Programming and Budgeting Policies for Acquisition Programs

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2014 PDI – 30 May 2014
Programming and Budgeting Policies for Acquisition Programs

- **Budgeting Building Blocks**
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  - Multiyear Procurement (economic order quantity)
- **Funding Policies for Unique Items**
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  - LRIP Articles
  - Product Improvements
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- Fiscal Environment
- POE
- A o A

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- Functional Area Analysis

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- Modernization
- Readiness
- Sustainability

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- Obligation
- Reprogramming

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- Authorization & Appropriation Laws

**Budget Resolution**
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- Reprogramming Outlay

**Annual Funding**
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- Full Funding (Exceptions)

**Funding Policies**
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- CAIV
- CCE
- ICE

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- FYDP
- DPPG
- MFP
- POM/BES
- RMD
- MBIs

**Resource Management Flow**
- From Identification of Need for a Capability to Providing Operational Capability

**Functional Area Analysis**
- Feedback

**Laws**
- SAC
- HAC
- SASC
- HASC
- SBC

**Budget Execution**
- Operational Capability
What is Needed to Build a Program Budget?

**Program Direction:**
A statement of what the program manager is expected to do – the Acquisition Program Baseline (APB)

**Work Breakdown Structure (WBS):**
A translation of the program direction into a statement of the tasks required to achieve the program objectives

**Schedule:**
The sequence of tasks in the WBS –
- Showing when each task begins and ends
- How tasks are related to each other
- How workload/cost for each task is distributed within the time period
Underlying Assumptions in Budgeting

- “Color of money” (i.e., Appropriation) requested in the budget is based on type of work to be performed.

- Normally, funding is requested for a 12 month fiscal year (1 October – 30 September of following year).

- Correct level of funding requested (i.e., budgeted) for a fiscal year is based on required level of work effort plus application of proper funding policy for that Appropriation.

- Funding is requested (i.e., budgeted) for the fiscal year when the organization honestly “requires” the funds in accordance with proper funding policy.

- Application of proper funding policy implies that funds will be obligated during the first year of availability.
Appropriation Categories vs. Appropriation Accounts

**Appropriation Categories**

- **Definition:** Broad, generic terms pertaining to general “types” of Federal Government funds.

- **Examples of interest to Acquisition Community:**
  - Research, Development, Test and Evaluation (RDT&E)
  - Procurement
  - Military Construction (MILCON)

**Appropriation Accounts**

- **Definition:** Specific designation of Federal Government funds as contained in an Appropriations Act passed by Congress and signed into law by President. Each account has a unique four digit code preceded by a two digit prefix.

- **Examples of interest to Acquisition Community:**
  - Research, Development, Test and Evaluation (RDT&E), **Army** (2040)
  - Aircraft Procurement, **Navy** (1506)
  - Operations & Maintenance (O&M), **Air Force** (3400)
# DoD Appropriation Account Codes

<table>
<thead>
<tr>
<th>Appropriation Account</th>
<th>Army</th>
<th>Navy</th>
<th>USMC</th>
<th>Air Force</th>
<th>DoD Wide</th>
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<tbody>
<tr>
<td>RDT&amp;E</td>
<td>21 -</td>
<td>17 -</td>
<td>17 -</td>
<td>57 -</td>
<td>97 -</td>
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<tr>
<td>Procurement</td>
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<tr>
<td>Aircraft</td>
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<td>1319</td>
<td></td>
<td>3600</td>
<td>0400</td>
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<td>2031</td>
<td>1506</td>
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<td>3010</td>
<td>0300</td>
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<td>Weapons</td>
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<td>3020</td>
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<tr>
<td>W&amp;TCV</td>
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<tr>
<td>Ammunition</td>
<td>2034</td>
<td>1508</td>
<td></td>
<td>3011</td>
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</tr>
<tr>
<td>SCN</td>
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<td>1611</td>
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<td>Other</td>
<td>2035</td>
<td>1810</td>
<td></td>
<td>3080</td>
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<tr>
<td>MILPERS</td>
<td>2010</td>
<td>1453</td>
<td>1105</td>
<td>3500</td>
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<tr>
<td>O&amp;M</td>
<td>2020</td>
<td>1804</td>
<td>1106</td>
<td>3400</td>
<td>0100</td>
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<tr>
<td>MILCON</td>
<td>2050</td>
<td>1205</td>
<td></td>
<td>3300</td>
<td>0500</td>
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“Notional” Example of Preparing Input for FY 2015 Budget - Applying Escalation

Budget Estimate = “Price Today in Base Yr $” plus inflation plus economic effects of outlays occurring in future years
## Major Appropriation Categories

<table>
<thead>
<tr>
<th>Scope / Type of Work Effort</th>
<th>Appropriation Category</th>
<th>Funding Policy</th>
<th>Period Available for Obligation</th>
<th>Control Level (Budgeting)</th>
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<tr>
<td>R&amp;D Activities and Expenses</td>
<td>RDT&amp;E</td>
<td>Incremental</td>
<td>2 Years</td>
<td>Program Element</td>
</tr>
<tr>
<td>Useable End Items &gt;= $250K system unit cost; Centrally managed items; Initial Spares; Labor for certain production-related functions (e.g., item assembly, quality assurance)</td>
<td>Procurement</td>
<td>Full</td>
<td>3 Years</td>
<td>Line Item</td>
</tr>
<tr>
<td>(SCN)</td>
<td></td>
<td></td>
<td>(5 Years)</td>
<td></td>
</tr>
<tr>
<td>Replenishment Spares; Fuel; Civilian Pay; Travel; Construction Projects &lt;$750K; Non-Centrally managed end items &lt;$250K system unit cost</td>
<td>O&amp;M</td>
<td>Annual</td>
<td>1 Year</td>
<td>Sub-Activity Group</td>
</tr>
<tr>
<td>Military Personnel Expenses</td>
<td>MILPER</td>
<td>Annual</td>
<td>1 Year</td>
<td>Budget Activity</td>
</tr>
<tr>
<td>Major Construction Projects &gt;$750K</td>
<td>MILCON</td>
<td>Full</td>
<td>5 Years</td>
<td>Project</td>
</tr>
</tbody>
</table>

- **R&D Activities and Expenses**: RDT&E, Incremental, 2 Years, Program Element
- **Useable End Items >= $250K system unit cost**: Procurement, Full, 3 Years, Line Item
- **Replenishment Spares; Fuel; Civilian Pay; Travel; Construction Projects <$750K; Non-Centrally managed end items <$250K system unit cost**: O&M, Annual, 1 Year, Sub-Activity Group
- **Military Personnel Expenses**: MILPER, Annual, 1 Year, Budget Activity
- **Major Construction Projects >$750K**: MILCON, Full, 5 Years, Project
Annual Funding Policy

Applies to O&M and MILPER Appropriation Categories

These costs are considered “expenses”

• Prepare annual budget request on basis of funding needed to operate and maintain DoD activities and pay personnel for a 12 month budget period (i.e., normally the fiscal year)

• Intent of policy: To provide only those funds required to pay expenses associated with “normal” operations of DoD activities for a 12 month period

Source: DoD 7000.14-R, Vol 2A, Chap 1, Section 010201C
# Annual Funding Policy

## Simple Application – O&M Appropriation

### Expenses by Fiscal Year

<table>
<thead>
<tr>
<th>Expense</th>
<th>FY 1</th>
<th>FY 2</th>
<th>FY 3</th>
<th>FY 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civ Pay</td>
<td>$500 K</td>
<td>$510 K</td>
<td>$520 K</td>
<td>$531 K</td>
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<tr>
<td>Supplies</td>
<td>$25 K</td>
<td>$35 K</td>
<td>$27 K</td>
<td>$29 K</td>
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<tr>
<td>TDY</td>
<td>$30 K</td>
<td>$40 K</td>
<td>$35 K</td>
<td>$40 K</td>
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<tr>
<td>Service Contract</td>
<td>$40 K</td>
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<td>Budget Request</td>
<td>$645 K</td>
<td>$585 K</td>
<td>$582 K</td>
<td>$600 K</td>
</tr>
</tbody>
</table>

- **Period when expenses are being incurred:**
  - Civic Pay
  - Supplies
  - TDY
  - Service Contract: 12 Month

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*Note: Periods FY 1 to FY 4 are indicative of fiscal years without specific dates.*
Annual Funding Policy
Service Contract Exception

• Exception to budgeting for “Fiscal Year” period

• U.S. Code, Title 10, Section 2410a provides authority for DoD to budget for and obligate funds for severable service contracts for periods crossing fiscal years provided the contract period does not exceed 12 months

• Funds made available for a given fiscal year may be obligated for the total amount of that contract

References: (1) U.S. Code, Title 10, Section 2410a
(2) Comptroller General Decision B-259274 (22 May 96)
Annual Funding Policy
Multiyear Contracts for Acquisition of Services
Typically, O&M Appropriation

• DoD agencies may award a single contract for periods not more than five years for specific type “services” provided:
  • There will be a continuing requirement for the services for proposed period of performance
  • Furnishing of the services requires substantial initial investment in plant, equipment, or specialized work force
  • Use of such contract will promote best interest of US

• Examples of “covered” services:
  • Operation, maintenance, and support of facilities and installations
  • Maintenance of modification of aircraft, ships, vehicles, and other highly complex military equipment
  • Specialized training requiring high quality instructor skills (e.g., pilots, aircrew members, linguists)
  • Base services such as bus transportation, ground maintenance, garbage collection and disposal

References: DoD 7000.14-R, Vol 2A, Chap 1, Section 010203
U.S. Code, Title 10, Section 2306c
Annual Funding Policy
Multiyear Contracts for Acquisition of Services
Example of Budget Preparation for Such Contract

- Budgeting policy: Budget each year for estimated cost of services for the 12 month period (annual funding)
- Can budget for cost of plant or equipment on amortized basis (i.e., cost spread over number of contract years)

References:
DoD 7000.14-R, Vol 2A, Chap 1, Section 010203
U.S. Code, Title 10, Section 2306c
Incremental Funding Policy
Applies to RDT&E Appropriation Category

Costs can be considered either “expenses” or “investments”

• Prepare annual budget request on basis of incremental funding required to cover only those costs expected to be incurred for work to be done during a given fiscal year

• Rationale for budgeting on incremental funding basis:
  – Government will obligate funding only for work to be performed during a given fiscal year
  – Contractor will perform work required by contract
  – Contractor will incur costs to perform that work
  – Contractor will submit invoice to receive payment for that work
  – Government will pay for work performed that fiscal year with that year’s appropriated funds

• Intent of policy: To achieve effective “rationing” of scarce funds among research programs

Reference: DoD 7000.14-R, Vol 2A, Chap 1, Section 010214
# Incremental Funding Policy

## Simple Application – RDT&E Appropriation

Cost Incurred by Contract by Fiscal Year

<table>
<thead>
<tr>
<th>Task Cost</th>
<th>FY 1</th>
<th>FY 2</th>
<th>FY 3</th>
<th>FY 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>TASK 1</td>
<td>$ 50 M</td>
<td>$ 100 M</td>
<td>$ 100 M</td>
<td></td>
</tr>
<tr>
<td>$ 250 M</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TASK 2</td>
<td></td>
<td>$ 25 M</td>
<td>$ 100 M</td>
<td>$ 25 M</td>
</tr>
<tr>
<td>$ 150 M</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TASK 3</td>
<td></td>
<td></td>
<td>$ 50 M</td>
<td>$ 40 M</td>
</tr>
<tr>
<td>$ 100 M</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Budget Request</td>
<td>$ 50 M</td>
<td>$135 M</td>
<td>$250 M</td>
<td>$ 65 M</td>
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</table>

**Budget Request**

**Incremental Funding Policy**

**Planned Period of Performance (i.e, planning for costs to be incurred)**
Incremental Funding Policy

“Unique” Exceptions to Budgeting for 12 Month Period

• “9 – Month Exception”
  • For first year of a New Start Program, Program Office should budget only for a 9 – month or lesser period. Thereafter, budget for 12 months until last year of effort; then only for months estimated to complete.

• “15 – Month Exception”
  • Service or Defense Agency Comptroller may approve extensions of up to 3 months beyond end of the fiscal year for which funds are requested.

• “18 – Month Exception”
  • There are circumstances where a R&D requirement can not logically be divided; where it is unfeasible to limit the contract to a short period in the second year; or where the planned technical effort is such that no responsible contractor would accept a contract for a “less-than-completion” increment.
  • For these type efforts that take longer than 12 months but less that 18 months, the Service or Defense Agency Comptroller may approve financing the total requirement in one fiscal year.

Reference: DoD 7000.14-R, Vol 2A, Chap 1, Section 010214
Full Funding Policy
Applies to Procurement and MILCON Appropriation Categories

Costs are considered “investments”

• Prepare annual budget request to cover total estimated cost for a specific quantity of militarily usable end items deliverable in a 12 month funded delivery period.

• Governing Concepts:
  - Total Estimated Cost
  - Usable End Items
  - Funded Delivery Period
  - To inform OSD, Congress and Public.
  - No piecemeal procurement of systems is permitted.
  - Time period (12 month maximum) during which contracted items are planned to be delivered, starting with planned delivery of first item.

• Intent of policy: To provide total funding for investment items to satisfy an approved 12 month requirement

Reference: DoD 7000.14-R, Vol 2A, Chap 1, Section 010202A
Full Funding Policy

• The full funding policy requires the total estimated cost of a military useable end item be budgeted in the fiscal year in which the item is to be procured.

• Under the full funding policy, the entire cost of a weapon, piece of military equipment, or construction project is to be funded in the year of the planned contract award.

• The end item to be put on contract in a given fiscal year cannot depend upon funding in a future year to complete the procurement action.

Reference: DoD 7000.14-R, Vol 2A, Chap 1, Section 010202A
### Full Funding Policy

**Conceptual - Procurement Category**

<table>
<thead>
<tr>
<th>10 Items</th>
<th>LOT 1 ($400M)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Contract Award Date</th>
<th>Production Lead Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 1</td>
<td>FY 2</td>
</tr>
<tr>
<td>FY 3</td>
<td>FY 4</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

**Start Up Costs:**

- **FY 1:** $40 M
- **FY 2:** $30 M
- **FY 3:** $140 M
- **FY 4:** $140 M

**Recurring Production Costs:**

- **FY 1:** $70 M
- **FY 2:** $140 M
- **FY 3:** $140 M
- **FY 4:** $50 M

**Budget Request:**

- **FY 1:** 
- **FY 2:** 
- **FY 3:** 
- **FY 4:** 

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**How We Expect the Contractor to Incur Cost by FY**
# Full Funding Policy

## Simple Application - Procurement Appropriation

<table>
<thead>
<tr>
<th>Lot Cost</th>
<th>FY 1</th>
<th>FY 2</th>
<th>FY 3</th>
<th>FY 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>$400 M</td>
<td>2</td>
<td>2</td>
<td>3</td>
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<tr>
<td>LOT 1</td>
<td>10</td>
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<td></td>
</tr>
<tr>
<td>10 ITEMS</td>
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</tr>
<tr>
<td>$600 M</td>
<td>5</td>
<td>5</td>
<td>5</td>
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<tr>
<td>LOT 2</td>
<td>20</td>
<td></td>
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<tr>
<td>20 ITEMS</td>
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<tr>
<td>$900 M</td>
<td>8</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LOT 3</td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40 ITEMS</td>
<td></td>
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</table>

Full Funding Policy

Simple Application - Procurement Appropriation

<table>
<thead>
<tr>
<th>Lot Cost</th>
<th>FY 1</th>
<th>FY 2</th>
<th>FY 3</th>
<th>FY 4</th>
</tr>
</thead>
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<tr>
<td>Budget Request</td>
<td>$400 M</td>
<td>$600 M</td>
<td>$900 M</td>
<td>- 0 -</td>
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</table>

- $400 M
- $600 M
- $900 M

2021
## Funded Delivery Schedule Concept

**Example of Proposed Delivery Schedule to Avoid**

<table>
<thead>
<tr>
<th></th>
<th>FY 1</th>
<th>FY 2</th>
<th>FY 3</th>
<th>FY 4</th>
<th>FY 5</th>
</tr>
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<tbody>
<tr>
<td><strong>LOT 1</strong></td>
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<tr>
<td>Items</td>
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<tr>
<td><strong>LOT 2</strong></td>
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<tr>
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<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
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<tr>
<td><strong>LOT 3</strong></td>
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<tr>
<td>Items</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>40</td>
</tr>
</tbody>
</table>

### Production Lead Time
- **LOT 1**: 12 Months from Delivery of First Item of Production Lot

### Funded Delivery Schedule
- **FY 3**: 2, 2, 3, 3
- **FY 5**: Defer to Later Fiscal Years

### Values
- **FY 3**: 2, 2, 3, 3
- **FY 5**: Defer to Later Fiscal Years

### Notes
- **LOT 1**: 10 Items
- **LOT 2**: 20 Items
- **LOT 3**: 40 Items
Full Funding Policy

Exceptions to Budgeting Under Full Funding

• **Advance Procurement Exception**
  • Related to Long Lead-time Items in procurement appropriations where:
    • Efforts must be funded in an advance procurement timeframe to maintain a planned production schedule, or
    • Lead-time of the item is greater than life of the appropriation, or
    • Lead-time of the item is greater than other components, parts, and material of the same end item.
  • Why an exception: Procurement action is **not** for a usable end item.

• **Economic Order Quantity (EOQ) Procurement**
  • Used only in connection with Multiyear Procurement (MYP) action
  • Funds budgeted and obligated first year of Multiyear Procurement contract for components, parts or materials of end items to be delivered over period of contract not to exceed 5 years
  • Why an exception: Contracted quantities of items will be delivered over period greater than normal 12 month funded delivery period

Reference: DoD 7000.14-R, Vol 2A, Chap 1, Section 010202
Advance Procurement
Long Lead-time Items

• Exception to Full Funding Policy
  – Shown in Acquisition Strategy
  – Approved in Milestone Decision

• Circumstances that justify use:
  – When necessary to maintain (protect) planned production schedule
  – Lead-time of component greater than life of the appropriation
  – Lead-time of component significantly longer than remainder of end item

• Budgetary Implications:
  – Minimum amount budgeted = termination liability of total cost of long lead-time items being procured
  – Budgeted amount generally requested one fiscal year in advance of related end item contract
  – Budgeted amount is shown as a separate line entry on various budget exhibits (e.g., P-1, P-5, P-40)
### Advance Procurement Application with Procurement

<table>
<thead>
<tr>
<th></th>
<th>FY 1</th>
<th>FY 2</th>
<th>FY 3</th>
<th>FY 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LOT 3 ($400M)</strong></td>
<td></td>
<td></td>
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<tr>
<td>Items</td>
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<tr>
<td><strong>LOT 4 ($700M)</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Items</td>
<td>38</td>
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<tr>
<td><strong>Advance Procurement</strong></td>
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</tr>
<tr>
<td><strong>BA Adv Proc</strong></td>
<td>+ $10M</td>
<td>- $10M</td>
<td>- $15M</td>
<td></td>
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<tr>
<td><strong>BA System</strong></td>
<td></td>
<td>+ $15M</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BA Total (FY)</strong></td>
<td>$10M</td>
<td>$405M</td>
<td>$685M</td>
<td>$0</td>
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</tbody>
</table>

*Separate Budget Line Item one fiscal year in advance of associated production contract*
Economic Order Quantity (EOQ) Procurement
For Multiyear Procurement (MYP) Contract

• Exception to Full Funding Policy

• A single contract for a specific quantity of usable end items to be delivered over a period of time greater than one year but not more than five years

• After initial MYP approval by Congress, the Service requests – and Congress appropriates – required budget on a “year by year” basis to obligate against the contract

References: DoD 7000.14-R, Vol 2A, Chap 1, Section 010203
U.S. Code, Title 10, Section 2306b
Multiyear Procurement Criteria

For an acquisition program to considered a viable candidate for a Multiyear Procurement Contract, there should be:

• Significant savings compared to annual contract buys
• Stable requirements
• Stable design
• Confidence in the cost estimates
• Confidence in contractor’s ability to produce
• Commitment by the Service, OSD and Congress to provide the appropriate level of funding for current and out – years
• Promote national security of the United States
Multiyear Procurement
Continued

• **Budgetary Implications of Statutory Requirements**
  – Budget estimates for production items should be based on cost of units actually delivered (except for satellites and ships)
  – Generally, USD (C) requires all MYP programs be funded in the FYDP up to at least the cancellation ceiling
  – USD (C) requires notification of how MYP programs will be funded
  – USD (C) must approve any MYP contract structured with an unfunded cancellation ceiling

• **Funds obligated for MYP contracts must be sufficient to cover any potential contract cancellation costs.**
  Such costs may be paid from:
  – appropriations originally available for this contract;
  – appropriations currently available for procurement of this type property;
  – funds appropriated for such payments
Multiyear Procurement (MYP) Contract
(Example of Budget Preparation for a MYP Contract)

Budget in same method as Full Funding

Except for items budgeted under “EOQ” rules

Assumes a 92% Learning Curve and composite indices appropriate to given fiscal years
Funding Rules for Communications and Information Systems

Procurement - Investment
- New Equipment / SW > $250K
- Upgrades / Replacement Equipment > $250K

O&M - Expenses
- New Equipment / SW < $250K
- Upgrades/Replacement Equipment < $250K
- Routine maintenance, Lease

RDT&E
- Development, test and evaluation costs
- Development of major upgrades
- Hardware/Software for RDT&E Facilities
Low Rate Initial Production (LRIP)
Primary Purposes and Proper Appropriation

**PURPOSE**

- Permit an orderly increase in production ramp-up
- Establish an initial production base
- Provide production configured of representative articles for operational test
  - * Articles destroyed or not going into operational inventory
  - * Articles scheduled to go into operational inventory

**APPROPRIATION**

- Procurement
- Procurement
- RDT&E is default, but . . . .
- RDT&E
- Procurement
Product Improvements
Changes to a Fielded System

• Two types of Product Improvements
  • One done to increase performance (i.e., “enhance the performance envelope”)
  • One done primarily for some other purpose

• Three types of activities to be funded
  • Determine how to do the modification (i.e. research and test possible alternatives)
  • Purchase the “Modification Kit” to improve the product
  • Install the “Modification Kit” on the fielded system
Funding for Product Improvements

Funding Decision Tree

IF . . . .
MOD INCREASES PERFORMANCE?

NO

INDEPENDENT DT OR IOT&E REQUIRED?

YES

SYSTEM IN PRODUCTION?

NO

O & M

NO

PROCUREMENT

YES

PROCUREMENT

RDT & E

THEN . . . .
Fund the Development and Testing with . . .
(including MOD Kits used for Testing)

AND . . . .
Fund MOD Kits for End Items and the installation of Kits with . . .
Funding for Product Improvements

Funding Decision Tree

IF . . . .

MOD INCREASES PERFORMANCE?

YES

THEN . . . .

Fund Development and Testing with . . .
(including MOD Kits used for Testing)

AND . . . .

Fund MOD Kits for End Items and the installation of Kits with . . .

PROCUREMENT
Funding for Product Improvements
Funding Decision Tree

IF . . . .
MOD INCREASES PERFORMANCE?

NO

INDEPENDENT DT OR IOT&E REQUIRED?

YES

RDT & E

THEN . . . .
Fund Development and Testing with . . .
(including MOD Kits used for Testing)

AND . . . .
Fund MOD Kits for End Items and the installation of Kits with . . .

PROCUREMENT
Funding for Product Improvements
Funding Decision Tree

IF . . . .
MOD INCREASES PERFORMANCE?

INDEPENDENT DT OR IOT&E REQUIRED?
NO

SYSTEM IN PRODUCTION?
NO

YES
PROCUREMENT

THEN . . . .
Fund Development and Testing with . . .
(including MOD Kits used for Testing)

AND . . . .
Fund MOD Kits for End Items and the installation of Kits with . . .
Funding for Product Improvements
Funding Decision Tree

IF . . . .

MOD INCREASES PERFORMANCE?

NO

INDEPENDENT DT OR IOT&E REQUIRED?

NO

SYSTEM IN PRODUCTION?

NO

O & M

THEN . . . .

Fund Development and Testing with . . .
(including MOD Kits used for Testing)

AND . . . .

Fund MOD Kits for End Items and the installation of Kits with . . .

PROCUREMENT
MOD INCREASES PERFORMANCE?

IF . . . .

INDEPENDENT DT OR IOT&E REQUIRED?

INDEPENDENT DT OR IOT&E REQUIRED?

SYSTEM IN PRODUCTION?

RDT & E

YES

YES

⁺NO

³NO

³NO

O & M

PROCURMENT

PROCURMENT

Funding Decision Tree

THEN . . . .

Fund the Development and Testing with . . .
(including MOD Kits used for Testing)

AND . . . .

Fund MOD Kits for End Items and the installation of Kits with . . .
Definition of Escalation Terms

• Escalation computation required because of time-value of money

• Constant or Base Year
  • Tied to a specific year - No inflation included

• Current or Then Year
  • Includes outlay rates and inflation - Programming/ Budgeting documents stated in current / then year dollars

• Raw (Compound) Index
  • Relation of price level to the Base Year - Compounds the yearly incremental inflation rates

• Weighted (Composite) Index
  • Combines inflation rate of Compound Index with Outlay Rate to reflect the economic effect of cash being received for several years beyond year of contract award
  • Unique Index for each appropriation account
  • OSD provides annual inflation and outlay rates; Services compute Weighted Index for each account for POM, BES and PB
“Notional” Example of Preparing Input for FY 2015 Budget - Applying Escalation

Budget Estimate = “Price Today in Base Yr $” plus inflation plus economic effects of outlays occurring in future years

- Price Today (Base Yr $)
- Outlay Rate (%)
- Cumulative Inflation (%)
- Dollar “Value” ($) When Outlaid
- “Required Budget” Estimate (Current/Then Yr $)

To go from “Price Today” to “Required Budget”, multiple “Price Today” by proper Weighted (Composite) Index of Appropriation Account

Year Budget Prepared

<table>
<thead>
<tr>
<th>Year Budget Prepared</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>CY13</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$$</td>
<td></td>
<td></td>
<td></td>
<td>$$</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$$</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$$</td>
</tr>
</tbody>
</table>

$\text{Budget Estimate} = \text{Price Today in Base Yr $} + \text{inflation} + \text{economic effects of future outlays}$
### Approved Annual Inflation Rates*

To be reflected for “Budget Authority” Purposes

Example of Inflation Rates Provided by OSD

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Procurement</th>
<th>RDT&amp;E</th>
<th>Non-Fuel</th>
<th>O&amp;M Fuel</th>
<th>MILCON</th>
<th>MILPER (Non-Pay)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1.0 %</td>
<td>1.0 %</td>
<td>1.5 %</td>
<td>- 16.0 %</td>
<td>1.0 %</td>
<td>1.0 %</td>
</tr>
<tr>
<td>2014</td>
<td>1.3 %</td>
<td>1.3 %</td>
<td>1.7 %</td>
<td>8.3 %</td>
<td>1.3 %</td>
<td>1.3 %</td>
</tr>
<tr>
<td>2015</td>
<td>1.3 %</td>
<td>1.3 %</td>
<td>1.6 %</td>
<td>3.3 %</td>
<td>1.3 %</td>
<td>1.3 %</td>
</tr>
<tr>
<td>2016</td>
<td>1.5 %</td>
<td>1.5 %</td>
<td>1.5 %</td>
<td>1.1 %</td>
<td>1.5 %</td>
<td>1.5 %</td>
</tr>
<tr>
<td>2017</td>
<td>1.7 %</td>
<td>1.7 %</td>
<td>1.8 %</td>
<td>1.1 %</td>
<td>1.7 %</td>
<td>1.7 %</td>
</tr>
<tr>
<td>2018</td>
<td>1.9 %</td>
<td>1.9 %</td>
<td>1.8 %</td>
<td>1.0 %</td>
<td>1.9 %</td>
<td>1.9 %</td>
</tr>
<tr>
<td>2019</td>
<td>2.0 %</td>
<td>2.0 %</td>
<td>1.9 %</td>
<td>1.0 %</td>
<td>2.0 %</td>
<td>2.0 %</td>
</tr>
<tr>
<td>2020 **</td>
<td>2.0 %</td>
<td>2.0 %</td>
<td>1.9 %</td>
<td>1.0 %</td>
<td>2.0 %</td>
<td>2.0 %</td>
</tr>
</tbody>
</table>

* These rates are “notional” rather than actual OSD guidance. Rates provided by OSD are not used to inflate accounts fixed by statute. Rates are at the appropriation title level. Inflation rates for specific appropriation accounts are a function of the outlay profiles and may vary within each appropriation title.

** These rates would be used for all years beyond 2019.
Examples Of Historical Outlay (Spend-out) Rates
(As a Percentage of First Year Budget Authority)

<table>
<thead>
<tr>
<th>APPROPRIATION</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARMY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AIRCRAFT PROC</td>
<td>19.00</td>
<td>52.10</td>
<td>19.50</td>
<td>05.00</td>
<td>01.80</td>
<td>01.00</td>
<td>01.60</td>
</tr>
<tr>
<td>MISSILES</td>
<td>07.00</td>
<td>43.20</td>
<td>36.50</td>
<td>08.60</td>
<td>01.00</td>
<td>00.70</td>
<td>03.00</td>
</tr>
<tr>
<td>RDT&amp;E</td>
<td>33.42</td>
<td>49.32</td>
<td>11.71</td>
<td>02.84</td>
<td>01.23</td>
<td>01.48</td>
<td>100.00</td>
</tr>
<tr>
<td>AIR FORCE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AIRCRAFT PROC</td>
<td>28.30</td>
<td>41.70</td>
<td>19.00</td>
<td>06.50</td>
<td>02.00</td>
<td>01.00</td>
<td>01.50</td>
</tr>
<tr>
<td>MISSILES PROC</td>
<td>44.50</td>
<td>32.00</td>
<td>14.60</td>
<td>04.00</td>
<td>01.90</td>
<td>01.20</td>
<td>01.80</td>
</tr>
<tr>
<td>RDT&amp;E</td>
<td>61.03</td>
<td>31.60</td>
<td>05.06</td>
<td>00.63</td>
<td>00.42</td>
<td>00.21</td>
<td>01.05</td>
</tr>
<tr>
<td>NAVY</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AIRCRAFT PROC</td>
<td>24.90</td>
<td>37.80</td>
<td>25.60</td>
<td>07.10</td>
<td>02.20</td>
<td>01.00</td>
<td>01.40</td>
</tr>
<tr>
<td>SCN</td>
<td>14.00</td>
<td>26.00</td>
<td>20.00</td>
<td>15.00</td>
<td>12.50</td>
<td>08.00</td>
<td>04.50</td>
</tr>
<tr>
<td>RDT&amp;E</td>
<td>51.81</td>
<td>38.76</td>
<td>06.22</td>
<td>01.11</td>
<td>00.42</td>
<td>00.21</td>
<td>01.55</td>
</tr>
</tbody>
</table>

NOTE: Above percentages are approximate “actuals” rather than goals.
# Raw Index

**Effects of Compounding Inflation**

Example: RDT&E, Army

Base Year: Mid-FY 2014

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Annual Inflation Rate from Prior Year</th>
<th>(Compound) Inflation Rate</th>
<th>% Increase over Base Year</th>
<th>Raw (Compound) Index (FY 14 Base Year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1.3 %</td>
<td>- - -</td>
<td></td>
<td>1.0000</td>
</tr>
<tr>
<td>2015</td>
<td>1.3 %</td>
<td>101.30 %</td>
<td>1.0130</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>1.5 %</td>
<td>102.82 %</td>
<td>1.0282</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>1.7 %</td>
<td>104.57 %</td>
<td>1.0457</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>1.9 %</td>
<td>106.55 %</td>
<td>1.0655</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>2.0 %</td>
<td>108.69 %</td>
<td>1.0869</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>2.0 %</td>
<td>110.69 %</td>
<td>1.1069</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>2.0 %</td>
<td>113.08 %</td>
<td>1.1308</td>
<td></td>
</tr>
</tbody>
</table>

**NOTE:** Above annual inflation rates are “notional” rather than actual OSD guidance
### Weighted Index

**Effects of Compounding Inflation Plus Outlays**

Example: RDT&E, Army

Base Year: Mid-FY 2014

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Annual Inflation from Prior Year</th>
<th>Raw Index</th>
<th>*</th>
<th>Weighted Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1.3 %</td>
<td>1.0000</td>
<td></td>
<td>1.0113</td>
</tr>
<tr>
<td>2015</td>
<td>1.3 %</td>
<td>1.0130</td>
<td></td>
<td>1.0262</td>
</tr>
<tr>
<td>2016</td>
<td>1.5 %</td>
<td>1.0282</td>
<td></td>
<td>1.0432</td>
</tr>
<tr>
<td>2017</td>
<td>1.7 %</td>
<td>1.0457</td>
<td></td>
<td>1.0623</td>
</tr>
<tr>
<td>2018</td>
<td>1.9 %</td>
<td>1.0655</td>
<td></td>
<td>1.0831</td>
</tr>
<tr>
<td>2019</td>
<td>2.0 %</td>
<td>1.0869</td>
<td></td>
<td>1.1048</td>
</tr>
<tr>
<td>2020</td>
<td>2.0 %</td>
<td>1.1086</td>
<td></td>
<td>1.1269</td>
</tr>
<tr>
<td>2021</td>
<td>2.0 %</td>
<td>1.1308</td>
<td></td>
<td>1.1494</td>
</tr>
</tbody>
</table>

*NOTE: Above annual inflation rates are “notional” rather than actual OSD guidance*
## Escalation Exercise

**RDT&E, Army - $K**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Estimate*</td>
<td><strong>$100</strong></td>
<td>$150</td>
<td>$150</td>
<td>$175</td>
<td>$150</td>
<td>$100</td>
</tr>
<tr>
<td>*Base year FY13 dollars</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Inflation Rate</th>
<th>Raw Index</th>
<th>Weighted Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1.3 %</td>
<td>1.0000</td>
<td>1.0113</td>
</tr>
<tr>
<td>2014</td>
<td>1.3 %</td>
<td>1.0130</td>
<td>1.0262</td>
</tr>
<tr>
<td>2015</td>
<td>1.5 %</td>
<td>1.0282</td>
<td>1.0432</td>
</tr>
<tr>
<td>2016</td>
<td>1.7 %</td>
<td>1.0457</td>
<td>1.0623</td>
</tr>
<tr>
<td>2017</td>
<td>1.9 %</td>
<td>1.0655</td>
<td>1.0831</td>
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<tr>
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<td>2.0 %</td>
<td>1.0869</td>
<td>1.1048</td>
</tr>
<tr>
<td>2019</td>
<td>2.0 %</td>
<td>1.1086</td>
<td>1.1269</td>
</tr>
<tr>
<td>2020</td>
<td>2.0 %</td>
<td>1.1308</td>
<td>1.1494</td>
</tr>
</tbody>
</table>

**What are your budget requirements for the years shown?**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Then-Year $</td>
<td><strong>$104.3</strong></td>
<td><strong>$159.3</strong></td>
<td><strong>$162.4</strong></td>
<td><strong>$193.3</strong></td>
<td><strong>$169.0</strong></td>
<td><strong>$114.9</strong></td>
</tr>
</tbody>
</table>
QUESTIONS?
Now for the DAU optional "commercial"
DAU Mission

Provide a global learning environment to support a mission-ready Defense Acquisition Workforce that develops, delivers, and sustains effective and affordable warfighting capabilities.
Located with Our Customers

We are part of the community – not just a place to take classes.

<table>
<thead>
<tr>
<th>Region</th>
<th>Location</th>
<th>Workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital/Northeast</td>
<td>Fort Belvoir, VA</td>
<td>31,566</td>
</tr>
<tr>
<td>Mid-Atlantic</td>
<td>California, MD</td>
<td>23,110</td>
</tr>
<tr>
<td>Midwest</td>
<td>Kettering, OH</td>
<td>18,604</td>
</tr>
<tr>
<td>South</td>
<td>Huntsville, AL</td>
<td>28,360</td>
</tr>
<tr>
<td>West</td>
<td>San Diego, CA</td>
<td>25,465</td>
</tr>
</tbody>
</table>
AT&L Performance Learning Model

Knowledge Sharing
- DAP - Online portal to Big A & HCI knowledge
- ACC - DoD’s online collaborative communities
- Virtual Library - Online connection to DAU research collection

Training Courses
- Classroom & online DAWIA, Core Plus, & Executive

Continuous Learning
- CL Modules - Online, self-paced learning modules
- Conferences - PEO / SYSCOM, Business Managers, DAU Acquisition Community Symposium

Mission Assistance
- Consulting - Helping organizations solve complex acquisition problems
- Targeted Training - Tailored organizational training
- Rapid Deployment Training - On-site & online training on the latest AT&L policies

Formal & informal learning at the point of need
DAU’s Commitment to the Defense Acquisition Workforce

• Training - 24 / 7 learning assets: in the classroom and in the workplace

• Continuous Learning - Helping the workforce learn in the workplace: what is needed to know - when it is needed to be known

• Mission Assistance - Supporting the acquisition community

• Knowledge Sharing – Connecting the Engaged Learner - with the experts, resources and materials needed to do the job

Shaping a culture of engagement and career-long learning