

Developing the Program Budget Module Summary

**Module Summary - Developing the Program Budget and Funding
Policies**

Module Summary (1 of 10)

Page 1 of 10

Congratulations! You have completed the Developing the Program Budget Module. The following topics were presented in the Appropriations Lesson of this module:

- Appropriations. These provide limited amounts of budget authority that may be obligated during a specific time period for purposes specified in the Appropriations Act. Appropriations used by DoD primarily fall into the following categories:
 - Research, Development, Test & Evaluation (RDT&E)
 - Procurement
 - Operation and Maintenance (O&M)
 - Military Personnel (MILPERS)
 - Military Construction (MILCON)
- Expense/Investment Criteria. One characteristic of an appropriation category is whether it finances expenses or investments. Expenses are costs incurred to operate and maintain an organization, while investments are costs that result in the acquisition of, or addition to, long-lived assets. The current expense/investment threshold is \$250,000.
 - O&M and MILPERS appropriations finance expenses.
 - Procurement and MILCON appropriations finance investments.
 - RDT&E appropriations may finance both expenses and investments.

Module Summary (2 of 10)

Page 2 of 10

Other topics presented include:

- Efforts funded by the various appropriation types.
 - RDT&E appropriations finance efforts related to research, development, testing, and operational evaluation of weapon and information systems, and are normally available for obligation for two years.
 - Procurement appropriations are used to finance non-construction-related investment items. Procurement appropriations are normally available for obligation purposes for three years (five years for Shipbuilding and Conversion, Navy).
 - O&M appropriations are used to finance expenses not related to military personnel or RDT&E, as well as minor construction projects costing less than \$750,000. O&M appropriations are normally available for obligation for one fiscal year.
 - MILPERS appropriations finance expenses related to military personnel, and are normally available for obligation for one year.
 - MILCON appropriations are used to fund most construction projects for military use that are considered investments, except family housing. MILCON appropriations are usually available for obligation for five years.
-

Module Summary (3 of 10)

Page 3 of 10

Other topics presented include:

- Funding development and testing of product improvements. Various appropriations are used to fund the development and testing of product improvement efforts, depending on the particular circumstances.
 - RDT&E funds should be used: 1) if the redesign increases performance capability or extends the useful life of a system, 2) if a modification requires extensive or independent testing, or 3) if the modification is being made to an aircraft engine.
 - Procurement funds should be used if the modification neither increases performance capability nor requires testing, and the system is still in production.
 - O&M funds should be used if the modification neither increases performance capability nor requires testing, and the system is no longer in production.
- Funding fabrication and installation of modification kits. Whatever appropriation was used to fund the development and testing of the product improvement, the production and installation of the resulting modification kits are financed with procurement funds.

Module Summary (4 of 10)

Page 4 of 10

The following topics were presented in the Funding Policies Lesson, Part 1, of this module:

- DoD Funding Policies. These are the ground rules, derived from Congress, concerning the amount and timing of budget requests for various appropriations. The three funding policies are:
 - Annual Funding
 - Incremental Funding
 - Full Funding
 - Funding policy applicability to appropriations. The annual funding policy applies to O&M and MILPERS appropriations; the incremental funding policy applies to RDT&E appropriations; the full funding policy applies to procurement and MILCON appropriations.
-

Module Summary (5 of 10)

Page 5 of 10

Other topics presented include:

- Annual Funding Policy:
 - The annual funding policy requires budgeting only for the estimated cost of goods and services needed in a fiscal year.
 - As an exception, certain O&M services contracts (12 months or less in duration or nonseverable) whose period of performance crosses fiscal years may be entirely funded in the fiscal year that they are initiated.
 - The annual funding policy also applies to the funding of multiyear services contracts. This type of contract is funded in annual increments based on the value of the services to be delivered during each year of the multiyear contract.

Module Summary (6 of 10)

Page 6 of 10

Other topics presented include:

- Incremental Funding Policy:
 - The incremental funding policy requires that an RDT&E budget request be based on the costs expected to be incurred during a fiscal year.
 - Exceptions to this policy include the funding of contracts over 12 months, but less than 18 months in which there is no logical way to divide the work, it is clearly unfeasible to limit the contract to a shorter period, or the planned technical effort is such that no responsible contractor can be found who will accept a contract for less than the full period of performance.
 - Forward financing is a violation of the incremental funding policy. Comptroller review and approval of carryovers of RDT&E funds from one fiscal year to the next is designed to prevent forward financing.
 - To determine RDT&E budget requirements, list all tasks expected to incur costs during the budget year, then determine when costs will be incurred across the life of each task. Budget costs accordingly by fiscal year, unless an exception to incremental funding applies.

Module Summary (7 of 10)

Page 7 of 10

The following topics were presented in the Funding Policies Lesson, Part 2, of this module:

- Full Funding Policy:

- The full funding policy is the practice of funding the total cost of major procurement efforts and construction projects in the fiscal year in which they are initiated.
- The full funding policy requires that sufficient funding be budgeted each fiscal year to procure complete, usable end items. For procurement programs, this includes the initial spares for a new system. For MILCON projects, the structure(s) that comprise a project are considered to be end item(s). "Piecemeal" procurement is not permitted.
- To prevent programs from tying up excessive amounts of procurement budget authority, the size of a budget year's "lot" of end items is restricted to the number of items that can be delivered within that lot's funded delivery period. This is a 12-month period that begins with the delivery of the first item in a production lot.
- Advance Procurement. This is the use of procurement funds to buy material, parts, or components that do not constitute complete, usable end items, making it an exception to the full funding policy. It is generally used to protect the production schedule or to maintain critical work force skills. Use of Advance Procurement must be included in the program's acquisition strategy and approved by the Milestone Decision Authority.

Module Summary (8 of 10)

Page 8 of 10

Other topics presented include:

- Multiyear procurement (MYP). This is a strategy under which the government saves money by contracting for up to 5 years' worth of an acquisition program's procurement needs at one time. Under MYP, contractors can reduce costs by making economic order quantity (EOQ) purchases of materials, parts, or components and by investing in productivity enhancements. The funding of EOQ purchases makes multiyear procurement an exception to the full funding policy since such purchases are not of complete, usable end items.
 - MYP contracts are budgeted and funded in lots based on the value of the end items to be initiated or the services to be performed during each fiscal year.
 - Certain statutory requirements must be met prior to approval of an MYP contract. These include: substantial cost savings; stable requirements for the item; stable funding; stable design without excessive technical risks; realistic cost estimates; and enhancement of national security. DoD also requires that purchased items be technically mature.
 - Most MYP contracts include a cancellation clause. If exercised, this clause will usually require that a cancellation charge be paid to the contractor to cover costs incurred that will not be recovered due to cancellation of the remaining contract quantities.
-

Module Summary (9 of 10)

Page 9 of 10

The following topics were presented in the Escalation Lesson of this module:

- Constant Dollar Cost Estimates. To simplify their preparation, most acquisition program cost estimates are prepared in constant dollars that reflect the purchasing power of a dollar in a specific base year, ignoring inflation.
- Raw Index. The raw (or compound) index accounts for all the inflation that occurred or is expected to occur between any two years. If the price of an item in a base year is known, the price of that item in some future or past year can be estimated by:
 - $\text{Base Year Price} \times \text{Raw Index for future (or past) year} = \text{Future (or Past) Year Price}$.
- Converting Constant Dollars between Base Years. The raw index is used to convert a constant dollar cost estimate from one base year to another. Such conversions are commonly done to change a program's cost estimate base year to the year of an upcoming milestone and to facilitate "apples to apples" comparisons with other programs.

Module Summary (10 of 10)

Page 10 of 10

Finally, the following topics were presented:

- Then-Year Dollar Budget Estimates. Although cost estimates are done in constant dollars, budget requests are prepared in then year (or current) dollars to properly consider inflation so that sufficient funds are available to pay for future goods and services.
- Weighted Index. Because the funds appropriated in a particular fiscal year often are expended over several years, the inflation that occurs throughout the entire expenditure period must be taken into account. This is done for each appropriation by combining the inflation raw indices with the appropriation's outlay (spending) profile to produce a unique set of weighted (or composite) indices for that appropriation.
- Converting Constant Dollars to Then-Year Dollars. The weighted index is used to convert constant dollars into then year dollars:
 - $\text{Constant Dollars} \times \text{Weighted Index} = \text{Then year Dollars}$

This page completes the Module Summary. Select a lesson from the Table of Contents to continue.

