) Acquisition Program. An AIS acquisition program that is (1) designated by ASD (C3I) as MAIS, or (2) estimated to require program costs in any single year in excess of \$30 million in FY96 constant dollars, or total life-cycle costs in excess of \$360 million in FY96 constant dollars. MAIS Acquisition Programs do not include highly sensitive classified programs as determined by the SECDEF.

6. Major Defense Acquisition Program. An acquisition program that is not a highly sensitive classified program (as determined by the SECDEF) and that is: (1) designated by the USD (A&T) as an MDAP, or (2) estimated by the USD (A&T) to require an eventual total expenditure for research, development, test and evaluation of more the \$355 million in FY96 constant dollars or, for procurement, of more than \$2.135 billion in FY96 constant dollars.

7. Major Milestones. A major milestone is the decision point that separates the phases of an acquisition program. MDAP milestones include, for example, the decisions to authorize entry into the Engineering and Manufacturing Development Phase, or to begin full-rate production.

8. Program Objectives and Thresholds. Beginning at the inception of a new acquisition program, the Program Manager (PM), together with the user, shall propose for Milestone Decision Authority approval objectives and thresholds for cost, schedule, and performance, that will result in systems that are affordable, timely, operationally effective, operationally suitable, and survivable. The PM shall refine these objectives and thresholds as the program matures, consistent with operational requirements.

Officials

1. The Deputy Secretary of Defense approves funding for new acquisition programs and provides general affordability planning guidance for use in structuring these programs, and leads the Defense Resources Board (DRB).

2. The Under Secretary of Defense for Acquisition and Technology USD (A&T) is the Department Acquisition Executive (DAE) for MDAPs. As such, the USD (A&T) establishes acquisition policies and procedures, and chairs the Defense Acquisition Board (DAB).

3. The Under Secretary of Defense (Policy) (USD(P)) leads the Department's planning effort.

4. The Under Secretary of Defense (Comptroller) (USD(C)) leads the Department's budgeting effort.

5. The Secretary of each Military Department, and the Heads of other DoD Components having acquisition management responsibilities, ensure that policies and procedures governing the operation of the Department's acquisition, requirements, and budgeting systems are effectively implemented. Each Secretary and Component Head also designates a single, full-time Acquisition Executive at the Assistant Secretary (or equivalent) level known as the Component Acquisition Executive (CAE), selects Programs Executive Officers, establishes a centralized system for selecting PMs, and charters a Component-level system of acquisition oversight and review.

6. The Vice Chairman of the Joint Chiefs of Staff (VCJCS) chairs the Joint Requirements Oversight Council (JROC), vice-chairs the DAB, and represents the CINCs on acquisition and requirements

7. The Director, Program Analysis and Evaluation (DPA&E) leads the Department's programming effort, provides guidance for and reviews the results of analysis of alternatives studies prepared for acquisition programs, and for AIS systems determines that the cost and benefit analyses are accurate and complete.

8. The Component Acquisition Executives (CAEs) supervise the operation of the acquisition system within their respective Component and are responsible for enforcing policies established by USD(A&T). CAEs also serve a decision authority for assigned programs. In the Department of the Navy, the Assistant Secretary of the Navy, Research, Development, and Acquisition (ASECNAV, RD&A) in the CAE.

9. Program Executive Officers (PEOs) review and assess changes reported in assigned programs, the significance of the problems reported by the Program Manager (PM), the PM's proposed action plans, and the level of risk associated with such plans. PEOs also serve as decision authority for assigned programs.

10. Program Managers (PMs) manage assigned programs in a manner consistent with the policies and principles articulated in DoDD 5000.1. In addition, PMs provide assessments of program status and risk to higher authorities and to the user or user's representative; actively manage, to the best of their abilities within approved resources, program cost, performance, and schedule; and provide assessments of contractor performance.

Forums

1. The Defense Resources Board (DRB) is the senior DoD resource allocation board chaired by the Deputy Secretary of Defense. The DRB advises the Deputy Secretary on major resource allocation decisions.

2. The Defense Acquisition Board (DAB) is the senior DoD acquisition review board chaired by the USD(A&T). The DAB advises the USD(A&T) on major decisions on individual acquisition programs, specifically, and acquisition policies and procedures, generally.

3. The Major Automated Information System Review Council (MAISRC) is the senior DoD automated information systems acquisition review board chaired by the ASD(C3I). The MAISRC advises the ASD(C3I) on major decisions on individual major automated information system acquisition programs, specifically, and AIS acquisition policies and procedures, generally.

4. The Joint Requirements Oversight Council (JROC), chaired by the VCJCS, conducts requirements analysis, validates mission needs and key performance parameters, and develops recommended joint priorities for those needs. The JROC validates the C4I certification of mission needs and operational requirements documents for conformance with joint C4I policy and doctrine, architectural integrity, and interoperability standards. The JROC advises the CJCS on requirements.

5. The Cost Analysis Improvement Group (CAIG), chaired by the Deputy Director, Resource Analysis, PA&E, conducts reviews of DoD Component cost estimates and prepares the independent cost estimate.

6. The Integrated Product Team (IPT) is composed of representatives from all appropriate functional disciplines working together with a Team Leader to build successful and balanced programs, identify and resolve issues, and make sound and timely recommendations to facilitate decision making. There are three types of IPTs: Overarching IPTs focus on strategic guidance, program assessment, and issue resolution. Working Level IPTs identify and resolve program issues, determine program status, and seek opportunities for acquisition reform. Program IPTs focus on program execution, and may include representative from both government, and, after contract award, industry.

Figure V-1

ACQUISITION ORGANIZATION

SECDEF

JROC	DAB
VCJCS (Chair)	DAE * (CHAIR)
Vice CNO	VCJCS (Vice Chair)
Asst Commandant Marine Corps	DoD Comptroller
Asst Chief of Staff of Army	CAEs
Asst Chief of Staff of Air Force	DR&E **
	DOT&E **
	DPA&E **
*DAE is Under SECDEF for Acquisition and Technology.	
**Directors: Research and Engineering, Program Analysis and Evaluation, Operational Test and Evaluation.	

Note: Others may participate at the request of the Chairman.

Concepts

1. Major Defense Acquisition Program Milestone Decision Categories. A major defense acquisition program will be designated as either a Defense Acquisition Board (DAB) or Component program. Designations will be recommended by the DAE and approved by SECDEF. (See Figure V-2)

- A DAB program (ACAT 1D) requires a SECDEF decision at each milestone review point, unless delegated to the cognizant DoD Component Head by SECDEF.
- A component program (ACAT 1C) designation means that the authority to make milestone decisions has been delegated to the cognizant DoD Component Head.

2. Acquisition Decision Memorandum. An "ADM" is a memorandum to a Component Head signed by the DAE that documents the decisions of the SECDEF regarding a DAB program.

ACQUISITION CATEGORIES (ACATs)

	SELECTION CRITERIA	DESIGNATION AUTHORITY	MILESTONE DECISION AUTHORITY
ACAT I	NOT CLASSIFIED AS HIGHLY SENSITIVE BY SECDEF THAT ARE: DESIGNATED ACAT I BY DAE, OR ESTIMATED BY DAE TO REQUIRE: > \$355M RDT&E (FY96 \$s); OR > \$2.135B PROC (FY86 \$s)	DAE	ACAT ID (DEPARTMENT): DAE ACAT IC (COMPONENT): HoC OR, SERVICE SECRETARY OR, (IF DELEGATED) CAE
ACAT IA	A MAIS DESIGNATED BY ASD(C3I) AS ACAT1A, OR ESTIMATED TO REQUIRE: > \$30M (1 YR PROG COSTS)(FY96 \$ s) > \$120M (TOTAL PROG COSTS)(FY96 \$ s); OR > \$360M (TOTAL LIFE CYCLE COSTS) (FY96 \$ s)	ASD(C3I)	OSD OR COMPONENT CHIEF INFORMATION OFFICER
ACAT II	DO NOT MEET ACAT I CRITERIA AND ARE: DESIGNATED ACAT II BY HoC, OR ESTIMATED BY HoC TO REQUIRE: > \$75M RDT&E (FY80 \$s); OR > \$300M PROC (FY80 \$s)	SERVICE SECRETARY OR CAE	SERVICE SECRETARY OR CAE
ACAT III	DO NOT MEET ACAT I AND II CRITERIA AND ARE DESIGNATED ACAT III BY AE	CAE	LOWEST LEVEL DEEMED APPROPRIATE BY CAE

FIGURE V-2. ACQUISITION CATEGORIES

3. Acquisition Strategy Elements. Certain factors are to be considered repeatedly for every program in the acquisition process. These elements, which have become some of the key buzz words in developing an "acquisition strategy," are listed below:

- Trade-offs between cost and performance
- Technology risk
- Reliability
- Competition
- Logistical support requisitions
- Use of commercial "off the shelf" procedures, hardware, and software
- Contract type
- Industrial base consolidation and government industry relationships
- Standardization and inter-operability

These factors are universal, and apply to almost all programs in the acquisition decision process.

REQUIREMENTS GENERATION SYSTEM (RGS) AND THE JOINT REQUIREMENTS OVERSIGHT COUNCIL¹⁷

The RGS is the process the military uses to identify current and future mission needs to fill a capability deficiency or exploit a technological opportunity. Those identified needs can be met by either material or non-material means.

The Vice Chairman of the Joint Chiefs of Staff (VCJCS) has oversight responsibility for RGS. He is assisted by the Joint Requirements Oversight Council (JROC) and members of the Joint Staff. He also chairs the JROC, whose other members are each Service's Vice Chief and the Assistant Commandant of the Marine Corps. (See figure V-1).

Mission needs can be identified from many sources, but most commonly come from CINCs, the Services, CJCS, the JROC itself or SECDEF. Mission needs are initially expressed in broad, relatively unconstrained operational terms that are distilled through four distinct phases: definition, documentation, validation and approval.

In the definition phase, continuing mission area analysis by DoD components examines current and projected capabilities in the context of changing policy, threats, strategy and missions. Mission capability deficiencies are defined as either materiel or non-materiel. The non-materiel needs are given to the user for resolution, and are generally met with changes in doctrine, tactics, training, organization, etc. Materiel needs can ultimately be met by modifying existing equipment or through buying a new system. In either case, material needs are defined in a draft Mission Need Statement (MNS) and continue to the next phase of the RGS.

In the documentation phase, the draft MNS is coordinated with the CINCs, Services, and Agencies affected. The coordinated draft MNS then enters a formal validation phase by an operational authority other than the proposed user. At the very least, this process confirms that there is no known non-materiel solution and assesses joint use potential. Validation for potential major acquisitions (ACAT I) is conducted by the JROC. ACAT II and III MNSs are validated by the service secretary or the delegated acquisition executive, as shown in Figure V-3. (However, more and more of these "smaller" programs are being reviewed by the JROC.) Whichever validation path is used, the Defense Intelligence Agency (DIA) validates the projected threat, and J-6 certifies conformance to joint interoperability and C4 doctrine.

[illegible]

Requirements Generation System Process Flow

Figure V-3

V-18

Approval marks formal sanction of the MNS. The DAB/ component decision (at milestone zero) marks the first formal interface between RGS and the traditional acquisition system.

Figure V-3, which is adapted from CJCS MOP 77, depicts the flow of the complete requirements generation system process.

THE ACQUISITION PROCESS-AS DESIGNED

The basic acquisition process is simple. The need for weapon systems emerges from the requirements generation system and then a series of decisions are made. The kinds of questions this decision process asks are: "Do we really need, and can we afford, this new capability? What kind of gizmo should we invent to get the job done? Is the gizmo we've developed good enough and cheap enough to produce? Etc." These kinds of questions are asked until the decision is made to scrap (rather than upgrade, replace or change employment of) a system. The buzz word used for the decisions is "milestones." The activity between milestones is called a "phase."

The Basic Acquisition Cycle

Figure V-4 depicts the basic acquisition process for major programs. Normally, there are four phases in the process:¹⁸

- Phase 0: Concept Exploration
- Phase I: Program Definition & Risk Reduction
- Phase II: Engineering & Manufacturing Development;
- Phase III: Production, Fielding/Deployment, and Operational Support

Milestones and Phases

The milestones that precede each of these phases are discussed below. As previously discussed, who makes the decision at each milestone is a function of the type of program. All acquisition programs, excluding highly sensitive classified programs, are placed into one of three categories. The category in turn determines the level of milestone decision authority. Those categories (ACATs) and the corresponding decision authorities were shown in Figure V-2.

Of particular interest are the decision criteria and major considerations that are deliberated at every milestone: threat projections, life cycle costs, cost-performance-schedule trade-offs, affordability constraints and risk management. The JROC is becoming more and more involved in each milestone of this process. Each milestone on major programs, requires JROC

evaluation using the JWCA process before it can be referred to the DAB.

Figure V-4

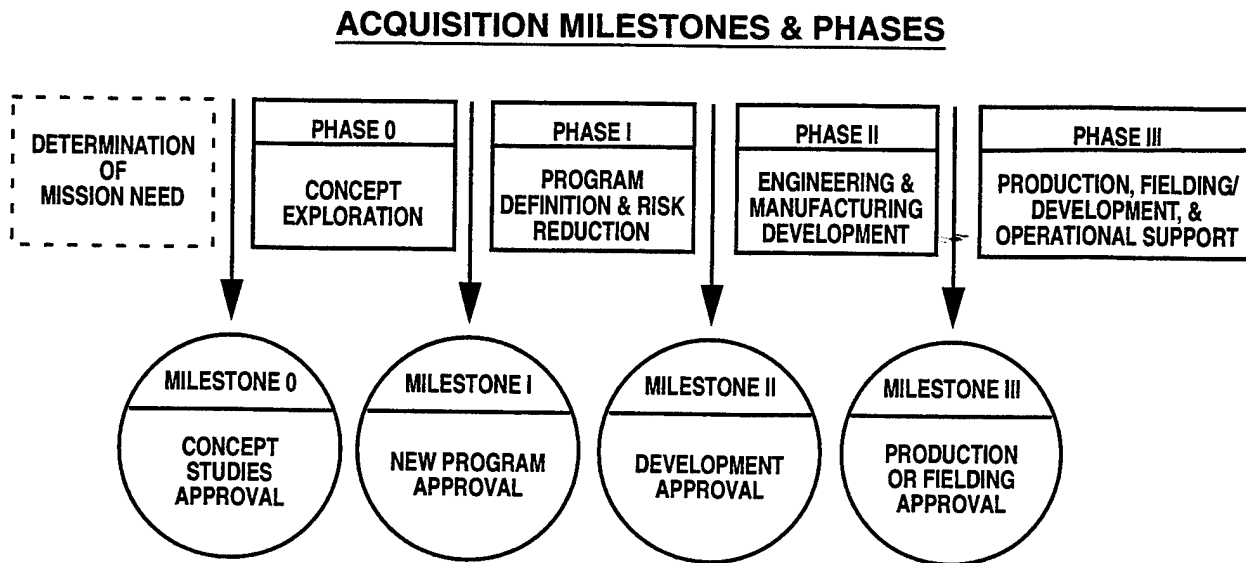


FIGURE V-4. THE ACQUISITION MILESTONES AND PHASES

(The following text is from DoDR 5000.2R, 15 March 1996)

All programs, including highly sensitive classified, cryptologic, and intelligence programs, shall accomplish certain core activities. How these activities are conducted shall be tailored to minimize the time it takes to satisfy an identified need consistent with common sense and sound business practice. Some activities apply to ACAT I programs only, not to ACAT IA programs. Important key activities for each phase are described in the remainder of this Chapter and are applied on a program by program basis through the Integrated Product Team process.

Tailoring gives full consideration to applicable statutes. The number of phases and decisions points are tailored to meet the specific needs of individual PMs, based on objective assessments of a program's category status, risks, the adequacy of proposed risk management plans, and the urgency of the user's need. Tailored acquisition strategies may vary the way in which core activities are to be conducted, the formality of reviews and

documentation, and the need for other supporting activities. ACAT II and III program managers shall work with their decision authorities to tailor any documentation and decision points to the needs of the individual program. The Milestone Decision Authority (MDA) shall establish tailored decision points for each acquisition program as early as possible in the program life cycle.

Milestone 0: Approval to Conduct Concept Studies

After the JROC validates the mission need for an ACAT I program, the USD(A&T) convenes a Milestone 0 DAB to review the mission needs statement (MNS), identify possible materiel alternatives, and authorize concept studies, if they are deemed necessary. For ACAT IA programs, the JROC, or the cognizant OSD PSA, validates the mission need and process integrity in compliance with DoDD 8000.1, and the ASD(C3I) convenes a Milestone 0 MAISRC. A favorable Milestone 0 decision does not yet mean that a new acquisition program has been initiated.

Phase 0: Concept Exploration

Phase 0 typically consists of competitive, parallel short-term concept studies. The focus of these efforts is to define and evaluate the feasibility of alternative concepts and to provide a basis for assessing the relative merits (i.e. advantages and disadvantages, degree of risk) of these concepts at the next milestone decision point. Analysis of alternatives shall be used as appropriate to facilitate comparisons of alternative concepts. The most promising system concepts shall be defined in terms of initial, broad objectives for cost, schedule, performance, software requirements, opportunities for tradeoffs, overall acquisition strategy, and test and evaluation strategy.

Milestone I: Approval to Begin a New Acquisition Program

The purpose of the Milestone I decision point is to determine if the results of Phase 0 warrant establishing a new acquisition program and to approve entry into Phase I, Program Definition and Risk Reduction.

At Milestone I, the MDA reviews and approves the following:

1. Acquisition strategy;
2. Cost as an Independent Variable (CAIV) objectives;
3. Acquisition Program Baseline (APB) and,
4. Phase I exit criteria.

The DOT&E and DTSE&E approves the Test and Evaluation Master Plan (TEMP) for all OSD test evaluation oversight programs.

Phase I: Program Definition and Risk Reduction

During this phase, the program becomes defined as one or more concepts, design approaches, and/or parallel technologies are pursued as warranted. Assessments of the advantages and disadvantages of alternative concepts are refined. Prototyping, demonstrations, and early operational assessments are considered and included as necessary to reduce risk so that technology, manufacturing, and support risks are well in hand before the next decision point. Cost drivers, life-cycle cost estimates, cost-performance trades, interoperability, and acquisition strategy alternatives are considered to include evolutionary and incremental software development.

Milestone II: Approval to Enter Engineering and Manufacturing Development

The purpose of the Milestone II decision point is to determine if the results of Phase I warrant continuation of the program and to approve entry into Engineering and Manufacturing Development (or software engineering and development for a software intensive system). The Low Rate Initial Production (LRIP) strategy and decision authority shall be considered at this milestone.

At this milestone, the MDA reviews and approves the following:

1. Acquisition strategy;
2. CAIV objectives;
3. Acquisition Program Baseline;
4. Phase II exit criteria; and
5. LRIP quantities.*

* Not applicable to ACAT IA programs.

The DOT&E and DTSE&E shall approve the TEMP for all OSD test and evaluation oversight programs. A favorable LRIP decision authorizes the PM to commence LRIP only. The PM is authorized to commence full-rate production with further approval of the MDA. Normally, no more than one decision (i.e., either low-rate or full-rate) is made at the DAB level.

Phase II: Engineering and Manufacturing Development

The primary objectives of this phase are to: translate the most promising design approach into a stable, interoperable, producible, supportable, and cost-effective design; validate the manufacturing or production process; and, demonstrate system capabilities through testing. Low Rate Initial Production (LRIP) occurs while the Engineering and Manufacturing Development phase is still continuing as test results and design fixes or upgrades are incorporated.

The objective of LRIP is to produce the minimum quantity necessary to: provide production configured or representative articles for operational tests; establish an initial production base for the system; and permit an orderly increase in the production rate for the system, sufficient to lead to full-rate production upon successful completion of operational testing. The MDA determines the LRIP quantity for all ACAT I and II programs as part of the Engineering and Manufacturing Development (EMD) approval. LRIP is not applicable to ACAT IA programs; however, a limited deployment phase may be.

Note: DOT&E is the decision authority for the number of LRIP articles required for Initial Operational Test and Evaluation (IOT&E) and for Live Fire Test and Evaluation (LFT&E).

Milestone III: Production or Fielding/Deployment Approval

The purpose of the Milestone III decision point is to authorize entrance into production for an ACAT I or into deployment for an ACAT IA program.

At this milestone, the MDA shall approve the following:

1. Acquisition strategy,
2. APB, and
3. Phase III exit criteria, if appropriate.

Note: The decision to proceed beyond LRIP cannot be finalized until the DOT&E forwards the appropriate reports to the Congressional Defense Committees (Not applicable to ACAT IA programs).

Phase III: Production, Fielding/Deployment, and Operational Support

The objectives of this phase are to achieve an operational capability that satisfies mission needs. Deficiencies encountered in Developmental Test and Evaluation (DT&E) and Initial Operational Test and Evaluation (IOT&E) shall be resolved and fixes verified. The production requirement of this phase does not apply to ACAT IA acquisition programs or software-intensive systems with no developmental hardware components. During fielding/deployment and throughout operational support, the potential for modifications to the fielded/deployed system continues.

The objectives of Operational Support are the execution of a support program that meets the threshold values of all support performance requirements and sustainment of them in the most life-cycle cost-effective manner. A follow-on operational testing program that assesses performance and quality, compatibility, and interoperability and identifies deficiencies

is conducted, as appropriate. This activity also includes the execution of operational support plans, to include the transition from contractor to organic support, if appropriate.

Any modification that is of sufficient cost and complexity that it could itself qualify as an ACAT I or ACAT IA program is considered for management purposes as a separate acquisition effort. Modifications that do not cross the ACAT I or IA threshold are considered part of the program being modified. Modifications may cause a program baseline deviation. Deviations shall be reported using the procedures in DoDR 5000.2R.

At the end of its useful life, a system must be demilitarized and disposed. During demilitarization and disposal, the PM shall ensure materiel determined to require demilitarization is controlled and shall ensure disposal is carried out in a way that minimizes DoD's liability due to environmental, safety, security, and health issues.

Integrated Product Teams

The Secretary of Defense has directed that the Department perform as many acquisition functions as possible, including oversight and review, using IPTs. These IPTs function in a spirit of teamwork with participants empowered and authorized, to the maximum extent possible, to make commitments for the organization or the functional area they represent. IPTs are composed of representatives from all appropriate functional disciplines working together to build successful programs and enabling decision-makers to make the right decision at the right time. IPTs operate under the following broad principles:

1. Open discussions with no secrets
2. Qualified, empowered team members
3. Consistent, success-oriented, proactive participation
4. Continuous, "up-the-line" communications
5. Reasoned disagreement
6. Issues raised and resolved early

When IPTs include representatives from organizations other than the federal government, PMs shall comply with the Federal Advisory Committee Act (FACA). In addition, PMs shall also remember that the participation of a contractor or a prospective contractor on a IPT should be in accordance with other statutory requirements, such as procurement integrity rules. Prospective contractor involvement on IPTs shall be reviewed by the Component's legal advisor.

Acquisition Program Baseline (APB)

The PM, in coordination with the user, will prepare a APB for every program to document cost, schedule, and performance

objectives and thresholds beginning at program initiation. Performance will include supportability and, as applicable, environmental requirements. The APB will contain only the cost, schedule, and performance parameters that if the thresholds are not met would require the MDA reevaluation of alternative concepts or design approaches.

Performance. The specificity and number of performance parameters evolve as the program is better defined. At Milestone I, performance parameters are defined in broad terms. Measures of effectiveness or measures of performance are used to describe needed capabilities early in a program. More specific program parameters are added as necessary as the program requirements become better defined. The total number of performance parameters is held to the minimum required to characterize the major drivers of operational effectiveness and suitability, schedule, technical progress, and cost.

Schedule. The schedule parameters include program initiation, major milestone decision points, initial operating capability, and any other critical system events. The specific other critical events are proposed by the PM and approved by the MDA for each program.

Cost. The cost parameters are limited to RDT&E costs; procurement costs; military construction costs; the costs of acquisition items procured with operation and maintenance funds; total quantity cost; average unit procurement cost (defined as the total procurement costs divided by total procurement quantity); program acquisition cost (defined as the total of all acquisition related appropriations divided by the total quantity of full configured end items); and any other cost objectives designated by the MDA; all in base year dollars.

Exit Criteria

At each milestone review, the MDA will approve exit criteria for ACAT I and ACAT IA program. Exit criteria will normally track progress important technical schedule, or management risk areas. Exit criteria are some level of demonstrated performance (e.g., a level of engine thrust), the accomplishment of some process at some level of efficiency (e.g., manufacturing yield), successful accomplishment of some event (e.g., first flight), or some other criterion (e.g., establishment of a training program or the inclusion of a particular clause in the follow-on contract).

Milestone Review Documentation

Milestone reviews require rigorous assessments of the program's status and plans for the future. The information needs of the milestone decision authority and supporting staffs at each

level must be satisfied by the Program Manager. Documentation requirements, shown in Figure V-5, consist of stand-alone supporting documentation and standardized information displays: The Integrated Program Summary (IPS) and the Integrated Program Assessment (IPA).

Figure V-5
Milestone Documentation Concept

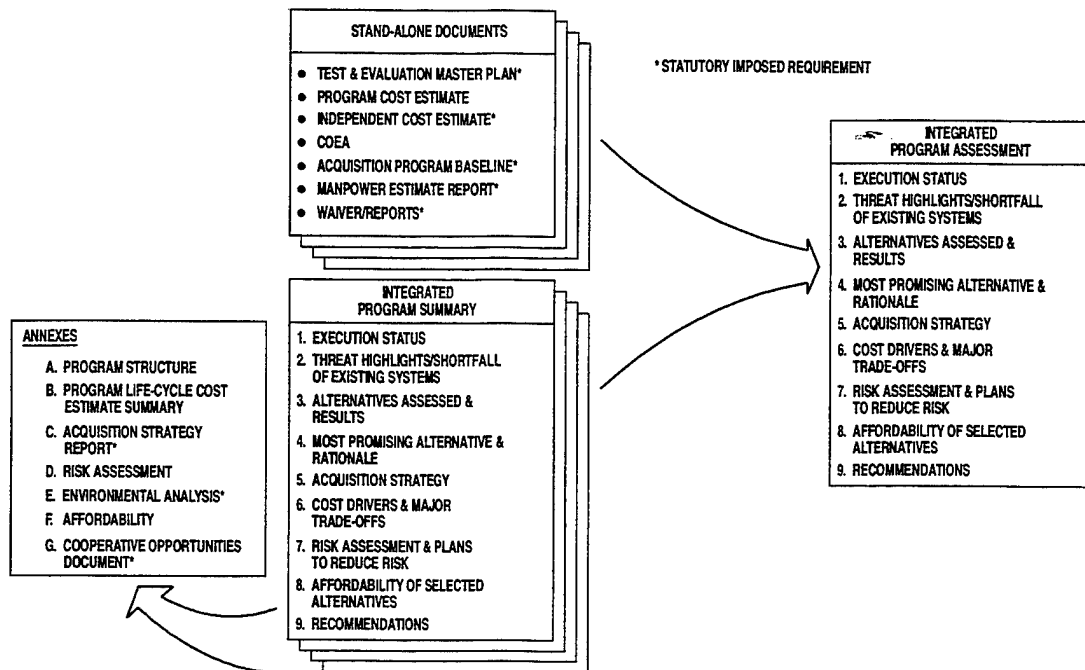


FIGURE V-5. DOCUMENTATION REQUIREMENTS

The stand-alone supporting documents meet the statutory data requirements such as the Test and Evaluation Master Plan, Independent Cost Estimate, and Manpower Estimate Report, to name a few. The Integrated Program Summary (IPS) and the Integrated Program Assessment (IPA) are both critical documents in the Milestone decision process. Both have the same format and cover the same issues; the difference is in who prepares the document. The IPS is prepared by the service (usually the PM) and gives a summary of the program attributes shown in the figure. The IPA does the same thing, but is prepared by the appropriate DAB committee staff as an independent appraisal of the program. DAB deliberations include both reports.

Repetitive Activity

The acquisition process has been described as a sequential cycle. Nevertheless, there are several activities in the process that are intended to be repetitive or continuous:

- Continuing analyses of mission areas needs

The Services, CINCs, etc., conduct continuing analyses of their assigned areas of responsibility to identify deficiencies and to determine more effective means of performing assigned tasks. These analyses may result in recommendations to initiate new acquisition programs, to reduce or eliminate operational deficiencies, or to establish new capabilities in response to a technological opportunity, to reduce the DoD cost of ownership significantly, or to respond to a change in national defense policy.¹⁹

- Program evaluation

Just as systematic analysis is in order for new requirements, economic analysis of ongoing programs is conducted to determine how best to improve existing programs or projects based on actual performance.²⁰

- Breaches of baseline thresholds

The program baseline is a formal agreement between the DAE, CAE, PEO and PM that briefly summarizes the program's functional specifications, cost, schedule, operational effectiveness and suitability requirements. If any of the established thresholds is exceeded, the PM is to blow the whistle (file a "deviation report") which could trigger an unscheduled DAB review.

Process Summary

The acquisition process parallels the life cycle of the weapon systems it creates and supports. Decisions are made -- based on deliberations of the DAB or the Services -- before each phase as the systems mature. Decisions, if favorable, continue the life of the systems into the next phase. Throughout the process, evaluations are conducted to investigate alternative (cheaper and/or more timely) means, check to see that the mission needs still exist, and that the systems are achieving the desired objectives for the expected cost. Given that mission needs continue to exist, and no other alternative proves to be better, cost, schedule and performance are the three factors that receive continuous scrutiny.

PROBLEMS AND GAMES

Reality

What really happens in the acquisition process is not so neat, tidy and rational as one might expect from the foregoing description. The following extract from the 1986 Packard Commission Report illustrates some of the hard spots experienced by many, if not most, defense programs:

Problems with the present defense acquisition system begin with the establishment of approved "military requirements" for a new weapon, a step that occurs before development starts. Two common methods exist for establishing the need for a new system -- "user pull" and "technology push." Both methods are unsatisfactory.

User pull defines the institutional process by which users (notably the services) assess the adequacy of existing weapons to meet military needs, and state the characteristics of the next generation of equipment desired to overcome identified inadequacies. In general, this process does not adequately involve participants with a sophisticated knowledge of the cost and schedule implications of technical improvements required to satisfy these characteristics. Consequently, user pull often leads to gold-plating -- that is, the inclusion of features that are desirable but whose cost far exceeds their real value. If users understood the likely impact of their requirements on the schedule, quantity, and maintainability of the weapons they eventually received, they would have strong motivation for compromise. Generally, however, that compromise -- a conscious trade-off between performance and cost -- does not take place to an adequate degree. Implicitly, it is assumed that military requirements should be "pure" and that any necessary trade-offs will take place later in the process.

Alternatively, requirements often are established by technology push. A government or industry team conceives of a new or advanced technology. It then tries to persuade users to state requirements that will exploit the new technology. Most of the really significant improvements in military technology -- radar, jet engines, and the atomic bomb, for example -- have occurred by technology push rather than by an abstract statement of requirements. Because participants in this process tend to push technology for its own sake, however, this method is no less prone to result in gold-plating than user pull.

Once military requirements are defined, the next step is to assemble a small team whose job is to define a weapon system to meet these requirements, and "market" the system within the government, in order to get funding authorized for its development. Such marketing takes place in a highly competitive environment, which is desirable because we want only the best ideas to survive and be funded. It is quite clear, however, that this competitive environment for program approval does not encourage realistic estimates of cost and schedule. So, all too often, when a program finally receives budget

approval, it embodies not only overstated requirements but also understated costs.

Funding having been approved, the DoD program team is then enlarged and given the task of preparing detailed specifications. Weapon system specifications for a major program typically run to thousands of pages, not counting generic military specifications included by reference. System specifications effectively become a surrogate for overstated military requirements, which tend to fade from view.

DoD then invites industry to bid on the program. The overly detailed system specifications serve as a basis for defense contractors to prepare competitive proposals describing how they would meet the specifications, and at what cost to them and price to the government. The preparation of competitive proposals may very well expose technical problems with the specifications, or reveal modifications that would be cost effective. The environment in which program competition typically takes place, however, encourages improvements within specifications, but discourages modifications that deviate from specifications. This effectively forecloses one principal factor -- trade-offs between performance and cost -- on which the competition should be based. The resulting competition, based instead principally on cost, all too often goes to the contractor whose bid is the most optimistic.

In underbidding, contractors assume there will be an opportunity later in a program to negotiate performance trade-offs that make a low bid achievable, or to recover understated costs through engineering change orders. Today, however, most production and many development contracts are negotiated on a firm, fixed-priced basis. For the government, the advantages of a fixed-price arrangement, particularly the incentives it creates for realistic bidding, are nevertheless of real concern. Fixed-price contracts effectively can enshrine overstated requirements and understated costs in a legal arrangement that allows little or no flexibility for needed trade-offs between cost and performance. The contractual arrangement, intended to protect the government, may cause both sides to lose.

In the face of these daunting problems, DoD selects a successful bidder and launches the program. The DoD program manager sets out to accomplish the improbable task of managing his over-specified and under-funded program to a successful conclusion.

But what was merely improbable soon becomes impossible. The program manager finds that, far from being the manager of the program, he is merely one of the participants who can influence it. An army of advocates for special interests descends on the program to ensure that it complies with various standards for military specifications, reliability, maintainability, operability, small and minority business utilization, and competition, to name a few. Each of these advocates can demand that the program manager take or refrain from taking some action, but none of them has any responsibility for the ultimate cost, schedule, or performance of the program.

None of the purposes they advocate is undesirable in itself. In the aggregate, however, they leave the program manager no room to balance their many demands, some of which are in conflict with each other, and most of which are in conflict with the programs' cost and schedule objectives. Even more importantly, they produce a diffusion of management responsibility, in which everyone is responsible, and no one is responsible.

Meanwhile, throughout this process, various committees of Congress are involved. During the marketing phase, it is not enough for the program manager to sell the program to his service leaders and the various staffs in the Office of the Secretary of Defense. He also must sell the program to at least four committees and to numerous subcommittees of Congress, and then resell it for each fiscal year it is considered. In so doing, the program manager is either assisted or opposed by a variety of contractors, each advocating its own views of the program on Capitol Hill. While Congressmen have an abstract interest in greater program effectiveness, they also have an intense pragmatic interest in their own constituencies. These two interests are frequently in conflict, as they exert pressure on specific programs through legislative oversight.

All of these pressures, both internal and external to DoD, cause the program manager to spend most of his time briefing his program. In effect, he is reduced to being a supplicant for, rather than a manager of, his program. The resulting huckster psychology does not condition the program manager to search for possible inconsistencies between performance and schedule, on the one hand, and authorized funding, on the other. Predictably, there is a high incidence of cost overruns on major weapons systems programs.

But a much more serious result of this management environment is an unreasonably long acquisition cycle -- ten

to fifteen years for our major weapon systems. This is a central problem from which most other acquisition problems stem:

- It leads to unnecessarily high costs of development. Time is money, and experience argues that a ten-year acquisition cycle is clearly more expensive than a five-year cycle.
- It leads to obsolete technology in our fielded equipment. We forfeit our five-year technological lead by the time it takes us to get our technology from the laboratory into the field.
- And it aggravates the very gold-plating that is one of its causes. Users, knowing that the equipment to meet their requirements is fifteen years away, make extremely conservative threat estimates. Because long-term forecasts are uncertain at best, users tend to err on the side of overstating the threat.²¹
- There is hope for change in this process. Early indications are that the Joint Advanced Strike Technology Program, and its follow-on, the Joint Strike Fighter (JSF) Program, have resisted this gold-plating and over specification process. The contractors were given limited guidance and directed to make maximum use of "off-the-shelf" technology. So far, it appears the JSF program has been successful in both increasing performance and reducing costs.

Congress' Contribution

In light of some of the above problems, Congressional professionals would probably maintain that they are only trying to execute their constitutional duty of responsible budgeting and oversight. Many people in the system perceive a fundamental problem to be the tendency to add another layer of oversight and management every time a mistake is made (or someone thinks a mistake was made.) As discussed earlier, the micro-management that takes place in the review and mark up of programs and projects by Congressional committees, subcommittees, and staffs is considered a significant problem by the executive branch, and by some Congressmen as well.²²

Congress also has a hand in discouraging top notch executives from playing a part in the acquisition process.

A serious impediment . . . is the inability to bring bright, experienced industry people into senior acquisition positions in the Pentagon, which are in crying need of in-depth management experience. Acquisition management in the Pentagon requires the talent of a

substantial number of senior industrial executives who have been through the rigors of contracting and managing programs, know firsthand the problems, difficulties and complexity of achieving success in those programs. Unfortunately, through a series of draconian statutes on ethics in government, beginning in 1988, Congress has created an atmosphere of disenchantment for any defense industry executive who wishes to serve his country but not to be irrevocably cut-off from his private sector roots. Congress thus has ensured that the key positions will not be sought out by the best and the brightest middle and senior executives In today's environment, David Packard probably would not have accepted the Deputy Secretary of Defense position in 1979, since it would have precluded him from returning to Hewlett Packard.²³

Costs in Perspective

Almost everybody feels that the cost of defense systems "grows too much." But put this in perspective by looking at two studies. Rand Corporation and The Analytic Sciences Corporation (TASCO) separately analyzed the cost growth experienced by major DoD weapon system programs and comparably large, complex civil programs. The civil programs included numerous public and private sector projects that typically required many years to develop, involved substantial technical risks, and depended on the performance of many contractors. Both studies lead to the conclusion that average cost growth in major DoD weapon system programs is lower than cost growth in many large scale civil programs. That may seem like good news, but defense program growth averages just over 50%.²⁴

While that perspective will probably never be reported in the headlines, other purported 'abuses' often generate more heat than light, and help form the public's perception of fraud and dishonesty. The \$600 toilet seat is a case in point. It was just a toilet seat and cost just that--about \$10 at the time. The \$600 part was a fairly large, molded structural part of the aircraft interior. Anyone could have verified that with a five minute phone call before hitting the airwaves, but that night's soundbite is now part of history that pops up in all kinds of stories, books and broadcasts because 'everyone knows it's true.' Attempts to set the record straight have all failed, and testimony about it on Capital Hill contributed to yet more oversight (and delays) in the acquisition process.

Rapid Prototyping Is Slow Coming On-Line

Rapid prototyping is a concept that can in many -- but unfortunately not all -- instances "solve" the two big acquisition problems. Rapid prototyping offers "tremendous cost

savings . . . but also increases our warfighting capability much more rapidly than existing heavily institutionalized development procedures."

The economy of utilizing this approach over conventional methodology is accomplished essentially by:

- a. Utilizing off-the-shelf technology (i.e., private sector R&D investment vice government funded R&D), and
- b. Developing and installing the operational system within one year vice the traditional 5-10 years necessary for government-sponsored programs.²⁵

Cutting red tape in acquisition is nothing new. In the Vietnam War, for example, Navy weaponry and electronic counter-measures were developed very quickly. There have been other major systems brought on-line this way, but they are few and far between.²⁶ During the 80s much more rapid prototyping of 'black' programs was successful, but led to Congressional accusations that it was just a disguised end-run on the formal process and calls for more Congressional oversight.

Vicious Cycle

Factors hindering the acquisition process include gold-plating, micro-management, unqualified executives, program managers not being in charge, over-specified yet under-funded programs, buying in, pork barrel pressure, and our inability to get off-the-shelf high tech systems into operation quickly. They all contribute to a vicious cycle of games and problems. The result is inefficient system acquisition -- life cycles are drawn out, costs grow, and the ratio of bang-to-buck continues to be disappointing.

INTERFACES

The defense acquisition system exists for the purpose of producing and maintaining the materiel needs of the military. The program management activity that we have developed thus far is closely related to PPBS and the Federal Budget discussed in previous chapters. Formally, the only specific interfaces are the designated membership of the DAB and Defense Resources Board (DRB).²⁷ We should, however, look more deeply into some of the inter-relationships if we are to completely understand acquisition in the context of defense resource allocation.

Planning and Programming

The articulation of the need for new weapons (or the obsolescence of old programs) is a result of the planning process. It

is in JSPS and the first P ("Planning") in PPBS that threat, strategy and force structure ideas are synthesized.

Fiscal constraints are part of the DPG which kicks off the programming phase of PPBS, and objectives are reconciled with available resources. The fate of acquisition programs is determined in the programming phase of PPBS. A major defense acquisition program will not be continued as planned unless sufficient resources, including personnel, are or can be programmed to support projected development, testing, production, fielding, and support requirements.²⁸ New major acquisitions should be considered concurrent with the OSD POM Summer Review process, though development schedules don't always cooperate.²⁹

While major program decisions are made in context with both the PPBS and the acquisition process, there are notable differences, and at times apparent conflicts between, these two systems. The acquisition process proceeds in phases, each of which may require only a part of a budget cycle or several full cycles. Gearing the phases to the particular business and technical aspects of the program ensures that adequate in-depth reviews are conducted prior to significant commitment of resources. The PPBS, rather than being oriented to the needs of a specific program, is keyed to the larger problem of balancing all programs within service, DoD, OMB, and/or Congressional financial limits established for a particular fiscal year or FYDP. Decisions made through the DAB process must be reflected in the FYDP. This is accomplished during the Program Objective Memorandum/Issue Book/Program Decision Memorandum process of the PPBS. Successfully passing a DAB is, however, no guarantee of full funding, and in the POM/PDM process the programs' funding may be cut.

Top level DoD review of the PPBS process is the responsibility of the DRB, whose makeup is somewhat similar to that of the DAB (See Table V-1), although the purposes of the two groups are different. The DAB deals with a single system at a time, basing decisions on the technical progress, acquisition strategy, implementation plans, and accuracy of cost and performance projections. By contrast, the DRB's responsibility is to advise SECDEF on the overall DoD budget. The DRB review can severely impact the budgeting of major systems acquisition as each program must compete with all other programs for dollars.³⁰

Table V-1

DEFENSE RESOURCES BOARD

Chairman:	SECDEF	
Vice Chairman:	Deputy SECDEF	
Executive Secretary:	Director, Program Analysis and Evaluation	
Members:	Service Secretaries	USD(P)
	CJCS	
	VCJCS	USD(P&R)
	DAE (USD (A&T))	DoD Comptroller

Other attendees as designated by SECDEF or Deputy SECDEF

There are times when a POM or budget submission to OSD deviates significantly from a previously approved DAB decision. This fact and the cost, schedule, and performance impact on the program should be noted in the POM or budget submission and explained. In such instances, the DAB choice is a decision alternative in the POM or an Issue Paper.³¹

Budgeting

PPBS may be the means of requesting program dollars, but programs get their resources from the federal budget process.

Look at Figure V-6, which depicts the COMPONENTS OF THE LIFE CYCLE COSTS OF A WEAPON SYSTEM. It is important to realize that these components have a ONE FOR ONE RELATIONSHIP WITH THREE OF THE CONGRESSIONAL APPROPRIATION CATEGORIES of RDT&E, Procurement and O&M. While DoD prepares its budget using the program format, and the President's budget is submitted in functional format, the bottom line is written in the language of the Congressional budget. Recall the crosswalking diagram (Figure III-6).

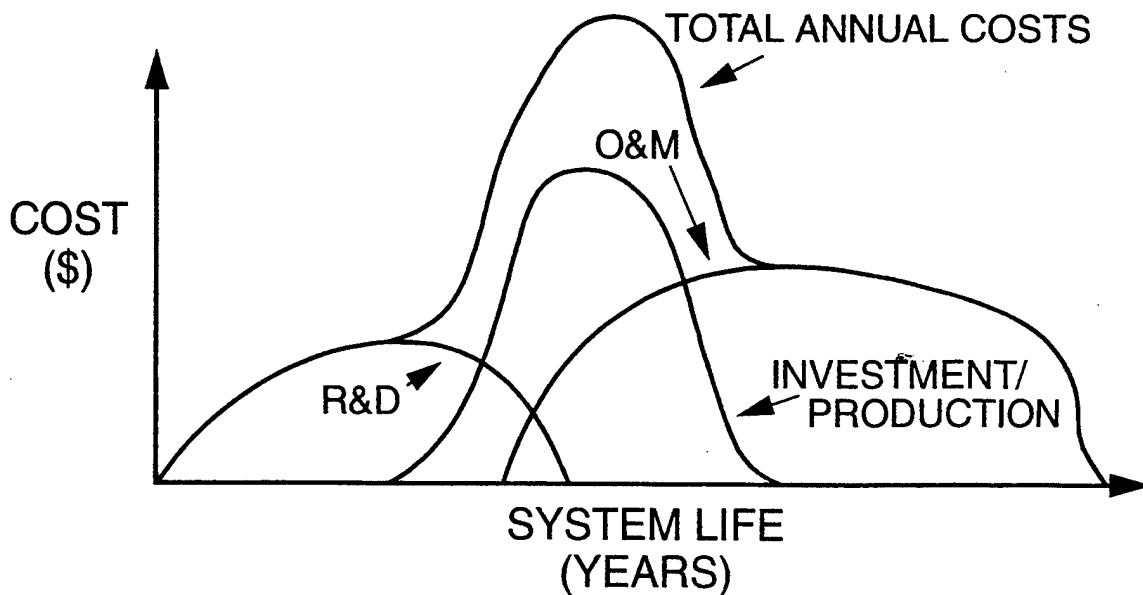


Figure V-6

HIGHLIGHTS

The "Acquisition System" represents a rational decision process that identifies needs, buys weaponry and then supports it over the course of its service life. While the basic process is designed to be simple, acquisition is complicated by, and intertwined with, JSPS, PPBS and the federal budget process. Many changes have been made to the process over the years, especially in the last few years. All the changes are intended to keep costs reasonable and deliver weapon systems before they are obsolete. However, more changes appear to be necessary if our acquisition system is to be truly effective . . . and efficient.

NOTES

1. DoD DIRECTIVE 5000.1. (The "Defense Acquisition," 15 Mar 96.)
2. U.S. Defense Acquisition: A Process in Trouble. The Center for Strategic and International Studies, Georgetown University. March 87, p. 11.
3. Ibid. p. 3.
4. A Formula for Action; A Report to the President on Defense Acquisition by the President's Blue Ribbon Commission on Defense Management, April 1986, p. 3. (This commission is commonly called the Packard Commission.)
5. A Process in Trouble. p. 3.
6. Insley, Patricia P., et al. "Shortening the Acquisition Cycle: Research on Concurrency." report, Management Consulting and Research, Inc., Falls Church, Va., 30 Sep 1982.
7. The author is indebted to the Defense Resource Management Faculty at the Armed Forces Staff College for this synthesis of studies made of the acquisition process.
8. DoDINST 7041.3. Economic Analysis and Program Evaluation for Resource Management, 18 Oct 1972.
9. Source: AFSC DRM Faculty Guide.
10. Puritano. "Getting Ourselves Together on Systems Acquisition." Defense 81, Oct 1981.
11. Puritano. "The Weinberger-Carlucci Initiatives, How Are We Doing?" Defense 82, June 82. The details of the initiative can be found in both Puritano articles.
12. Formula for Action. p. 5.
13. Formula for Action. pp. 15-22.
14. Ibid. pp. 26, 27, 31-33, and A Process in Trouble, pp. 75-77. Chapter III of this book (PPBS) discusses biennial budgeting in detail.
15. DoD Directive 5000.1 and DoDR 5000.2R.
16. DoD Directive 5000.1, p. 1-5.

17. Source documents for the discussion of RGS and JROC are DoD Directive 5000.1 dated 23 February 1991, OJCS MOP 77 dated 17 September 1992, and an article titled "Defense Acquisition Policy," by Charles B. Cochrane, published in the May-June 1991 issue of Program Manager.
18. DoD Directive 5000.1. pp. 3-4. Where practicable, the milestone decision points and phases are to be used for non-major programs too.
19. DOD Directive 5000.1.
20. DODINST 7041.3.
21. A Formula for Action. pp. 6-9.
22. See the discussion "Congressmen or Program Managers" in Chapter IV (The Federal Budget Process).
23. Skantye. "Packard Report Remains the Best Blueprint for Acquisition Reforms." Aviation Week and Space Technology, 8 Feb 88.
24. Formula for Action. p. 34. The results of these studies are shown in Figures V-8 and V-9.
25. Naval Reserve Association President's Comments on "High Tech for an Old Ship . . ." Keller and Pastore, Naval Reserve Association News, Oct 1984.
26. Smith. "Rapid Prototyping and Streamlining Acquisition-- Partial Answers, At Least, to a Coming Age of Austerity." Naval Reserve Association News, May 1987.
27. DOD Instruction 7045.14.
28. DOD Directive 5000.1, pp. 4-5.
29. DODINST 5000.2, pp. 6-7. Once the mission need is approved, the DAE authorizes the issuance of a program element (PE) number for the new program . . . and the weapon system's existence is established in the FYDP. See Chapter III (PPBS) for details on the Summer Review Process.
30. Handler, G.S. Navy Program Manager's Guide. Naval Material Command, Washington, D.C., December 1980, pp. 2-26.
31. Navy Programming Manual. p. III-14.

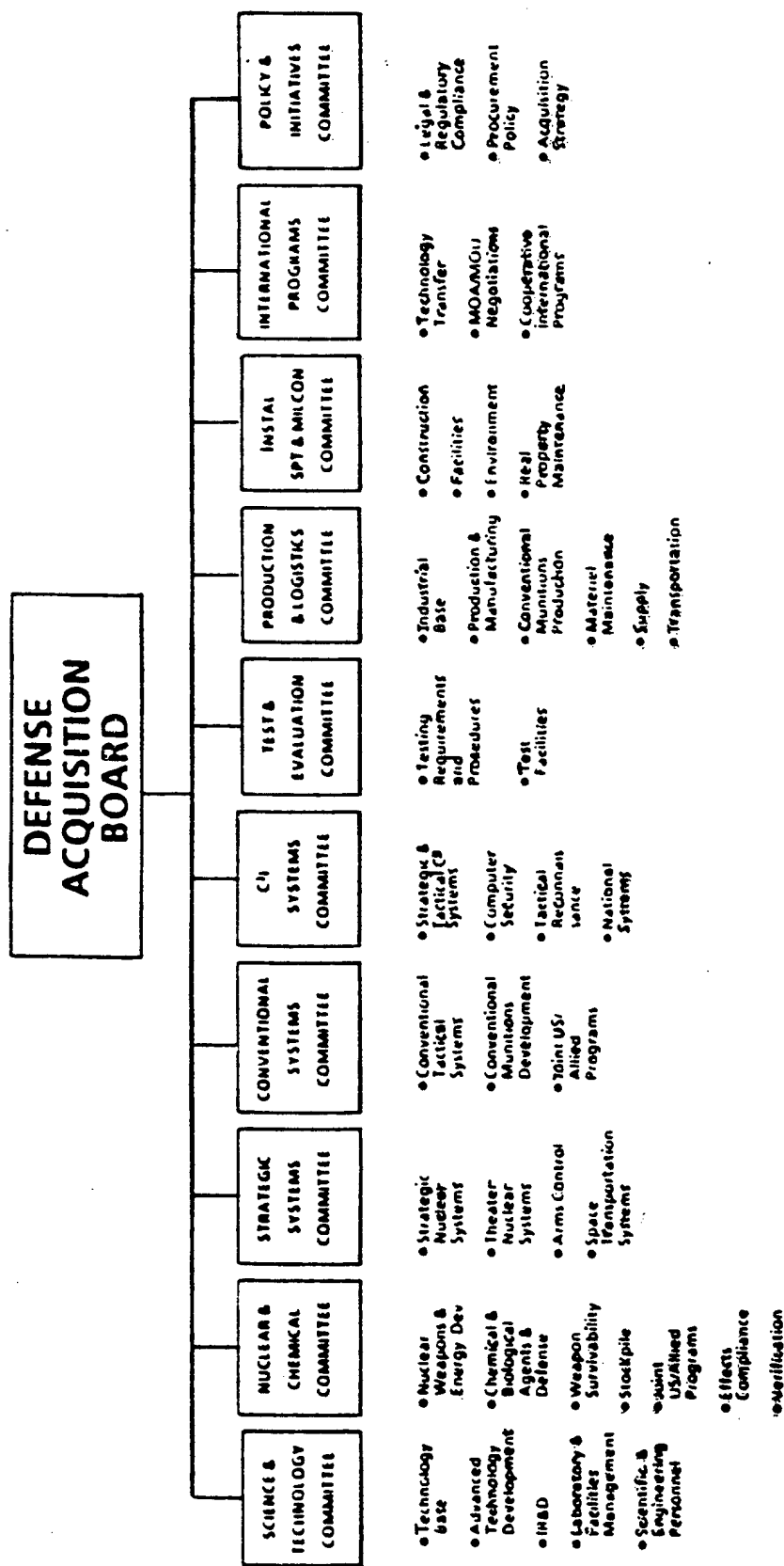
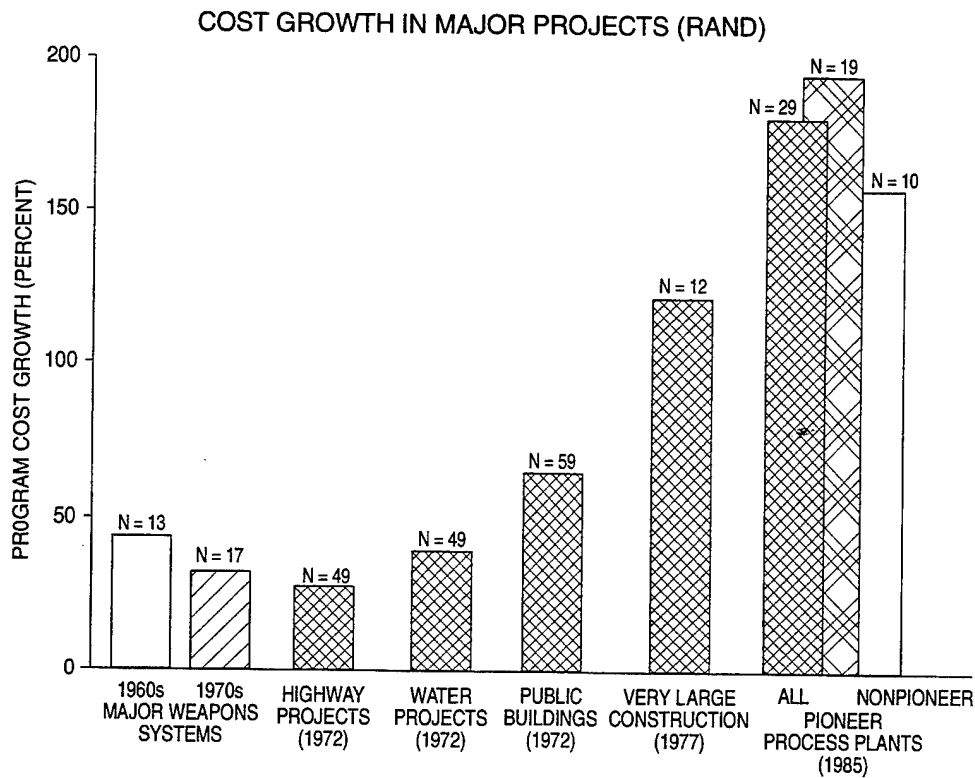


Figure V-7

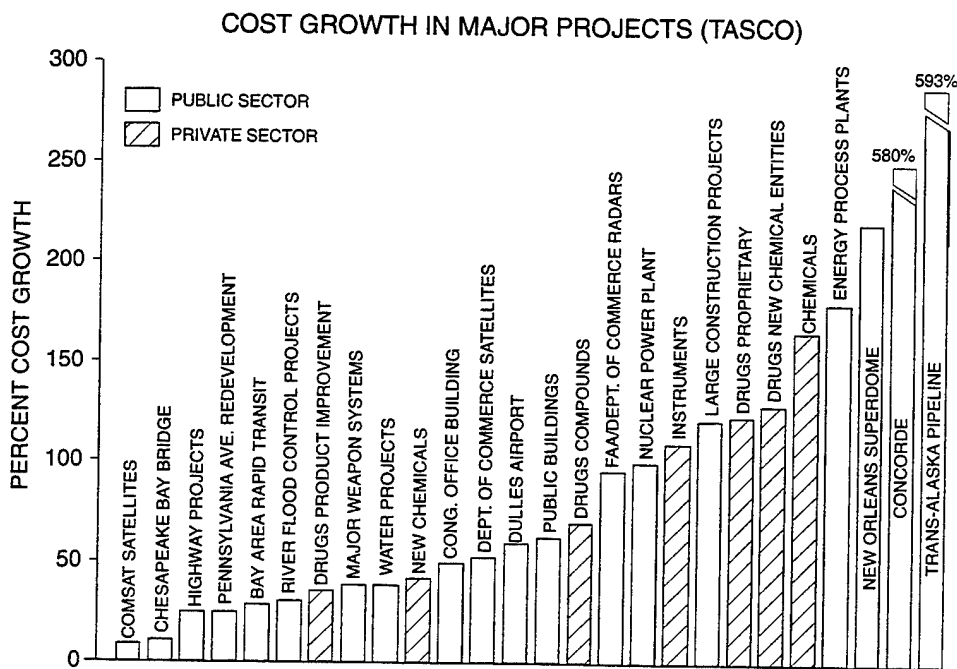
DEFENSE ACQUISITION BOARD (DAB) ACQUISITION COMMITTEES (Source DODINST 5000.2)

Figure V-8



SOURCE: "IMPROVING THE MILITARY ACQUISITION PROCESS - LESSONS FROM RAND RESEARCH." (R-3373-AF/RC) THE RAND CORPORATION, 1986.

Figure V-9



CHAPTER VI

INTEGRATION AND CONCLUSIONS

PUTTING IT ALL TOGETHER

The purpose of this final chapter is to synthesize the various parts of the resource allocation process; and to explore how the whole system might be made to work better.

Reviewing the Process

Table VI-1, at the end of the chapter, provides a summary of the systems described earlier. In this summary, each system -- JSPS, PPBS, the Federal Budget, and Acquisition -- is broken down into phases, players, activities and, finally, what each of the systems is supposed to produce.

Integrating the Pieces

It may be hard to imagine that all these systems fit together to serve some grand purpose. Indeed, there never was a formalized scheme to develop an overarching system that neatly fit these four systems together in such a manner that they would complement and support each other. To the contrary, these systems have all evolved separately, but not without influence from each other. These systems, therefore, co-exist, although not always in complete harmony.

It is possible to conceptualize an overall defense resource allocation system. Figure VI-1 offers such a systems view of the whole process of defense resource allocation. We can see that the systems that we have described separately are actually "subsystems" in the overall process.

JSPS produces strategy, resource needs and mission tasks; PPBS proposes a six year plan to field the best mix of forces, given resource constraints; the acquisition system defines mission needs, and produces and maintains weapon systems; the federal budget process provides the funds. Without all of these subsystems interacting, we cannot achieve the objective: forces in the field and at sea, properly equipped and supported.

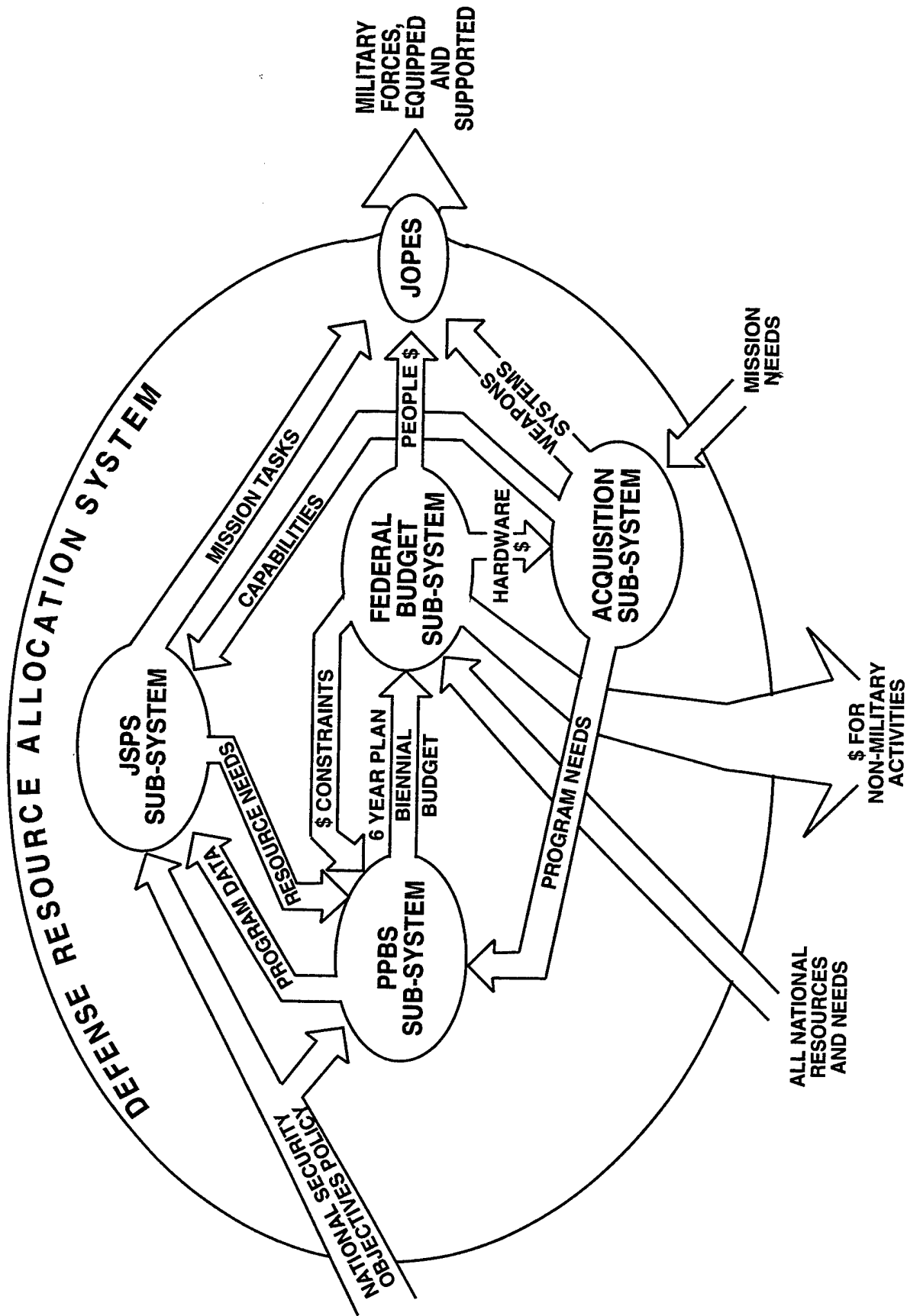


Figure VI-1

CONCEPTUALIZATION OF THE DEFENSE RESOURCE ALLOCATION SYSTEM

CAN IT BE MADE TO WORK BETTER?

In the preceding chapters, many of the problems experienced within the various subsystems of resource allocation were discussed in detail. The troubles might be summarized as follows:

- Appropriation bills are frequently not enacted into law on time.
- Continued deficit spending has raised the federal debt to a very high level.
- Acquisition of weapons systems takes too long and many system costs increase 50% or more above projections.
- The PPBS is cranking out a biennial budget while Congress is acting on an annual basis.
- Our strategic planning system is faced with a probable strategy-force mismatch. Can our forces in the field and at sea execute, without considerable risk, our declared strategy and the 2 MRC planning scenarios?

The overall effect of these problems is that national security objectives may exceed our military means.

How to Fix it?

The purpose of this text has been to describe the process we use to allocate resources for defense, not to propose an alternative way of doing things. However, since one of the conclusions is that the system doesn't work as well as it should, it is appropriate that some comments be made on how the process could be made better. Our conclusions are that we need to complete the reform that is in progress; execute the process as designed; make good resource decisions; and all else failing, give consideration to totally restructuring the way we do our allocation business.

Complete the Reform

Over the decades, many changes have been made to the resource allocation process. Indeed, the system is still evolving. Various stimuli for reform, including the Packard Commission recommendations, have been especially far-reaching. The Commission's proposal for a defense resource allocation process is shown in Figure VI-2.¹ While it may now seem a bit dated, it nonetheless remains an elusive target and a superb model for debate.

PROPOSED NATIONAL SECURITY PLANNING AND DEFENSE BUDGETING PROCESS

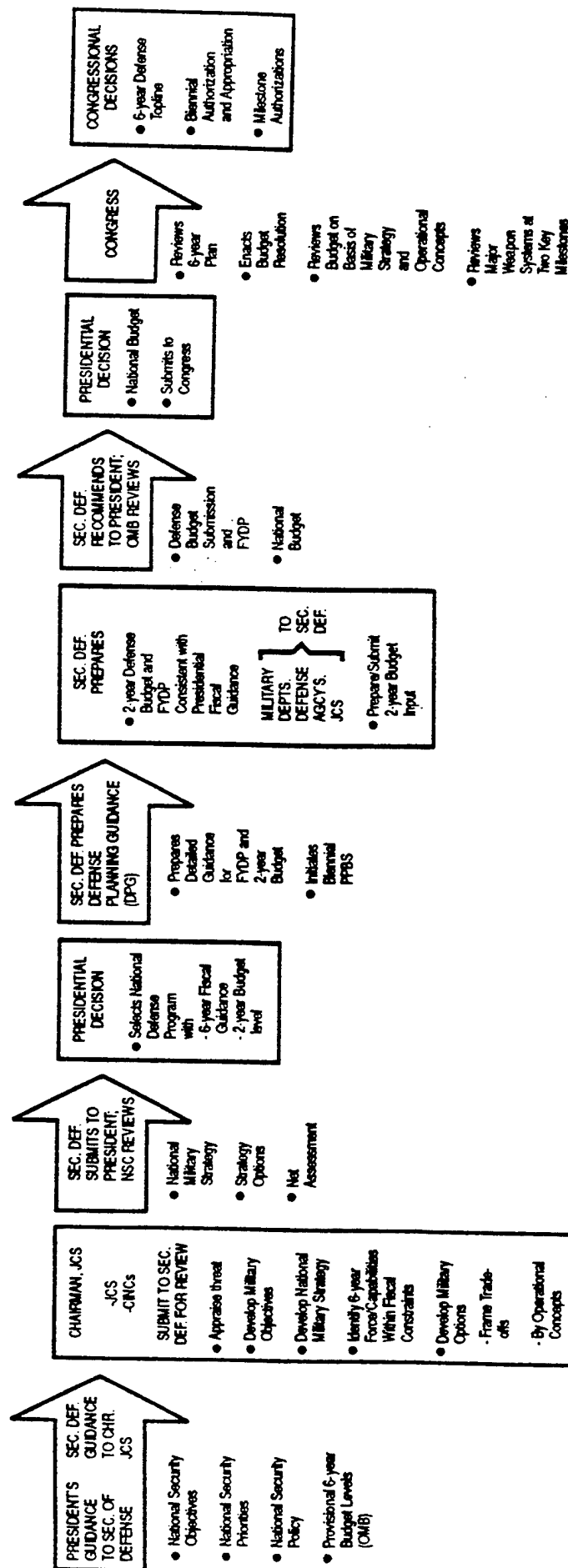


Figure VI-2

PACKARD COMMISSION
PROPOSED DEFENSE RESOURCE ALLOCATION PROCESS

(Source--A Quest for Excellence, Appendix.)

From the discussions in the earlier chapters, it should be apparent that the executive branch has instituted essentially all of the recommended changes to the process that are under its control. Congress, however, has not changed its fundamental process. As pointed out by the Center for Strategic and International Studies,

Actions for reform have not yet extended to Congress. Congress can be affected only by its own choice and by the electorate. Congress should carefully consider how its role and responsibilities could be improved. Without changes in Congress, it may prove impossible to continue to improve the . . . process.²

As well received and applauded as the Packard proposal was, it cannot succeed without the support and participation of all the players.

We must Execute!

Another point to consider is that reorganization itself hardly ever solves a problem. Execution is the key to success. The Congressional portion of the process was restructured radically in 1974, but we have not been able to execute the process as designed. The bottom line is performance by the players. NO MATTER HOW WE ORGANIZE OR RESTRUCTURE THE PROCESS, IT WILL NOT WORK UNLESS EFFECTIVELY EXECUTED.

Make Good Decisions

Day in, day out decisions about how to allocate the scarce resources of our nation must be good ones if we are to hope to realize our national objectives. Commanders in the field, program managers, other acquisition people, budget czars, programmers, planners, analysts, and Congressional folks all have one thing in common . . . they contribute to long term decisions about the means to be employed in defending our national interests and achieving our national objectives. They arrive at decisions in different ways, but for our overall collective interests to be served, their individual decisions must be sound.

Complex issues can best be solved responsibly if certain proven decision making concepts are employed. These include being explicit about the problem, objectives and how alternatives are compared. Cost and effectiveness, as well as professional subjective judgement, must be evaluated. The decision method should also include consideration of the political environment, with all its uncertainties. Good resource decisions include due regard for reconciliation of the political selected alternative. It is also important that the rationale of decisions be well communicated. What this all boils down to is that we must use a systematic, rational framework for defense resource decisions.

Should we Restructure the Process?

Even if Congress embraced the proposed process changes and enacted budget legislation on time, and we optimized our individual decisions, would that be enough to solve our defense resource problems? Perhaps not. If our two major problems are the strategy-force mismatch and rising debt, perhaps we need to consider a total reorientation of the process. Consider the following possible sequence of events:

- Congress, considering national security interests and objectives along with all other national interests, needs and objectives, allocates funds to the executive branch.
- DoD, using these projected budget allocations, recommends to the President a national military strategy and the supporting force structure.
- If the strategy will not achieve the national security objectives, the President and Congress must agree to either:
 - increase defense spending; or
 - lower the objectives.
- The two rules in the process might be:
 - federal budget must be balanced.
 - military strategy must not exceed capabilities.

The current defense resource allocation process generally starts with objectives and creates strategy first, then deals with resource constraints. If this process has, in spite of reform, failed us over the past decades, why not turn the process around? Let's start with constraints and build strategy and force levels from a realistic estimate of the means that will be available. Instead of proceeding from strategy to political reality, perhaps we should start with the political reality. . . .

TABLE VI-1

SUMMARY OF DEFENSE RESOURCE ALLOCATION PROCESS

<u>SYSTEM</u>	<u>PHASE</u>	<u>PLAYERS</u>	<u>ACTIVITY</u>	<u>OUTPUT</u>
Federal Budget Process	Formulation or "Executive Preparation and Submission"	• Executive Agencies and Departments	• Review of current operations, programs objectives, future plans.	• President's budget proposed to Congress.
		• OMB		
		• President	• Exchange info on trade and economic projections.	
			• Budget requests built.	
	Enactment or the Congressional Budget Process	• Senate and House Budget Committees	• National needs considered, concurrent Budget Resolution.	• Defense Authorization and Appropriation Acts signed by President.
		• Senate Armed Services and House National Security Committees	• Create defense authori- zation bill, with con- ference action if necessary.	
		• Senate and House Appropriation Committees (SAC/HAC)	• Create defense appropri- ation bill, with recon- ciliation and/or con- ference action if necessary.	
		• OMB/CBO/GAO/Joint Committee	• Analysis of tax and spending legislation for sequester criteria.	
		• Full Senate and House	• Pass bills.	

TABLE VI-1 (Continued)

SUMMARY OF DEFENSE RESOURCE ALLOCATION PROCESS

<u>SYSTEM</u>	<u>PHASE</u>	<u>PLAYERS</u>	<u>ACTIVITY/DOCUMENTS</u>	<u>OUTPUT</u>
Federal Budget Process	Execution or "Implementation and Control"	• OMB	• Apportions funds to be spent.	• Development, building, modernizing, maintaining, and supporting of military forces.
		• Agencies and Services	• Commitment, obligation, and expenditure of funds.	
		• President	• Submits impoundment requests (recision and/or deferral).	
			• Line Item Veto	
Federal Budget Process	Review and Audit	• Congress	• Takes action on impoundment requests.	
		• Agencies Services	• Review and control.	• Assurance that obli- gations incurred and outlays comply with authorizing and appropriation laws and/or civil action for non-compliance.
		• OMB/GAO	• Audit agencies and departments; Take civil action as required.	

TABLE VI-1 (Continued)

SUMMARY OF DEFENSE RESOURCE ALLOCATION PROCESS

<u>SYSTEM</u>	<u>PHASE</u>	<u>PLAYERS</u>	<u>ACTIVITY</u>	<u>OUTPUT</u>
JSPS	• Formulation	• JCS (J-5, J-8)	• Create NMS, JPD, JSCP.	• Military strategy/resource needs/mission tasks.
		• CJCS/JROC	• JMNA/LSA/CCA/CPA/CPR	• Force capabilities assessment.
		• DIA	• Provide advice on intelligence priorities, appraisals of situations and threats.	
		• CINCS	• Make inputs on force level requirements, strategy, risk and priorities.	
		• JCS	• Provide strategy, force structure, threat and risk assessments (JMNA).	• Policy, strategy, force/resource planning and fiscal guidance.
PPBS	• Planning	• NSC	• Provide national policy and objectives.	
		• NSC/OMB/CJCS State/OSD/CINCS/ Services/DRB	• Participate in development of DPG.	
		• SECDEF	• Promulgate DPG.	

TABLE VI-1 (Continued)

SUMMARY OF DEFENSE RESOURCE ALLOCATION PROCESS

<u>SYSTEM</u>	<u>PHASE</u>	<u>PLAYERS</u>	<u>ACTIVITY</u>	<u>OUTPUT</u>
PPBS	Programming	• Services	• Make 6 year resource plan to match money and manpower to programs (POMs). Participate in program review.	• FYDP.
		• CINCS	• Provide inputs to POMs (IPLs), summer review.	
		• CJCS/JROC	• Assess appropriateness of POMs (CPA).	
		• OSD	• Develop issue for alternatives.	
		• DRB	• Debate issues in Summer Review Process.	
		• Deputy SECDEF	• Decide issues	
		• SECDEF	• Modify/Approve Service Programs (PDMS).	
		• JROC	• JWCA	

TABLE VI-1 (Continued)

SUMMARY OF DEFENSE RESOURCE ALLOCATION PROCESS

<u>SYSTEM</u>	<u>PHASE</u>	<u>PLAYERS</u>	<u>ACTIVITY</u>	<u>OUTPUT</u>
PPBS	Budgeting	• Services	• Submit budget estimates (BESs), Appeals.	• Defense portion of President's Budget: proposal for 6 years of personnel, dollars, and forces.
		• OSD/OMB/CJCS	• Budget review/decide (PBDs).	
		• JCS/CINCS	• Assess impact on warfighting.	
		• DRB	• Debate appeals/issues.	
		• Deputy SECDEF	• Decide on appeals/issues.	
		• SECDEF/OMB	• Final Defense Budget (JAN FYDP).	
		• Services/DAB/JROC	• Milestone Zero decision on mission need/concept studies approval.	• Decision (ADM)
			• Develop acquisition strategy.	
			• Evaluate alternatives for system.	
			• Decide whether to proceed to Milestone I; New Program Approval.	• Decision (ADM).
Acquisition System	Concept Exploration			

TABLE VI-1 (Continued)
SUMMARY OF DEFENSE RESOURCE ALLOCATION PROCESS

<u>SYSTEM</u>	<u>PHASE</u>	<u>PLAYERS</u>	<u>ACTIVITY</u>	<u>OUTPUT</u>
Acquisition System	Program Definition & Risk Reduction	• PM	• See if system works, is affordable, and can be built in time.	
		• Services/OSD	• Recommend funding in POM/FYDP.	
		• Congress	• Authorize and appropriate funds.	
		• DAB/Service	• Decide if to proceed to Milestone II: Development Approval	• Decision (ADM)
Engineering & Manufacturing Development		• Services/OSD/ Congress	• Fund program in POM/ FYDP/budget legislation.	
		• PM	• Build System.	
		• DAB/Service	• Decide whether to proceed to Milestone III: Production or Fielding Approval.	• Decision (ADM)

TABLE VI-1 (Continued)

SUMMARY OF DEFENSE RESOURCE ALLOCATION PROCESS

<u>SYSTEM</u>	<u>PHASE</u>	<u>PLAYERS</u>	<u>ACTIVITY</u>	<u>OUTPUT</u>
Acquisition System	Production, Fielding/Deployment & Operational Support	• Services/OSD/Congress	• Fund program in POM/FYDP/budget maintained.	• Weapons system produced (ADM)
		• PM	• Build more/install and maintain support infra-structure.	
		• DAB/Service	• ID actions and resources for operational readiness and support objectives, 5-10 years after deployment decide to upgrade, modify, replace, retire, or carry on with status-quo.	• Decision (ADM) on support.
				• Decision (ADM) on system's future.

NOTES

1. The Packard Commission termed its proposal a "National Security Planning and Defense Budget Process." Details of the report from the President's Blue Ribbon Commission on Defense Management (and Acquisition) can be found in Chapters IV and V. The picture of the overall process recommendations comes from A Quest for Excellence -- from Report by the President's Blue Ribbon Commission on Defense Management, Appendix, June 1986, p. 55.

2. U.S. Defense Acquisition: A Process in Trouble. The Center for Strategic and International Studies, Georgetown University, March 1987, p. 48.

APPENDIX A
GLOSSARY OF TERMS, ABBREVIATIONS
AND ACRONYMS

The purpose of this appendix is to provide a handy reference.

TERMS

Sources of these definitions, if they were not invented by the author, are cited in the footnotes.

Accounting. The process of recording and summarizing financial transactions and analyzing, verifying, and reporting the results.¹

Accrual Accounting. An expenditure-based accounting system in which revenues are accounted for when earned and operating costs are accounted for as resources are used or consumed.¹

Accrued Expenditures. Charges during a given period that reflect liabilities incurred and the need to pay for: (a) services performed by employees, contractors, other government accounts, vendors, carriers, grantees, lessors, and other payees; (b) goods and other tangible property received; and (c) amounts becoming owed under programs for which no current service or performance is required (such as annuities, insurance claims, other benefit payments, and some cash grants, but excluding the repayment of debt, which is considered neither an obligation nor an expenditure). Expenditures accrue regardless of when cash payments are made, whether invoices have been rendered, or, in some cases, whether goods or other tangible property have been physically delivered.⁴

Agency. This term is used very loosely by many people. Properly, it refers to a department, commission, board, or other independent office in the executive branch of the government. However, budget personnel use it when talking about subordinate organizations that have the responsibility for actual operations and the administration of funds. They speak of this as an "operating" agency.¹

Allocation. In budgeting, an official piece of paper issued by service headquarters to a major command or other operating agency. It is a funding document and represents cash that you can commit and obligate.

Allotment. In budgeting, this is similar to an allocation except that it is issued by a major command or operating agency to its subordinate units.¹

Apportionment. This term has different meanings depending on the context in which used.

In budgeting, apportionment is the regulation of the rate at which appropriated funds can be spent. The apportionment process is intended to spread out spending so that additional appropriation will not be required. Apportionment is the distribution by the OMB of amounts available for obligation. Apportionments are legally binding . . . spending above the amount apportioned is cause for legal charges being pressed.

In JOPES, the apportionment is resources made available to the commander of a unified or specified command for deliberate planning. Apportioned resources are used in the development of operation plans and may be more or less than those allocated for execution planning or actual execution.²

Appropriated Funds. This is obligational authority made available by an Act of Congress (appropriation) and distributed for use through the "apportionment-allocation" procedure.¹

Appropriation Act. An Act of Congress that permits a department or other governmental agency to obligate the U.S. government to pay money for goods or services. By itself, the appropriation does not cost the taxpayer a cent. Actually, the appropriation constitutes a hunting license for the department to obtain an apportionment (see definition above), i.e., the administrative authority for the department to enter into contracts or otherwise obligate the government. The Treasury raises the money to meet expenditures, and expenditures take place only after there has been performance against an obligation. These are important distinctions. Appropriations may last for different periods of time.¹

Currently, there are 13 regular appropriation acts shown in Table IV-8.⁴

Appropriation Language. The published text of an appropriation act (Public Law) in which Congress spells out the dollar amounts authorized and the purposes for which those funds can be used.¹

Appropriation Limitation. This is what Congress says you either must do or cannot do with an appropriation. Such directives are contained in appropriation language or in General Provisions.¹

Approved Program. Resources (Forces, Personnel, Obligational Authority, and Material) for individual program elements reflected in the FYDP, as modified by SECDEF.¹

Authorization Act. An act of Congress that establishes or continues the operation of a federal program or agency either for a specified period of time or indefinitely; specifies its general goals and conduct; and usually sets a ceiling on the amount of budget authority that can be provided in an appropriation. An authorization for an agency or program usually is required before an appropriation for that same agency or program can be passed.⁶

Authorization Committee. A standing committee of the House or Senate with legislative jurisdiction over the subject matter of those laws that establish or continue the operation of federal programs or agencies.

Backdoor Authority or Backdoor Spending. Budget authority provided without the passage of an appropriation. The most common forms of backdoor authority are borrowing authority, contract authority, and entitlements. Permanent appropriations that continue without any current Congressional action also are considered to be backdoor spending.⁶

Balanced Budget. A budget in which receipts are equal to or greater than outlays. (See also Budget Deficit; Budget Surplus.)⁴

Benefit Analysis. The systematic identification and, when possible, quantification of the returns or outputs of alternative courses of action.¹

Bogey. In PPBS, a budget reduction.³

Borrowing Authority. A form of budget authority that permits a federal agency (other than the Treasury and Federal Financing Bank) to borrow funds from the public or another federal fund or account and to incur obligations and make payments of specified purposes out of that borrowed money. Borrowing authority differs from an appropriation, which permits a federal agency to incur obligations and make payments directly from the Treasury. Borrowing authority is a type of backdoor spending. (See Backdoor authority or backdoor spending.)⁶

Breach. Exceeding the deficit cap specified by the 1990 budget Enforcement Act.⁶

Budget. A planned program for a fiscal period of estimated costs, obligations, and expenditures.¹

Budgeting. The process of translating personnel and technical resource requirements into time-phased financial resources.¹

Budget Activity. A function or activity funded under an appropriation category.¹

Budget Authority. Authority provided by law to enter into obligations that will result in immediate or future outlays involving federal government funds, except that budget authority does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government. The basic forms of budget authority are appropriations, authority to borrow, and contract authority. Budget authority may be classified by the period of availability (1 year, multiple-year, no-year), by the timing of Congressional action (current or permanent), or by the manner of determining the amount available (definite or indefinite).⁴

Budget Authorization. A document, referred to as a BA, representing an approved annual financial plan. This paper shows the amount of funds you may plan on using to accomplish your job. It does not authorize you to commit or obligate the government unless it is accompanied by an allocation.¹

Budget Costs. Costing used in budget submissions as distinguished from costing used in programming documents, which are referred to as programming costs. Budget costs represent the specific TOA requirements for funds in a particular fiscal period and generally represent a refinement of programming costs.¹

Budget Cycle. That period of time necessary to formulate, review present, and secure approval of the fiscal program for a specific ensuing period of time.¹

Budget Deficit. The amount by which budget outlays exceed budget receipts for a given fiscal year. (See also Balanced Budget; Budget Surplus.)⁴

Budget Estimating. The process of determining the amounts, kinds, and costs of resources needed for accomplishing a mission.¹

Budget Surplus. The amount by which budget receipts exceed budget outlays for a given budget/fiscal year. (See also Balanced Budget; Budget Deficit.)⁴

Budget Year. This is the fiscal year covered by the budget estimate you are submitting. (By the way, fiscal year is defined further down.) The term budget year refers to that 12-month period, beginning each 1 October and ending 30 September of

the following calendar year, used by the federal government for accounting purposes. It is frequently referred to by the letters BY. Similar fiscal year references are CY -- current year, FY -- fiscal year, and PY -- past year.¹

Chairman's Guidance (CG). The CG furnishes guidance to the Joint Staff and information to the Secretary of Defense, the CINCs, and the other members of the Joint Chiefs of Staff regarding the framework for building the NMS and for delineating priorities in the JPD. It can be issued as a part of the JSR Annual Report, or published at any time during the JSR process and not just as a result of the Annual Report.²

Chairman's Program Assessment (CPA). The CPA assists the Chairman of the Joint Chiefs of Staff in fulfilling his responsibility to advise the Secretary of Defense on how well the POMs conform to established priorities. The CPA summarizes the views of the Chairman on the balance and capabilities of the POM force and the support levels required to attain U.S. national security objectives.²

(CINCs') Essential Sustainability Items (ESI). Those essential items of supply (commonly called "war-stoppers") having a direct mission impact and which the JCS and/or supported CINC have identified as requiring intensified tracking and management. Also, items in short supply or expected to be in short supply for an extended period.

Citation of Funds. A letter, teletype, or formal document by which you, in one agency, tell another agency that it can commit and obligate your money.¹

Commitment. An accounting procedure in which funds are administratively earmarked for something to be bought in the near future. This procedure precedes obligation action and is normally based on firm procurement directives, requisitions, or orders.¹

Concurrent Resolution on the Budget. A resolution passed by both Houses of Congress, but not requiring the signature of the President, setting forth, reaffirming, or revising the Congressional budget for the United States Government for a fiscal year.⁴

Conference Action. Function of members of both the House of Representatives and the Senate in joint session, to reconcile their differences so that a single bill can be recommended that will gain the approval of both Houses of Congress.¹

Congressional Budget. The budget as set forth by Congress in a concurrent resolution on the budget. By law the resolution includes:

- The appropriate level of total budget outlays and of total new budget authority;
- An estimate of budget outlays and new budget authority for each major functional category, for undistributed intergovernmental transactions, and for such other matters relating to the budget as may be appropriate to carry out the purposes of the 1974 Congressional Budget and Impoundment Control Act;
- the amount, if any, of the surplus or deficit in the budget;
- the recommended level of Federal receipts; and
- the appropriate level of the public debt.⁴

Consolidated Working Fund. This is a kitty made up of advance payments received from other agencies. These payments finance services performed for the agencies that sweetened the pot.¹

Constant Dollars. The dollar value of goods and services adjusted for inflation. Constant dollars are determined by dividing current dollars by an appropriate price index, a process generally known as "deflating." Constant dollars are used to discount increases or decreases in prices when comparing transactions over a period of time.⁶ (See Current Dollars.)

Continuing Resolution. Legislation enacted by Congress to provide budget authority for Federal agencies and/or specific activities to continue in operation until the regular appropriations are enacted. Continuing resolutions are enacted when action on appropriations is not completed by the beginning of a fiscal year. The continuing resolution usually specifies a maximum rate at which the obligations may be incurred, based on the rate of the prior year, the President's budget request, or an appropriation bill passed by either or both Houses of the Congress.⁴

Contract Authority. A type of budget authority that permits a federal agency to incur obligations before appropriations have been passed or in excess of the amount of money in a revolving fund. Contract authority must be funded subsequently by an appropriation so that commitments entered into can be paid.

Cost Analysis. The systematic examination of the cost of inter-related activities and equipment to determine the relative costs of alternative courses of action.¹

Cost/Benefit Analysis. An analytical technique that compares the costs and benefits of proposed programs or policy actions. All losses and gains experienced are included and measured in dollar terms. The net benefits created by an action are calculated. Alternative actions are compared to choose one or more that yield the greatest net benefits, or ratio of benefits. (See Cost Effectiveness.)⁴

Cost Category. One of three types of costs into which the total cost of a program element is divided: (1) research and development, (2) investment, and (3) operations.¹

Cost Center. Any organizational element or function designated as an entity for the purpose of determining costs.¹

Cost-Effectiveness Analysis. An analytical technique used to choose the most efficient method for achieving a program or policy goal. The costs of alternatives are measured by their requisite estimated dollar expenditures. Effectiveness is defined by the degree of goal attainment, and may also (but not necessarily) be measured in dollars. Either the net effectiveness (effectiveness minus costs) or the cost-effectiveness ratios of alternatives are compared. The most cost-effective method chosen may involve one or more alternatives.

The limited view of costs and effectiveness distinguishes this technique from cost-benefit analysis, which encompasses society-wide impacts of alternatives.⁴ (See Economic Analysis.)

Crisis Action Planning. The JOPES process involving the time-sensitive development of plans and orders in response to an imminent crisis. Crisis action planning follows prescribed crisis action procedures to formulate and implement an effective response within the timeframe permitted by the crisis. Also call CAP.²

Crosswalk. Any procedure for expressing the relationship between budgetary data from one set of classifications to another. Typical crosswalks are (1) between appropriation accounts and authorizing legislation, (2) between the budget functional structure and the Congressional committee spending jurisdictions, and (3) between DoD programs and Congressional appropriations.⁴

Current Dollar. The dollar value of a good or service in terms of prices current at the time the good or service was sold. This is in contrast to the value of the good or service in constant dollars.⁴

Debt, Federal. There are three basic tabulations of Federal debt: gross Federal debt, debt held by the public, and debts subject to statutory limit.

Gross Federal Debt.

Consists of public debt and agency debt, and includes all public and agency debt issues outstanding.

Public Debt.

That portion of the Federal debt incurred when the Treasury or the Federal Financing Bank (FFB) borrows funds directly from the public or another fund or account. To avoid double counting, FFB borrowing from the Treasury is not included in the public debt. (The Treasury borrowing required to obtain the money to lend to the FFB is already part of the public debt.)

Agency Debt.

That portion of the Federal debt incurred when a Federal agency, other than the Treasury or FFB is authorized by law to borrow funds directly from the public or another fund or account. To avoid double counting, agency borrowing from Treasury or the FFB and Federal fund advances to trust funds are not included in the Federal debt. (The Treasury or FFB borrowing required to obtain the money to lend to the agency is already part of the public debt.) Agency debt may be incurred by agencies within the Federal Budget (such as the Tennessee Valley Authority) or by off-budget Federal entities (such as the Postal Service). Debt of Government-sponsored, privately owned enterprises (such as the Federal National Mortgage Association) is not included in the Federal debt.

Debt Held by the Public.

Part of the gross Federal debt held by the public. (The Federal Reserve System is included in "the public" for this purpose.) Debt held by government trust funds (e.g., Social Security Trust Fund), revolving funds, and off-budget Federal entities is excluded from debt held by the public.

Debt Subject to Statutory Limit.

As defined by the Second Liberty Bond Act of 1917, as amended, it currently includes virtually all public debt. However, only a small portion of agency debts is included in this tabulation of Federal debt.⁴

Defense Business Operations Fund (DBOF). A revolving fund established on 1 October 1991 to improve cost visibility and accountability of DoD financial accounts. It is composed of stock funds, the industrial fund, and revolving operations and maintenance funds. DBOF established procedures for

customers to reimburse suppliers, i.e. tenant command reimbursing the base for use of roads, fire protection, etc. The objective is to fully identify all costs and who uses the services, and to have the users pay for the services. DBOF is not yet implemented fleet-wide.

Defense Planning Guidance (DPG). A key Planning Document of PPBS issued by the SECDEF after consulting with the services and the unified/specified commanders. Provides threat assessment, policy, strategy, force planning, and fiscal guidance to all DoD organizations. The DPG is the "big picture" for military planners.³

Deferral. A type of impoundment, a deferral is an action of the President that temporarily withholds, delays, or precludes the obligation or expenditure of budget authority. A deferral must be reported by the President to Congress in a deferral message. The deferral can be overturned if either house passes a resolution disapproving it. A deferral may not extend beyond the end of the fiscal year in which the message reporting it is transmitted to Congress.⁶

Deflation. A decrease in the general price level, usually accompanied by declining levels of output, increasing unemployment, and a contraction of the supply of money and credit. A price level decline during the contraction phase of the business cycle has not occurred in the United States since the end of World War II. Some attribute this to institutional barriers that prevent downward adjustments in wages and prices. Declines in output with increases in unemployment, however, are themselves sometimes referred to as deflationary changes.⁴

Deliberate Planning. Operation planning as a result of JSCP or other tasking directive using JOPES.²

Discount Rate. The interest rate that a commercial bank pays when it borrows from a Federal Reserve Bank. The discount rate is one of the tools of monetary policy used by the Federal Reserve System. The Federal Reserve customarily raises or lowers the discount rate to signal a shift toward restraining or easing its money and credit policy.⁴

In economic analysis a "Discount Rate" is used to determine the "present value" of future costs.⁷

Disposable Personal Income. Personal income less personal taxes and non-tax payments to the Federal Government.

Economic Analysis. A systematic approach to the problem of choosing how to employ scarce resources and an investigation

of the full implications of achieving a given objective in the most efficient and effective manner. The determination of efficiency and effectiveness is implicit in the assessment of the cost effectiveness of alternative approaches.⁷

Economic Assumption. Estimates of how the national economy will behave. The four main economic assumptions that affect the budget are unemployment, inflation, interest rates, and growth in the gross domestic product.⁶

Enrolled Bill. The appropriations bill after both Houses of Congress have passed it and before the President has signed it into law.¹

Entitlement. Legislation that requires the payment of benefits to all who meet the eligibility requirements established in the law. Examples of entitlement programs are Social Security, Medicare, and veterans pensions.⁶

Essential Sustainability Items (ESI). Are those items which are critical to sustaining the warfighting capability of the CINCs. (See (CINCs' Essential Sustainability Items.)

Expenditure. Another accounting term, but when you have actually paid out your money for services or items received you have made one.¹

Fiscal Guidance. Annual guidance issued by the SECDEF that outlines the fiscal constraints that must be observed by the JCS, the military departments, and defense agencies, in the formulation of force structures and the FYDP, and by the SECDEF staff in reviewing proposed programs.¹

Fiscal Year. The 12-month period that, for the Federal Government begins on 1 October of one year and ends on 30 September of the next.¹

Future Years Defense Program (FYDP). The official program that summarizes the SECDEF-approved plans and programs for the DoD. The FYDP is published at least once annually. The FYDP is also represented by a computer database that is updated regularly to reflect decisions.

Gross Domestic Product. GDP is the total of all economic activity in one country, regardless of who owns the productive assets. For example, the U.S. GDP includes the profits of a foreign firm located in the U.S. even if they are remitted to the firm's parent company in another country.⁸

Gross National Product. GNP is the total of incomes earned by residents of a country, regardless of where the assets are

located. For example, the U.S. GNP includes profits from U.S. owned businesses located in other countries.

Head of Component. For the services, the Service Secretary.

Implicit Price Deflator (GDP Deflator). A price index for all final goods and services produced in the economy, derived by calculating the ratio of the gross domestic product in current prices to the gross domestic product in constant prices. It is a weighted average of the price indexes used to deflate the components of current-dollar GDP, the implicit weights being expenditures in the current period.⁴

Impoundment. An action by the President that prevents the obligation or expenditure of budget authority. Deferrals and rescissions are the two types of Presidential impoundments.⁶

Industrial Fund. A type of kitty established (with Congressional authorization) by an agency as a source of funds for business-type activities, such as printing, transportation, and maintenance services. The proceeds from sales are retained in the fund to finance continuous operations; there, it is classed as a revolving fund.¹

Inflation. A persistent rise in the general price level that results in a decline in the purchasing power of money.⁴

Intelligence Priorities for Strategic Planning (IPSP). The IPSP contains a comprehensive statement of substantive military intelligence priorities to support the tasking of Department of Defense intelligence production, collection, and support activities in the short- and mid-range periods.²

Joint Deployment System (JDS). Personnel, procedures, directives, communications systems, and electronic data processing systems that directly support time-sensitive planning and execution and complement peacetime deliberate planning by disseminating deployment information.²

Joint Military Net Assessment (JMNA). The JMNA fulfills the Secretary of Defense's statutory duty to submit to Congress annual comprehensive net assessment of the defense capabilities and programs of the Armed Forces of the United States and its allies, as compared with those of their potential adversaries.²

Joint Operation Planning and Execution System (JOPES). Supports integrated planning command and control of mobilization, deployment, employment, and sustainment activities using a standardized information system.²

Joint Planning Document (JPD). A seven volume, stand-alone document that supports the National Military Strategy by providing concise programming priorities, requirements, or advice to the SECDEF for consideration during the preparation of the DPG. Published in September of every odd year by the Joint Staff.

Joint Planning Process (JPP). A coordinated joint staff procedure used by a commander to determine the best method of accomplishing assigned tasks and to direct the action necessary to accomplish the mission.²

Joint Resolution. A joint resolution requires the approval of both Houses of Congress and the signature of the President, just as a bill does, and has the force of law, if approved. There is no real difference between a bill and a joint resolution. The latter is generally used in dealing with limited matters, such as a single appropriation for a specific purpose.

Joint resolutions also are used to propose amendments to the U.S. Constitution. These do not require Presidential signature, but become a part of the Constitution when three-fourths of the states have ratified them.⁴

Joint Servicing. That function performed by a jointly staffed and financed activity in support of two or more military services.²

Joint Staff. 1. The staff of a commander of a combatant command, or of a joint task force, which includes members from the several Services comprising the force. 2. The Joint Staff is the staff under the Chairman of the Joint Chiefs of Staff as provided for in the National Security Act of 1947, as amended by the DoD Reorganization Act of 1986. The Joint Staff assists the Chairman and, subject to the authority, direction, and control of the Chairman, the other members of the Joint Chiefs of Staff and the Vice Chairman in carrying out their responsibilities.²

Joint Strategic Capabilities Plan (JSCP). An element of JSPS, the JSCP furnishes guidance to the CINCs and the Chiefs of Services to accomplish tasks and missions based on current military capabilities. It apportions resources to CINCs, based on military capabilities resulting from completed program and budget actions. The JSCP offers a coherent framework for capabilities-based military advice to the NCA.²

Joint Strategic Planning System (JSPS). The primary means by which the Chairman, in consultation with the other members of the Joint Chiefs of Staff and the CINCs, carries out his statutory responsibilities to assist the President and

Secretary of Defense in providing strategic direction to the Armed Forces; advises the President and Secretary of Defense on requirements, programs, and budgets; and assesses the capabilities of the Armed Forces of the United States and its allies as compared with those of their potential adversaries.²

Joint Strategy Review (JSR). An element of JSPS, the JSR assesses the strategic environment for issues and factors that affect the NMS in the near term or the long range. It is a process that continuously gathers information; examines current, emerging, and future issues, threats, technologies, organizations, doctrinal concepts, force structures, and military missions; and reviews and assesses current strategy, forces, and national policy objectives. The JSR facilitates the integration of strategy, operation planning, and program assessment.²

Letters of Allowance. Initiated by the OMB to the DoD containing the President's determinations of what the Defense Budget should contain.¹

Macroeconomics. The branch of economics concerned with aggregate economic analysis in contrast to microeconomics, which is the analysis of individual economic units, markets, or industries. For example, macroeconomics includes the study of the general price level, national output or income, and total employment, rather than the prices of individual commodities or particular incomes and the employment of individual firms.⁴

Management Fund. A kitty made up of funds transferred from two or more DoD appropriations. In this case one of the services is designated as the manager.,

Mark-ups. Budget estimates approved by OSD after a joint review of service, OSD, and OMB personnel. Like all committees, the House and Senate Appropriations Committees also have mark-ups of their bills.¹

Microeconomics. The branch of economics concerned with analysis of individual economic units, markets, or industries as opposed to aggregates. For example, microeconomics deals with the division of total output among industries, products, and firms; with the allocation of resources among competing uses; and with the determination of relative prices of particular goods.⁴

MIPR. Usually referred to as a "nipper" in order to avoid getting tangled up with Military Interdepartmental Purchase Request; it is a requisition with which one military depart-

ment can order services, supplies, or equipment from another military department.¹

Mission Budgeting. A budget approach that focuses on output rather than input and directs attention to how well an agency is meeting its responsibilities. By grouping programs and activities according to an agency's mission or end purposes, mission budgeting makes it easier to identify similar programs. Missions at the highest level in the budget structure represent basic end-purpose responsibilities assigned to an agency. Descending levels in the budget structure then focus more sharply on the specific components of the mission and the programs needed to satisfy them. At the lowest levels are line items -- that is -- the supporting activities necessary to satisfy the missions.⁴

Monetary Policy. Policies, which affect the money supply, interest rates, and credit availability, that are intended to promote national macroeconomic goals -- particularly with respect to employment, gross domestic product, price level stability, and equilibrium in balance of payments. Monetary policy is directed primarily by the Board of Governors of the Federal Reserve System and the Federal Open Market Committee. Monetary policy works by influencing the cost and availability of bank reserves. This is accomplished through open-market operations (the purchase and sale of securities, primarily government securities), changes in the ratio of reserves to deposits that commercial banks are required to maintain, and changes in the discount rate.⁴

Mutual Security Program. A program that authorizes the services to furnish military assistance to certain eligible foreign governments under both Grant Aid and Military Sales Procedures.¹

National Command Authorities (NCA). The President and the SECDEF or their duly deputized alternates or successors.²

National Military Strategy (NMS). The NMS furnishes the advice of the Chairman, in consultation with the other members of the Joint Chiefs of Staff and the CINCs, to the President, the National Security Council, and the Secretary of Defense as to the recommended NMS and fiscally constrained force structure required to attain the national security objectives. The NMS may be used to determine the CJCS position on matters of strategic importance for use in NCA-directed actions.²

New Obligational Authority (NOA). A letter abbreviation for "new obligational authority." It represents the additional amount Congress appropriates for an agency, over and above earlier appropriations and other funds the agency has or expects to

receive from other sources. You may also hear the term obligational authority when referring to an authorization by Congress in connection with something other than a new appropriation.¹

Obligation. The estimate or actual amount of the cost of an authorized service or article you have ordered. This estimate is carried in official accounting records, and reserves funds pending completion of the contract. This reservation is required by public law.¹

Obligational Authority. The total available to an agency in a given fiscal year. Obligational authority is the sum of the budget authority newly provided in a fiscal year, the balance of budget authority from previous years that has not yet been obligated, and amounts authorized to be credited to a specific fund or account during that year, including transfers between accounts.⁶

Outlays. Obligations are generally liquidated when checks are issued or cash disbursed. Such payments are called outlays. In lieu of issuing checks, obligations may also be liquidated (and outlays occur) by the maturing of interest coupons in the case of some bonds, or by the issuance of bonds or notes (or increases in the redemption value of bonds outstanding).

Outlays during a fiscal year may be for payment of obligations incurred in prior years (prior-year outlays) or in the same year. Outlays, therefore, flow in part from unexpended balances of prior-year budget authority and in part from budget authority provided for the year in which the money is spent.

Total budget outlays are stated net of offsetting collections, and exclude outlays of off-budget Federal entities.

The terms expenditure and net disbursements are frequently used interchangeably with the term outlays.⁴

Over-obligation. When this happens you are in a bind. Do it just once and you could earn the privilege of receiving visitors in one of those Federally-operated resorts in Atlanta or Leavenworth. The bind occurs when the aggregate of the funds you reserve exceeds the amount of funds you are authorized to spend.¹

Planning, Programming, and Budgeting System (PPBS). An integrated system for the establishment, maintenance, and revision of the FYDP and the DoD budget. Through this system, an attempt is made to combine policy formulation with budgetary allocation and to furnish a mechanism for analysis.¹

President's Budget. The proposal sent by the President to Congress each year as required by the Budget and Accounting Act of 1921, as amended.⁶

Program. Generally defined as an organized set of activities directed toward a common purpose, or goal, undertaken or proposed by an agency in order to carry out its responsibilities. In practice, however, the term program has many uses and does not have a well-defined, standard meaning. Program is used to describe an agency's mission, programs, functions, services, projects, and processes.⁴

In pure PPBS terms, a program is an aggregation of program elements that reflects a force mission or a support function of the DoD and contains the resources allocated to achieve an objective or plan. It reflects fiscal year time-phasing of mission objectives to be accomplished, and the means proposed for their accomplishment.

The FYDP is comprised of eleven major force programs as follows:

- Program 1 - Strategic Forces
- Program 2 - General Purpose Forces
- Program 3 - Intelligence and Communications
- Program 4 - Airlift and Sealift Forces
- Program 5 - Guard and Reserve Forces
- Program 6 - Research and Development
- Program 7 - Central Supply and Maintenance
- Program 8 - Training, Medical, and Other General Personnel Activities
- Program 9 - Administration and Associated Activities
- Program 10 - Support of Other Nations
- Program 11 - Special Operations

The major programs of the FYDP fall within the general organizational areas of responsibility within OSD. However, since resources in these programs may overlap areas of management and functional responsibility, the programs are not considered to be the exclusive responsibility of any one particular organizational element of OSD.⁵ (See Program Element.)

Program Budget Decision (PBD). A SECDEF decision in prescribed format authorizing changes to a submitted budget estimate and the FYDP.¹

Program Change Decision (PCD). A SECDEF decision, in prescribed format, authorizing changes to the FYDP.¹

Program Decision Memorandum (PDM). A document that contains decisions of the SECDEF on POMs.¹

Program Element. A description of a mission by the identification of the organizational entities and resources needed to perform the assigned mission. Resources consist of forces, manpower, material quantities and cost, as applicable. The program element is the basic building block of the FYDP.¹ See Program.

Program Evaluation. In general, the process of assessing program alternatives, including research and results, and the options for meeting program objectives and future expectations. Specifically, program evaluation is the process of appraising the manner and extent to which programs.

- achieve their stated objectives,
- meet the performance perceptions and expectations of responsible Federal officials and other interested groups,
- produce other significant effects of either a desirable or undesirable character.⁴

Programming Cost. Cost data for making program decisions. Programming costs are based on sets of factors that will give consistent cost data under the same or similar circumstances, and that are directly related to the explicit elements of the program decision.¹

Program Objective Memorandum (POM). A memorandum in prescribed format submitted to the SECDEF by the Secretary of a military department or the director of a defense agency that recommends the total resource requirements within the parameters of the published SECDEF fiscal guidance.¹ A complex document key to the programming phase as well as the cornerstone of the budgeting phase of PPBS. The POM funds current (ongoing) programs as well as new requirements for the future.³

Program Year. A fiscal year in the FYDP that ends not earlier than the second year beyond the current calendar year. Thus, during calendar year 1994 the first program year is 1996.¹

Progress Payments. These are payments to a contractor, under a fixed-price contract, for a specific percentage of actual costs for work in process. The idea is to keep the contractor reasonably solvent until final delivery of the finished item. Most big things, such as ships or aircraft, have to be paid for this way.¹

Reapportionment. A revision by OMB of a previous apportionment of budgetary resources for an appropriation or fund account. Agency requests for reapportionment are usually submitted to OMB as soon as a change in previous apportionment becomes necessary due to changes in amounts available, program

requirements, or cost factors. (For exceptions, see OMB Circular A-34, sec. 44.4.) A reapportionment would ordinarily cover the same period, project, or activity covered in the original apportionment.⁴

Reclama. This occurs when (the services) explain how badly they have been "stabbed" by OSD, OMB, and sometimes, the House of Representatives or the Senate. It is actually a formal restatement and presentation of budget requirements to OSD, OMB, or the Congress in further justification of that portion of the services' requirements that the reviewing authorities have refused to buy.¹

Reconciliation Bill. A bill, requiring enactment by both Houses of Congress and approval by the President, making changes to legislation that has been enacted or enrolled.⁴

Reconciliation Process. A process used by Congress to reconcile amounts determined by tax, spending, and debt legislation for a given fiscal year, with the ceilings enacted in the concurrent resolution on the budget for that year.⁴

Reconciliation Resolution. A concurrent resolution, requiring passage by both Houses of Congress but not the approval of the President, directing the Clerk of the House or the Secretary of the Senate to make specified changes in bills or resolutions that have not yet reached the stage of enrollment.⁴

Recoupment. Obligations or programs that didn't quite stick. This term refers to funds that become excess to current or prior year programs and are transferred to finance approved requirements in another program year.¹

Reprogramming. Utilization of funds in an appropriation account for purposes other than those contemplated at the time of appropriation.

Reprogramming is generally preceded by consultation between the Federal agencies and the appropriate Congressional committees. It involves formal notification and, in some instances, opportunity for disapproval by Congressional committees.⁴

Rescission. An action by President that cancels previously appropriated budget authority. A proposed rescission must be reported to Congress and the comptroller general by the President in a rescission message. If not approved by both houses within forty-five days, the President must obligate the budget authority as it was intended by Congress.⁶

Research and Development (R&D). Research is systematic, intensive study directed toward fuller scientific knowledge or understanding of the subject studied. Development is the systematic use of the knowledge and understanding gained from research, directed toward the production of useful materials, devices, systems or methods, including the design and development of prototypes and processes.

Research and development is a broad term that embraces the work performed by Federal Government agencies and private individuals or organizations under contractual or grant arrangements with the Government. It includes all fields-- education and the social sciences, as well as the physical sciences and engineering.

Research and development excludes routine product testing, quality control, mapping, collection of general purpose statistics, experimental production, routine evaluation of an operational program, and the training of scientific and technical personnel.⁴

Revolving Fund. This is a fund authorized by law to finance a continuing cycle of operations. In this kind of situation, any proceeds from the operations are available for use by the fund. Examples are stock funds, working capital funds, and industrial funds.¹

Stock Fund. This is our chain store operation. It is a revolving fund with which we buy inventories of goods to be sold to Service activities. The collections from sales have been made available by law to replenish the inventory so that this sort of thing can continue ad infinitum.

Spending Authority. Defined by the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344, 31 U.S.C. 1323): a collective designation for appropriations and borrowing, contract, and entitlement authorities for which budget authority is not provided in advance by appropriation acts. The latter three are called backdoor authority.

Supplemental Appropriations. Acts appropriating funds as an addition to the regular annual appropriation. Supplemental appropriations generally are enacted when the need for additional funds is too urgent to be postponed until the next regular appropriation is considered.

Total Obligational Authority (TOA). The total financial requirements of the FYDP or any component of it required to support the approved program of a given fiscal year¹; i.e., a dollar value level of overall fiscal constraint, or ceiling, within which any program (service or agency) must remain.

Unexpended Balance. The sum of the unobligated balance and the unliquidated obligations.

Unliquidated Obligation. An obligation for which payment has not been made.

Unobligated Balance. That portion of your available fund that has not been obligated.

Endnotes for the Glossary

1. Armed Forces Staff College Defense Resource Management Course, Student Guidance.

2. Joint Staff Officer's Guide 1993. Armed Forces Staff College, National Defense University. Appendix I.

3. Wilson and Lewis. "PPBS and MAC." Airlift, Winter 1986, pp. 17, 18.

4. GAO. A Glossary of Terms Used in the Federal Budget Process. March 1981.

5. DODINST 7045.7

6. Collender. The Guide to the Federal Budget, Fiscal 1994. Urban Institute Press, Washington, 1993.

7. DODINST 7041.3

8. Guide to Economic Indicators. The Economist. Butler and Tanner Ltd., Frome and London, 1992.

ABBREVIATIONS AND ACRONYMS

The following list of alphabet soup has been collected from various sources including The Navy's PPBS Course and AFSC Pub 1 (The Staff Officer's Guide).

AAW	Anti-Air Warfare
A/C	Aircraft
ACAT	Acquisition Category
ACP	Area Coordinating Paper
ADP	Automated Data Processing
APDM	Amended Program Decision Memorandum
APN	Aircraft Procurement, Navy
APPN	Appropriation
ARG	Annual Real Growth
ASD()	Assistant Secretary of Defense (C ³ I) Command, Control, Communications & Intelligence (HA) Health Affairs (ES) Economic Security (FM) Force Management (ISA) International Security Affairs (ISP) International Security Policy (LA) Legislative Affairs (RA) Reserve Affairs (SOLIC) Special OPS and Low Intensity Conflict
ASN()	(S&R) Strategy and Requirements Assistant Secretary of the Navy (FM) Financial Management (I&E) Installations & Environment (M&RA) Manpower, Reserve Affairs (R,D&A) Research, Development & Acquisition
ASMD	Anti-Ship Missile Defense
ASU	Approval for Service Use
ASW	Anti-Submarine Warfare
BA	Budget Activity or Budget Authority
BAA	Backup Aircraft Authorization
BAI	Backup Aircraft Inventory
BAM	Baseline Assessment Memorandum
BCC	Budget Classification Code
BES	Budget Estimate Submission
"BLUE \$"	Navy Appropriations (CNO-Sponsored)
"BLUE IN SUPPORT of GREEN"	Navy Appropriations that support the USMC (i.e., Medical, aviation, etc.)
BOS	Base Operating Support
BP	Budget Project
BUMED	Bureau of Medicine and Surgery
BY	Budget Year
C ⁴	Command, Control, Communications & Computers

CAO	Collateral Action Office
CAP	Crisis Action Planning
CBO	Congressional Budget Office
CCA	Chairman's Contingency Capabilities Assessment
CD	Two meanings: Contract Definition Claims, Defense
CF	Concept Formulation
CG	Chairman's Guidance
CHMN	Chairman
CHOP	Synonymous with agree
CINCS	Commanders-in-Chief
CJCS	Chairman of the Joint Chiefs of Staff
CMC	Commandant of the Marine Corps
CMD	Command
CNA	Center for Naval Analyses
CNAVRES	Chief of Naval Reserve
CND	Chief of Naval Development
CNET	Chief of Naval Education & Training
CNO	Chief of Naval Operations
CNP	Chief of Naval Personnel
CNR	Chief of Naval Research
COEA	Cost and Operational Effectiveness Analysis
COMM	Communications
CONG	Congress
CPA	Chairman's Program Assessment
CPG	Contingency Planning Guidance
CPR	Chairman's Program Recommendations
CRS	Congressional Research Service
CTOL	Conventional Take Off/Landing
CVW	Carrier Wing
CY	Two meanings: Calendar Year Current Year
DAB	Defense Acquisition Board
DAE	Defense Acquisition Executive
DAIP	Defense Acquisition Improvement Programs
DBOF	Defense Business Operations Fund
DCA	Defense Communications Agency
DCNO	Deputy Chief of Naval Operations
DCP	Decision Coordinating Paper
DC/S for P&R	Deputy Chief of Staff for Programs and Resources
DC/S for PP&O	Deputy Chief of Staff for Plans, Policy & Operations
DEPSECDEF	Deputy Secretary of Defense
DIA	Defense Intelligence Agency
DIPP	Defense Intelligence Projections for Planning
DJS	Director, Joint Staff
DMA	Defense Mapping Agency
DNA	Defense Nuclear Agency

DoD	Department of Defense
DODINST	Department of Defense Instruction
DON	Department of the Navy
DPG	Defense Planning Guidance
DPPC	Defense Planning & Programming Category
DPQ	Defense Planning Questionnaire
DPRC	Defense Program Review Committee
DPS	Decision Package Set
DRB	Defense Resources Board
DSARC	Defense Systems Acquisition Review Council
DT&E	Development Test & Evaluation
EDG	Exploratory Development Goals
EDM	Engineering Development Model
EMD	Engineering & Manufacturing Development
EOP	Executive Office of the President
EPA	Extended Planning Annex
ESI	Essential Sustainability Items
FAD	Fleet Air Defense
FGC	Fiscal Guidance Category
FGM	Fiscal Guidance Memorandum
FLAIL	Force Level Analysis Interactive Language
FLTCINCs	Fleet Commanders-in-Chief
FM	Financial Management
FMP	Fleet Modernization Program
FSD	Full Scale Development
FY	Fiscal Year
FYDP	Future Years Defense Program
GAO	General Accounting Office
GDP	Gross Domestic Product
GOR	General Operating Requirement
"GREEN \$"	Marine Corps Appropriations (CMC-Sponsored)
HAC	House Appropriations Committee
HASC	House Armed Services Committee
HoC	Head of Component (i.e., Service Secretary)
HQMC	Headquarters, Marine Corps
IAI	Inactive Aircraft Inventory
IBOP	International Balance of Payments
IF	Industrial Fund
I&L	Installations & Logistics
ILS	Integrated Logistics Support
INTELCOM	Intelligence Command
INTEL & SEC	Intelligence & Security
IOC	Initial Operating Capability
IOT&E	Initial Operational Test & Evaluation
IP	Issue Paper or Initial Production
IPL	Integrated Priority List
IPS	Integrated Program Summary
IPSP	Intelligence Priorities for Strategic Planning
IRA	Intelligence Related Activities
IR&D	Independent Research & Development
ISA	International Security Affairs
JAG	Judge Advocate General

JCS	Joint Chiefs of Staff
JLRSS	Joint Long-Range Strategic Study
JMA/SA	Joint Mission Assessment/Support Assessment
JMNA	Joint Military Net Assessment
JOPEs	Joint Operational Planning & Execution System
JPD	Joint Planning Document
JROC	Joint Requirements Oversight Council
JSCP	Joint Strategic Capabilities Plan
JSPS	Joint Strategic Planning System
JSR	Joint Strategy Review
JWCA	Joint Warfighting Capabilities Assessment
LCC	Life Cycle Costing
LMI	Logistics Management Institute
LOG	Logistics
LRIP	Low Rate Initial Production
LRO	Long-Range Objectives
LSA	Logistics Sustainability Analysis
LTDP	Long-Term Defense Program
LTM	Less Than Major
MAAG	Military Assistance & Advisory Group
MAA	Mission Area Analysis
MAPMIS	Manpower and Personnel Management Information System
MARCORPS	Marine Corps
MARDIV	Marine Division
MARP	Manpower Requirements Plan
MAW	Marine Air Wing
MBI	Major Budget Issue
MCN	Military Construction, Navy
MCNR	Military Construction Naval Reserve
MCON	Military Construction
MCON(R)	Military Construction (Reserve)
MCP	Marine Corps Capabilities Plan
MEDSPT	Medical Support
MFI	Major Force Issue
MFP	Major Force Programs
MILCON	Military Construction
MILPERS	Military Personnel
MINIMIP	Mini Management Information Paper
MLRP	Marine Corps Long-Range Plan
M-MARP	Mobilization-Manpower Requirements Plan
MM&SC	Major Mission & Support Category
MMROP	Marine Corps Mid-Range Objectives Plan
MNS	Mission-Need Statement
MOBCON	Mobilization Construction Plan
MOP	JCS Memorandum of Policy
MP	Major Program
MPCR	Memorandum Program Change Request
MPMC	Military Personnel, Marine Corps
MPN	Military Personnel, Navy
MPT	Manpower, Personnel and Training
MSC	Military Sealift Command

MSPG	Material Support Planning Guidance
NADEC	Navy Decision Center
NAMMOS	Navy Manpower Mobilization System
NAMPS	Navy Manpower Programming System
NAP	Naval Air Plan
NARM	Navy Resource Model
NAVAIR	Naval Air Systems Command
NAVCOMPT	Comptroller of the Navy
NAVELEX	Naval Electronics Systems Command
NAVFAC	Naval Facilities Engineering Command
NAVMEDRSCHDEVC	Naval Medical Research Development Committee
NAVPERS	Bureau of Naval Personnel
NAVSEA	Naval Sea Systems Command
NAVSECGRUCOM	Naval Security Group Command
NAVSUP	Naval Supply Systems Command
NCB	Director of Budget & Reports, NAVCOMPT
NCD	Deputy Comptroller of the Navy
NCIS	Navy Cost Information System
NCP	Navy Capabilities Plan
NCPC	Navy Civilian Personnel Command
NDCP	Navy Decisions Coordinating Paper
NDES	NARM Data Entry Sheet
NFC	Navy Finance Center
NIF	Navy Industrial Fund
NLRG	Navy Long-Range Guidance
NMRG	Navy Mid-Range Guidance
NMS	National Military Strategy
NOA	New Obligational Authority
NPR	Naval Petroleum Reserve
	or National Performance Review
NSA	National Security Agency
NS&MP	Navy Support & Mobilization Plan
NSC	National Security Council
NSDD	National Security Decision Directive
NSF	Navy Stock Fund
NSS	Navy Strategic Study
NTP	Navy Technological Projections
OASD	Office, Assistant Secretary of Defense
O&M	Operations & Maintenance
O&MMC	Operations & Maintenance, Marine Corps
O&MMCR	Operations & Maintenance, Marine Corps, Reserve
O&MN	Operations & Maintenance, Navy
O&MNR	Operations & Maintenance, Navy, Reserve
OJCS	Office of the Joint Chiefs of Staff
OMB	Office of Management & Budget
ONR	Office of Naval Research
OPA	Office of Program Appraisal
OPDEP	Operations Deputy
OPN	Other Procurement, Navy
OPNAV	Office of the Chief of Naval Operations
OPS	Operations
OPTEVFOR	Operational Test & Evaluation Force

OR	Operational Requirement
OSD	Office of the Secretary of Defense
OT&E	Operational Test & Evaluation
OUSD (R&E)	Office of the Under Secretary of Defense for Research & Engineering
PAA	Primary Aircraft Authorization
PA&E	Program Analysis & Evaluation
PAI	Primary Aircraft Inventory
PAO	Program Action Officer
PAR	Chairman's Preparedness Assessment Report
PASU	Provisional Approval for Service Use
P&P	Plans & Programs
PBD	Program Budget Decision
PC	Program Coordinator
PCD	Program Change Decision
PCP	Program Change Proposal
PCR	Program Change Request
PD	Presidential Decision
PDA	Principal Development Activity
PDM	Program Decision Memorandum
PDRC	Program Development Review Committee
PDS	Program Decision Summary
PE	Program Element
PEC	Program Evaluation Center
PEDD	Program Element Descriptive Data Sheet
PEDS	Program Evaluation and Decision Summary
PEO	Program Executive Officer
PERSSPT	Personnel Support
PESD	Program Element Summary Data Sheet
PL	Public Law
PM	Program Manager
PMA	Program/Project Manager at NAVAIR
PMC	Procurement, Marine Corps
PME	Program/Project Manager at NAVLEX
PMI	Proposed Military Improvement
PMS	Program/Project Manager at NAVSEA
POA&M	Plan of Actions & Milestones
POM	Program Objectives Memorandum
PPBS	Planning, Programming & Budgeting System
PPI	POM Preparation Instructions
PRM	Presidential Review Memorandum
PWRMS	Prepositioned War Reserve Material Stocks
PY	Prior Year
QPR	Quarterly Progress Report
RAD	Resource Allocation Display
R&D	Research & Development
R&M	Reliability & Maintainability
RCC	Resource Category Code
RDT&E, (N)	Research, Development, Test & Evaluation, (Navy)
RET. PAY-DEF	Retired Pay, Defense
RFP	Request for Proposal

RGS	Requirements Generation System
RIC	Resource Identification Code
RMS	Resource Management System
ROC/POE	Required Operational Capability/Projected Operational Environment
RPD	Retired Pay, Defense
RPMC	Reserve Personnel, Marine Corps
RPN	Reserve Personnel, Navy
RPV	Real Program Value
SAC	Senate Appropriations Committee
SAE	Service Acquisition Executive
SAIP	Ship Acquisition Improvement Panel
S&T	Science & Technology
SAR	Selected Acquisition Report
SASC	Senate Armed Services Committee
SASDT	Ships & Aircraft Supplemental Data Tables
SCN	Shipbuilding & Conversion, Navy
SCP	System Concept Paper
SDDM	Secretary of Defense Decision Memorandum
SECDEF	Secretary of Defense
SECNAV	Secretary of the Navy
SECNAVINST	Secretary of the Navy Instruction
SF	Stock Fund
SIOP	Single Integrated Operational Plan
SMIS	Ships Management Information System
SNAP	Summary Department of the Navy Approved Program
SPP	Sponsor Program Proposal
STO	Scientific and Technical Objectives
SWP	Surface Warfare Plan
SYS	Systems
SYSKOM	Systems Command (AIR, SEA, ELEX, FAC, SUP)
TAAA	Total Active Aircraft Authorization
TAAI	Total Active Aircraft Inventory
T&E	Test & Evaluation
TACAIR	Tactical Air Forces
TCP	Tactical Cryptologic Program
TCP	Technology Coordinating Paper
TEMP	Test & Evaluation Master Plan
TFDC	Total Force Development Committee
TIARA	Tactical Intelligence and Related Activities (Compartmented)
TOA	Total Obligational Authority
TOAI	Total Overall Aircraft Inventory
TPOM	Tentative Program Objectives Memorandum
TRM	Training Resource Model
TRNG	Training
UIC	Unit Identification Code
USC	United States Code
USD (A&T)	Under Secretary of Defense for Acquisition & Technology
USD (P)	Under Secretary of Defense for Policy

USD (P&R)	Under Secretary of Defense for Personnel and Readiness
USMC	U.S. Marine Corps
USecNav	Under Secretary of the Navy
VCJCS	Vice Chairman of the Joint Chiefs of Staff
VCNO	Vice Chief of Naval Operations
VSTOL	Vertical/Short Take Off Landing
WPN	Weapons Procurement, Navy
WRM	War Reserve Material
WSC	Weapons System Code
WWMCCS	World Wide Military Command & Control System
ZBB	Zero Based Budgeting